

The Effect of the Board of Directors' Characteristics on the Financing Strategies of French Companies

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ABSTRACT

This research examines the effect of board of directors' characteristics on the financing strategies of a group of French companies. One of the principal objectives of the board of directors is to provide the necessary financial resources and to determine the strategic choices of the firm. The financing strategies and choices specifically represent one of the most significant fields of action for the board of directors.

Our results are based on a sample of 87 French companies taken from the French index SBF 120 during 2005. They reveal a significant explanatory capacity (69.3%) showing that the majority of the board of directors' characteristics play an important and significant role in the determination of financing strategies as measured by the level of debt in the capital structure.

Keywords: Board of directors' characteristics, financing strategies, French companies.

INTRODUCTION

Although various disciplinary mechanisms (internal or external) are designed to protect the interests of stakeholders from possible abuse by managers, the board of directors occupies a privileged place in the entirety of these mechanisms (Fama and Jensen, 1983; Charreaux, 2000). In fact, the board is regarded as an internal means of audit playing a significant role in obtaining resources, determining strategic choices and resolving conflicts of interest between management, shareholders and other stakeholders. The board of directors' ability to successfully fulfil the role allotted to it depends, nevertheless, largely on its characteristics (Pearce and Zahra, 1992; Hendry and Kiel, 2004; Godard and Schatt, 2005).

The board of directors plays two very significant roles in an organisation: a strategic role and a role of control (Charreaux, 1994). Charged with representing the interests of shareholders, the board of directors acts as the supreme authority of control in the company (Fama and Jensen, 1983). Its strategic role lies in shaping performance, protecting the company's value creation processes and gaining access to possibly limited resources. In particular, the strategies and policies of financing represent one of the fields of action that are most significant for the board. With this in mind, we propose to examine the impact of the board of directors' characteristics on the financing strategies of a group of French companies.

These characteristics relate, primarily, to the independence of directors, the office duality of the functions of head of direction and chairman of the board, the size of the board, the financial motivations of the directors, like their expertise and experiment, and the representation of the financial institutions in the board of directors of the firm.

To verify the effect of these characteristics on firms' financing strategies, we based our study on a sample of 87 French companies listed in the SBF 120 index. Within this framework of analysis, we developed a linear regression model to test the validity of our assumptions. In this model, we have examined the relation between the board of directors' characteristics and the financing strategies of these companies, using the level of financial debt in their capital structure as our measure of evaluation.

The remainder of this paper is organized as follows: In the second section, we specify the importance of the financing strategies for the firm. In the third section, we review the former studies and present the assumptions of our research. The methodology is presented in a fourth section. Finally, we analyse and discuss results in section five and we present our conclusions in section six.

IMPORTANCE OF THE FINANCING STRATEGIES

Companies have available to them a varied range of instruments and means of financing, each with different characteristics. The choice of a source of financing (own capital, the issuing of shares, bank debt, bonds, leasing,

etc.) depends primarily on the strategies of financing followed by the company, the analysis of the advantages and disadvantages relating to each mode of financing suggested as well as the characteristics and specificities of each firm.

Recent research has moved away from the static vision of most traditional models which proposed a certain automatism in the financing choices and decisions made by firms (Modigliani and Miller, 1958; Sharpe, 1964; Lintner, 1965; Black and Scholes, 1973; Jensen and Meckling, 1976 and Myers et Majluf, 1984). This evolution in the theoretical approach has led to a more dynamic representation in which a logic of actors prevail.

This new vision of financing strategies seems to be better explained through the primary theories of corporate governance. In fact, governance mechanisms impose constraints on the financial choices managers can make, thus allowing them to avoid having recourse to financial policies which could affect their discretionary space.

The financing strategies can be summarized mainly in the distinction between debt and own capital measured through financial debt ratio (financial leverage) showing the importance of financial debt in the capital structure of firms. With regard to this, firms are obliged to disclose certain ratios that help to define their financing strategies and which make it possible to guarantee their financial balances. Thus, the financing strategies appear as a significant area of decision for management insofar as they constitute a factor determining the cost of capital and the firm's value through the effect of financial leverage. Within this framework, the financing strategies represent one of the most significant fields of action for the board of directors. Indeed, one of the principal objectives of the board, within the framework of its strategic role, is to procure essential financial resources and to determine strategic choices for the firm.

