The Impact of Capital Structure and Ownership Structure on Financial Performance: A Study on the KSE-100 Listed Firms in the Pakistan Stock Exchange

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**ARTICLE DETAILS**

**ABSTRACT**

**Purpose:** This research study aimed to examine the impact of capital structure and ownership structure on the financial performance of KSE-100 index firms on the Pakistan Stock Exchange.

**Design/Methodology/Approach:** 100 listed companies have been selected as sample for the study but due to data limitations, 90 companies' annual data has been used for 2009-2018. Ordinary least square regression was used on the panel data for analysis. Two measures of capital structure (debt-to-equity ratio and debt to total assets) while three measures of ownership structure (Foreign ownership, Institutional ownership, and managerial ownership) have been used to determine their impact on three financial performance measures (return on assets, return on equity, and Tobin's).

**Findings:** The results of this study showed that there is a significant negative relationship between financial performance and capital structure. Ownership structure and firm financial performance showed a significant positive relationship when measured on the basis of foreign ownership and institutional ownership while insignificant and negatively related to managerial ownership.

**Implications:** This study suggests that organizations should take financing decisions in accordance with optimum capital structure because more debt decreases financial performance. Furthermore, a decision should be taken the encouragement of foreign and institutional shareholding, while the level of managerial ownership should be lessened to enhance financial performance.

**Keywords**

Capital Structure, Ownership structure, Pakistan stock exchange, Financial performance.

**JEL Classification**

G32, O16

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**Introduction**

Capital and ownership structure are significant elements that have the potential to influence companies’ performance (Berger & Patti, 2006). The capital structure contains long and short-term debt decisions along with equity financing with the intention to achieve the most favorable capital structure for the organization. The capital structure decision is required when a company is newly established or when the organization needs expeditious funds for operations or new projects. The chief financial officer or financial manager of a corporation is assessing the advantages in addition shortcomings of different sources of funds before choosing the best alternative while predicting the optimum capital structure. The literature shows that an optimum capital structure maximizes the organization's total market value or minimizes the overall cost.

The debate concerning the conception of the relation between capital structure and company valuation was initiated by the paper "the cost of capital, corporate finance and the theory of investment" presented by (Modigliani & Miller, 1958), they determined that firm valuation is not relevant to the capital structure, but this supposition was based on an impractical assumption of perfect market competition. After summarizing many studies, it was suggested that factors affecting capital structure depend on variables including tangibility, tax shields on depreciation, size, external threats, advertising, etc. (Harris & Raviv, 1991; Rajan & Zingales, 1995). Therefore, it was examined that capital structure decisions should be investigated to determine their effects on the company's valuation (Pandey, 2004). The relation of capital structure with financial performance was examined in quoted companies from 6 sectors in Pakistan. Results found that business performance has a significant relationship with financial structure (Basit & Hassan, 2017).

The connection between ownership structure and financial performance gives significant consideration in the literature of finance (Jiang, 2004). Ownership structure was defined as the quantity of shares held by managers, executives, institutes, government and overseas stockholders, households, etc. (Ezeoha & Okafor, 2010). The effect of ownership structure on an organization's financial performance is significant while making decisions regarding financing and investment. It is a reality that larger investors could have a substantial position to influence the organization's performance and they affect it through methods, processes, and actions taken by management as per their needs and wants. Therefore, the structure of ownership besides capital structure dominantly affects a company's financial performance.

The association between ownership structure and organizational valuation was introduced and examined by (Berle & Means, 1932). They proposed that firms with an extensive distribution of shareholding tend to perform lesser than expected. Many researchers identified that ownership structure positively affected company performance, while other studies show the confirmation of this link (Kanga & Shivdasani, 1995; Gedajlov & Shapir, 1998; Thomsen & Pedersen, 2000). The research was carried out in Pakistan to examine the relationship between ownership structure, excess control, and business governance on the financial performance of companies. The outcomes indicated that one of the dominant factors that affect firm performance is ownership structure (Ullah, Ali, & Mehmood, 2017).

Performance measurement is defined as the process of conversion of the sophisticated results of performance into organized symbols (Lebas, 1995). Without measuring the results and outcomes it is difficult for the company to estimate growth and stability. Therefore, organizational
performance enhancement requires some dimensions to identify the level an organization uses its resources that affects business performance (Sharma & Gadenne, 2002). Firm performance shows the result of decisions and activities taken by a manager in the operations of the business.

