Impact of Capital Structure on Firm Performance: Moderating Role of International Financial Reporting Standards

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CERTIFICATE

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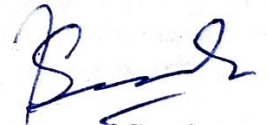
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Author's Declaration

SHAHZAD KHAN hereby state that my MS thesis titled <u>IMPACT OF CAPITAL STRUCTURE ON FIRM PERFORMANCE: MODERATING ROLE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS</u> is my work and has not been submitted previously by me for taking any degree from Pakistan Institute of Development Economics or anywhere else in the country/world.

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Acknowledgments

Abstract

Accounting analysis is vital to a company's operations. Accounting principles and convention is considered when preparing financial reports of the companies. This thesis is being undertaken to demonstrate the effect of capital structure on firm performance. By using IFRS as a turning point, the impact between capital structure and company performance is empirically tested in this study. The non-financial firms included in the study were listed on the Pakistan Stock Exchange (PSX) between 2001 and 2019. In this study, balanced panel data was used. The result of the panel least square model shows that there is a positive significant relationship between capital structure and return on assets (ROA) whereas there is a negative significant relationship between capital structure and log of stock prices (LNP). This study also found a significant and positive impact of IFRS on firm performance. Based on the current analysis, Pakistan's non-financial business performance has increased as a result of the implementation of the International Financial Reporting Standards (IFRS). However, the International Financial Reporting Standards (IFRS) have a positive and major impact on the relationship between capital structure and firm performance when the proxy of firm performance is LNP (log of stock prices). In both models, the control variables dividend and liquidity have a major and positive impact on firm performance, while size affects significantly negatively in model 1 and positively in model 2. This study has proved that accounting information has the most significant impact on firm performance.

 Keywords: Non-financial firms; Pakistan

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List of Abbreviation

PSX   Pakistan Stock Exchange

SBP   State bank of Pakistan

ROE   Return on equity

LNP   Log of stock prices

IFRS   International Financial Reporting Standard

M&M   Modigliani and Miller

GAAP   Generally accepted accounting principles

IASB   International accounting standard board

IAS   International accounting standard

IAB   International accounting board

KSE   Karachi stock exchange

OLS   Ordinary least square

Chapter 01
Introduction

1.1   Background of the study:

The two main forms of capital in a capital structure are debt and equity financing. Every industry has its own structure of financing its operation. It is an important decision of the firm because it affects many activities of the business such as capital budgeting, capital expenditures, the allocation of working capital, and the control of dividends and shares repurchases decision. The capital structure decision of the business includes the sources through which the operating their business activities. The capital structure discussion starts from the M&M theory since 1958 in which they said that the capital structure has no impact on the company's profitability. After that, they made another remark, claiming that capital structure affects company performance as debt funding is used as a tax shelter. The organization needs to choose an optimal capital structure to finance their asset, long-term projects, and growth. There is much research on this topic that finds different results. Capital structure and firm performance, according to some surveys, have a positive relationship, while some studies are opposite to them. When firms want to do equity financing they issue shares to the general public to collect funds from the investors. Companies offer this type of financing the awesome dividend rate which attracts shareholders to invest. Debt finance is another choice for funding. Long-term debt, such as debentures, shares, and note payables, is separated from short-term debt, such as commercial papers and exchange payables. In debt financing, companies also take a loan from a bank and other sources. On these sources, they pay interest which is considered financing cost. In addition, companies also issue hybrid securities which feature is both equity and debt for financing their assets like preference shares and convertible bonds. Financing cost is a term used to describe the cost of both equity and debt financing. To maximize their utility and reduce funding costs as much as possible, businesses must use a mixture of these two types of financing. This finance mix assembles

total financial resources, with firms choosing the amount of leverage or equity they choose to use. The capital structure determines a company's financial output. Mostly, businesses use all channels to optimize business efficiency and value. At a firm stage, the decision on the capital structure has an impact on the competitiveness, development, and survival of firms. The financial performance of a firm depends upon the capital of the firm. In short, the performance of the firm goes parallel with the capital structure decisions. Firms always use that source of capital structure which subsequently increased the financial value of a firm. Both financial and non-financial decisions are made to increase the firm's valuation and shareholders' equity. The capital structure decision is made not only for financial reasons but also to ensure that the company runs smoothly. Capital structure decision specifies that firm goes in favor of debt or equity decision.

In Pakistan, firms use various sources of debt financing to meet the short and long-term requirements of their business. Bank loans, such as SBP bonds, CP, and TFC, are the main area of leverage financing for non-financial enterprises, especially in Pakistan. Non-banking financial institutions also offer loan financing to businesses. In Pakistan, venture capital funds are active, and they typically provide loans to small and rapidly growing businesses that are not available for bank financing.

Accounting principles and standards also an important role in the business profit and performance such as GAAP (Generally accepted accounting principles) and IFRS (International financial reporting standards). The International Financial Reporting Standards (IFRS) are a set of accounting standards that are used all over the world to ensure the financial data is accurate. The International Financial Reporting Standard (IFRS) is a set of standards for developing countries that display the economy's true and equitable status to increase revenue. It is now common for countries to adopt international financial reporting standards as part of their domestic regulations. IFRS adoption is believed to improve the

quality of earnings and minimize knowledge asymmetry, as it needs further transparency in the financial statements of a company. The IFRS (International Financial Reporting Standard) was created to standardize accounting rules around the world. In 2005, all European countries starting to use IFRS to replace their conflicting and separate accounting standards. Accounting is considered the most and healthy economic market. The most important of using IFRS is to compare one countries performance with the other. The International Financial Reporting Standards (IFRS) is developed to unify accounting standards around the world and ensure good quality on a global scale. These principles are essentially accounting process replacements.

In 2001, the International Accounting Standard Board (IASB) implemented IFRS; the IASB replaced the IAS committee to implement IFRS. On February 1, 2009, a scrutinizing board was formed to hire and manage the committee. The IASB produces high strictly enforced standards based on the IASC (international accounting standard committee). IASC's standard sets are known as international accounting standards (IAS), while IAB's sets are known as International Financial Reporting Standards (IFRS). A company's financial reports are prepared using the going concern concept and accrual accounting. The financial report also known as financial statements, includes the balance sheet, profit and loss account, cash flow analysis, statement of owner equity, and accounting notes. At the time of its inception, IFRS had been adopted by approximately 110 nations. By the end of 2011, however, every country in the world had adopted the International Financial Reporting Standards (IFRS) for financial statement reporting.

In Pakistan, the IFRS are enforced by the SECP (Securities and Exchange Commission of Pakistan). The ICAP also play important role in company affairs. The key function performed by the ICAP, which was established under the CA ordinance of 1961, is to control accounting regulations. Any of the company's audit records must be signed by its

directors. The committee is made up of 16 members: 12 selectors and four government representatives. Since all accounting standards are governed by the Institute of Chartered Accountants of Pakistan (ICAP), when IFRS (International Financial Reporting Standard) was introduced, it was done so after a detailed analysis by a committee. In the preparation of their accounting reports, all companies shall adhere to the ICAP (Institute of Chartered Accountants of Pakistan) requirements. The ICAP follows a systematic procedure to adopt the IFRSs in Pakistan through the approval of the SECP. For the implementation of new IFRSs, many committees and councils were organized. To comply with IFRS only companies listed publicly on stock exchanges are required. In Pakistan, all IFRS (International Financial Reporting Standards) implemented by the International Accounting Standards Board (IASB) guidelines are applicable, except for IFRS 1 and IFRS 9. Actual standards adoption started with the beginning of the 21st century (Kouser & Azeem, 2011).

1.2   Significance of the study

Over the recent few years, academics, politicians, and stakeholders more rely on and given much importance to financial decisions and their acceptable range to boost business performance. A large number of the studies focus on capital structures instruct effect on corporate performance. By integrating more detailed capital structure measures and alternate performance measures, this report would examine the leverage-value relationship. Furthermore, the new study contributes to the existing literature in two areas. This is the first research in Pakistan, to the author's knowledge, to look into the function of IFRS in moderating the connection between capital structure and organization performance. Second, this study examines how the International Financial Reporting Standards (IFRS) influence the relationship between capital structure and company performance. Policymakers, investors, creditors, and the general public would all benefit from this study. This research

will provide to choose optimal capital structure decision to maximize shareholders wealth. The empirical evidence of this study will helpful for all stakeholders of the company to choose the best organization for their investment purpose. This research is exploring the accounting standards that follow by Pakistani-based firms to know their exact financial position that will helpful for the stakeholders. This research is studying each sector of the economy and their behavior towards accounting standards through which the study will know which sector of the economy is the best use of accounting standards such as an IFRS in the preparation of final reports. The accounting standards such as IFRS is best accounting standards which provide true and fair result. If a firm follows IFRS then their financial reports will be better than those who will not follow these accounting standards. The current study is also helpful for the managers to keep in mind the IFRS while choosing the debt/equity combination and their influence on the company's output.

1.3   Problem statement

Nowadays, firms try to minimize their financial cost as much as possible. For this purpose, they choose the best possible combination of financing. Capital structure is an important decision for the organization for considering many factors. Capital structure is a very crucial decision of the firm. The source of finance affects the company's performance and its value. The mix of debt and equity will be a choice to obtain high profitability and reduce the financial cost of the firm. The role of accounting standards and principles is also important when preparing final accounts at the end of the fiscal year because that financial information will use by many investors, creditors, consumers, government, etc. The IFRS is an important statement through which company prepares their final reports for the general public and internal bodies. Because based on this financial information they take investment and financing decisions. Therefore, when IFRS is adopted by firms so their final reports are

accurate and fair. Due to which investor confidence increases and they invest in that companies through which company financial performance improves. The next reason behind capital structure decision is that the best possible combination of debt/equity will decide the future success and failure of the business. Because if they select the best and optimal capital structure, then their financial cost will be low and their profitability increased and more profit available for the investment project and shareholder wealth will also be increased.

