

**OWNERSHIP STRUCTURE AND ITS IMPACT ON
FIRM PERFORMANCE AND FINANCIAL DECISIONS
OF LISTED COMPANIES IN PAKISTAN STOCK
EXCHANGE. MODERATING ROLE OF CORPORATE
GOVERNANCE**



**KIRAN FAROOQ
02-280152-003**

**DEPARTMENT OF MANAGEMENT STUDIES
BAHRIA UNIVERSITY KARACHI CAMPUS**

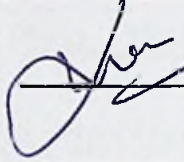
AUGUST 2023

RESEARCH DEGREE BAHRIA UNIVERSITY, KARACHI

Candidate Name: Kiran Farooq

I submit three copies of thesis for examination for the degree of PhD thesis

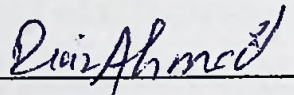
Titled: Ownership Structure and its Impact on Firm Performance and Financial Decisions of listed companies in Pakistan Stock Exchange. Moderating Role of Corporate Governance

Candidate Signature: 

Date: 18-08-23

Certificate of Principal Supervisor

I Dr. Riaz Ahmed, being the principal supervisor for the above student certifies that thesis is in a form suitable for examination and that the candidate has pursued her course in accordance with the rules of the University.

Signature: 

Date: 18-8-23

Recommendation for Examination

I recommended that the thesis be examined.

Principal supervisor: Dr. Riaz Ahmad

Date: 18-8-23

Co- Supervisor: _____

Date: _____

Not Recommended for Examination

I recommended that the thesis be not examined.

Principal supervisor: _____

Date: _____

Co- Supervisor: _____

Date: _____

APPROVAL FOREXAMINATION

Scholar's Name: Kiran Farooq

Registration No.: 02-280152-003

Programme of Study: Ph.D. [MSI]

Thesis Title: Ownership Structure and its Impact on Firm Performance and Financial Decisions of listed companies in Pakistan Stock Exchange. Moderating Role of Corporate Governance

It is to certify that the above scholar'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 18 % that is within the permissible limit set by the HEC for the PhD degree thesis. I have also found the thesis in a format recognized by the BU for the PhD thesis.

Principal supervisor's Signature: 

Date: 18-8-23

Name: Dr. Riaz Ahmad

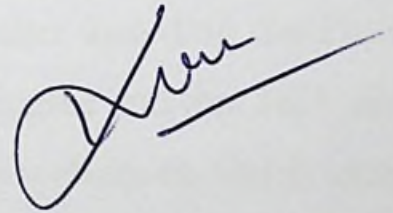
AUTHOR'S DECLARATION

I, Kiran Farooq hereby state that my PhD thesis titled **Ownership Structure and its Impact on Firm Performance and Financial Decisions of listed companies in Pakistan Stock Exchange. Moderating Role of Corporate Governance** is my own work and has not been submitted previously by me for taking any degree from this university **BAHRIA UNIVERSITY KARACHI CAMPUS** or anywhere else in the country/world.

At any time if my statement is found to be incorrect even after my graduation, the University has the right to withdraw/cancel my PhD degree.

Name of Scholar: Kiran Farooq

Date: 18-08-23



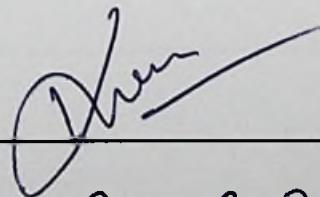
PLAGLARISM UNDERTAKING

I, solemnly declare that research work presented in the thesis titled **OWNERSHIP STRUCTURE AND ITS IMPACT ON FIRM PERFORMANCE AND FINANCIAL DECISIONS OF LISTED COMPANIES IN PAKISTAN STOCK EXCHANGE. MODERATING ROLE OF CORPORATE GOVERNANCE**

PAKISTAN solely my research work with no significant contribution from any other author. Small contribution / help wherever taken has been duly acknowledged, and I have written that complete thesis.

I understand the zero-tolerance policy of the HEC and Bahria University towards plagiarism. Therefore I, as an author of the above titled thesis, declare that no portion of my thesis has been plagiarized and any material used as reference is properly referred / cited. I undertake that if I am found guilty of any formal plagiarism in the above-titled thesis ever after awarding the Ph.D. degree, the university reserves the right to withdraw/revoke my Ph.D. degree and that HEC and the University have the right to publish my name on the HEC /University website on which terms of scholars are placed who submitted plagiarized thesis.