In Pakistan previously researchers studied the relationship between capital structure and financial performance in the specified sector of companies listed on the Pakistan stock exchange like the food, sugar, and textile sector, etc. while others work on determinants and factors of capital structure that affects financial performance (Akhtar, Bakhsh, Ali, & Kousar, 2019; Badar & Saeed, 2013; Muhammad, Shah, & ul Islam, 2014). Contradictory results were found when this relationship was empirically analyzed by scholars. The mentioned limitations stimulate new investigations on the relation between capital structure and financial performance. The literature shows that researchers when determining the effect of ownership structure on company performance, repeatedly emphases on shareholding concentration, and managerial and institutional ownership (Ullah, Ali, & Mehmood, 2017; Yasser & Al Mamun, 2015; Wahla, Zulfiqar Ali Shah, & Hussain, 2012). While no single study was found in Pakistan examining the effect of foreign ownership on financial performance. Due to severe growth in foreign investment, foreign ownership in recent times has begun to play a vital role in developing countries.

In this paper, we investigate the impact of capital structure and ownership structure on the financial performance of companies listed on the KSE-100 index of the Pakistan Stock Exchange. Our study provides the first attempt to track the relationship between foreign ownership and financial performance of Pakistani listed companies along with other variables over such a long duration.

The remainder of the paper is arranged as follows. Section 2 will provide a review of related literature on the relations between capital structure, ownership structure, and a firm's financial performance along with hypothesis and empirical models. Section 3 describes the research methodology in terms of research design, data collection and variables of the study, sampling, and research analysis tools. Section 4 analyses the empirical results of the study while Section 5 concludes the paper with final remarks on our findings along with the theoretical as well as practical implications.

**Literature Review**

Both capital structure and ownership structure have an impact on business performance. The relation between capital structure and company value is described by the efficiency risk hypothesis. The efficiency risk hypothesis stated that better performance companies might use debt funding to avoid changes in the structure of shareholders (King & Santor, 2008).

**Capital structure and Firm Financial Performance**

Capital structure has been observed as one of the important factors that affect a firm's financial performance (Gambo, Ahmad, & Ahmad, 2016).

It was investigated that higher leverage leads to competing organizations being more aggressive while making investment decisions (Brander & Lewis, 1986). Similarly, in India, it was examined that capital structure was negatively related to business performance (Majumdar & Chhibber, 1999). The research was conducted on 77 listed organizations on Dhaka Stock Exchange and resulted in financial structure significantly affecting business performance as well as showing a strong positive correlation (Chowdhury & Chowdhury, 2010). When the analysis was applied to the financial data of 237 corporations quoted in the Bursa Malaysian Stock Exchange, over the period of 1995 to 2011 resulted that debt shows negative relation to
profitability but growth indicated a positive linkage with performance (Salima & Yadav, 2012). The research was conducted on Nigerian firms and found that profitability and leverage were negatively related to each other (Oino & Ukaegbu, 2015). Analysis was made on the data of Vietnamese companies for 2007-2012 for investigation of the relation between capital framework and company performance. The results of the study show a strongly significant negative relation between firm performance and all leverage measures (Le & Phan, 2017).

**In Pakistan Capital Structure & Firm Performance**

The effect of capital structure on organizational profitability was investigated on 94 quoted companies on the Islamabad Stock Exchange (ISE) from 1999-2004. The study used regression analysis besides Pearson's correlation. It was found that financial structure significantly impacts firm profitability (Raheman, Zuftiqr, & Mustafa, 2007). After analysis, it was found that the company's performance and leverage were significantly but negatively related (Amjed, 2011). The research was performed on the engineering sector of Pakistan and revealed that company debt and business performance show a significant negative relation when measured by Tobin’s Q and ROA (Khan, 2012)(Imran & Kouser 2019, Kouser et al. 2012)

The research was conducted on 213 non-financial companies quoted on the Karachi Stock Exchange (KSE) to measure the influence of capital structure on financial performance. Major sectors indicate a significant negative influence of current and non-current debt on financial performance (Kanwal, Shahzad, Rehman, & Zakaria, 2017). The motive of the analysis was to examine how corporate governance and capital structure affect an organization's performance. They used pooled regression method on the annual record of automobile & fertilizer sectors. Results indicated a negative effect was found on capital structure and performance in both sectors (Ahmed, Talreja, & Kashif, 2018).

