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Impact Of Corporate Governance Mechanism On Capital Structure Decision On Non-Financial Sectors Of Emerging Countries

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Abstract

The study aimed to evaluate the effect of Corporate Governance Dynamic on Leverage on non-financial sectors of emerging countries (Pakistan, India, and Bangladesh) during the study period of 2014 to 2023. The nature of the study is quantitative and secondary therefore data has been extracted from the respective websites of the companies and stock exchange from the pharmaceutical, cement, and food industries. Moreover, the Random effect model was used to on the bases of diagnostic test to identify the cause and effect. The findings of the study reveal that director remuneration, and board education in Pakistan showed positive and significant effects but Board size, board experience showed significant and negative effects on the capital structure decision. While board diversity, firm size found an insignificant association with leverage in Pakistan. For firm size showed an insignificant effect but board size, direct remuneration, and board education showed a negative and significant effect on leverage while board experience, board diversity was a positive and significant effect on leverage. Moreover, in India, board experience, board diversity, and board education was a significant but negative effect on leverage but board size, direct remuneration, firm size showed a positive and significant effect on the leverage of non-financial firms.

Keywords: *Corporate Governance, Capital Structure, Random Effect Model,Emerging countries.*

Introduction

The application of specific corporate governance principles, rules, and procedures has substantial paybacks in the form of enhancing the credibility of the firm and providing financial and monitoring reporting to stakeholders. In addition, the access of huge capital and lessen the cost of capital and the recognization of potential opportunity and value creation of the firm by optimally utilization of scared resources and establishment of the appropriate control system (Herdjiono, and Sari, 2017). Moreover, the essence of CG is to safeguard accountability and transparency for top chunks who are part of policy establishment and implementation, which in turn diminish conflict between agent and principal. CG causes the actions, civilizations, laws, and policies that affect the way companies are engaged, managed (Caig, 2005).

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Developed countries, notably the UK, US, and Canada, have developed codes of best practices in the early 1990s, which protects stockholders and their interests (Demirag et al., 2000). The shareholders believe that they will receive a handsome profit on their investment due to this mechanism (Shleifer and Vishny, 1997). Stratagis are developed to borow from various sources to enhance a firm's transparency and reduce agency conflicts. Modern corporate finance theories reveal that agency cost is the essential parameter of Capital Structure, but Corporate Governance is established to lessen agency conflicts. As a consequence, agency cost is a connection between corporate governance and financial leverage. "Good governance assist companies in managing their resources optimly, so, it assists firms in making trade off decision of debt and equity." according to Liao (2012).

Every country has its distinct set of laws that reflect social, economic, and religious considerations. For publicly traded corporations, each country is growing a set of rules or codes (Duh, 2016). Firms issued securaties in presences of good governance, while companies with less recoverable assets are more likely to rely on regulatory provisions (Atanasova et al., 2016). The term "concentration ownership" refers to owning a big quantity of something. The relationship with both Corporate Governance and Capital Structure has not been investigated thoroughly; e.g;, Wen, and Bilderbeek (2002), as well as Abore (2007), argue that few studies have been completed in developed and emerging markets such as the UK, the US, and Eastern Europe and Asia. According to Nawaz and Ahmad (2017) and Swain and Das (2017), corporate governance and capital structure are linked to ROA (2020). In Pakistan, Hasan and Butt (2009) and Masnoon and Rauf (2013) evident the association of CG and debt and as a result, the findings looking into the interaction between CG and the environment. Wang et al(2023), Green finance and corporate governance have a major impact on CSR, which in turn has a favorable impact on sustainable performance, according to a study on SMEs in China. The study also discovered that the relationship between corporate responsibility and sustainable performance is moderated by top management's care for the environment. Policymakers and managers interested in advancing sustainable development in the context of Chinese SMEs should consider the implications of the findings. There fore according to the best knowledge of the authors there is limited number of study to investage the pool of countires about CG and CS.

