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"The impact of Capital Structure on financial performance of the firm: An empirical analysis of (selected) non-financial firms listed on Pakistan Stock Exchange"



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performance of the firm: An empirical
analysis of (selected) non-financial firms
listed on Pakistan Stock Exchange**

Abstract

Purpose: *The intuition behind this research is to analyze the impact of capital structure on the financial performance of the (selected) non-financial firms listed on Pakistan Stock Exchange during 2011-2015.*

Design/methodology/approach: *Three panel data econometrics estimations are used to analyze the relationship between the capital structure and the financial performance of the firms. These techniques included descriptive statistics, correlation matrix, and pooled ordinary least squares (OLS) for multiple linear regression.*

Findings: *The empirical results have shown that short-term debt and total debt are negatively whereas the long-term debt is positively related to net profit margin. The results also indicated that the short-term debt is positively whereas the long-term and total debt are negatively related to the return on asset. The empirical results have reported a significant positive relationship between the return on equity and all the measures of capital structure. In addition to the above findings, the results also show that the control variable, such as size of firm is positively related to the firms' performance.*

Practical Implications: *It is significantly very important for the managers to understand the implications of capital structure before making any decision regarding the mix of debt and equity. The empirical results suggest that in a developing country, like Pakistan, using higher debt than the appropriate level, negatively impacts the profitability of the firms. Therefore, the financial managers must anticipate the effects of financial leverage on the firms' value before making any regulations regarding the capital structure.*

Keywords: *Pakistan, Capital structure, Firm performance, Non-financial firms*

Work type: *Thesis/dissertation*

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