

**Charting the Financial Landscape: Understanding How Ownership Shapes Firm's
Financial decisions. Exploring the Catalytic Role of Corporate Governance as a
Moderator**

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ABSTRACT

The ownership structure of an organization is pivotal in shaping its financial decisions. This study aims to investigate the influence of ownership on the financial decisions of non-financial sector companies in Pakistan, while also scrutinizing the moderating effect of corporate governance on this relationship. Drawing on data from 192 listed companies spanning the period from 2009 to 2019, we analyze financial decisions through metrics such as the debt-to-equity ratio and dividend payout ratio. Our findings reveal that foreign and institutional ownership exert positive and significant effects on the leverage ratio, while the influence of foreign ownership on the dividend payout ratio is negligible. Additionally, director ownership exhibits a negative and significant impact on both financial leverage and dividend payout. Furthermore, our study underscores the crucial role of corporate governance as a moderator in the nexus between ownership structure and financial decisions. By shedding light on these dynamics, our research contributes to the agency theory literature and provides valuable insights for companies aiming to enhance their governance mechanisms to bolster sustainable business performance.

Keywords: Ownership structure, Corporate governance, Director ownership, Foreign ownership, institutional ownership, Financial decisions

INTRODUCTION

One of the ongoing dilemmas that frequently disrupt firm management is the decision-making process regarding debt policy and dividend distribution to shareholders, alongside the determination of the portion of earnings to retain (Obaidat, 2018). This decision-making process is notably challenging due to its inherent trade-off nature. It involves balancing the use of debt versus equity and allocating earnings to fulfill shareholders' expectations while also retaining a portion of earnings to fuel the company's future growth and expansion endeavors (Obaidat, 2018).

Companies' ability to make sound financial decisions can be compromised if they don't have an appropriate ownership structure (Wang et al., 2020). Agency theory also identified the ownership structure as a key factor influencing the firm's financial decisions, offering a valuable framework for comprehending the underlying mechanism (Jensen & Meckling, 1976). This theory suggests that conflicts of interest may arise between managers and shareholders, finding the optimal ratio of debt to equity and determining the appropriate dividend policy can aid in resolving these conflicts (Jensen & Meckling, 1976). The theory posits that conflicts of interest may arise between the principal and the agent due to their differing goals and incentives (Shleifer & Vishny, 1986). This conflict can result in agency problems,

where the agent acts in their own interest rather than the principal's interest (Wright, 2015). Thus, the governance structure of a firm should be designed in a way that aligns the interests of the principal and the agent to mitigate agency problems (Javed and Iqbal, 2007). In this perspective, the interests of the principal and agent are aligned, and there is no conflict of interest between them.

Corporate governance has been recognized in previous studies as a crucial factor in shaping the ownership structure and its impact on a company's financial decision. Corporate governance's fundamental responsibility is to ensure that management consistently acts in the best interests of shareholders and other stakeholders (Alodat et al., 2022). Within the realm of corporate governance research, there is significant interest in examining the alignment of interests among various stakeholders (Kijkasiwat, Hussain, & Mumtaz, 2022). Shleifer and Vishny (1997) demonstrated that the alignment of interests between managers and shareholders is a crucial determinant of firm financial decisions. They propose that corporate governance mechanisms, such as the presence of independent boards, can effectively address agency problems and promote the alignment of interests between managers and shareholders.

According to Wang et al. (2020) the ownership structure of a company can impacts its decisions, but corporate governance can help ensure that decisions are made in the utmost interests of the firm and its stakeholders. Moreover, numerous scholars such as Nirino et al. (2022); Guluma (2021); Kabir and Thai (2017) professionals have established a connection between deficient corporate governance and business failure. The previous studies indicate the importance of corporate governance for ownership and firm's financial decisions, in Pakistan, the concentration of ownership in the hands of a small number of families or organizations often leads to a lack of accountability and transparency, resulting in conflicts of interest and poor management (Farooq, Noor, & Ali, 2022). This issue is further exacerbated by the absence of independent directors, weak legal enforcement, and inadequate investor protection (Hunain et al., 2021).

Along with Practical issues, the previous studies also have several theoretical and contextual gaps. The majority of the existing literature on corporate governance such as Almashhadani, and Almashhadani, (2022); Alodat et al. (2022); Kyere, and Ausloos, (2021); Khan (2022) have been conducted in developed countries, which have different contexts compared to their underdeveloped counterparts. The distinctions between developed and emerging countries have been highlighted by scholars such as Eden and Miller (2004) and Gaur, Kumar, and Sarathy (2011). Moreover, previous studies have little attention on developing economies Developed nations typically have more robust corporate governance systems, which can be attributed to their more effective capital markets in comparison to developing nations (Husnain et al., 2021). Developing countries, on the other hand, are more susceptible to immature governance systems of the firms, which could pose a serious challenge. Therefore, urgent and decisive action is necessary to address this issue in the Pakistan that is also a developing nation (Hunsain et al., 2021).

According to McGee (2009), firms operating in developed economies, those operating in emerging markets are characterized by a greater degree of institutional diversity (McGee 2009). This is primarily for the reason that firms in developing economies likely to be more prevalent of ownership concentration, are often family-dominated, operate within weaker regulatory environments, have greater levels of government ownership, and possess more varied shareholder profiles. Additionally, leadership in such firms tends to be more autocratic (Yasser, & Mamun, 2017). These distinguishing features make emerging markets unique and present new avenues for research exploration. Pakistan is in the pre-development stage, and its capital markets are considered to be weakly efficient. Moreover, the country's history in terms of the corporate governance (CG) mechanism and its guiding principles is not very extensive or robust (Afza & Nazir, 2015).