Literature Review

Corporate governance (CG) portrays a crucial role in the maximization of shareholders' wealth and reflects the market firm, while high debt proportion leads to bankruptcy (Sheifer and Vishny, 1997). Capital structure is critical since it affects its financial health (Chen and Kim, 1997). Berle and Means were the first to write about corporate governance (1932). Many academics have uncovered an interesting area in the business world, including a comprehensive account of Corporate Governance. Corporate governance, according to Shleifer and Vishny (1997), is concerned about the financial assets that ensure that companies get a return on their investment. Businesses that employ combined coding in combination with the turn bull reports will receive assistance. Corporate governance has an impact on capital structure decisions made by firms, as per previous studies (Wen et al. 2002, Abor 2007). If the ratio of debt in the ownership structure was smaller, there would be less friction between management and shareholders. The administration could be compensated, and the debt was at its lowest point (Morellec 2004).

Stewardship theory is contrary to agency theory which is the valuable philosophy of corporate governance in this global world. This theory is described by Davis, Schoolman, and Donaldson (1997), the main essence of this theory is that a manager motivates the performance of the firm by achieving the organizational value, he considers himself like a steward of the firm**.**

According to stakeholder theory, corporations are independent entities that are linked with multiple parties to achieve their goals (Donaldson & Preston, 1995). Furthermore, they emphasized that it is management's responsibility to make sound judgments and to do their best efforts to provide advantages that satisfy all stakeholders Furthermore, Wang and Dewhirst (1992) stated that boards of directors should not overlook their obligations to defend the interests of stakeholders and increase corporate value.

Jensen and Meckling offer this **agency cost theory in (1976).** According to this view, agency costs occur as a result of friction between owners and managers. Furthermore, this theory describes how a corporation may achieve an optimal capital structure by minimizing the costs incurred as a result of disagreement among managers and owners. Market timing theory makes it easier for the financial management of enterprises to choose an acceptable period for selling and purchasing their firm's shares by taking into account the market.

Transaction cost theory resembles the agency theory developed by Williamson (1999). Organizations are made up of human capital and every workforce has different satisfaction levels and goals**.** It further stated that elected personnel increase the cost of firms who are working on behalf of another person**.**

. It refers to how a corporation selects between debt and equity to fund its operations. Choosing more debt or more capital has repercussions. Choosing the incorrect capital structure combination might result in financial difficulties (Heng et al., 2012). According to the trade-off theory, there should be a balance between tax and benefit of leverage because the shareholders bear the risk while the manager tempted the advantage get from debt. The manager take decisions about the best interest of the employees while shareholders want that manager could make decisions about the value of the firm. The conflict of interest creates a problem between manger and shareholders and this make channel for agency problem.

Agency problem shows the conflict between agent and principal manager make the decision for their own interest and principal expect from the manager that he will make a decision about the shareholder wealth maximization. The manager enhance their income by exploiting shareholder and shareholder has a lack of knowledge and this is actually the reason for a shareholder to be the victim of the agency problem. A framework is required for the manager to monitor and control the activities of the manager and safeguard investors and it will give a good signal to outsider investors. This monitoring mechanism takes the shape of corporate governance, which acts as a tool for eliminating agency problems because of the imposed agency dilemma, organizations must discover an appropriate capital structure choice that includes a sufficient balance of debt and capital. Many previous kinds of literature have examined the link between corporate governance and capital structure, corporate governance and agency costs, and agency costs and capital structure in particular. Based on this previous research, the author has concluded that it is mostly about corporate governance that influences capital structure decisions. Greater debt businesses have more independent directors than lower debt firms, according to Hasan and Ali (2009) explored the relationship between determinants of capital structure in 58 Pakistani non-financial firms from 2002 to 2005. Rahman et al.(2019),The ownership structure has been taken consideration as the study looks at how working capital management influences the success of a company. The fast ratio, average collection period, and leverage all exhibit a negative correlation with performance, whereas inventory turnover, account payable, and current ratio have ideal links. The study suggests efficient utilization of resources for better profitability.