**Ownership structure and Firm Financial Performance**

The relation between organizational financial performance and ownership structure is a subject matter of most researchers in the literature on finance. As the financial performance of a company depends on the decisions of shareholders, therefore different categories of stockholders were previously studied in the literature.

Scholars begin to study the influence of ownership structure on financial performance turning backward in 1968 (Kamerschen, 1968; Monsen, Chiu, & Cooley, 1968). Participations by other researchers in this relation include (Jensen & Meckling, 1976; Williamson, 1988; Hart, 1995), which leads to the theory of separation between stockholders and management. Empirically it was found that there was a positive effect of firm performance on institutional ownership (Leech & Leahy, 1991; Xu & Wang, 1999). It was investigated whether firms having foreign ownership perform better than those having a domestic shareholding in Turkish organizations listed on Istanbul Stock Exchange (ISE) in Turkey (Aydin, Sayim, & Yalaman, 2007).

Managerial and family ownership relates significantly to corporate performance while using regression analysis. Results show that firm performance decreases when managerial ownership increases (Amran & Ahmad, 2013). The effect of corporate performance and ownership structure was examined in the property and real estate sector in Indonesia by using a sample of 240 observations during 2010-15. Results show that both institutional and managerial ownership has a negative relationship with financial performance (Saleh, Zahirdin, & Octaviani, 2017).

The study investigated the effect of foreign ownership on a company's financial performance in India and found that foreign ownership has a significant positive relationship with firm performance (Shrivastav & Kalsie, 2017). Institutional shareholders decrease the agency costs.
due to the close monitoring and supervision of the performance. Results discover a positive correlation between company financial performance with institutional ownership. The research presumed that companies having high institutional ownership can perform better than others in the industry (Yahaya & Lawal, 2018). Institutional ownership has a significant relationship with financial performance while inside ownership (managerial) shows insignificant relation when panel data regression was used on Indonesian companies (Rasyid & Linda, 2019).

In Pakistan Ownership Structure & Firm Performance
The study investigated the impact of ownership structure on financing decisions by utilizing managerial and institutional stockholders. Results show that managerial ownership has a significant negative while institutional ownership shows a positive impact on capital structure (Hassan & Butt, 2009).

Managerial and concentrated ownership were used to represent stockholders' ownership and examined a significant negative relation between managerial ownership and performance while financial performance indicated insignificant relation with concentrated shareholding (Wahla, Shah, & Hussain, 2012). Analyses were made to examine the influence of ownership structure on organizational performance. Results indicated that institutional and managerial ownership has a significant and negative relationship on Tobin's Q, while insignificant relation was found on return on Assets (Ali, Shah, & Jan 2015).

The study examined that company shareholding is a dominant aspect that affects financial performance in Pakistan. After analysis it was explored, that firm performance was negatively linked to both inside ownership and ownership concentration while Institutional shareholding was positively related to performance (Ullah, Ali, & Mehmood, 2017). The effect of institutional stockholders on organizational performance was investigated by using data from non-financial companies in Pakistan from 2007-2011. It resulted that financial performance shows a significantly negative relationship with debt and institutional ownership (Ahmad, Baek, Kim, & Shah, 2019).

Research Hypothesis
- H1: There will be a significant positive relationship between capital structure and financial performance of the firms listed on the KSE 100 Index of the Pakistan Stock Exchange.
- H2: There will be a significant positive relationship between ownership structure and financial performance of the firms listed on the KSE 100 Index of the Pakistan Stock Exchange.

Research Methodology
The population of the study is 553 companies listed on the Pakistan stock exchange but this study will take the data of KSE-100 index-listed companies as a sample for 10 years from 2009 to 2018. In this study, we used 90 companies out of 100 listed firms, because 10 companies do not show all financial statements relevant to the study period. Therefore, we selected 90 companies (900 observations) as a sample for the empirical results regarding the impact of capital structure and ownership structure on financial performance. To achieve the purpose of this research, data is collected from the annual reports of firms individually from companies' websites and the remaining is taken from the website of the Pakistan Stock Exchange.

Independent variable
In this research, the independent variables are the capital structure and ownership structure of the companies listed on the Pakistan Stock Exchange (PSX), which are defined as follows:
Capital structure defines the method an organization practices to finance its properties/projects, by choosing a mixture of debt, equity, or hybrid securities (Saad, 2010). This research studies the capital structure measures as debt-to-equity ratio and debt to total assets to analyze the effect on financial performance.