The adoption of IFRS impact on firm performance is needed to find out where it is positively or negatively affects the firm performance.

1.4   Research Question

The following inquiries are the main focus of this research.

1.   How does capital structure affect non-financial company performance in Pakistan?

2.   How does the implementation of IFRS affect the capital structure and firm performance?

1.5   Research objective

Accounting practices such as IFRS play a significant part in the firm's financial reporting. It is very necessary to see the accuracy of the accounting information impact on the organization decision such as capital structure and firm performance.

This study aims to find out more about

I.   To investigate the influence of capital structure on non-financial PSX company performance.

II.   To look at the influence of IFRS implementation on moderating the capital structure and firm performance of PSX non-financial companies.

1.6   Organizing of the thesis

There are five chapters in this research. The first chapter serves as an overview. The second chapter contains a detailed overview of the literature relevant to this research. The data and methods are presented in the third chapter. The fourth chapter presents the findings as well as their explanations. The final chapter contains a conclusion, policy suggestions, and study directions for the future.

Chapter 02

Literature Review

2.1   Theories of Capital Structure on Firm Performance:

One of the most critical topics in finance and accounting is the capital structure, or the balance of debt and equity, and its future impact on a company's profitability. The relationship between capital structure and business performance is logically described by several hypotheses. The Modigliani–Miller (MM) hypothesis is the cornerstone theory, which states that leverage has no concern for a firm's value. The MM Proposition is the first hypothesis to explain the link between business value and capital structure, named after Modigliani and Miller (Abdullah & Tursoy, 2019). According to the principle, the capital structure's configuration has no bearing on the firm's value. The capital structure seems unimportant, according to this concept. The MM proposition, on the other hand, is based on several hypotheses (Ahmeti & Prenaj, 2015) (Bandyopadhyay & Barua, 2016) (Le & Phan, 2017). The hypothesis suggests that the stock market is ideal, with no taxes, zero bankruptcy and acquisition expenses, asymmetric market knowledge, uniform interest costs, customers expecting a company's benefit, all management seeking to optimize value, and a risk level compatible with firms operating under comparable circumstances.

Taking opposing viewpoints, other existing ideas argue that the presence of a conceptual link between capital structure and firm performance. A company's valuation is influenced by the proportion of debt and equity in its portfolio.

According to Jensen and Meckling, an agency arrangement is a contract in which one or more individuals (the principals) pay another individual (the agent) to provide a service on their behalf, including delegating any decision-making power to the agent. There is a simple rule to assume that the agent would not necessarily behave in the best interests of all actors in

the partnership as they are all utility maximizers (Jensen & Meckling, 1976). It claims that a conflict of interest exists between stakeholders such as executives and agents, resulting in the company's agency costs. As a result, an ideal capital arrangement continues to maximize business value if it can reduce net agency costs. Jensen and Meckling (1976) agency cost of debt and agency cost of equity is split into two categories. The first is brought on by a dispute between stock and debt holders, while the latter is caused by a dispute between shareholders and managers. The agency cost of equity indicates that the boss prioritizes their own interests above the interests of the shareholders. (Jensen, 1986) according to the study, in high-leverage situations, executives are under high pressure to concentrate highly on income-generating investments to generate enough cash inflow to cover interest payments. According to the agency's cost theory, high debt or a low equity/asset ratio lowers the agency's external equity costs and boosts firm value by requiring or allowing management to function further in the interests of shareholders (Berger & Patti , 2006). Managers are less likely to focus on their own personal interests in this regard and they try to generate more cash flows to pay interest to debt holders. Leverage is expected to have a favorable effect on firm valuation by lowering the agency's cost of equity in this manner. To offset the high costs associated with high firm debt, borrowers have to pay higher interest rates (Myers, 1977). We may conclude from the above discussion of agency theory that there is a high association between capital structure and company performance.

Signaling theory of capital structure by according to Ross (1977), asset finance by debt capital is beneficial to the company because raising funds through debt instruments gives customers trust that the company unit will be able to collect more capital support in the future or will be in good financial standing to repay unpaid debt obligations. Furthermore, Debt funding is a good signal to stockholders that the company's management believes the company is worth it. Firms with weak prospects, on the other hand, may be hesitant to issue

loans due to the inability to repay the loan and the possibility of bankruptcy. To put it another way, debt finance is a reliable instrument for increasing the firm's potential valuation while still increasing customer trust in the company plan. On the other hand, as companies collect funds through the sale of bonds, investors and creditors view it as bad news or a pessimistic indicator because it indicates that the company's management believes the stock market is already overvalued and that the company's potential performance may suffer as a result. As a result, firms' share prices increase when they raise funds by raising debt and decline when they raise funds by issuing shares, showing a favorable relationship between capital structure and company valuation (Ahmed & Afza, 2019).

Baker and Wurgler established the "Market Timing Theory" as another important capital structure theoretical hypothesis (2002). The current formulation of a firm's equity and debt reserves, according to this principle, is a result of prior equity market timings. When the firm's stock values are considered to be overvalued, it issues new stock, and when the stock prices are deemed to be undervalued, it repurchases the own stock. As a result, the present financial structure of the company is closely linked to historical stock price prices, or stock market valuation fluctuation influences the leverage level of the company. There are two types of stock market timings described in the literature. The first version expanded on the premise that economic agents are fair, stating that companies are expected to issue stocks after the release of positive facts, reducing asymmetric problems between shareholders and managers. As a result of the reduction in asymmetric intelligence, stock prices rise, and firms produce more revenue own unique opportunities. The later version of the hypothesis assumes that economic agents are irrational and that the firm's share price is mispriced over time. When the firm's managers think the price is irrationally low, they release stock, while the firm's management buys back its stock when they believe the price is irrationally strong, and

this belief in the managers' ability to predict the market and increase the firm's valuation creates confidence in the managers (Ahmed & Afza, 2019).

Many of the ideas above offer guidance for how companies can increase their valuation by including equity and debt in their capital structure in the right way. Owing to the diverse characteristics of the market and economic landscape, these cannot be applied to any kind of company or sector. As a result, certain factors such as the existence of the firm, its goals, and the supply of funds, as well as the regulations of capital markets and the accessibility of funds from these markets, determine which type of theoretical solution is most effective in maximizing the firm's valuation.

In short, the different theories of capital structure concluded that capital structure somehow affects the firm value. Capital structure has an impact on firm performance, which is a theory that isn't exactly favorable. The amount of net debt and gross equity in a company's financial structure is known as its capital structure. Capital structure decision revolves around that how a firm finances its asset by combining different sources of finances. The decision of capital structure includes the best option use by a firm to finance its asset or which option is better to improve firm performance (khanam, nasreen, & pirzada, 2014).

H1: There is a significant relationship between capital structure and firm performance.

2.2   Measurement of Firm Performance:

The firm's performance can be evaluated in two ways. There are two types of value: accounting-based value and market-based value. Accounting-based assessment is widely regarded as a reliable predictor of a business's performance. In recent years, accounting-based calculation indicators of short-term performance of companies such as (ROA), (ROE), (ROS), and others have been using. The second method of calculation is a market-based

measurement, which is classified as long-term and includes terms such as Tobin's Q, (MVA), and others. This study will use both methods of measurement to better capture the performance. In the previous study, only accounting-based measurement is used. This study is using accounting-based calculation as well as market-based measurement in this research. Market-oriented assessment is distinguished by its forward-looking nature and expression of shareholders' hopes for the firm's projected success, which is based on recent or present performance.

2.3   Empirical literature of capital structure:

Capital structure defines as " the mix of firm permanent sources of financing such as long term debt, preferred stock, and common stock" (Van horne & Wachowicz,Jr., 2008). A company's capital structure is the blend of long-term borrowing sources, such as long-term debts, preferred equity, and common stock that it uses to fund its investment ventures. One of the most crucial decisions a company makes when it comes to financing its construction ventures is the capital structure. Any business's financial leverage is always defined. The decision is important due to the need to optimize returns to various corporate constituencies, as well as the impact such a decision has on a firm's ability to succeed in its business environment. A corporation's financial structure is made up of a variety of different securities. In general, a company can choose from a variety of capital structures. It can grant a significant or small amount of debt. Leasing borrowing, using warrants, issuing convertible bonds, signing forward contracts, and offering bond swaps are all options available to it. It can sell hundreds of different shares in several forms, but it aims to identify the one with the highest average market valuation.

The amount of debt and equity capital an organization is just known as its capital structure.

The current section presents a detailed overview of recent academic literature on capital structure and company efficiency undertaken in both developing and developed countries. The current analysis is further divided into sub-parts depending on the directions of the relationship of the explanatory on dependent variables, and as a result, the current sample will be able to not only define the study void but also predict the direction of the relationship for the current study.