Furthermore, the results of this study show that board size, profitability, and managerial ownership are all significant, but the debt ratio is negatively proportionate. Firm size, on either hand, is positively and strongly linked with debt ratio, whereas CEO duality has a minimal impact on firm investment management. Ishtiaq(2021), This study covers three industries from 2010 to 2019 to assess how corporate governance characteristics affect the performance of non-

financial enterprises in Bangladesh. The study found that board size, gender, experience, and business size have significant effects on both ROA and Tobin-Q. It also applied a fixed-effect model to analyze Return on Assets and Tobin-Q factors.

Board Size

According to Berger et al. (1997), a larger executive board puts pressure on corporate boards to employ less debt. Bodaghi and Ahmadpour (2010) investigate the negative association between board size and leverage in this way. In Pakistani financial firms, Rehman et al. (2010) discovered a significant relationship between board independence and capital structure. Wen et al. (2002) and Abore (2007), on the other hand, show an indirect relationship between board size and capital structure. Secondly, regulatory authorities have long required that large boards of directors incur higher debt to increase the firm's value. As a result of the greater board size, conflicts develop as a result of agreeing on a certain issue. Wen, Rwegasir, and Bilderbeek (2002) find a positive and significant association between board size and capital structure, as do Lipton and Llorsch (1992). Masnoon and Rauf (2013) show a positive and substantial relationship between debt ratio and board size in nonfinancial firms in Pakistan.

Kurshevand Ilya (2015) inestagate the various feather of CG and size of leverage connection, while fixed cost of financing from outside. The small and large firms are identified from the driving forces. There are four firm size effects on leverage that we discovered. To account for less regular rebalancing, small businesses select more leverage when refinancing. Nevertheless, longer periods between refinancing result in lower levels of leverage on average. The link between leverage and firm size is negative inside a refinancing cycle. Finally, a large number of companies are opting for no leverage. The dynamic economy research reveals that the link between leverage and size is inverse in cross-section.

H1: The Board Size has a significant effect on the capital structure of non-financial firms.

Board Committee

BC is categorized into three categories: (audit committees, pay committees, and nominating committees) is one of the most significant aspects of corporate governance. The study results show the relationship between the audit committee and intellectual capital disclosure are positively associated therefore the shareholder’s interest can be safely protected by company sustainabilities through audit committees (Nurlis, 2018). The Audit Committee is in charge of accounting agreements and external reports, while compensation committees evaluate general managers' salaries and select committees choose board officers and executives. Companies need audit and pay committees, according to the New Zealand Securities Commission (2004). The audit committee, according to Klein (2002), was the most important part of the CG mechanism. The presence of an audit committee meeting improves the company's success. A board committee was an essential thing of the board organization, as it provided independent expert oversight of the performance of the company in needed to shield firm shareholders' rights (Harrison, 1987).

H2: The Board Committee has a significant effect on the capital structure.

Boards Education and Experience

Management leadership and business abilities, educational qualifications, employment experiences, and unobserved qualities were defined by Bhagat et al. (2010) as specific attributes. They showed that the managers' quantifiable traits could be crucial. According to Hambrick et al. (1996), there was a positive significant connection between the top executive's schooling and the company's competitive attitude. According to Smith et al. (2006), schooling

has a significant impact on return on investment. Cheng et al. (2010) conducted a study in China and revealed that having a university degree as the chairperson of the board was positively linked to business success**.** According to Bonsa (2015), the board's perspective was positively related to financial results. Higher returns are connected to a board with more relevant experience, according to Kroll et al. (2008). According to Saat et al. (2011), the Knowledge Board has a considerable impact on organizational effectiveness and decision-making. Board members with a greater average age are thought to have better knowledge and expertise than those with younger age. This expertise and knowledge have a favorable impact on an organization's growth. Thakolwiroj & Sithipolvanichgul (2021), uses multiple regression analysis with independent factors such as board characteristics and the overall debt ratio for capital structure, evaluate board size, outside directors, managerial ownership, CEO duality, frequency of board meetings, board experience, and gender. According to studies, the more independent the board of directors is, the less expensive debt financing is because they have a stronger influence over the management team's debt financing than directors with less independence. Furthermore, the data show that the higher the amount of managerial ownership, the higher the leverage and money borrowed, while the smaller the percentage of board ownership, the lower the leverage and debt financing. Companies with more experienced CEOs, according to Wen et al. (2002), have less leverage. Custódio and Metzger (2014) looked into the career history of CEOs and their financial policies. They claimed that the CEO's job experience had an impact on the company's financial policy (including leverage, cash holdings, and payout policy). Furthermore, Rakhmayil and Yuce (2009) found a substantial positive link between management education and leverage. According to their findings, companies with CEOs who have more education experience have more leverage. This is due to the CEOs' belief that they can effectively handle all of the leverage and make it beneficial to the company.