In imposing constraints on the financial choices of management, governance mechanisms, in particular as shown in the board of directors, seem to have a significant effect on the financing strategies adopted by the firm. However, the effectiveness of these governance mechanisms depends primarily on their characteristics. It was in this context that former studies sought to explore the effect of the characteristics of the governance system on the companies' financing strategies.

REVIEW OF LITERATURE AND RESEARCH HYPOTHESIS

Several studies sought to examine the relation which could exist between the governance mechanisms and the financing decisions of the companies (Friend and Lang, 1988; Berger, Ofek, and Yermack, 1997; Abor and Biekpe, 2005). Focusing on tests of association between the capital structure and the principal characteristics of the governance system, these studies have examined how the adoption of the governance structures influence the financing decisions of the companies. In this context, the results of Wen, Rwegasira, and Bilderbeek (2002) study have showed that the leaders seek a low debt level when they evolve in a better governance system. Thus, the leaders care about avoiding the risk associated with a high debt. In particular, the studies on the financing strategies stressed the association between the financial structure and the principal board of directors' characteristics.

The Board of Directors' Size

The results of the previous studies show a positive relation between the size of the board of directors and financing by debt (Wen et al., 2002 and Abor and Biekpe, 2005). In fact, small boards of directors, allowing a better control of the direction bodies, exert a greater pressure on managers leading them to pursue a low debt strategy to decrease the financial risk and to improve the firm's performance. According to agency theory, a large board of directors supports the domination of managers while giving birth to coalitions and group conflicts (Jensen, 1993). It results in fragmented boards struggling to function effectively, having difficulties finding a consensus on important and strategic decisions and leaving a room for more significant manoeuvring by managers. Thus, according to Yermack (1996), a company with a smaller board of directors is likely to benefit from a higher market valuation. These findings lead to the following hypothesis:

Hypothesis 1: The board of directors' size is positively related to the debt ratio.

The Board of Directors' Composition

The resource dependence approach, developed by Pfeffer (1973) and Pfeffer and Salancik (1978), encourages the appointment of external directors to increase the firm's ability to be protected from its external environment, to reduce uncertainty and to choose the right resources to obtain funds in order to improve its status and its recognition. Within this framework, several studies showed that the companies having a board of directors with strong disciplinary power tend less to resort to the debt like source of financing (Poincelot, 1999). In their study examining the relation between the board of directors' composition and the debt policies of 261 American

companies, Bathala and Rao (1995) showed that the proportion of external directors within the board of directors is conversely related to financial leverage.

In addition, Wen et al. (2002) argue for this relation stating that independent directors tend to control management in a more active way, encouraging them to adopt a low level of debt in order to improve performance and firm value. Indeed, managers are generally faced with more rigorous and more effective control when the board of directors is controlled by independent directors who are able to lead them to adopt a lower debt strategy

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Hypothesis 2: The percentage of independent directors in the board is negatively related to the debt ratio.

The Duality of the Function of Chief Executive Officer and Chairman of the Board

Defining management decision such as the right to initiate and apply new proposals for the firm's expenditures and resources and to control decisions such as the right to ratify and supervise these proposals, Fama and Jensen (1983) suggest that boards of directors should not be under the control of management.

In this framework, Abor and Biekpe (2005) showed that the duality of the functions of chief executive officer and chairman of the board constitutes a factor that influences the financing decisions of the firm. They argued that there is a positive relation between the duality of these functions and financial leverage. In fact, firms with a structure separating between these two functions are more able to maintain the optimal amount of debts in their capital structure than firms with a structure where the CEO is also the chairman of the board. In this context, Fosberg (2004) found that firms, separating the functions of chief executive officer and chairman of the board, have small debt ratios (financial Debt / Equity capital). This leads to our third testable hypothesis:

Hypothesis 3: The duality of the functions of chief executive officer and chairman of the board is positively related to the debt ratio.