The capital structure discussion began in 1958 after the M&M theory of how the capital structure affects firm performance. They concluded that in an ideal capital market, where there is no income tax, no transaction expense, investors have homogeneous estimates of potential profits, and all earnings are spread to stockholders, the leverage ratio is irrelevant. However, they changed their claim and investigated how the firm's valuation increases as the leverage ratio changes. They went on to say that while investments are invested by leverage, the firm's worth will be maximized (Modigliani & Miller, 1963). The literature on the relationship between leverage and firm performance is comprehensive. Many articles have been written about the relationship between company funding and the effect it has on the firm's valuation or results. This study also examines the effect of IFRS (international financial reporting standards) on a company's valuation. Various papers display different results due to various factors such as the size of the company, the country's level of growth, and the firm's financing behavior.

This paper had examined the relationship between capital structure and profitability of Ghana Stock Exchange (GSE) listed companies over five years. Regression analysis is used to calculate functions comparing the return on equity (ROE) to capital structure measures. They found that a significant positive relation between short-term debt and return on equity and also found a negative relationship between long-term debt and return on equity and also found positive association between total debt and return on equity. According to the results,

Profitable companies are much likely to rely on loans as a primary source of financing. In Ghana's case, a substantial portion of the debt (85%) is made up of short-term commitments. It means that Ghanaian businesses depend on short-term loans to run their operations. The use of short-term financing by Ghanaian companies is attributed to the low-interest rates on short-term loans. A negative relationship exists between long-term financing and equity return, as the long-term debt in that sector was much costly. Their study stated that profitable businesses rely heavily on debt for financing purposes (Abor, 2005).

One study finds the determinants of capital structure of KSE listed non-financial companies for the period 1994-2002 using two variants of panel data analysis. With the presumption that there were no business or time impacts, pooled regression analysis was used. However, their study accepted the later model for our analysis because the coefficients for a variety of industries were meaningful using fixed-effect dummy variable regression, indicating that there were significant industry impacts. To test their impact on financial leverage, certain explanatory variables were used. In the case of the tangibility measure, the study findings support the forecast of trade-off theory, whereas the earning uncertainty and depreciation variables do not. The growth predictor supports the agency theory hypothesis, while profitability validates the pecking order theory projections. The size vector does not support either the tradeoff theory estimation or the information theory asymmetry. They pointed out that their findings were skewed because many Pakistani businesses are run by families. The return reveals negative earnings. This results in a decrease in equity rates and a rise in the debt ratio in the overall funding ratio (Shah & Khan, 2007).

The impact of capital structure on Pakistani life insurance businesses' performance is also explored. According to empirical research, size, productivity, liquid, and risk are all key factors of the capital structure of Pakistani life insurance organizations. In terms of profitability, liquidity, and age life insurance companies adopt Pecking Order trends as debt

has an inverse association with productivity, liquidity, and age while a direct association between leverage and size indicates continuity with the Trade-off principle. The results tell us that asset growth and tangibility have a statistically negligible relationship with leverage (Ahmed A. , 2010).

Between 2004 and 2009, this study was done after collecting data on the financial positions as a result of annual operations and the related ratios of 26 enterprises every year traded on the Pakistan Stock Exchange (Oil and Gas companies). The goal of this research is to uncover the relationship between liquidity and profitability so that any company can sustain it in its day-to-day operations. The findings show that only the liquid ratio has a significant impact on ROA, but not on ROE or ROI; the findings also show that the three ratios of current ratio, quick ratio, and liquid ratio have no significant impact on ROE, but current ratios, quick ratios, and liquid ratio have a significant impact on ROI. The study's major findings show that each ratio (variable) has a substantial impact on the financial circumstances of businesses of various sizes, with liquidity ratios being the most important. Profitability ratios are also significant in determining a company's financial position. The liquidity status of a corporation is important to all stakeholders. Before selling items on credit, suppliers will assess the company's liquidity. Employees should be worried about the firm's liquidity to determine if the company will be able to satisfy its employee-related obligations, such as salaries, pensions, and provident funds. As a result, a corporation must maintain appropriate liquidity such that liquidity has a significant impact on profits, of which a portion will be distributed to shareholders. Because one increases, the other falls, liquidity, and profitability are closely linked (Saleem & Rehman, 2011).

From the period 2003-2009, this study attempted to investigate the relationship between capital structure decisions and financial performance of 36 Pakistani engineering sector firms listed on the KSE. The study is carried out using the Pooled Ordinary Least Square regression

approach, which is a panel econometric technique. The results indicate that financial leverage, as measured by short term debt to total assets (STDTA) and total debt to total assets (TDTA), has a substantial negative relationship with firm performance, as measured by Return on Assets (ROA), Gross Profit Margin (GM), and Tobin's Q. The financial debt to firm output ratio, as calculated by equity return (ROE), is negative but not important. Companies in Pakistan's engineering sector rely heavily on short-term debt, but they are bound by strict covenants that have a negative impact on their performance. Overall, the research discovers that Pakistani engineering companies have followed a capital structure based on the pecking order theory. Engineering companies depend heavily on short-term loans due to an underdeveloped debt system and an inefficient stock market. Due to knowledge asymmetry issues, a poor regulatory system, and earnings fluctuations, banks are the primary source of financing in this region, and loans are secured by tight covenants, which may cause businesses to borrow less. Long-term debt is costly, although it is only used for a few businesses with a broad asset base. Nevertheless, it has a detrimental association with Tobin's Q, indicating that large companies are inefficient in using their assets to boost efficiency. Loopholes in the application of accounting rules can be used to evade taxation, and the illicit flow of dividends can lead to lower stock positions and higher debt ratios (Khan, 2011).

The association between capital structure and company performance was also investigated in the literature. From 1995 and 2011, a total of 237 Malaysian companies that traded on the Bursa Malaysia Stock Exchange were investigated using a panel data technique. As a dependent variable, ROE, ROA, Tobin's Q, and EPS are the four success metrics included in the study. The five capital structure measures are used as an objective variable (long-term debt, short-term debt, total debt ratios, and growth). Construction, consumer goods, agricultural product, plantation, land, trading, and service are the six sectors in which the data

is divided. The findings indicate that firm performance, calculated by asset return (ROA), equity return (ROE), and earnings per share (EPS), has a negative relationship as an independent variable with short-term debt (STD), long-term debt (LTD), total debt (TD). Furthermore, many sectors have a strong development and performance relationship. Their findings have revealed that only in the property sector does size (as a control variable) have an inverse impact on Tobin s Q (Salim & Yadav, 2012).

During the five years from 2005 to 2009, the study investigated the link between capital structure and profitability of Ghanaian listed companies. According to a study of the literature on the relationship between profitability and capital structure, there is either a positive, negative, or neutral relation. It also demonstrated that there is no solid evidence of what the optimal capital should be. The relationship between capital structure and profitability was investigated using regression analysis. Average profitability and debt ratios were also utilized to establish whether or not Ghanaian listed companies were reliant on debt. The findings demonstrated that short-term debt and profitability had a statistically significant positive association. At the industry sector level, the results were similar for Banking & Finance, Distribution, Pharmaceuticals, and Food & Beverage. The remainder of the industries, on the other hand, had a different outcome. The findings also revealed a statistically significant negative correlation between profitability and long-term debt. At the industry level, only the manufacturing industry had a similar result. In the remaining industries, there was no statistically significant link between profitability and long-term debt. Finally, at the level of the entire listed firm, the findings demonstrated a statistically significant negative association between profitability and total debt. The mining and food and beverage industries had comparable outcomes. However, the results for the pharmaceutical business revealed a considerably favorable association between profitability and total debt, whilst the results for the rest of the industry sectors revealed no such relationship. Overall,

the findings suggest that Ghanaian listed companies were more reliant on short-term debt than long-term debt. The findings also supported the application of trade-off theory to the capital structure of Ghanaian publicly traded companies. During the study period, however, there was no evidence that the pecking order or the agency costs theory applied to Ghanaian listed companies. (Addae, Nyarko-Baasi, & Hughes, 2013).

The effect of capital structure on firm productivity is investigated using data of 63 firms traded on the Karachi stock exchange. This study result shows a relationship but in a different context. When the return on assets (ROA) was used as a variable dependent, the capital structure had a positive effect on firm results. When the return on equity (ROE) was used as the dependent variable, debt over assets ratio (DTA) had a positive effect, while equity over assets ratio (EQA) and long term debts over assets ratio (LDA) had a negative impact (Javed & Younas, 2014).

The link involving capital structure and profitability of a cement business organization traded on the Karachi Stock Exchange was investigated in this study (Ahmad, 2014). Short-term debt and equity return have a positive relationship, whereas long-term debt and equity return have an adverse relationship, according to the report. As a result of the low interest rates, it seems that the cement industry uses more short-term loans and that most cement producers lose money when they use excessive long-term debt and high sums of financial costs. Pakistan's cement industry is a capital-intensive and debt-financed industry. The study's findings revealed that debt has a negative effect on the viability of cement manufacturing companies. Currently, the government should offer incentives and implement strategies to provide debt finance at low-interest rates to promote this business. If companies use loans, they should balance the costs of debt with the benefits that will boost their profitability.

The study aims to look at the Debt to Equity ratio to figure out how much money Pakistani companies in the Chemical, Food, and Care, Cement, Pharmaceutical, Auto Assembler, and Textile industries generate. Earnings per share, Return on Equity, and Return on Assets are all strongly associated with the Debt to Equity ratio, according to their estimates. The debt-to-equity ratio, on the other hand, has a direct effect on the size and return on assets of a company. Furthermore, other firm-specific considerations such as dividends, taxes, and so on can be used with a longer time frame to gauge the effect and arrive at a more precise result. This study would potentially help finance managers in determining an optimal capital structure, as well as the academic community by presenting new information on capital structure's effects. Many major economies, on the other hand, can be studied with a variety of other sectors to see if capital structure formation differs (Basit & Hassan, 2017).