H3: Board education has a significant effect on the capital structure of non-financial firms.

H4: The Board Experiences have a significant effect on the capital structure of non-financial firms.

Director remuneration

Mehran (1992) investigates the agency model postulates that managers' and shareholders' interests may conflict and that if left to their own devices, managers may make critical financial policy decisions, such as capital structure selection, that are undesirable from the shareholders' perspective. Compensation contracts, managerial equity ownership, board of directors, and significant shareholder monitoring, according to the theory, can all help to reduce issues of interest between managers and shareholders. The relation here between a firm's capital structure and 1) executive incentive schemes, 2) management equity investment, and 3) board of directors and large shareholder monitoring is examined in this work. This research highlights a link between the firm's leverage ratio. The findings align with the theory of agency cost theory.

H5: The Directors' remuneration has a significant effect on the capital structure of non-financial firms.

Board Diversity

As women and immigrants continues to rise in the global population, firms have noticed significant shifts in the sort of prospects for senior management jobs (Berke & Nelson, 2002). Concerns over minorities and gender in governance have created debate in recent years. Dobbin and Jung (2010) believe that diversity teams seem to deal with challenges at work more

promptly and effectively. Furthermore, functional and demographic teams have contributed a range of viewpoints to corporate procedures for making choices, boosting decision-making consistency. It's also said that diversity stimulates creativity and innovation. Based on the study, a company's synergistic benefits are made stronger by diversity. scholars made use of the concept of group diversity and Organizational efficiency has been significantly influenced by the diversity of the board of directors (Erhardt et al., 2003).

H6: Board diversity has a significant effect on the capital structure of non-financial firms.

Firm Size

According to Moses (1997), large business size has had a higher impact on company income than small one reflect cost. The high political costs will occur as a result of the company's probability of attracting more customers and media exposure. Since a large firm has several stakeholders, its rules will be large too, possibly affecting the public interest, something which smaller companies cannot do. In the future, the company's policies for investors will be focused on cash flow. Government policies affect the tax rate, which is greater for major corporations than for smaller companies and can play an important role in the protection of society's inhabitants (Pambudi & Sumantri, 2014).

H7: The Firm Size has a significant effect on the capital structure of non-financial firms.

Board Composition

Creditors view firms with non-executive directors to be able to borrow money since the board sends out good signals to the market based on effective monitoring. As a consequence, such companies can readily get long-term financing from financial institutions for capital budgeting purposes. The board of directors, in particular, is designed in such a way that information barriers between top management and shareholders are reduced. Based on the pecking order idea, firms are prepared to employ an independent source of debt. The results evidence found that the firms with more independent directors in the board composition having high proportion riskier sources of financing in the capital structures of the firms which lead to maximum sources of external financing and high short term debt compared to retained earning and having long term debt advantages and more sources of external equity than long term debt (Alves et al., 2015). According to Coleman and Biekpe (2006), "debt ratio is positively related to the number of directors on the board of directors." However, Ur Rahman(2023) Rajan and Zingales (1995) find that companies with fewer stockholders are more willing to take an additional debt. Wen (2002) and Anderson (2004) also investigate the negative relation between debt ratio and board composition. Abore and bike (2007), on the other hand, find that the debt ratio of Ghanaian SMEs is directly related to the number of non-executive directors.