The Board of Directors' Tenure

Contrary to the predictions of the convergence theory stipulating that the average duration of the directors in the board (board tenure) constitutes a favour factor for the exercise of a more effective control, agency theory proposes that shorter tenure on the board leads to better control of management and eventually to better performance. In fact, when the term of the board of directors' office increases, the management will be more able to influence the opinion of the directors. Therefore, the managers and the board show an opposite relationship to the monitoring of management opportunism and control of the firm's accounting and financial process (Anderson, Mansi and Reeb, 2004). Within this framework, the results of the former studies show a positive relation between the tenure of directors and the debt ratio (Berger et al., 1997 and Davidson, Pilger and Szakmary, 1998). Indeed, new directors prefer a lower debt to reduce agency costs and financial risks associated with high debt strategies. In this direction, Wen et al. (2002) showed that experienced directors, occupying these posts for a long period, have been positively associated with higher financial debt strategies by debt. From this we propose the following testable assumption:

Hypothesis 4: The board of directors' tenure is positively related to the debt ratio.

The Representation of the Financial Institutions in the Board of Directors

By having a representative in the board of directors of the firm, financial institutions can limit management opportunism since managers realize that they cannot mislead the financial institution. Although in certain cases, the firm management can hide some financial information from external directors, the legal authority and the presence of the members of a financial institution in the board of directors discourage the managers' opportunism. Financial institutions are, thus, inclined to lend to firms having representatives of such bodies in their boards of directors. Moreover, the results of the empirical studies showed that firms profit from the monitoring exerted by financial institutions through their representatives in the boards of directors. Indeed, as the direction of the firm loses in autonomy due to the presence of a representative of a financial institution in its board of directors, it gains by increasing its access to the external financing sources. In this framework, Mizruchi and Stearns (1993) revealed that the type and the amount of financing which the firms employ are positively associated with the presence of a financial representative in their boards of directors.

Moreover, Kroszner and Strahan (2001) found that the relation with the bank, formalized through the representation of the financial institution in the board of directors, enhances the probability of financing from banks through the improvement of the information transparency level and in the reliability of the financial information. However, when the firm is heavily involved in debt, the representation of the financial institution in the board can have the opposite effect since a high debt level will expose the financial institutions to a significant risk. In respect to this, Mizruchi and Stearns (1993) showed that the representatives of financial institutions will be more likely to restrict the access to loans for firms which are already strongly involved in debt. This leads to our fifth testable hypothesis:

Hypothesis 5: The representation of the financial institutions in the board of directors of the company is positively related to the financing by debt.

The Financial Motivations of the Directors

A review of the literature reveals that few studies focused on the issue of the consequences to the firm's financing strategies of board members' financial motivation. According to agency theory, the percentage of capital held by directors can constitute a sufficient incentive to exert an effective control of the firm's management. The alignment of the directors' interests with shareholders' interests should thus support the control of management and therefore contribute to the maximization of the firm's value (Jensen, 1993).

In this context, Agrawal and Mandelker (1987) found a negative relation between the percentage of the capital held by independent directors and financing by debt. In fact, directors holding a high percentage of capital prefer a low debt level in order to decrease the agency risks, the financial costs and the hazards associated with the requirements of repaying significant debt.

In this context, Agrawal and Mandelker (1987) found a negative relation between the percentage of the capital held by independent directors and the financing by debts. In fact, directors holding a high percentage of capital prefer a low debt level to decrease the agency risks, the financial costs and the hazards associated with the requirements of repaying significant debt. They also use this to enable them to maintain their control on the direction of the firm and, consequently, to improve the firm's performance. From where we draw the following testable hypothesis:

Hypothesis 6: The percentage of the capital held by the independent administrators is negatively related to the financing by debt.

Impact of Other Firm Characteristics on the Financing Strategies

The board of directors' characteristics are not the only factors able to influence the firm's financing strategies. Other elements, such as the firm's size, its profitability and its growth opportunities can also determine the financing choices of the company.

