

**"Impact of Capital Structure on Firms' Financial
Performance:Evidence from KSE 100 Index Pakistan
and Dow Jones 30 Index USA"**



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Abstract

Purpose – The main objective of this study is to find out the impact of capital structure on firms financial performance and the empirical findings based on two different markets to compare the result of developed country market (Dow Jones 30 Index USA) and developing country market (KSE 100 Index).

Design/methodology/approach – Multiple statistical tools are used to examine the empirical finding of this study based on sample data. Descriptive statistics, correlation matrix and multiple regression models are used for finding the relationship between capital structure and firms financial performance. Three dependent variables are used to measure the financial performance: Return on assets (ROA), return on equity (ROE), and earnings per share (EPS). Determinant of capital structure includes short term debt to total assets (STDTA), long term debt to total assets (LTDTA) and total debt to total assets (TTDTA). Two control variables are used in this study: Growth of assets and Size of assets. The sample data collected from two markets for the time period of five years from 2009 to 2013. The type of data is panel data and Husman tests are used to get suggestions which test would be good to handle the panel data. Fixed and random effect models are used to find the relationship between capital structure and firms financial performance.

Results – In developed market higher percentage of debt are used and in developing country the average utilization of debt is lower than developed country percentage. This study concluded that the in both markets the return on assets and return on equity has statistically positive and significant relationship with capital structure and earnings per share have positive but insignificant relationship with capital structure.

Originality/value – This is the first study that conducted on two different markets and concludes the result on comparative basis that what is the impact of capital structure on firm's financial performance in developed country like USA and in developing country like Pakistan.

Keywords: Capital structure, financial performance, short term debt to total asset, long term debt to total assets, total term debt to total assets, ROA, ROE, EPS

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