H7: The Board Composition has a significant effect on the capital structure

Research Methodology

Nature of data, Population, and sample

The nature of this research paper was quantitative in which secondary data was used and collected from the annual reports of the nonfinancial firms of Pakistan, India, and Bangladesh. The data source was annual reports of the listed companies of Pakistan stock exchange, Dhaka Stock exchange, and National Stock exchange. Three sectors were chosen as a population from three different countries including pharmaceutical, food, and cement sectors on nonfinancial firms from Pakistan, India, and Bangladesh. A proportionate sampling technique was applied

because the data collection procedure was followed based on data availability and firm sizes. The target population was 56 from Pakistan, 53 from Bangladesh, and 237 from India simultaneously. The total number of listed firms on PSX is 540, where 128 firms are working in the financial sector, whereas 423 firms are in the non-financial sector. The sampled firms of non-financial firms are PSX indexes, which are existed on 30 October 2023 with complete information. The study period of the data is 2014 to 2023, where the data has been collected from the respective websites of firms and business recorders. The Yamane 1967 formula was used for sample size. The sample size calculation from each industry is also given below;

$$n = \frac{N}{(1+N=*e^2)}$$

n=sample size

N=Population e= Margin of error=0.05 $n = \frac{346}{(1+346*(0.05)^2)} = 185$

$$\text{Pakistan= nhp= } \{\frac{56}{346}\}*185 = 30$$

$$\text{Bangladesh= nhb = } \{\frac{53}{346}\}*185 = 28$$

$$\text{India= nhi= } \{\frac{237}{346}\}*185 = 127$$

Table 3.1 Sample Size of Each Industrial

S. no.	Country	Cement	Food	Pharmaceutical
1	Pakistan	22*30/56=12	25*30/56=13	9*30/56=5
2	Bangladesh	7*28/53=4	17*28/53=9	29*28/53=15
3	India	96*127/237=51	57*127/237=31	84*127/237=45
Total		67	53	65

3.1 Variables

This study selects variables based on prior empirical studies. Therefore, Capital Structure has been chosen as a dependent variable; however, Corporate Governance is used as an explanatory variable with various measures listed in table-2

3.2 Specification of Econometric Model

The data is both time series and cross-sectional, it is characterized as panel data. Various models can be used to determine the effect of data, however, for panel data analysis regression model has been used to identify the cause and effect. The random effect

$$\mathbf{DRit = \beta_0 + \beta_1 B.Sizeit + \beta_2 B.Comp_{it} + \beta 3D.Rem + \beta_4 B.Exp_{it} + \beta 5FrmSize + \beta 6B.Div + \beta 7B.Edu + \beta 8B.Comt + \varepsilon i}$$

Table 2 Definitions of variables

S.No	Variables	Proxy of variables
1	Capital Structure	Total debts divided by Total Assets
2	Board Size	Log of no. of board members
3	Board composition	The ratio of outside directors to the total number of directors
4	Director Remuneration	Log of directors' remuneration

5	Board Experience	Directors that have experience in accounting and/or finance/Total directors
6	Firm Size	Ln of Total Assets
7	Board Diversity	The number of female directors divided by the number of board members
8	Board Eduction	Percentage of supervisors having financial education
9	Board Committee	Number of total board committees

Table:3 basic assumptions of regression model and Dignostic test

Test for normality of Data Shapiro-Wilk test P-value>0.05, shows that the error term is normally distributed.
Heteroskedasticity Test
Breusch-Pagan / Cook-Weisberg test chi2(1) 67.23=Prob>0.000 As the results indicate that the p-value is less than 0.05, the core assumption of panel data is not violated. Moreover, variance is constant; the model does not face any heteroskedasticity problem.
Testing for Multicollinearity
Variance Inflation Factor and Tolerance "When the VIF value is less than ten
Dignostic test Results : Random effect Model has been selected on the bases of Hausman and Brusehpeagan LM test.