Firm Size

Large firms are supposed to have higher credit capacities than the small ones and are allowed more borrowing to maximize their tax profits (Rajan and Zingales, 1995). In fact, lenders are more willing to lend to large companies because they are perceived to have low default risk levels. Within this framework, several studies have found a positive relation between the firm size and debt ratio (Lasfer, 1995 and Berger et al., 1997).

Profitability

The impact of profitability on the debt level in capital structure has been the subject of a theoretical debate. According to the assumptions of Modigliani and Miller (1963), firms which generate significant benefits should employ the maximum of debts to profit from tax advantages relating to the deductibility of interest. However, the assumptions of the hierarchical financing theory (Myers and Majluf, 1984) stipulate that the most profitable firms have more internal funds in their capital structure than the least profitable ones, thus decreasing their recourse to external financing. In this context, Wen et Al. (2002) and Abor and Biekpe (2005) showed that profitability negatively affects the level of debt in the capital structure.

Growth Opportunities

The hierarchical financing theory envisages a positive relation between the debt level in capital structure and growth opportunities. In fact, the companies with strong growth options have a significant need for financing calling upon debt to finance their new projects. In this direction, Kremp, Stoss and Gerdesmeier (1999) and Michaelas, Chittenden and Poutziouris (1999) found a positive and significant relation between the level of debt in the capital structure and the growth opportunities of companies.

METHODOLOGY

Sample Description and Data Collect

To test our hypotheses, we analyze the annual reports for the year 2005 of French companies in the SBF120 French index: they are companies having the most significant stock exchange capitalization. From among the companies which make up the SBF120 index, we eliminated the foreign companies as well as the French companies involved in the financial sector (banks, insurances, etc). We also excluded the companies for which one of the variables was missing and also all the other foreign companies belonging to the SBF120 index which are subject to specific regulations. This reduced our final sample to 87 French companies.

The data relating to the board of directors' characteristics and the financial data were collected from the annual reports (reference documents) of 2005 of the companies found on the SBF 120 index for the year 2005. The reports were published either on the Website of the AMF (Autorité des Marchés Financiers): www.amf-france.org, or on the Websites of the companies themselves. In accordance with the article 212-13 of the general regulation of the authority of the AMF, these reference documents generally contain information related to corporate governance (composition and operation of the board of directors, remuneration of the social agents, etc.), the report of the president of the board on the interns' check procedures, the annual report of the board, consolidated accounts, social accounting and general information on the company and its capital.

In addition, the stock exchange data related to the companies which make up the SBF 120 index (stock exchange, volatility of the output of the shares, etc.) and also their industry type were collected from the financial headings of the websites www.finance.yahoo.com and www.boursorama.com.

Variables Measures

The Financing Strategies (FIN_STR)

The financing strategies were evaluated according to the level of debt in the capital structure of the companies. A variety of measures has been used in the literature to determine the level of debt in the capital structure. In order to determine the debt ratio, these were classified into measures which were based on the book value (Friend and Lang, 1988) and those which were based on the commercial value of the debt (Bathala et al, 1994).

In this study, financing strategies were measured by debt ratio (financial leverage) based on book value - the total of financial debts divided by total assets. It constitutes a traditional measure of the level of debt in capital structure and is much used in research in finance (Agrawal and Knoeber, 1996; Wen et al., 2002 and Godard and Schatt, 2005).

The Board of Directors' Characteristics

Board of directors' size (BRD_SIZE): It is measured by the number of members in the board. This measure was also used by Anderson et al. (2004) and Godard and Schatt (2005).

Board of directors' independence (BRD_IND): This variable is measured by the percentage of independent directors in the board classified according to the Bouton report (2002). This measure was also used by Dulewicz and Herbert (2004) and Andres et al. (2005). According to the Bouton report, directors are regarded as independent when they do not maintain any relation with the Company, its Group or its Direction, which could compromise the exercise of their independence of judgment.