- The debt-to-equity ratio (DTE) is represented by dividing total debts by shareholder’s capital.
- Debt to total assets (DTTA) shows the total debts divided by total assets.

The ownership structure is defined as the structure that shows investments made by inside investors like directors, managers, and other employees as well as investments by outside investors including debt and equity holders (Jensen & Meckling, 1976). Due to scope and data collection limitations, this research focused on managerial, foreign, and institutional ownership as independent variables.

- Managerial Ownership (MO) is defined as quantity of shares owned by managers, directors, CEOs, etc.
- Foreign Ownership (FO) means the quantity of shares owned by a foreign government, individuals, or multinational organizations.
- Institutional ownership (IO) is expressed as quantity of shares owned by institutions such as banks, leasing companies, associated firms, etc.

**Dependent variable**

This study used firm financial performance as a dependent variable. There are two approaches in research that measures firm financial performance, namely accounting and market-based measures (Al-Matari, Kaid, & Bt Fadzil, 2014). Therefore, this study used ROA and ROE as accounting-based measurements and Tobin's Q formula as market-based measurements.

- Return on assets: Also called return on capital employed, measures how a company's assets are producing returns for the corporation. It is elaborated by dividing net profit and the company's total assets during the same financial year.
- Return on equity: measured as the company's earnings available to common shareholders divided by shareholder’s equity.
- Tobin’s Q was formulated by James Tobin at Yale University. It is measured by dividing a firm's total market value by the total asset.

**Empirical Models**

**Model 1:** \[ \text{ROA}_t = \beta_0 + \beta_1 \text{DTE}_it + \beta_2 \text{DTTA}_it + \beta_3 \text{MO}_it + \beta_4 \text{IO}_it + \beta_5 \text{FO}_it + \epsilon_t \]

**Model 2:** \[ \text{ROE}_it = \beta_0 + \beta_1 \text{DTE}_it + \beta_2 \text{DTTA}_it + \beta_3 \text{MO}_it + \beta_4 \text{IO}_it + \beta_5 \text{FO}_it + \epsilon_t \]

**Model 3:** Tobin’s. \[ Q_t = \beta_0 + \beta_1 \text{DTE}_it + \beta_2 \text{DTTA}_it + \beta_3 \text{MO}_it + \beta_4 \text{IO}_it + \beta_5 \text{FO}_it + \epsilon_t \]

Return on assets (ROA), Return on equity (ROE), and Tobin's Q formula are utilized as a representative of financial performance, Managerial ownership (MO), institutional ownership (MO), and foreign ownership (FO) for ownership structure while debt to equity ratio (DTE) and debt to total assets (DTTA) for capital structure.

**Results and discussion**

**Descriptive statistics**

Descriptive statistics are used to examine the level of capital structure and ownership structure that is used by the listed firms and find the financial performance of companies.

<table>
<thead>
<tr>
<th>Measures</th>
<th>Independent Variables</th>
<th>Dependent Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DTE</td>
<td>DTTA</td>
</tr>
<tr>
<td>Observations</td>
<td>900</td>
<td>900</td>
</tr>
<tr>
<td>Mean</td>
<td>4.6583</td>
<td>0.6354</td>
</tr>
<tr>
<td>Median</td>
<td>1.6250</td>
<td>0.6100</td>
</tr>
</tbody>
</table>
Descriptive statistics results are shown in Table 1. This table presented that the average value of ROA is 6.75% which means that as a whole firm generates a 6.75% return by employing the firm's assets. The mean value of ROE is 25.23% which shows the good performance of organizations and shows that on average firms on the KSE-100 index are giving a good income to their shareholders. TQ ranges between 23616.5 and 0.2200 and it shows a higher deviation from the mean which is 2019.04. Higher Tobin's Q results in better operating performance, high growth potential, and higher market value. The maximum value of ROE is 701.400 and the minimum value is -270.00 which represents a large variation of ROE among the firms.

Capital structure is measured by two variables which are debt to equity (DTE) and debt to total assets (DTTA) through 900 observations. The mean value of the DTE ratio is 4.65 times against the shareholder's equity while the average value of DTTA is 63.5% which means that organizations on the KSE-100 index finance their 63% of assets by using long-term debt. Among the two variables of capital structure, DTE shows a higher deviation of 11.34.