Table-4 Corporate Governance variables and Capital Structure of Emerging Countries of non-financial firms

Pakistan					**Bangladesh**				**India**			
Variable	**Coefficient**	**T-value**	**P-value**	**VIP**	**Coefficient**	**T-value**	**P-value**	**VIP**	**Coefficient**	**T-value**	**P-value**	**VIP**
Constant	9.43	2.48	0.00		-5.63	-2.18	.00		-2.61	-984	**.326**	
BRSIZ	-1.18	**-2.53**	.012	2.15	-1.12	**-3.42**	.00	3.37	1.32	**5.79**	.00	2.40
BRCMT	-2.54	**-5..66**	.000	1.19	1.00	**2.12**	.035	1.41	1.00	**3.51**	.001	**1.20**
BREDU	1.56	**2.66**	.008	1.51	-1.78	**-3.67**	.007	3.20	-1.20	**-3.90**	0.00	1.70
DIREM	1.06	**2.82**	.005	1.17	-3.17	**-2.25**	0.00	1.30	1.80	**3.52**	0.00	**1.25**
BREXP	.013	**1.92**	.055	1.40	1.00	**8.57**	000	2.64	-.01	**-1.57**	.08	**2.13**
BRDIV	1.05	**.126**	.735	1.96	1.07	**2.37**	.0.04	1.21	-1.97	**-2.06**	.00	**1.22**
FRMSIZ	1.01	**.068**	.824	1.39	.34	**1.25**	.21	1.76	1.02	**5.55**	.00	**1.29**
BRCMP	-2.25	**-.1.85**	.11	2.17	.00	**1.54**	.12	1.31	.001	**-.50**	.48	1.37

R-Square =0.222	**R-Square =0.201**	**R-Square =0.332**

Table 4 depicts detailed results of all corporate governance variables and their effect on capital structure decisions. The r-square reflects the effect of all variables on the dependent variable i.e financial behavior. The r-square value for Pakistan is 22 percent which means the independent variable affects the dependent variable 22 percent, while for Bangladesh data it is 20 percent on the other hand for India it is 33 percent. It means in emerging countries the value of r-square is high for India as compared to the other two nations.

Board size is the second variable of the study it is a negative and significant effect on Capital structure decisions of nonfinancial firms in Pakistan and Bangladesh while it is positive and significantly related to the leverage of Indian firms. As the board size increases the debt proportion of non-financial firms of Pakistani and Bangladeshi firms are decreasing, while Indian firm debt percentage will be increased as board size increases. On basis of the conclusion, we accept H2. This result is consistent with the Study of Tejedo-Romero, Araujo, & Emmendoerfer,(2017) that higher experience and a large amount of expertise can increase by the larger board size of the organization which can help to increase efficient intellectual capital discloser information in the company by the knowledge exchange process.

Board Committee is a negative significant effect on capital structure decisions in the Pakistani context while it is significant and positively related to debt ratio in the Indian and Bangladeshi context. This resultconsistenttant with Nurlis (2018) showed the relationship between the audit committee and intellectual capital disclosure are positively associated therefore the shareholder's interest can be safely protected by company sustainabilities through audit committees. On basis of the conclusion, we accept H3. The audit committee, according to Klein (2002), was the most important part of the CG mechanism. The inclusion of a board audit committee improves the company's success. A board committee was an important system of the board organization, as it provided independent expert oversight of firm profitability to protect firm shareholders' rights (Harrison, 1987).

Board education is significantly related to capital structure decisions of non-financial firms in emerging countries. e Pakistan, Bangladesh, and India in selected years. Moreover, in Pakistan, it is significantly positively related while in India and Bangladesh the relationship is negative and significant. In the Pakistani context, as the board education is enhancing the portion debt is also inclining while in India and Bangladesh the relationship is negative as the board education has increased the debt portion is decreasing. On basis of the conclusion, we accept H4. Most of the results in previous studies find various relationships in different countries while the current results are in line with the studies of Hambrick et al. (1996), Adams and Ferreira, (2007).

Board experience on the capital structure of the nonfinancial sector of Pakistani, Indian, and Bangladeshi firms. The board experienced significantly positive effects on leverage in Bangladeshifirms as the experiences are increasing the portion of the debt is also increasing while the independent variable is an insignificant parameter for Indian and Pakistani non-financial firms. On basis of the conclusion, we accept H5. The previous studies find a positive and significant relationship between board experiences and capital structure.