Duality of the function of chief executive officer and chairman of the board (CEO_DUA): This variable is measured by a dummy variable that equals one when the CEO is also the chairman of the board and zero otherwise. This measure was used by several previous researches such as Bédard, Chtourou and Courteau (2004), Fosberg (2004) and Kula (2005).

Financial motivations of external independent directors (FIN_MOTIV): This variable is measured by the percentage of capital owned by external independent directors. This measure was also used by Beasley (1996) and Dulewicz and Herbert (2004).

The board of directors' tenure (TENURE): This is measured through the average duration of the term served by members of the board of directors of the company. It corresponds to the sum of the number of years that the directors serve on the board divided by the number of directors. This measure was used by Anderson et al. (2004) and Dulewicz and Herbert (2004).

The representation of financial institutions in the board of directors (REP_FI): This variable is measured by a dummy variable that equals one when there are representatives of financial institutions (banks, financial establishments or credit organizations) in the board of directors of the company and zero otherwise (Kroszner and Strahan, 2001).

Firm Characteristics

Firm size (FIRM_SIZE): is measured by the natural logarithm of the book value of total assets. It is a traditional measure used also by Pearce and Zahra (1992) and Anderson et al. (2004).

Profitability (ROA): is measured through the Return on Assets which is equal to the ratio earning before interest and taxes (EBIT) divided by total assets. This measure was also used by Reeb, Mansi and Allee (2001) and Wen et al. (2002).

Growth opportunities (MB): This variable is measured by the Market-to-Book ratio which is equal to the market value of securities (Stock Exchange prices) divided by the book value of equity. This measure was used by several previous researches such as Fama and French (2004), Ashbaugh, Collins and LaFond (2004) and Andres, Azofra and Lopez (2005).

RESULTS ANALYSIS

Descriptive Analysis

Table 1 presents the descriptive statistics concerning the variables retained in the analysis. The results presented in part A of Table 1 relating to the continuous variables indicate that the average debt ratio is 23,16 % and it lies between 0,97 % and 70,30 %. This shows the wide range of differences in the financing strategies adopted by French companies. In fact, some companies are based mainly on a debt like source of financing (high debt ratio), while others are financed primarily by own capital (low debt ratio). The results presented in part A show also that the average size of the board of directors is approximately 10 directors and that this size varies between 4 and 18 directors as predicted in the French trading law (Article L225-17). The examination of the composition of the board of directors reveals that on average, 51,38% of directors are independents within the meaning of the *Bouton Report* (2002) and own 0,025% of the capital of company. Moreover, these results reveal that the boards of directors of the companies selected in our sample meet at least 3 times and at most 17 times per year with an average of 8 meetings per year. The average tenure of the directors is equal to 7 years.

Finally, and as indicated in part B of Table 1 relating to the dummy variables, the separated structure; in which the functions of chief executive officer (CEO) and chairman of the board are separated, is more widely adopted by the French companies (55%). These results show also that only 47.13% of the French companies have representatives of financial institutions in their boards of directors.

TABLE 1

Variables	N	Minimum	Maximum	Mean	Median	Std. dev
FIN_STR	87	0,97%	70,30%	23,16%	20,24%	16,23
BRD_SIZE	87	4,00	18,00	10,44	10,00	3,73
BRD_IND	87	8,33%	100,00%	51,38%	50,00%	20,95
FIN_MOTIV	87	0,00003%	0,10326%	0,02482%	0,01044%	0,03
TENURE	87	1,40	14,26	7,22	6,79	3,48
Total Assets (M€)	87	116,17	170914,93	5427,68	6941,93	5,69
FIRM_SIZE	87	8,07	11,23	9,73	9,84	0,76
ROA	87	-1,98%	28,96%	8,81%	6,82%	6,81
MB	87	11,72%	1559,34%	303,85%	231,25%	235,17

FIN_STR: Financing strategies

FIN_MOTIV: Percentage of capital owned by the independent directors

BRD_SIZE: Board of directors' size

FIRM_SIZE : Firm size (Log of Total Assets)

