THE EFFECT OF CAPITAL STRUCTURE AND CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF PAKISTAN'S OIL & GAS SECTOR

BY

MARIA KHALID
27395

A thesis submitted to the Department of Management Sciences, Bahria University Karachi Campus, in partial fulfillment of the requirements
for MBA Degree

FALL, 2019

Bahria University Karachi Campus

MBA Thesis 2nd Half-Semester Progress Report & Thesis Approval Statement

Supervisor – Student Meeting Record

S#	Date	Place of Meeting	Topic Discussed	Signature of Student
1	18-11-2019	Faculty Office	Discussion Regarding Data	Maria
2	29-11-2019	Faculty Office	Data Analysis and Results Interpretation	Maria
3	10-12-2019	Faculty Office	Recommendations and conclusion	Maria

APPROVAL FOR EXAMINATION

Candidate's Name: Maria Khalid Registration No.: 27395

Thesis Title: The effect of Capital Structure and Corporate Governance on Financial Performance of Pakistan's Oil & Gas Sector

I hereby certify that the above candidate's thesis has been completed to my satisfaction and, to my belief, its standard is appropriate for submission for examination. I have also conducted plagiarism test of this thesis using HEC prescribed software and found similarity index at 18% that is within the permissible limit set by the HEC for the MBA thesis. I have also found the thesis in a format recognized by the Department of Management Sciences.

Supervisor's Signature: _____ Date: 18th Jan 2020

Supervisor's Name: Dr. Danish Iqbal

HoD's Signature: _____ Date: 17-1-2020

Declaration of Authentication

I, hereby, declare that no portion of the work referred to in this thesis has been submitted in support of any application for another degree or qualification of this university or any other institution of learning.

Student's Signature: Maria

Acknowledgement

First of all I would like to thank the Almighty Allah for making me able and capable to complete this thesis with full determination, hard work and courage.

The thesis came into being successfully because of the numerous efforts from wonderful people who have always given their valuable advice and lent their precious time. I genuinely admire their concern, and their support which has resulted in an admirable success.

I take this thesis as a form of exemplary guidance from our best Teacher Dr. Danish Iqbal who gave me his profound support by monitoring and guiding me throughout the semester.

Abstract

Purpose: The aim of this study tends to determine the effect of (CS) Capital Structure and Corporate Governance on the firm performance. This research is based on the oil and gas companies working in Pakistan. The research problem highlighted in this study is related to examining the (CG) corporate governance framework which is not well researched in Pakistan. However, capital structure has been researched and studied but, specifically variables like STD & LTD along with Board Size and shareholding aren't studied singly. This research has been conducted to answer the research question: What are the effect seen from the structure of capital and corporate governance on the financial performance of Pakistan's oil and gas sector?

Methodology & Design: The methodology for this study is quantitative while the data has been gathered from secondary sources. The research design for this study is explanatory while, the approach is deductive. The analysis is conducted using OLS regression, Hausman test and Descriptive statistics.

Findings: The findings from our research shows that, all the variables (Board Size, number of shareholders, long term debt and short-term debt) can explain return on assets of oil and gas sector of Pakistan up to 84.3 percent and 52 percent while F-statistics found that all the independent variables significantly predict dependent variable.

Keywords: Board Size, number of shareholders, long term debt and short-term debt, corporate governance, capital structure

TABLE OF CONTENTS

CHAPTER 1 1
INTRODUCTION 1
1.1 Introduction 1
1.2 Background 3
1.3 Problem Statement 5
1.4 Research Objectives 7
1.5 Research Questions 7
1.6 Significance of the Study 8
1.7 Scope of the Research 8
1.8 Organization of the Thesis 8
CHAPTER 2 10
LITERATURE REVIEW 10
2.1 Theoretical Background 10
2.2 Empirical Studies 10
2.3 Conceptual Framework 28
2.4 Research Hypothesis 29
CHAPTER 3 30
Research Methodology 30
3.1 Research Approach 30
3.2 Research Design 30
3.3 Research Population 30
3.4 Sample Size 31
3.5 Data Collection 31
3.6 Research Variables 31
3.7 Research Model 32
3.8 Data Analysis 33
CHAPTER 4 34
Results 34
4.1 Analysis Procedure 34

4.2 Descriptive Statistics 34
4.3 Hausman Test - ROA 35
4.4 OLS Test using Fixed Effect 36
4.5 Hausman Test - ROE 37
4.6 OLS Test using Fixed Effect 38
4.7 Hypothesis Assessment 40
CHAPTER 5 41
Discussion 41
5.1 Model 01 - ROA 41
5.2 Model 02 - ROE 42
CHAPTER 6 44
Conclusion and Recommendations 44
6.1 Conclusion 44
6.2 Limitations 45
6.3 Future Research 45
6.4 Recommendations 46
References 48