The study uses unbalanced panel data from all non-financial traded companies in Vietnam from 2007 to 2012 to confirm the influence of capital structure on corporate performance. The finding of the result shows that all financial leverage ratios have a significantly inverse connection with firm efficiency. In a new emerging market like Vietnam, the cost of the financial crisis could be less than the debt gains from lower taxes, as per this article. The tax benefit is not a major player of capital structure choices, according to research; in other words, Vietnamese companies have not used tax shelters by issuing debt. As a result, debt's financial benefits are outweighed by its risks, which include financial risks and coverage problems (Le & Phan, 2017).

The one study analyzed that the right mix of debt and equity funding is critical not just for lowering total capital costs but also for improving a company's overall performance. This study aimed to accomplish three things. To begin, this study looked into the relationship between capital structure and non-financial firm output in Pakistan. Second, the current

research made a significant contribution by examining the moderating effect of business policy in the relationship between capital structure and firm efficiency. Finally, the current research added to the established body of knowledge by examining the degree to which a firm's competitive pressure moderated the leverage-performance relationship. The final report used data from 333 listed non-financial companies in Pakistan over eight years (2006-2013). The chosen firms' output was calculated using both book and market-based metrics. The study's findings revealed that capital structure has a negative and substantial impact on accounting efficiency metrics, whereas the relationship between capital structure and business performance (Q ratio) is substantially positive. When formulating the capital framework, policymakers and managers of Pakistan's non-financial businesses are advised to avoid high-level debt financing. Before making loan or investment decisions, lenders and investors should consider a company's capital structure (Ahmed & Afza, 2019).

This research shows how the development of the banking industry affects the capital structure of non-financial firms. The deductive technique was applied in this study, with capital structure as the explained variable. The banking sector's development is employed as an explanatory variable, with five important ratios serving as proxies. For regression analysis, six years of data from 2010 to 2015 were examined, with a fixed-effect model applied. The study's uniqueness can also be assessed by examining how the financial sector influences non-financial sector firms' decisions. The statistical findings of this study may aid finance managers in predicting which banking sector elements may affect capital structure settings. The study's findings also provided answers to the research questions and the best meat for the research goal. If we summarize the findings, we may conclude that companies' short-term debt preferences in Pakistan are not flexible due to banking sector expansion, and that long-term loan preferences follow a similar pattern. To some extent, debt to equity and debt to

assets ratios have a substantial association with development status (Farooq, Malik, & Muhammad, 2018).

From 2009 to 2015, researchers looked at the impact of capital structure on company profitability by looking at 20 non-financial companies listed on the Pakistan stock exchange. The empirical findings showed that equity debt has a significant impact on return on equity and insignificant on net profit margin and return on asset. This is due to the reason that organizations with a higher level of liability are more accountable because, to meet their liabilities, these firms must spend a considerable portion of their profits, lowering their net profit margin. Debt to the asset has an insignificant impact on return on equity and significant on net profit margin and return on asset. Managers should consider earlier the effect of the debt on the profitability of companies to adjust the debt levels in the capital structure. The thesis suggests that a firm's capital structure has a statistically important impact on its profitability. Furthermore, the amount of debt taken on by a company may result in a tax shelter, increasing the firm's profitability. As a result, to achieve the desired level of productivity, company executives should retain an optimal capital structure (Nasimi & Nasimi, 2018).

2.4   International Financial Reporting Standards:

The IASB is in charge of establishing IFRS and approving implementations of certain principles. The International Financial Reporting Standards (IFRS) are designed for profit-oriented businesses. The financial statements of these organizations provide information on results, location, and cash flow that is valuable to a variety of consumers when making financial decisions. These consumers include primary users such as current and future stakeholders, lenders, and other borrowers, as well as secondary users such as staff, vendors, clients, governments and their offices, regulators, and the general public. The International

Financial Reporting Standards (IFRS) are a collection of international accounting guidelines. Economic globalization is becoming increasingly relevant in today's world. For their offices spread around continents, several businesses operating in various areas have or now continue to use different accounting practices. The International Accounting Standards Board (or the former IASB) introduced IFRS (or the former IASB) to harmonize accounting standards in countries around the world and improve comparability, credibility, and comprehensibility for the most relevant stakeholders, such as investors and governments. While the IASB cannot compel policymakers to use these criteria, the more they are used, the easier it will be to compare firms globally, which will improve investment decisions.

It also plays an important role in Pakistan's accounting sector. The Institute of Chartered Accountants of Pakistan (ICAP) is a prominent part of Pakistan's implementation of the International Financial Reporting Standard (IFRS). Since the Institute of Chartered Accountants of Pakistan (ICAP) is in charge of all accounting laws, at the time of the IFRS implementation (International Financial Reporting Standard). Despite all of its benefits, the implementation of the IFRS (International Financial Reporting Standard) has been fraught with difficulties, such as non-compliance with current laws and differing opinions of the SECP (Securities and Exchange Commission of Pakistan), and that requirements have played a main character in Pakistan's improved financial condition. Except for IFRS (International Financial Reporting Standard) 1 and IFRS (International Financial Reporting Standard) 9, all IFRS (International Financial Reporting Standard) rules implemented by the International Accounting Standards Board (IASB) are applicable in Pakistan. All countries that use the International Financial Reporting Standard (IFRS) can compare their financial reports across sectors and countries with ease. These are highly credible benchmarks for allocating capital and maintaining accounting reports due to their equal performance. Since the IFRS (International Financial Reporting Standard) published by the IASB has an impact on all

publicly traded companies around the world, whether directly or indirectly. Governmental choices, as well as pragmatic studies, influence accounting procedures, which makes the IFRS (International Financial Reporting Standard) vulnerable to lose its value. The International Financial Reporting Standards (IFRS) were created to unify accounting standards around the world to improve efficiency and fairness at a global level. These principles double as stand-ins for accounting activities. Since accounting issues differ by region, government, and industry, there are a variety of alternatives for resolving them. The International Accounting Standard Board (IASB) succeeded the IAS committee in 2001 and the body implements the IFRS (International Financial Reporting Standard). On February 1, 2009, a scrutinizing board was formed with the mission of hiring and managing committee members. The IASB (International Accounting Standard Board) is a body that formulates high-quality, enforceable accounting standards based on the IASC (International Accounting Standard Committee) basis. Future research can be conducted on the benefits of IFRS in Pakistan in monetary terms (Rashid, Amin, & Farooqui, 2012).

In the case of Pakistan, the high effect of IFRS on earnings and book value of equity was investigated. Improved financial reporting consistency, fewer earnings management, more comparability, and high importance for market price determination of financial statements are all benefits of this implementation. From the result, it can be assumed that the gradual implementation of IFRS results in a good and growing relationship between the share price and the earnings and the book value of equity. This is empirically clear from the findings that there is an indicator of an improvement in the share price relationship with earnings and equity book value. SECP's announcement stating that the remainder of IASs will be implemented beginning in the accounting year 2005. In reality, it was a re-notification of previously announced requirements, which were not followed by all public limited corporations (Kouser & Azeem, 2011).

In the case of PSX, there is no analytical research that shows the association between the financial structure of a company and its performance under IFRS. There hasn't been researched that looks at the monetary benefits of IFRS. This is the first thesis to look at the influence of IFRS on the relationship between debt/equity and firm output. In this analysis, there is only one article, which is about Germany.

This paper attempts to conduct an empirical examination of the association between firm profitability and capital structure. The study sample includes the non-financial companies listed in Germany in the 1993–2016 period. The findings reflect a positive relationship between firm value and the structure of capital. The implementation of IFRS has increased firm efficiency, but it has diminished the relationship between capital structure and firm performance, according to this report. The tax benefits and lower debt issuance costs relative to equity may be one reason for the favorable connection between capital structure and firm performance. Under IFRS accounting knowledge became more valuable (Li, 2017). The accounting information under IFRS become more valuable for management and outsider of the firm (Abdullah & Tursoy, 2019).

H2: There is a positive and significant impact of IFRS adoption on the capital structure and firm performance.

H3: There is a positive and significant impact of growth on firm performance.

H4: There is a positive and significant impact of dividends on firm performance.

H5: There is a significant impact of size on firm performance.

H6: There is a positive and significant impact of liquidity on firm performance.

In a summary, it was some research on capital structure and firm performance. There was just one article that looked at the IFRS when looking at the above relationship. For the first time, this study examines the moderating effect of IFRS on capital structure and firm

performance using non-financial companies from the PSX index. The justification of IFRS is that it changes the reporting style of firm financial reporting. Firm performance could be influence by changes in financial regulation like IFRS (Abdullah & Tursoy, 2019). IFRS is a reporting standard, change in IFRS rules and regulations affect the firm reporting standards which ultimately affect the firm performance. IFRS itself directly does not impact on firm performance.

2.5   Research Gap

The main purpose of every study that what will be new in this study and what will it add to the previous study. Many studies have been conducted to evaluate the connection between capital structure and firm performance. This research has sparked many controversies around the world. However, no research has taken into account the most relevant criteria, such as the impact of IFRS on firm performance and capital structure. In Germany, there is only one study that looked at the connection between capital structure and firm performance with the implementation of IFRS (Abdullah & Tursoy, 2019). However, no research has been done in Pakistan on the effect of IFRS application on firm performance and capital structure decisions. The association between capital structure and firm success under IFRS application is examined in this report, which includes all non-financial companies listed on the PSX. SECP's announcement stating that the remainder of IASs will be implemented beginning in the accounting year 2005. In reality, it was a re-notification of previously announced requirements, which were not followed by all public limited corporations. The study is different from the previous studies in the following manner.