BRD_IND: Board of directors' independence

ROA : Return On Assets

TENURE: Board of directors' tenure

MB : Growth opportunities (Market-to-Book ratio)

Descriptive Analysis (Part A : Continuous Variables)

CEO_DUA			
		Frequency	Percentage
Separation of fonctions	0	48	55,17%
Duality of fonctions	1	39	44,83%
REP_FI			
		Frequency	Percentage
No Representation of F.I. in the board	0	46	52,87%
Representation of F.I. in the board	1	41	47,13%

CEO_DUA: Duality of the functions of Chief Executive Officer (CEO) and Chairman of the board

REP_FI: Representation of Financial Institutions (F.I) in the board of directors.

Descriptive Analysis (Part B : Dummy Variables)

Multivariate Analysis

In order to comprehend the effect of the board of directors' characteristics on the financing strategies (measured through the debt ratio), we tested the following regression model while integrating the control variables connected to the firm's size, profitability and growth opportunities in order to control their effect on the financing strategies.

$$\begin{aligned} \text{FIN_STR} = & \beta_0 + \beta_1 \text{BRD_SIZE} + \beta_2 \text{BRD_IND} + \beta_3 \text{CEO_DUA} \\ & + \beta_4 \text{FIN_MOTIV} + \beta_5 \text{TENURE} + \beta_6 \text{REP_FI} \\ & + \beta_7 \text{FIRM_SIZE} + \beta_8 \text{ROA} + \beta_9 \text{MB} + \varepsilon \end{aligned}$$

Checking the Application Assumptions of Linear Regression

Given that all the dependent variables were continuous and followed a normal distribution, we used the multiple linear regression model to estimate this equation. However, the application of the linear regression model is subject to several conditions. Indeed, this method requires the absence of problems of autocorrelation and heteroscedasticity of errors as well as the absence of multicollinearity between independent variables.

Checking of the absence of heteroscedasticity: Since the problem of autocorrelation of errors did not arise for individual data (cross-section analysis), we tested the possible existence of a problem of heteroscedasticity of errors. Within this framework, we used the test of White (1980). The results of this test showed that there is no problem of heteroscedasticity in the regression model used in our study.

Checking of the absence of multicollinearity between independent variables: To test for the absence of multicollinearity problems, we calculated the Pearson correlation coefficients between independent variables and also the Variance Inflation Factor "VIF". As indicated in Table 2, all the correlation coefficients are smaller than 0,8 which corresponded to the limit fixed by Kennedy (1985) and which is where we generally start to have serious multicollinearity problems. Moreover, Table 3 shows that no VIF does exceeds the limit of 3. This allows us to confirm the absence of any problematic multicollinearity.

TABLE 2

Variables	BRD_SIZE	BRD_IND	CEO_DUA	FIN_MOTIV	TENURE	REP_FI	FIRM_SIZE	ROA	MB
BRD_SIZE	1	-0,313** (0,003)	-0,312** (0,003)	0,434** (0,000)	0,328** (0,002)	0,460** (0,000)	0,318** (0,003)	-0,334** (0,002)	0,202 (0,060)
BRD_IND		1	0,134 (0,214)	-0,152 (0,161)	-0,049 (0,653)	-0,279** (0,009)	-0,155 (0,151)	0,270* (0,012)	-0,185 (0,086)
CEO_DUA			1	-0,238* (0,027)	-0,202 (0,060)	-0,295** (0,005)	-0,384** (0,000)	-0,229* (0,033)	-0,185 (0,086)
FIN_MOTIV				1	0,355** (0,001)	0,467** (0,000)	0,298** (0,005)	-0,163 (0,132)	0,182 (0,092)
TENURE					1	0,252* (0,019)	0,211* (0,050)	-0,172 (0,112)	0,083 (0,446)
REP_FI						1	0,305** (0,004)	-0,298** (0,005)	0,181 (0,093)
FIRM_SIZE							1	-0,381** (0,000)	0,103 (0,343)
ROA								1	0,046 (0,675)
MB									1

** Correlation significant at the 1% level
 () Bilateral significance
 * Correlation significant at the 5% level

Correlation Matrix

Results of Multivariate Analysis

The results of the linear regression model testing the effect of the board of directors’ characteristics on the financing strategies prove that the explanatory power of this model is satisfactory and significant ($F = 22,57$). In addition, the value of the adjusted R^2 of 69,3% testifies to the quality of the adjustment compared to the former studies.

