Capital Structure and Firm Performance: Impact Assessment of Automobile industry of Pakistan

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ABSTRACT

This research thesis presents empirical findings on the impact of capital structure (leverage) on firm's performance. The main objective of this study is to determine the overall effect of capital structure on performance of firms listed in KSE from automobile industry of Pakistan by establishing the relationship that exists between the choices about capital structure of firms and their return on assets, return on equity and earning per share. The institutional effect of factors such as size on performance of firm was also established. The study employed descriptive statistics and ordinary least square Regression Model. The empirical results based on 2010 to 2014 accounting and marketing data for 6 listed firms in KSE provide some sustenance to the agency cost theory and trade-off theories of capital structure. A firm's leverage was found to have a significant negative impact on the firm's accounting performance measure (ROA). Leaverage measure TD/Ta ratio has negative impact on the performance measure ROE. The study further reveals there is negative relationship between firm's capital structure and firm's performance of automobile industry of Pakistan. The managers must an effort to finance their operations with retained earnings and employ debt as a final option of financing. It is therefore suggested that that business executives should emphasize on decisions of optimal capital structure and effective allocation and utilization of resources to achieve the targeted level of productive efficiency in automobile industry of Pakistan.

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