Scholar/Author's sign: _____



Name of the Scholar: _____

18-08-23

Ownership Structure and its Impact on Firm Performance and Financial Decisions of listed companies in Pakistan Stock Exchange. Moderating Role of Corporate Governance

ORIGINALITY REPORT

17% SIMILARITY INDEX	13% INTERNET SOURCES	13% PUBLICATIONS	5% STUDENT PAPERS
-------------------------	-------------------------	---------------------	----------------------

PRIMARY SOURCES

1	etd.uum.edu.my Internet Source	3%
2	gmjacs.bahria.edu.pk Internet Source	2%
3	Submitted to Higher Education Commission Pakistan Student Paper	1%
4	prr.hec.gov.pk Internet Source	1%
5	www.researchgate.net Internet Source	1%
6	nova.newcastle.edu.au Internet Source	1%
7	hydra.hull.ac.uk Internet Source	1%
8	"Explore Business, Technology Opportunities and Challenges After the Covid-19 Pandemic",	1%

DEDICATION

With Love and Pride

To my Payari Ami Jan (late)

Sajada Farooq

And

Abu jan (Farooq Ahmed)

Acknowledgements

"Place your trust in the Almighty, and in His benevolence, you shall find the ultimate reward."

In the culmination of this arduous academic journey, I stand on the precipice of accomplishment with a heart full of gratitude and humility. This thesis is a testament to not just my individual effort, but a collective effort of the many remarkable individuals who have supported and guided me along the way.

First and foremost, I dedicate this work to my late mother. Her unwavering belief in my potential and her boundless love were the guiding lights that fueled my pursuit of knowledge. Though she is no longer with us in the physical realm, her spirit continues to inspire me every day. This thesis is a tribute to her enduring influence on my life's path. To my father, your unwavering support and sacrifices have been the bedrock upon which I've built my academic journey. Your belief in my abilities, even when I doubted myself, has been a driving force. Your love, wisdom, and encouragement have been my pillars of strength, and I am eternally grateful for your presence in my life.

I extend heartfelt appreciation to my supervisor, Dr. Riaz Ahmed. Your guidance, mentorship, and scholarly insights have been invaluable throughout this research endeavor. Your ability to challenge my thinking while nurturing my academic growth has been a privilege. Your dedication to pushing boundaries and nurturing intellect has profoundly shaped my academic and personal growth.

I extend my gratitude to my family and friends whose unwavering support has sustained me through the highs and lows of this journey. Your encouraging words, understanding, and prayers have given me the motivation to persevere. I am blessed to have you in my life, and I share this achievement with all of you.

To my colleagues and fellow researchers, your camaraderie and stimulating discussions have enriched my understanding and widened my horizons. The academic community's collaborative spirit has been instrumental in shaping the ideas presented in this thesis. Lastly, a special note of appreciation to all those who prayed for me, near and far. Your positive energy and well-wishes have been a source of strength. Your belief in my potential has been an inspiration, and I am humbled by the knowledge that I have been surrounded by a network of support.

In conclusion, this thesis stands as a testament to the love, dedication, and support that have been bestowed upon me. To my late mother, my father, Dr. Riaz Ahmed, my family, friends, and well-wishers, I offer my deepest gratitude. This work would not have been possible without your unwavering belief in me. As I step forward into new challenges and opportunities, I carry your contributions with me, forever shaping my path and aspirations.

ABSTRACT

The intention of this study is to examine the impacts of ownership on the performance and decisions of non-financial sector companies in Pakistan, while also examining the moderating role of corporate governance in the relationship between ownership and firm's performance, as well as financial decision. This study utilizes data from 192 listed companies spanning the period from 2009 to 2019. Firm accounting performance is evaluated using measures such as return on assets and return on equity, the assessment of market performance involves stock volatility, Tobin's Q, and the market-to-book price ratio as measures. Additionally, financial decisions are examined by taking into account factors such as the debt-to-equity ratio and dividend payout ratio. The findings reveal that foreign and institutional ownership has a positive and significant impact on firm's financial performance, whereas director ownership negative and significant affects performance measures. Foreign and institutional ownership also significantly reduce stock volatility and benefit the firm's equity market value and Tobin's Q ratio. Conversely, director ownership increases significantly stock volatility, whereas it has a negative and significant impact on stock valuation and negative insignificant impact on Tobin's Q ratio. However, foreign and institutional ownership have positive and significant impacts on the leverage ratio, while negative impact foreign ownership on dividend payout ratio is insignificant. Director ownership has a negative and significant impact on both financial leverage and dividend payout. Corporate governance plays a significant role between the relationship of ownership and financial performance and decisions. However, it does not significantly moderate the relationship between ownership and market performance. The study concludes that internal owners are less efficient and lack control compared to foreign and institutional shareholders. Recommendations are made to adjust the director's interest in favor of the firm, considering the implications of agency theory and steward theory. This research

emphasizes the importance of corporate governance as a moderator between the impact of ownership structure on performance, contributing to the literature on agency theory and steward theory.

Key words

Ownership structure, Corporate governance, Director ownership, Foreign ownership, institutional ownership, performance, Financial decisions.