Foreign ownership (FO), institutional ownership (IO), and managerial ownership (MO) are used to measure the ownership structure. IO accounts for a significant proportion of 55.02% of the ownership structure of listed firms on the KSE-100 Index, whereas FO and MO are only about 12.62 % and 10.81% respectively. A prominent point is that FO shows results very near to MO because FO takes place an important role in the ownership structure of the listed firms on the Pakistan Stock Exchange. The maximum of IO is higher than other ownerships i.e., 100% compared with approximately 85% of FO and 90% of MO.

Correlation Analysis
Correlation analysis was used to determine the associations among all variables that are used in the regression model; either there is a strong or weak and positive or negative relationship. The results are shown below in table 2.

<table>
<thead>
<tr>
<th>Table 2: Correlations</th>
<th>Independent Variables</th>
<th>Dependent Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DTE</td>
<td>DTTA</td>
</tr>
<tr>
<td>DTE</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>DTTA</td>
<td>0.333</td>
<td>1.000</td>
</tr>
<tr>
<td>FO</td>
<td>-0.051</td>
<td>-0.190</td>
</tr>
<tr>
<td>IO</td>
<td>-0.011</td>
<td>0.174</td>
</tr>
<tr>
<td>MO</td>
<td>-0.071</td>
<td>-0.068</td>
</tr>
<tr>
<td>ROA</td>
<td>-0.210</td>
<td>-0.369</td>
</tr>
<tr>
<td>ROE</td>
<td>-0.017</td>
<td>0.009</td>
</tr>
<tr>
<td>T.Q</td>
<td>-0.156</td>
<td>-0.346</td>
</tr>
</tbody>
</table>

Table 2 showed that there is a negative relationship between ROA, ROE and T.Q with DTE and DTTA i.e., (-0.210), (-0.017), (-0.156), (-0.369), and (-0.346) respectively, while positive and weak relation between ROE and DTTA i.e., (0.009). As more variables show a negative effect, therefore capital structure and financial performance have a negative relationship.

Correlations between financial performance and ownership structure measures presented contradictory results. ROA has a positive relationship with FO and MO which is (0.097) and (0.021), while a negative relationship with IO which is (-0.0285). ROE was positively related to IO (0.028) and negatively related to FO and MO. T.Q have a negative relation with IO and MO i.e., (-0.082) and (-0.025) while the positive relation with FO which is (0.173).
Test of Non-Stationarity
Before using the ordinary least square regression model, the non-stationarity test should be performed on all variables under study to evaluate whether the panel data is stationary or not. Table 3 shows the results of the unit root test of all dependent and independent variables below:

<table>
<thead>
<tr>
<th>Variables</th>
<th>Method</th>
<th>Statistics</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>-10.0562</td>
<td>0.0000</td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>-19.2732</td>
<td>0.0000</td>
<td></td>
</tr>
<tr>
<td>Tobin’s Q</td>
<td>-8.32518</td>
<td>0.0000</td>
<td></td>
</tr>
<tr>
<td>DTE</td>
<td>Null: Unit root (assumes common unit root process)</td>
<td>-21.3517</td>
<td>0.0000</td>
</tr>
<tr>
<td>DTTA</td>
<td>-11.7287</td>
<td>0.0000</td>
<td></td>
</tr>
<tr>
<td>FO</td>
<td>-13.8083</td>
<td>0.0000</td>
<td></td>
</tr>
<tr>
<td>IO</td>
<td>-8.83102</td>
<td>0.0000</td>
<td></td>
</tr>
<tr>
<td>MO</td>
<td>-12.9221</td>
<td>0.0000</td>
<td></td>
</tr>
</tbody>
</table>

According to table 3, the P-value of all test relating to variables are below the acceptable level at 5%, therefore stationarity exists in data, so these variables can be used in further analysis.

Hausman Test
In order to decide which panel effects (between fixed and random) provide better results, researchers carried out the Hausman test for the panel regression models. Therefore, the results of the test for the three dependent variables are as follows.