1. First, the level of financial and economic development in Pakistan is different from the others countries.

2. The size of the firms is different from the other countries and the behavior of firms regarding Capital structure decisions is also different from the others countries. The culture of Pakistani firms is also different from the others countries.

3. The Behavior of SECP regarding IFRS adoption is different from the others countries. The firm behavior towards accounting principles in Pakistan is also different from the others countries. The adoption of IFRS is different from country to country. In this way, Pakistan is also adopted IFRS in different periods. ICAP (Institute of Chartered Accountants of Pakistan) council formulates the strategy for the implementation of IFRS (International Financial Reporting Standard) by December 31, 2007, in all the public companies (Rashid, Amin, & Farooqui, 2012).

4. There is no empirical study in Pakistan that explores the benefits of IFRS in monetary terms.

5. There are two types for the measurement of firm performance, one is accounting-based value and another is market-based value measurement. This study will be used both measurements of firm performance to better capture the firm value. This study will be used Log of share (LNP) ratio as a dependent variable to capture market-based firm performance. This research also takes extra control variables like liquidity to better capture the firm value.

Chapter 03
Methodology

This chapter is divided into four sections: first, a description of the sample selection and data collection procedure; second, a brief discussion of all the variables used in this analysis; and finally, a summary of all the variables used in this study. Finally, go through the model specification in detail and explain the econometrics model used in this analysis.

3.1   Data Description

This chapter explains the foundation from which the data for the study was gathered. It also explains that the data was gathered from Pakistani non-financial companies. It also has a list of variables that were used to complete the analysis in a model for more comprehensive studies. Data from non-financial companies listed on the PSX (Pakistan stock exchange) is being used to examine the effect of capital structure on a company's performance using the International Financial Reporting Standards (IFRS).

3.1.1   Population and Sample of the study

This study takes all non-financial firms listed on the PSX from 2001 to 2019 to determine the relationship between capital structure and firm performance, as well as the effect of IFRS on this relationship. In terms of their corporate practices, non-financial companies vary from financial firms. The manufacturing of commodities is the main economic activity of non-financial businesses. Banks, brokerage companies, pension funds, and other investment institutions, on the other hand, are involved with financial products.

Fabric industry, health sector, organic chemicals, and pharmaceuticals sector, building sector, precious metals, cement industry, motor vehicle industry, car accessories vehicles industry, fuel, electricity industry, knowledge industry, transportation facilities &

communication industry, refined petroleum products industry, paper industry, products and paperboard industry, information industry. The current study's goals necessitate the use of balanced panel statistics, which allows for the observation of the same unit (firm) in any time cycle (year) of nonfinancial firms from 2001 to 2019. The data came from The State Bank of Pakistan's DWH department's Balance Sheet Analysis (BSA) and Financial Statement Analysis (FSA). The data's origin was a secondary consideration. In comparison to financial companies, non-financial firms are listed on the PSX, Pakistan's largest stock exchange. The companies that were chosen were classified as non-financial firms.

Sample of the study

This study first took all non-financial firms listed on PSX. Total non-financial firms listed on PSX is 400 approximately. Due to the non-availability of data, we have taken 156 non-financial firms listed on PSX. The sample size of 156 firms includes firms from all the non-financial sectors.

3.1.2 Selection of the variables

Table 1: Variables of the study

Variable	Type	Measurement	Reference
ROE	Dependent	$\dfrac{\text{Net Income}}{\text{Total equity}}$	(Li, 2017)
Stock price	Dependent	Ln stock prices	(Abdullah & Tursoy, 2019)
Capital structure	Explanatory	$\dfrac{\text{Total Debt}}{\text{Total Assets}}$	(Bandyopadhyay & Barua, 2016)
Growth	Control	$\dfrac{\text{Current year sales} - \text{previous year sales}}{\text{Previous year sales}}$	(Basit & Hassan, 2017)
Dividend ratio	Control	$\dfrac{\text{Dividend on share}}{\text{Market price of a share}}$	(Le & Phan, 2017)
Total assets	Control	Ln Total assets at year − end	(Le & Phan, 2017)
IFRS	Dummy	2001 to 2004 Dummy variable is 0 2005 to 2019 Dummy variable is 1	(Abdullah & Tursoy, 2019)
MAR	Dummy	Upward movement of stock return is equal to 1 Downward movement of stock return is 0	(Abdullah & Tursoy, 2019)
LIQUIDITY	Control	$\dfrac{\text{Cash}}{\text{Total Assets}}$	(Saleem, 2011)

3.2   Variables Description

3.2.1   Dependent Variables

3.2.1.1   ROE (Return on equity)

The return on equity (ROE) is a financial success indicator that is determined by dividing net profits by shareholders' equity. Since shareholders' equity equals a company's assets minus its debt, the return on net assets is referred to as ROE. The return on equity (ROE) is an indicator of a company's performance in comparison to its stockholders' equity. The performance of a corporation in terms of using its shareholders' equity for profit is measured by return on equity. The study's dependent variable is (ROE). This is how the firm's performance is reported. (Li, 2017) Was also used this variable in their study.

$$ROE = \text{Net income/total equity} \qquad (3.1)$$

3.2.1.2   Stock price

Any stock issued by a publicly listed corporation has a fixed price. The price reflects the company's worth – what the general public can pay for a piece of it. It can and will rise and fall as a result of several variables in the global environment as well as within the group. The stock price is also a dependent variable of the study. This variable can be measured by taking the log of stock prices of non-financial firms that list on the PSX. This is using to measure market performance. (Abdullah & Tursoy, 2019) Used this variable in their study.

$$LNP = \text{natural log of stock prices} \qquad (3.2)$$

3.2.2   Independent Variables

3.2.2.1   Capital structure

The financial structure is made up of capital funds, such as debt and equity, which businesses obtain from various sources. Companies may either use debt or equity capital to fund their operations. Companies use a borrowing mix of leverage and capital to fund their

investments, which makes capital structure. Both markets along with book value adjusted economic data have been used to calculate the leverage relationship in the past literature. However, for two main reasons, the current analysis only uses book-based values to calculate capital structure. To begin with, cash incentives offered by debt finance in the form of the shield cannot be used on the market value of debt until it has been handover to borrowers. Under this scenario, the market price of debt has no bearing on the tax calculations. Second, after a corporation declares bankruptcy, only the book value of its debt is deemed eligible for relevant computations. As a result, the capital structure of the companies in this analysis is computed solely using book-based debt and equity prices. (Abdullah & Tursoy, 2019) Was also used this variable in their study.

$$\text{Capital structure=Total debt/total assets} \qquad (3.3)$$

3.2.2.2   Growth

Revenue growth is usually a central target for every business entity or company in the sector, but it is crucial for the organization's success. High-profit growth increases a company's total income while simultaneously generating economies of scale, which improves the company's accounting and business efficiency. Furthermore, a company that effectively maintains and improves its operating quality not only improves its overall financial success but also generates sufficient funds for potential market growth. As a result, the current research predicts a favorable relationship between firm growth and performance. The firm with the passage of time growing rapidly. The growth of the firm also determines the capital structure and affects firm performance. (Basit & Hassan, 2017) Was used this variable as a control variable in their study. It can be measured by

Growth= (current year sales- previous year sales) /previous year sales

$$(3.4)$$

3.2.2.3 Dividend ratio

In comparison to the stock price, the dividend yield shows how much a firm has paid out in dividends for a year. The yield is expressed as a percentage rather than a fixed number. This makes it possible to see how much a shareholder gets in dividends for every dollar spent. The firm also disturbed dividends among shareholders and its impact on firm performance. (Bandyopadhyay & Barua, 2016), (Abdullah & Tursoy, 2019) was also used this variable as a control variable in their study. It can be measured by

$$\text{Dividend ratio} = \text{dividend per share/share per share.} \qquad (3.5)$$

3.2.2.4 Total assets

One of the most important factors in determining a company's worth is its size. Larger companies often achieve economies of scale, as well as experience in human resources and corporate operations, which can contribute to improved results. Furthermore, big companies are more complex, well-controlled, and have higher risk tolerance. Small businesses find it difficult to mitigate the asymmetric issue, and as a result, they can experience low financial results. The current study also predicts a favorable association between firm size and performance. The size of a firm also determines the capital structure. (Le & Phan, 2017) Was also used this variable in their study. It can be measured by

$$\text{Size of firm} = \ln (\text{total asset of firm}) \qquad (3.6)$$

3.2.2.5 IFRS

The IFRS Foundation and the International Accounting Standards Board issue accounting standards known as International Financial Reporting Standards, or IFRS. They

are a standardized method of defining a company's financial performance and status, allowing financial statements to be understood and compared across national borders. They are especially important for businesses that have equity or options that are traded on a public stock exchange. Many various national accounting standards have been replaced by IFRS around the world. The IFRS is a standard that is followed by a firm to maintain accounts. This study examines the impact of IFRS on the association between capital structure and firm efficiency. IFRS is a dummy factor, which only has two values: 0 and 1. This study gives 1 if IFRS is following and 0 it not following. (Abdullah & Tursoy, 2019) Was recently used this variable as a dummy in their study.