Director remuneration is positive and significantly related to the capital structure for India and Pakistan while for Bangladesh it is inversely and significantly associated with Capital Structure. The result explains that high payment to human resources reduces the Leverage Ratio. Furthermore, high remuneration reduces agency conflicts and incline top-management interest, such compensation enhances the courage of the workforce and works efficiently. On basis of the conclusion, we accept H6. The big chunks decline the percentage of debt in the Capital Structure to decrease the cost of debt and diminish the risk of the real owner. The

negative relationship of Capital Structure and director remuneration is also found by Sheikh, Wang, (2012)

Board diversity is a positive and significantly affects decisional structure decision on nononfinancialirms in Bangladesh while it is significant and negatively related to leverage for inIndianirm. In addition for Pakistan, the board diversity is an insignificant variable of the study. As the diversity of the board is increasing the leverage portion is also enhancing more simply the top management incline the debt portion in the capital structure decision in Bangladeshi firm while in India the relationship is negative. The result is consistent with the previous finding of Dobbin and Jung (2011). On basis of the conclusion, we accept H7.

Firm size is positive and significantly relates the d to capital structure decisions of nonfinancial firms in India. On basis of the conclusion, we accept H8. while for both countries i.e Pakistan and Bangladesh, it is an insignificant variable of the study. The findings of the study for the Indian firm are consistent with the study of Kurshevand Ilya (2015).

Board composition is related to debt ratio in an indirect but statistically significant way, indicating that having a large number of outside directors leads to less external financing. The efficient strategy reduces the firm's overall costs and accelerates up the data system (Liao,2012). The number of non-executive directors and managers ensures that the management system is positioned correctly and that the executive directors are properly monitored. As a result, the proportion of debt in the Capital Structure Choice decreases as the number of non-executive directors increases. So because the bond market in Pakistan is still in its initial stages, most Pakistani businesses rely significantly on internally generated funds. Based on the conclusion, we accept H9. The current result is in line with Zingales (1995) and Wen (2002), On the other hand, in India and Bangladesh, the scenario is changed because the board composition is positive and significantly related to the debt ratio. As the external director numbers increase the debt is also increasing. This result is consistent with Alves et al (2015) that the firms with more independent directors in the board composition have high proportion riskier source of financing in the capital structures of the firms which lead to maximum sources of external financing and high short term debt compared to retained earning and having long term debt advantages and more sources of external equity than long term debt.

Conclusions and implications

The main key theme of this paper was corporate governance mechanism and capital structure decision. In this study, we measured how and what impact of corporate governance mechanisms on capital structure decisions on nonfinancial sectors of emerging countries. The emerging countries include Pakistan, India, and Bangladesh. Following the methodology, for this work, the period of this study was (2014-2023). A quantitative approach has been followed for this study and secondary data was collected from annual reports of the nonfinancial sectors of emerging countries. The sectors selected were pharmaceutical, cement, and food. Moreover, the results revealed that the direct remuneration, and board education in Pakistan showed positive and signifieffects buttsbut Board size, board experience showed significant and negative effects on the capital structure decision. While board diversity, firm size found an insignificant association with leverage in Pakistan. For firm size showed insignificant effect but board size, direct remuneration, and board education showed negative and significant effects on leverage while board experience, board diversity was a positive and significant effect on leverage. Moreover, in India, the board experience, board diversity, and board education was a significant but negative effect on board size, direct remuneration, firm size showed a positive and significant effect on the leverage of nonfinancial firms. As the chairperson accepts two responsibilities like CEO and Chairman, as a result, high leverage of the firm and high debt leads to bankruptcy and high remuneration reduces agency conflicts and inclines top-management interest, such compensation enhances the courage of the workforces and works

efficiently. Board education increasing the portion of the debt will be declining similarly Board education decreased the debt portion will be increased at the firm level. The diversity of the board is increasing the leverage portion is also enhancing more simply the top management incline the debt portion in the capital structure decision. Finally, we concluded that the overall corporate governance mechanism has high implications on capital structure decisions on Non-financial sectors of emerging economies. For future study, this study can be extended to other sectors and also includes other emerging countries.

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