<table>
<thead>
<tr>
<th>Test summary</th>
<th>Chi-Sq. Statistic</th>
<th>Chi-Sq. d.f.</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>11.642852</td>
<td>5</td>
<td>0.0400</td>
</tr>
<tr>
<td>ROE</td>
<td>1.524993</td>
<td>5</td>
<td>0.9102</td>
</tr>
<tr>
<td>Tobin’s Q</td>
<td>9.209561</td>
<td>5</td>
<td>0.1010</td>
</tr>
</tbody>
</table>

When the regression model runs on random effect and applied the Hausman test, Table 4 shows that the ‘p’ value for ROA is less than the acceptable level at 5% i.e., (0.0400) it directs to the use of the fixed effect regression model for the ROA as a dependent variable. While 'the p-value for ROE and Tobin’s Q is greater than the acceptable level i.e., 0.9102 and 0.1010 respectively that directs to the use random effect regression model for the ROE and Tobin’s Q.
To measure the impact of capital structure and ownership structure on financial performance, this study used the ordinary least square regression method for the analysis of panel data by using E-views 10 software.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>5.957664</td>
<td>2.745647</td>
<td>2.169858</td>
<td>0.0304</td>
</tr>
<tr>
<td>DTE</td>
<td>-0.032154</td>
<td>0.010261</td>
<td>-3.133527</td>
<td>0.0018</td>
</tr>
<tr>
<td>DTTA</td>
<td>-6.009316</td>
<td>2.564129</td>
<td>-2.343609</td>
<td>0.0194</td>
</tr>
<tr>
<td>FO</td>
<td>0.117537</td>
<td>0.040423</td>
<td>2.907699</td>
<td>0.0038</td>
</tr>
<tr>
<td>IO</td>
<td>0.060188</td>
<td>0.022407</td>
<td>2.686109</td>
<td>0.0074</td>
</tr>
</tbody>
</table>
The results of the fixed-effect regression model for the dependent variable ROA are shown in table 5. Results show that there is a negative relationship between capital structure and firm financial performance on the basis of ROA. The coefficient value of both DTE and DTTA is -0.032154 and -6.009316 respectively; this means that there is a negative relationship between a capital structure with ROA. The coefficient value of both DTE and DTTA is -0.032154 and -6.009316 respectively; this means that there is a negative relationship between firm financial performance. In this case, our alternate hypothesis is rejected.

Ownership structure and firm financial performance show a significant positive relationship when measured on the basis of FO and IO with ROA. The coefficient value of FO is 0.117537 and IO is 0.060188, this means that the value shows positive relation and the P-value of FO is 0.0038 while IO is 0.0074 which is less than the acceptable value of 0.05, therefore having a significant effect on ROA. It shows strong evidence to accept the alternate hypothesis. The outcome of the regression model shows that firm financial performance is insignificant and negatively related to ownership structure when measured on the basis of MO. The coefficient value of managerial ownership is -0.047798 which means there is a negative relationship between the two. The significant change in managerial ownership is 0.1326 which is greater than the acceptable value of 0.05, it is not significant and therefore we reject our alternate hypothesis.

According to table 6, there is a negative relationship between DTE and ROE while positive relation between DTTA and ROE. The coefficient value of DTE and DTTA are -0.434151 and 11.92141 respectively. The P-value of DTE is 0.3297 and DTTA is 0.5218, both are greater than the acceptable value of 0.05, therefore, showing a highly insignificant relationship with ROE.

Ownership structure and firm financial performance show a significant positive relationship when measured based on FO and IO with ROE. The coefficient value of is FO is 0.107380 and IO is 0.236547 which means both variables show positive relation with financial performance. The P-value of FO is 0.6200 which shows insignificant relation while institutional ownership is 0.0009 which is less than the acceptable value of 0.05, therefore, having a significant effect on ROE. It shows strong evidence to accept the alternate hypothesis. The outcome of the regression model shows that firm financial performance is insignificant and negatively related to ownership structure when measured on the basis of MO and ROE. The coefficient value of managerial ownership is -0.096595 which means there is a negative relationship between the two. The significant change in managerial ownership is 0.7490 which is greater than the acceptable value of 0.05, it is not highly insignificant and therefore we reject our alternate hypothesis.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>9.453714</td>
<td>9.065316</td>
<td>1.042844</td>
<td>0.2974</td>
</tr>
<tr>
<td>DTE</td>
<td>-0.434151</td>
<td>0.445131</td>
<td>-0.975333</td>
<td>0.3297</td>
</tr>
<tr>
<td>DTTA</td>
<td>11.92141</td>
<td>18.60033</td>
<td>0.640924</td>
<td>0.5218</td>
</tr>
<tr>
<td>FO</td>
<td>0.107380</td>
<td>0.216462</td>
<td>0.496066</td>
<td>0.6200</td>
</tr>
<tr>
<td>IO</td>
<td>0.236547</td>
<td>0.071170</td>
<td>3.323680</td>
<td>0.0009</td>
</tr>
<tr>
<td>MO</td>
<td>-0.096595</td>
<td>0.301778</td>
<td>-0.320087</td>
<td>0.7490</td>
</tr>
</tbody>
</table>