TABLE OF CONTENTS

CHAPTER 1.....	1
INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.2 Over View of Non-Financial Sector in Pakistan.....	4
1.3 Problem Statement	10
1.4 Research Objectives	15
1.5 Research Questions	16
1.6 Scope of the Study.....	16
1.7 Significance and Contribution of the Study	17
1.7.1 Theoretical Contributions	18
1.7.2 Methodological Contribution	20
1.7.3 Practical Contribution.....	21
1.8 Motivation for the Topic	22
1.9 Chapter Summary.....	23
1.10 Outline of the Thesis Content.....	24
CHAPTER 2.....	26
REVIEW OF LITERATURE.....	26

2.1	Theoretical Framework	26
2.1.1	Agency Theory	27
2.1.2	Stewardship Theory	33
2.2	Types of Corporate Governance Systems in the World.....	38
2.2.1	Type of Corporate Governance in Pakistan.....	41
2.3	Ownership Structure and Corporate Governance.....	41
2.4	Ownership Structure.....	45
2.4.1	Director Ownership.....	51
2.4.2	Institutional Ownership.....	53
2.4.3	Foreign Ownership.....	54
2.5	Ownership Structure, and Financial Performance and Decisions	55
2.6	Hypothesis Development	57
2.6.1	Ownership Structure and Performance.....	57
2.6.2	Ownership Structure and Financial Decisions.....	86
2.7	Moderating Role of Corporate Governance	94
2.8	Control Variables	107
2.9	Research Gap.....	108
	CHAPTER 3.....	110

RESEARCH METHODOLOGY	110
3.1 Introduction	110
3.2 Research Framework.....	111
3.3 Measurement and Operationalization of Variables	112
3.3.1 Dependent variables	112
3.3.2 Independent Variable.....	116
3.3.3 Control variables.....	116
3.3.4 Moderating Variable	117
3.4 Research Onion	120
3.4.1 Research Paradigm	122
3.4.2 Research Philosophy.....	123
3.4.3 Research Approaches.....	125
3.4.4 Research Strategy.....	127
3.4.5 Research Design	129
3.4.6 Research Choice.....	131
3.4.7 Time Horizon.....	132
3.4.8 Techniques and Procedures	134
3.5 Data Collection and Description	135

3.6 Data Analysis 136

 3.6.1 Correlation Analysis 136

 3.6.2 Regression Analysis 136

3.7 Chapter summary 144

CHAPTER 4..... 145

DATA ANALYSIS 145

4.1 Data Verification 145

 4.1.1 Treatment of Outliers 145

4.2 Descriptive Statistics 146

4.3 Correlation..... 148

4.4 Multi-Collinearity..... 151

 4.4.1 Variance Inflation Factor 151

4.5 Choice of Statistical Model 152

 4.5.1 Endogeneity 153

4.6 Panel Data Assumptions..... 155

 4.6.1 Unit Root Test 155

 4.6.2 Panel Cointegration Test 157

 4.6.3 Test of Normality..... 159

4.7 Regression Analysis 160

4.7.1 Heteroskedasticity Test..... 160

4.7.2 Serial Correlation..... 161

4.7.3 Panel Specification 161

4.7.4 Regression Finding 165

4.8 Moderation of Corporate Governance..... 177

4.8.1 Heteroskedasticity Test..... 178

4.8.2 Serial Correlation..... 178

4.8.3 Panel Specification 181

4.8.3.1 Wald Test..... 181

4.8.4 Regression Result With Moderator 183

Summary of Results 188

CHAPTER 5 194

DISCUSSION AND CONCLUSION 194

5.1 Discussion 194

5.1.1 Direct Relation..... 195

5.1.2 Moderating Role of CGI Between the Relationship of Ownership Structure on Financial Performance..... 208

5.1.3 Moderating Role of CGI Between the Relationship of Ownership Structure and Market Performance.....	209
5.1.4 Moderating Role of CGI Between the Relationship of Ownership Structure and Financial Decision	210
5.2 Conclusion.....	211
5.3 Implication of the Research.....	212
5.3.1 Practical Implication.....	213
5.3.2 Theoretical Implication.....	215
5.3.3 Methodological Implication	216
5.4 Limitations, Future Research Directions and Recommendations	217
5.4.1 Limitations of the Study	217
5.4.2 Future Directions	218
5.5 Future Recommendation	220
References	223
Appendex.....	270
List of abbervation.....	270
List of variables	271
List of companies	273

Table of Figure

Figure 1.2: Profit of Overall Non Financial Sector of Pakistan 5

Figure 1.3: Dividend payout trend of over all non financial sector 6

Figure 1.4: Trend of Leverage ratio of non-financial sector 7

Figure 1.5: Firm's overall stock volatility 8

Figure 3.1: Research Frame work 112

Figure 3.2: Research Onion 121

Figure 3.3: Pooling Technique 140

Table of Table

Table2.1: Recently Studied Ownership Structure.....	48
Table2.2: Summery of recent literature (ownership and performance)	79
Table 2.3: Literature summary of ownership and financial decisions	99
Table 2.4: CGI Literature Summary.....	102
Table 3.1: Summary of Methodological Framework of CG index	119
Table 4.1: Descriptive Statistics	146
Table 4.2: Correlation.....	150
Table 4.3 : Variance Inflation Factors.....	152
Table 4.4: Endogeneity test.....	154
Table 4.5: Panel unit root test: Summary	156
Table 4.6: Pedroni Residual Cointegration Test	158
Table 4.7: Jarque-Bera Test.....	159
Table 4.8 : Regression Results.....	170
Table 4.9: Regression Results (with Moderator)	179