IFRS is a dummy = 2001 to 2004 Dummy variable is 0

2005 to 2019 Dummy variable is 1

3.2.2.6   Stock return

The connection between capital structure and company profitability is further determined through stock return. It can also be used to build dummy variables. (Abdullah & Tursoy, 2019) Was used in their study. This study will give 1 if the stock return increase and give 0 if the stock return decrease of the firm.

$$\text{Stock return} = (P1-P0)/P0 \qquad\qquad (3.7)$$

3.2.2.7   Liquidity

The liquidity condition of the companies is another significant determinant of performance. It is used to determine a company's willingness to fulfill its short-term commitments. A company with a large proportion of capital assets to current liabilities is less susceptible to unanticipated adjustments in the balance sheet, and therefore, high liquidity

reduces the likelihood of short-term monetary commitments whilst still increasing profitability. Liquidity ratios are a type of financial measure that is used to assess a debtor's ability to repay existing loan liabilities without having to raise additional funds. It's being used as a controlling variable. It can be measured through

$$\text{Liquidity} = \text{Cash/total assets} \qquad\qquad (3.8)$$

3.3 Model specification

3.3.1 Panel data analysis

A panel data collection includes both time-series and cross-sectional data, and the exact is true in this analysis. When the study deals only with cross-section or time-series data, the study can enrich scientific research in ways that aren't possible with panel data. This isn't to say that panel data modeling is without its flaws. A balanced panel is one on which each cross-section of a component has the same set of time observations. The term "unbalanced panel" refers to a panel that has a set of time observations that differs among cross-sections. Using panel data has several benefits. For starters, they boost the sample size has been increased significantly. Second, by examining several cross-sections, Panel statistics are more suited to studying the dynamics of transformation than findings. Finally, panel evidence allows one to investigate more complex behavioral models.

$$Y_{it} = \alpha + \beta X_{it} + \mu_{it} \qquad\qquad (3.9)$$

A different method of Estimation

To analyze panel data it is important to know that panel data has three types.

3.3.1.1   Common Coefficient Model

The first model of the common coefficient model. It has a constant intercept across all cross-sections and time periods. The following is the general equation for the Common Model Approach:

$$Y_{it} = \alpha + \beta(X)it + \mu_{it} \qquad\qquad (3.10)$$

3.3.1.2   Fixed Effect Model

The second model is the Fixed Effect Model, which states that the intercept for each cross-section is different. Individuals have distinct characteristics that do not change over time. That is, for a given person i the unique attributes are time t invariant. These characteristics may or may not be relevant to the Yi dependent variables.

$$\gamma_{it} = \alpha_i + \beta(X)it + \cdots\cdots\cdots + \beta k(X)kit + \mu_{it} \qquad\qquad (3.11)$$

3.3.1.3   Random Effect Model

In the random effect, the model intercepts are considered as error term and it does nothing with the cross-sections (companies). This model illustrates the differences between the firms. It has the following advantages.

- The random effect model has fewer parameters to estimate in comparison to the fixed-effect model.

- It provides permission for additional independent variables with the same number of observations.

The following is the general equation for the random effect model:

$$\gamma_{it} = \alpha + \beta_1(X)1it + \beta_2(X)2it \cdots \beta k(X)kit + (vit + \mu it) \qquad\qquad (3.12)$$

3.4 Econometrics Model

The Ordinary Least Square (OLS) Regression is a commonly used estimation method for assessing the association between a company's performance and its debt structure. The present study, like the previous one, investigates the influence of capital structure on company performance using the OLS estimating approach. Fixed effect and random effect regressions (panel regression) are the most acceptable estimate strategies for panel data analysis. To achieve the research goals, the present study used fixed effect and random effect prediction methods, as well as OLS regression for the robustness analysis rationale. As previously mentioned, both OLS and fixed/random effect estimation techniques have been chosen to forecast the relationship between response and explanatory variables due to the panel structure of the results. The linear or non-linear model of these regression equations is commonly used to approximate them. The preference of nonlinear or linear regression is based on the linearity of the regression equations' residuals, as well as several other assumptions that must be met to use the estimation techniques. This research will be used (Le & Phan, 2017) model who suggest the following equation describes the capital structure and firm performance have a causal relationship:

$$FP_{it} = \beta LEV_{it} + \gamma X_{it} + e_{it} \tag{3.13}$$

Whereas FP = financial and market performance

LEV = leverage ratio

X = control variables (growth, dividend, size and IFRS, MAR dummy variables)

e = error term

i = no. of observation and t = time

The interaction between a company's performance and its capital structure is studied.

The results are then evaluated using the following multivariate regression equations (Abdullah & Tursoy, 2019).

$$ROE_{it} = \beta_0 + \beta_1 TDR_{it} + \beta_2 GROW_{it} + \beta_3 SIZE_{it} + \beta_4 IFRS + (\beta_5 TDR_{it} \times IFRS) + \beta_6 MAR + \beta_7 LIQ_{it} + e_{it} \qquad (3.14)$$

$$\Delta LnP_{it} = \beta_0 + \beta_1 TDR_{it} + \beta_2 DIV_{it} + \beta_3 SIZE_{it} + \beta_4 IFRS + (\beta_5 TDR_{it} \times IFRS) + \beta_6 LIQ_{it} + e_{it} \qquad (3.15)$$

Whereas

ROE = Return on equity

LNP = Natural Log of share price

TDR = Total debts ratio

GROW = Growth of firm

DIV = Dividend per share

SIZE = Natural log of total assets

IFRS = International financial reporting standard

TDR*IFRS = Interaction of capital structure and IFRS.

MAR = Market average return (Dummy variable which value will be 0 or 1)

LIQ = Liquidity of the firm

Δ = change in variable

Moderator variable

A moderator variable, abbreviated as M, is an additional variable that affects the strength of a dependent and independent variable's interaction. In a causal relationship, if x is the predictor variable and y is the outcome variable, z is the moderator variable that influences the causal association of x and y. To measure causal correlations, the majority of the moderator variables use regression equations. If the moderator variable is important, it will amplify or diminish the relationship between x and y. The moderator variable is a separate variable used to assess the causal interaction. It can be graded or constant, much as other independent variables. Moderating factors may be subjective (non-numerical values like ethnicity, socioeconomic class, or sex) or quantitative (numerical values like race, socioeconomic class, or sex) (numerical values like weight, reward level, or age). To assume that a variable is a moderating variable in science, the predictor and the moderator must have a strong statistical relationship. A moderator is a variable that affects the magnitude or direction of the dependent and independent variables' relationship. This study is using TDR*IFRS as a moderator variable to study the IFRS adoption on the capital structure. This moderator aims to look into the effect of IFRS on the connection between debt/equity decisions and firm output. From the recent study, the exact symbol moderator is used to see the impact on the association in the case of Germany. We are investigating the role of IFRS in moderating the relationship between company success and debt financing in Pakistani non-financial companies.

Chapter 04
Results and Discussion

Results and discussions are included in this chapter. The descriptive statistics, correlation matrix, and panel data analysis are all included in this part of the study.

4.1   Data Analysis and Interpretation

This part of the study consist of data analysis and interpretation of the data. This part includes descriptive statistics and correlation analysis of the variables of the study. This section contains all of the study's variables to determine the effect of capital structure on firm output through the moderating function of IFRS.

4.2   Descriptive statistics

The statistical behavior of the data is presented descriptively. It contains the mean value, which is used to determine the data's central tendency. The standard deviation reflects the mean and provides data dispersion and spread from the mean value. Table 4.1 includes the summary statistics of all variables that are using in this study. Table 4.1 shows the descriptive figures for the study's dependent, independent, and moderating variables. The current thesis examines all non-financial companies that have been listed on the PSX for 19 years, from 2001 to 2019. It contains the variables' mean, median, standard deviation, minimum, and maximum values.

Table 2: Descriptive Statistics

	ROE (%)	LNP (Unit)	TDR (%)	GROW (%)	DIV (%)	SIZE (Rs)	LIQUIDITY (%)
Mean	0.09613	3.94346	0.50639	0.13734	0.00742	8.17931	0.06259
Median	0.12396	3.93574	0.48582	0.11306	0.00051	8.07048	0.02038
Maximum	0.7470	9.35010	0.8845	0.6911	0.05113	13.54972	0.84975
Minimum	-0.12804	-1.38629	0.02512	-0.10010	0.0001	1.30318	0.0010
Std. Dev.	0.61957	1.65299	0.25433	0.37052	0.03663	1.69236	0.10312
Observations	2964	2964	2964	2964	2964	2964	2964

The average ROE of the sample has a mean value is 0.096, the median is 0.12 and the standard deviation is 0.61. The mean value of ROE communicates that the average firm earns 9.6% ROE. It also means that each dollar invested in equity generates 0.96 dollars in earnings. The average mean value of LNP is 3.94, the median is 3.93 and the standard deviation is 1.65. The mean value of the natural log of stock prices is 3.94 which indicates that there is a wide range gap between financial and market performance. The average capital structure mean value is 0.50 with a median is 0.48 and a standard deviation is 0.25. The mean value indicates that average firms have 50% debt in their total capital structure. It means that Pakistani firms are highly leveraged. This value also communicates that 50% of the total assets of Pakistani firms are financed through debts. The average growth of mean value is 0.13, the median is 0.11 and the standard deviation is 0.37. During the entire study duration, the selected sample firms show modest revenue growth of 13%. The average dividend of the mean value of PSX non-financial firms is 0.0074, the median is .00051 and the standard deviation is 0.03. It means that less than 1% dividend is paid by Pakistani firms. This value also indicates that average firms are not in favor of giving dividends to the shareholders. The average size of Pakistani listed non-financial firm's mean value is 8.17, the median is 8.07

and the standard deviation is 1.69. The average scale of the firm size was 8.17. Over the time surveyed, the businesses experienced high growth in size up to 13.54 (maximum) and a decline in size growth up to 1.3 (minimum). The liquid asset of non-financial firms means the value is 0.06, the median is 0.02 and the standard deviation is 0.1. The mean value of the liquidity ratio indicates that on average non-financial companies in Pakistan have enough cash in their total assets to pay their short-term liabilities and invest in marketable securities.