The examination of the findings (Table 3) reveals a positive and significant relation, at the threshold of 5%, between the debt ratio, like measure of financing strategies, and board of directors’ size. This result supports the first hypothesis and shows that the larger the board of directors the more significant is the debt level in the capital structure. The findings also demonstrate that the percentage of independent directors in the board of directors is negatively connected to the debt level in the financing structure of the companies.

In addition, the results of this regression model show that the financial motivations of the independent directors as well as the average duration function of the directors in the board (board tenure) do not have a significant effect on the financing strategies of companies. Furthermore, the coefficient associated with the CEO_DUA variable, significant at the threshold of 5%, does not bear out the theoretical predictions. This result leads us to reject the third hypothesis, H3, according to which the duality of the functions of CEO and chairman of the board has a positive effect on the debt level in the financing structure of the firms.

Moreover, these results show that the representation of financial institutions in the board of directors of a company is positively related to the level of debt in the capital structure. This result confirms the fifth hypothesis, H5, and supports the results of Mizruchi and Stearns (1993) and of Kroszner and Strahan (2001) who stipulate that the companies which have representatives of financial institutions in their boards are more likely to base their financing on debt.

Lastly, we note that the large companies with strong growth opportunities pursue strong debt strategies to finance their growth and their investments. The results of this study also show that the most profitable firms rely much more on their own capital than on debt for financing. This corroborates the results of the studies of Wen et al. (2002) and of Abor and Biekpe (2005). According to these studies, firms with a stronger profitability on assets (ROA) finance their investments by a more significant recourse to their own capital.

TABLE 3

Dependent Variable: FIN_STR					
Variables	Predicted sign	β Coefficient	p	VIF	
Intercept		-0,2370*	0,087	0.000	
BRD_SIZE	+	0,0057**	0,050	1,642	
BRD_IND	-	-0,1890***	0,000	1,206	
CEO_DUA	+	-0,0389**	0,044	1,272	
FIN_MOTIV	-	54,1180	0,115	1,475	
TENURE	+	-0,000015	0,995	1,195	
REP_FI	+	0,0621***	0,004	1,536	
FIRM_SIZE	+	0,0487***	0,000	1,389	
ROA	-	-0,2570*	0,077	1,349	
MB	+	0,0063*	0,098	1,126	
R² = 0.725		Adjusted R² = 0,693	F = 22,57	p = 0,000	N = 87

***: significant at the 1% level **: significant at the 5% level *: significant at the 10% level

Results of linear regression model testing the effect of the board of directors' characteristics on the financing strategies

SUMMARY AND CONCLUSION

In conclusion, our results reflect the importance of the role of the board of directors, as a governance mechanism, in the determination of the financing strategies of French companies. First, the analysis of the results revealed that the board size, as well as the representation of financial institutions in the board of directors, has a positive and significant effect on the debt ratio as a measure of financing strategies. These results also showed that the higher the percentage of independent directors in the board, the more likely were companies to pursue own capital financing strategies.. In addition, the findings of this study indicated a positive and significant effect of firm size and growth opportunities on the debt level in capital structure. Moreover, it was noticed that the weaker the debt ratio, the greater the firms' profitability, measured through Return on Assets (ROA). Thus, we concluded that the boards of directors of French firms are effective in the governance system through a greater independence of the directors, a larger board size and through the representation of financial institutions in the board; they pursue financing strategies which are more based on equity capital than debt.

Finally, future research could, if the necessary data is available, look further into this research topic by integrating other board of directors' characteristics such as the expertise and qualifications of the directors, the effect of the directors' networks as well as other governance mechanisms in the explanation of firms' financing strategies. It would also be interesting to integrate the influence of institutional environment differences in the future studies.

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