Table 6: Results of ROE

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>1331.427</td>
<td>299.2311</td>
<td>4.449494</td>
<td>0.0000</td>
</tr>
<tr>
<td>DTE</td>
<td>-5.982914</td>
<td>1.876372</td>
<td>-3.188555</td>
<td>0.0015</td>
</tr>
<tr>
<td>DTTA</td>
<td>-623.3876</td>
<td>200.7693</td>
<td>-3.104495</td>
<td>0.0020</td>
</tr>
</tbody>
</table>

Table 7: Results of T.Q
The results in table 7 showed that there is a negative relationship between capital structure and firm financial performance on the basis of T.Q. The coefficient value of both DTE and DTTA is -5.982914 and -623.23876 respectively; this means that there is a negative relationship with financial performance. The significant change in DTE is 0.0015 and DTTA is 0.0020 which is less than the acceptable value of 0.05 so both are highly significant. Therefore, there is a significant negative relation between capital structure and a firm's financial performance. In this case, our alternate hypothesis is rejected.

Ownership structure and firm financial performance show an insignificant negative relationship when measured on the basis of IO and MO with T.Q. The coefficient value of IO is -0.361994 and MO is -2.672819, which means both variables of ownership structure have a negative relation with T.Q. The P-value of IO is 0.9077 while MO is 0.5922 which is much greater than the acceptable value, therefore having an insignificant effect on financial performance. These results show strong evidence to reject the alternate hypothesis. The outcome of the regression model shows that firm financial performance is insignificant and positively related to ownership structure when measured on the basis of FO and T.Q. The coefficient value of FO is 0.265387 which means there is a positive relation between the two. The significant change in FO is 0.9487 which is much greater than the acceptable value of 0.05, it is highly insignificant and therefore we reject our alternate hypothesis.

Using the panel data regression model along with correlation analysis, we found that there is a significant negative relationship between capital structure and firm financial performance which is consistent with earlier studies in Pakistan (Kanwal, Shahzad, Rehman, & Zakaria, 2017; Ahmed, Talreja, & Kashif, 2018). Researchers determined that Ownership structure and firm financial performance presented a significant positive relationship when measured on the basis of foreign FO and IO with ROA and ROE while insignificant with T.Q. The results relating to IO are in accordance with the study of (Ullah, Ali, & Mehmood, 2017) while showing opposite results to the research of (Ahmad, Baek, Kim, & Shah, 2019) in Pakistan. The impact of FO on financial performance is traced first time on the listed firms in Pakistan and shows a significant positive relationship with the financial performance which supports the hypothesis of this study as well is consistent with the results (Shrivastav & Kalsie, 2017). Finally, we observed that MO shows negative and insignificant relation with financial performance (ROA) which is consistent with the results of (Wahla, Shah, & Hussain, 2012).

Conclusion and Recommendations
The authors have examined the relationship between capital structure and ownership structure on companies' financial performance on a sample of 90 listed firms on the KSE-100 index on PSX for the period 2009-2018.

This study suggests that companies in listed on the KSE-100 index in Pakistan should avoid a high ratio of debt in capital structure and the level of debt should not exceed the optimal limit because financial performance decreases when debt increases and high debt may lead organizations towards insolvency. The companies can use this study to choose an optimum capital structure in order to maximize shareholders' wealth and the company's performance.

The corporate level of management should especially focus on foreign ownership and take decisions accordingly because it enhances the financial performance as well as the goodwill of the company. Institutional ownership also helps organizations to achieve their goals and financial
growth in the long term. Organizations should take steps to decrease the level of managerial shareholding due to a negative impact on financial performance.

Additionally, the outcomes of this study will be supportive to all stockholders as well as stakeholders (creditors, investors, government, employees, suppliers, companies, and managers, etc.) that how performance is affected by the owners and selection of financing mode, so that they make decisions about their future investments. This research provides instrumental information and important insights regarding ownership structure, capital structure, and financial performance to researchers for future work.

References
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