4.3   Correlation Analysis:

Correlation is the term for the association or relationship between variables. The value of correlation in statistics ranges from +1 to -1. When the correlation value is +1, it implies that the variables have a perfect positive correlation. When the result is -1, it implies that the variables have a negative perfect correlation. If the correlation value is zero, that means there is no link among the variables.

Table 3: Correlation Analysis

	ROE	LNP	TDR	GROW	DIV	SIZE	LIQUIDITY
ROE	1						
LNP	0.20993	1					
TDR	0.11384	-0.23834***	1				
GROW	0.14005	0.029947**	-0.09373***	1			
DIV	0.11496	0.331177	-0.06116***	-0.0043***	1		
SIZE	0.0610*	0.410084	-0.00845***	0.02145**	-0.01178***	1	
LIQUIDITY	0.1033	0.210676	-0.18907***	0.070326*	0.07258*	0.0874*	1

The above table shows that there is a positive relation between ROE and LNP is 0.20. A positive correlation between ROE and TDR is 0.11. A positive correlation between ROE and growth is 0.14. The positive correlation between ROE and DIV is 0.11. The positive

relation between ROE and size is 0.06. The positive association between ROE and liquidity is 0.10.

A Negative correlation between LNP and Debt ratio is -0.23. The positive correlation between LNP and Growth is 0.029. The positive relation between LNP and Dividend is 0.33. The positive association between LNP and Size is 0.41. The positive correlation between LNP and Liquid assets is 0.21.

The negative correlation between Debt ratio and Growth is -0.09. The negative relation between Debt ratio and Dividend is -0.06. The negative association between Debt ratio and Size is -0.008. The negative correlation between the Debt ratio and Liquid assets is 0.18.

The negative relation between Growth and Dividend is zero. The positive association between growth and size is 0.02. The positive correlation between growth and Liquid assets is 0.07.

The negative association between dividend and Size is -0.01. The positive correlation between dividends and Liquid assets is 0.07.

The positive correlation between size and Liquid assets is 0.085.

Hausman test

Hausman test is the test to choose the best model among fixed impact and Random impacts models and this test is the most productive approach. This study generates two hypothesis that is given below:

Ho: Random effect model is an appropriate model.

H1: Fixed effect model is more appropriate than random effect model.

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	10	0.0000

The aftereffect of this test shows that the p-estimation of chi-square shows that the fixed impact model is the more proficient model than the random effect model. Subsequently, this investigation is thinking about the fixed impact model as the last model to be broken down. From the result of the Hausman test, this study concluded that the fixed effect is an appropriate model. So, reject the Ho null hypothesis and accept the H1 alternative hypothesis.

4.4 Regression Analysis

This study consist of the outcome, explanatory, and catalyst variables. Ordinary Least Square (OLS), fixed, and random effect estimation techniques are used to estimate these models. The results of the detailed study and projections are shown below.

Table 4: ROE as a dependent Variable

Dependent Variable: ROE				
Method: Panel Least Square Method (Fixed effect Model)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.072792	0.126647	-0.574761	0.5655
TDR	0.397404	0.076240	5.212515	0.0000
IFRS	0.160065	0.043406	3.687643	0.0002
IFRS*TDR	-0.392642	0.076994	-5.099663	0.0000
GROW	0.083268	0.018740	4.443208	0.0000
SIZE	-0.028052	0.013427	-2.089316	0.0368
MAR	0.047481	0.012989	3.655473	0.0003
LIQUIDITY	0.199251	0.081877	2.433539	0.0150
R-Square		0.221371	F statistic	4.726426
Adjusted R-Square		0.174534	Prob(F stat)	0.000000

The above is the outcome of the Model, which is utilized to see the effect of capital structure on firm performance by the role of IFRS as a moderating factor, in which ROE (Return on equity) as a dependent variable and Capital structure (TDR) as an independent variable with IFRS and MAR is used as dummy variable and control variable of size, growth, and liquidity is used. The percentage differential in profitability is caused by the independent variable in the response variable. The worth of R square in this regression statistics table shows capital structure. In this model, the value of R-square is 22%. The result of this model interprets that capital structure positively and significantly influences firm performance

measured by firm performance as an ROE. This result is consistent with (Javed & Younas, 2014) (Abdullah & Tursoy, 2019) (Abor, 2005). The IFRS dummy is a positive and significant impact on firm performance. This suggests that adopting the International Financial Reporting Standards (IFRS) improves firm performance measured by ROE of non-financial firms in Pakistan which the result is consistent with the base paper of (Abdullah & Tursoy, 2019) that in the case of Germany. The primary aim of this study is to see whether the International Financial Reporting Standards (IFRS) have any impact on the relationship between capital structure and company performance. Due to this reason, this study uses the interaction term TDR*IFRS to captured the result. The results indicate that IFRS has a major impact on capital structure. The IFRS capital structure has a negative and significant impact on firm performance. It means that IFRS adoption weakened the relationship between firm performance measured by ROE and Capital structure, this finding is also exactly resembled with the paper of (Abdullah & Tursoy, 2019). The control variable Growth is a positive and significant impact on the firm performance. The value of Grow is 0.083 it means that one unit change in Growth brings an 8.3% change in firm performance measured by ROE. This result is similar to (Abdullah & Tursoy, 2019). The size is a negative and significant impact on firm performance (ROE). This ensures that as the size of a company grows, so does the accounting performance. Performance of the market is a positive and significant impact on firm performance but a small impact on firm performance which is the coefficient of MAR in model 1. The last control variable is liquidity which is a positive and significant impact on firm performance. The value of liquidity is .199, which means that one unit change in liquid assets brings a 19.9% change in ROE. There is a vast of literature is available on the Return on equity and Pakistani firms also more depend on shareholder equity rather than any long-term financing source due to its cost. This study also runs regression with ROA but the result is not very familiar that is why the study does not report the ROA result.

Table 5: ΔLNP as a dependent Variable

Dependent Variable: ΔLNP				
Method: Panel Least Square Method (Fixed effect Model)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.057226	0.174594	0.327766	0.7431
TDR	-0.543796	0.255813	-2.125753	0.0336
IFRS	1.046582	0.143629	7.286679	0.0000
IFRS*TDR	0.781546	0.276251	2.829117	0.0047
GROW	0.597282	0.048773	12.24625	0.0000
DIV	2.085177	0.232754	8.958719	0.0000
SIZE	26.55318	1.090245	24.35523	0.0000
LIQUIDITY	0.057226	0.174594	0.327766	0.7431
R-Square		0.413778	F statistic	295.3430
Adjusted R-Square		0.412377	Prob (F stat)	0.000000

The above is the outcome of the Model and is utilized to see how capital structure affects a company's success through the role of IFRS as a moderating factor, in which ΔLNP (log of stock prices) as a dependent variable and Capital structure (TDR) as an independent variable with IFRS and MAR is used as dummy variable and control variable of dividend (DIV), size and liquidity are used. The percentage difference in the dependent variable profitability is caused by the independent variable. Capital structure is seen in the regression statistics table by the value of R square. In this model, the value of R-square is 41%. The result of this model shows that capital structure negatively and significantly impacts firm

performance measured by firm performance as an LNP. When the capital structure of non-financial firms is increased by 1 unit, there are 0.54 unit's declines in the stock prices, which means that when capital structure increases the current stock prices decreases. This result is similar to (Abdullah & Tursoy, 2019). The IFRS dummy is a positive and significant impact on firm performance. This suggests that IFRS implementation leads to improve the performance of the firm measured by LNP in Pakistan which the result is consistent with the base paper of (Abdullah & Tursoy, 2019) that in the case of Germany. The main and base of this study are to see the moderating impact of IFRS on the relationship between Capital structure and firm performance. For this purpose, this study uses the interaction term TDR*IFRS to captured the result. The findings suggest that IFRS has a major effect on financial formation. The IFRS Positively and significant effect of capital structure on firm performance. It means that the implementation of the International Financial Reporting Standards (IFRS) has a strong connection between company performance as calculated by LNP and investment decision, this result is aligned with the paper of (Abdullah & Tursoy, 2019). The control variable is liquidity which is a positive but insignificant impact on firm performance. The Dividend is a positive and significant impact on firm performance. From the value of the dividend, the study can conclude that dividend is more preferred when measuring performance with LNP instead of ROE. The size is a positive and significant impact on firm performance (LNP). This ensures that as the size of a company grows, so does the accounting performance.

