

## **THE IMPACT OF CORPORATE GOVERNANCE ON FINANCING POLICY: EVIDENCE FROM EMERGING MARKETS**

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Corporate governance is one of the crucial characteristics of the firm, which provides not only investor's protection, but also significantly affects all decisions taken by the firm, including financing policy. Results of studies on developed capital markets show that strong corporate governance provides more favorable terms of financing. In addition, on emerging markets due to information asymmetry, lower development of legal system and investors' protection rights, corporate governance is also important as efficient way to resolve various types of agency conflicts, thereby reducing agency costs that significantly decrease the corporate value. Our paper contributes to the literature by analyzing the corporate governance mechanisms and financing policy on the data of emerging markets companies. Our sample consists of public companies from BRIC within 2005-2012 financial years. We conduct an empirical analysis based on both linear panel data regressions as well as simultaneous modeling of leverage choice, quality of corporate governance measured by the integral index and value of the firms. We proceed with the estimation of the impact of corporate governance on the speed of adjustment to target financial leverage. Our major results confirm that the corporate governance matter for debt-to-equity choice: firms with better corporate governance tend to have higher leverages as proper corporate governance helps to resolve different agency conflicts. A high-level corporate governance also results in a greater speed of adjustment to target financial leverage as firms with strong corporate governance can access financing on more favorable terms. Further, based on results obtained, we develop the recommendations to the management of emerging markets companies in terms of Board of Director's size, number of independent directors in Board, number of Board's meetings and other characteristics from the perspective of the financing policy.

Keywords: corporate governance, capital structure, financing policy, emerging capital markets, financial leverage