4.5   Result of the study

According to the findings, the capital structure and financial performance of firms have a positive relationship. These findings support our assumption that in Pakistani non-financial companies, a favorable connection between financial performance and capital

structure. The financial structure and stock prices have a negative relationship. Both results of the study are consistent with (Abdullah & Tursoy, 2019) (Javed & Younas, 2014) (Basit & Hassan, 2017) (Nasimi & Nasimi, 2018). The value of tax shelter, the cost of issue debt is less than the cost of issue equity, and high leverages often force the boss to invest in stable companies are the reasons for the positive association. This study has also observed that Pakistani firms largely depend on debt financing than on equity financing. When a firm using debt financing largely in their financial structure then there is a low level of investment in the shares of the company, due to the reason that investor is afraid from the company that they will be not able in the future that they give us a huge return on our investment because of the heavy burden of interest payment on the company backbones. The next reason is that due to large debt financing by a firm, no one in the market is willing to purchase and sale of shares of the company, and shareholders have less confidence in the company. IFRS has a positive impact on firm performance and a similar result was found by (Abdullah & Tursoy, 2019) (Li, 2017). The result of IFRS positive and significant impact on firm performance indicated that accounting conventions and standards have a major role in the firm financial performance. In countries with strict financial reporting regulations, this study result shows that a company's use of IFRS provides significant economic benefits. A boost in the stock's market value increased market liquidity, and a reduced cost of capital are only a few of the advantages. The main purpose of this study is to see the moderating effect of IFRS on the capital structure of non-financial firms in Pakistan. For this purpose, this study uses the term TDR*IFRS to better capture the result. The result shows a negative and significant relationship. The adoption of IFRS improves the financial performance of the firm because they provide accurate and fair information but it reduces the relationship of capital structure and firm performance. IFRS, on the other hand, has strengthened the connection between the capital structure and firm performance when a dependent variable of the performance is

market-based measurement. The result states that non-financial firms should less use the debt portion of the financing in their financing because the due high interest rate on the debt financing may take the company to bankruptcy. But the use of large portion debt financing may benefit the company to reduce the tax payments. The result of this study is the same as a previous study which was done in a developing country like Germany. It means that IFRS adoption is general all over the world. Firm size, liquidity, growth, and dividend are the most important determinants of firm performance among the selected control variables. The size of a company has a favorable association with its results, which is statistically significant which is measured through ROE and LNP (log of stock prices). From this result, this study concluded that when firm size is large their performance is good than the firm with small size. The liquidity of a company has a favorable relationship with its results, and the relationship is statistically important which is measured through ROE. From this result, this study analyzed that good financial position firms have more liquid assets to pay off the liabilities and to pay off debt. The control variable Growth is a positive and significant impact on the firm performance measured by Return on equity (ROE). This result indicates that when sales of the firm increase then ultimately the firm performance is improving. Dividends have a favorable association with company results that is statistically meaningful which is measured through LNP. This result tells us that when firm earning is good and their financial performance is good, then distribute the dividend among the shareholders which motivates the shareholders towards the company for more investments. When the stock price of the company share is increasing day by day, then it attracts investors towards investments in that particular company which can be seen in this study result.

Here in this study, the value of proxies of firm performance with TDR is different. The reason behind the different proxies value is that one proxy is the accounting-based value

which is based on historical value and another proxy is the market-based value which is based on current market value.

Chapter 05
Conclusion and Recommendation

This part of the study includes the conclusion and recommendation. This chapter gives the last view of the study. This section oversees the ends and recommendations based on the study's discoveries, as opposed to the previous section's investigation of the discoveries. Similarly, this section is divided into two sub-segments. The conclusions are presented in section 5.1, and the guidelines are presented in segment 5.2.

5.1 Conclusion

In two aspects, the new study adds to the established corporate finance literature. To begin, it examines the effect of capital structure on firm-level performance by integrating detailed capital structure and firm performance measures. Second, it investigates the role of IFRS (International Financial Reporting Standard) in moderating the connection between capital structure and firm performance. The main aim of this current study is to provide empirical evidence on the connection between company performance and capital structure in Pakistan while taking into account the application of the International Financial Reporting Standards (IFRS). The analytical models' findings proved a favorable connection between financial performance and capital structure in Pakistan publicly traded companies. The study's projected findings revealed that the debt ratio has a direct impact on the accounting efficiency of Pakistan's non-financial enterprises. Over the time 2001–2019, the study discovered that a 1% rise in overall debt ratio corresponds to a 39.74 percent increase in ROE. This result is consistent with (Javed & Younas, 2014) (Abdullah & Tursoy, 2019) (Abor, 2005). From the above result, this study can conclude that when a firm uses a large portion of debt in its capital structure their financial performance is improving. However, Capital structure, this study found has a negative effect on the stock price. When the capital

structure of non-financial firms is increased by 1 unit, there is a 0.54 units decline in the stock prices.it means that when capital structure increases the current stock prices decreases. This result is similar to (Abdullah & Tursoy, 2019). When a firm using debt financing largely in their financial structure then there is a low level of investment in the shares of the company, due to the reason that investor is afraid from the company that they will be not able in the future that they give us a huge return on our investment because of the heavy burden of interest payment on the company backbones. The next reason is that due to large debt financing by the firm, no one in the market is willing to purchase and sale of shares of the company, and shareholders have less confidence in the company.

This study discovered that the adoption of International Financial Reporting Standards (IFRS) mostly and significant policy action in Pakistan's corporate system has a positive influence on capital structure. Various claims may be used to justify the findings of this article. Taking on a lot of leverage, according to all of these perspectives, would place a lot of stress upon management to spend more on lucrative investments so that generates sufficient cash inflows to meet borrowing avoid costly bankruptcy. When it comes to investment decisions, the negative effect of financial leverage on a company's stock output can lead Pakistani shareholders to choose the least risky companies' securities. This study discovered that Pakistan companies are heavily leveraged, with debt financing accounting for over 50 percent of their investments on average, intending to avoid high taxes. While it is widely assumed that the adoption of the International Financial Reporting Standards (IFRS) would improve the information environment in specific they discovered how in Pakistan, this legal transformation has strengthened the connection between capital structure and firm performance. when proxy of dependent variable firm performance is LNP (log of stock prices).

Firm size, liquidity, growth, and dividend are the most important determinants of firm performance among the selected control variables. The size of a company has a favorable association with its results, which is statistically significant which is measured through ROE and LNP (log of stock prices). The liquidity of a company has a favorable relationship with its results, and the relationship is statistically important which is measured through ROE. The control variable Growth is a positive and significant impact on the firm performance measured by Return on equity (ROE). Dividends have a favorable association with company results that is statistically meaningful which is measured through LNP.

5.2   Recommendation

The primary goal of this research is to determine the role of IFRS in capital structure decisions and firm performance. From the empirical result, this study recommended that investors and lenders should keep in mind the capital structure of firms while deciding the investment decisions. The firm needs to bring changes in the capital structure to see the impact on the firm performance. The firms also need to choose the best combination of capital structures to maximize firm performance. The investors need to evaluate the firm before investment either the firm is fully used the accounting principles that are recommended by IFRS. Because if a firm using IFRS then their financial reporting will present fair pictures of the firm. The Pakistani firms should consider the accounting rules and regulations to improve their company performance and also have a good impact on the general public of the company if they providing fair and accurate financial reports to the stakeholders. This study recommended that IFRS is the best option for companies to improve their operations. The investor needs to evaluate the company's financial report before investing in the concerned company. The study suggests that administrative bodies such as SECP take further steps to ensure that all public institutions follow IFRS to the letter. This

would allow for the transmission of timely and accurate financial data to the stock market, allowing investors to make well-informed decisions. It is recommended from the above study that lenders should check the ability of the company to payoffs its debts. If their capital structure includes more borrowing than equity, it means that the company invests the funds into profitable projects. From this study, it is recommended that the company use debts as financing because the cost of debt is less than the cost of equity. From the above study, it is recommended that all the world should follow the IFRS and it is best for financial reporting.

5.3 Future research

This document investigates the effect of IFRS on debt financing and firm output decisions. Future research can be possible by considering more factors in the relationship. This study also suggests some points for future research. Future research could look at the impact of the International Financial Reporting Standards (IFRS) on the relationship between firm performance and capital structure by analyzing separate sector of non-financial firms to know that which sectors are most affected by accounting principles and which sectors of the non-financial firm is fairly using IFRS. Future research could include more countries to see whether IFRS influences the relationship. Due to the non-availability of the data this study was not able to take all non-financial firms listed on PSX, future searches may be conducted by taking both financial and non-financial firms at the same time to see the impact. Larger time series data and modern econometric methods can be used in the future to conclude. Future research can be also conducted by taking macro-economic variable's impact on the relationship. Also, examine the ownership structure decision impact on the firm performance. Future studies should use more robust proxies to compute the moderating variables, as the current analysis used small measurements of moderating variables. This study's findings provide valuable context for future research that examines the long-term impact of IFRS on

the meaning and output of accounting variables, as well as other control variables. To perform a cross-country study, academic researchers may choose a sample from Pakistan's similar economies. Since the current analysis used IFRS as a moderating variable, future experiments might use other managerial attributes as moderators in the leverage-performance relationship. It was suggested that several more countries be chosen for the IFRS adoption effect. For the impact of IFRS acceptance, the report uses annual data from non-financial companies and countries that may be used in future research.

5.4   Limitation of the study

Even though this scientific research has many functional applications. However, this analysis has the same limitations and unobserved consideration as the previous one. The present study sought to resolve the study's goals by taking into account all of the variables' systematic interventions. The study does, however, have certain drawbacks. To begin with, the data was only obtained from Pakistan's listed non-financial companies, which limits the generalizability of the findings in the case of Pakistan's listed financial firms. Owing to a lack of financial records, factors such as capital structure and company results with robust market-based indicators were not considered. Due to a lack of documentation, only a few measures of moderating variables were chosen. This study is limited to only Pakistan, it means that the application of this study is just for Pakistan, it is not applicable for the other countries. Because every country has different behavior regarding adopting IFRS. Future studies may be possible to analyze the Asian country's behavior towards IFRS. Due to the unavailability of the data this study not taking all non-financial firms of the PSX.

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