Furthermore, previous studies have focused on foreign ownership or institutional ownership. However, researchers have not focused on the mutual impact of foreign ownership, director ownership, and institutional ownership in detail. As a result, the understanding of this ownership structure model in terms of financial decision remains noticeably insufficient in Pakistan. Similarly, when reviewing recent literature, studies such as Le (2013); Moffett (2011); Sivathaasan (2013) found the positive relationship between ownership structure and financial decision. Whereas, Bajagai et al. (2019); Vijayakumaran and Vijayakumaran (2019), have found a significant negative relationship between ownership structure and financial decision. They further argued that when the ownership structure of organization is not properly addressed then the financial decision could be negatively affected. Same argument has been identified in the context of Pakistan, for instance, Murtaza and Azam (2019); Tariq and Rasheed (2018); Arshad and Javid (2014); Sivathaasan (2013); Javid (2014) found the negative relationship between ownership structure and financial decision.

In the context of exploring the inconsistent findings regarding the impact of ownership structure on a firm's financial decisions, Baron and Kenny (1986) recognized the need for moderating variables to provide a comprehensive explanation for these discrepancies. In line with their insights, this study aims to address this issue by introducing the corporate governance index as a moderator in the relationship between ownership structure and a firm's financial decision. By considering the corporate governance index as a moderator, this study aims to provide a more nuanced understanding of the relationship between ownership structure and its financial landscape.

Firm's Financial decisions comprise three essential components, namely investment decisions, financing decisions, and dividends (Madura, 2020). These decisions are continuous and ongoing processes, as each company regularly needs funding (Greenberg and Hershfield 2019). Therefore, it is important for firms to make sound financial decisions to ensure the financing of the company and to fund its investment decisions.

The primary aim of this empirical investigation is to analyze how ownership structure directly affects the financial choices of non-financial companies listed on the Pakistan Stock Exchange (PSX). Additionally, the study delves into the role of corporate governance in moderating the relationship between ownership structure and financial decisions within this significant South Asian market.

In modern business landscapes, corporate governance, including ownership structure, holds immense importance. Various ownership types such as individual, family, institutional, and foreign possess distinct characteristics that can significantly influence a firm's financial decisions. This research specifically categorizes ownership structure into foreign, directorial, and institutional ownership, aiming to evaluate their impact on companies listed on the Pakistan Stock Exchange. Furthermore, the study investigates the role of the corporate governance index, measured by board size, board independence, CEO duality, and the frequency of meetings, as a moderating variable.

To address the research problem, this study employs the dividend payout ratio and the debt-to-equity ratio as metrics for financial decision. The study adopts a longitudinal research design, collecting data from the annual reports of firms and the Pakistan Stock Exchange websites spanning from 2009 to 2019.

LITERATURE REVIEW

Since the general policy of the company is mostly decided by its management, who is also responsible for performance, the idea of corporate governance is also tied to the impact of corporate governance on financial decisions. The function of corporate governance is to identify the systems of control that can align managerial conduct with the aim of maximizing shareholder wealth.

The study of agency conflicts with the owner's character and identity has seen continual development since the 1970s, and it is an essential body of literature under agency theory. In this context, Din and Javid (2011) look at the motivations underlying a firm's financial actions. They make it clear that managerial ownership is one of the factors influencing the reduction of debt and dividend policy. It may also be said that if management controls a larger percentage of a company's stock, debt financing and dividend payout ratio decline in Pakistan. Their finding supports the agency theory. While Jeon et al. (2011) looked at the various ownership patterns of the companies that were listed on the Korean stock exchange. They said that companies that offer a high dividend are typically preferred by foreign investors. Companies that have large foreign owners pay out larger dividends; they found no support for this and argued that a local investor has a similar impact on payout policy. Institutional shareholders, including banks, pension funds, insurance companies, and mutual funds, play a significant and highly influential role in corporate governance and actively participate in the dividend policy for their companies. (Mehdi et al., 2017).

Lam, Sami, and Zhou (2012) looked into how a firm's owner's personality could influence its dividend policies. They postulated that state-owned businesses favor paying dividends in cash as opposed to equity. Foreign-owned companies also have unique dividend practices and policies. Their findings are consistent with the hypothesis and imply that corporations with greater employee counts prefer to pay stock dividends whereas state-owned businesses pay out more cash in dividends. They also discovered compelling evidence that firms with foreign control favor cash dividends. The firm's payout and investment strategies are greatly impacted by an increase in foreign ownership. By participating in corporate governance and management, foreign investors help firms improve their investment productivity (Jeon & Ryoo, 2013). Using a sample of companies listed on the Korea Exchange (KRX), they looked at how foreign stock investors affected the payout ratio and investment strategy of the company between 1998 and 2006. Gonzalez et al. (2017) examined a sample of publicly traded companies in six countries in Latin America between 2007 and 2014. They looked into how ownership concentration affected payout procedures. They explained that compared to countries with common law systems, the payout ratio is lower in Latin American countries where investor protection is less rigorous.

Cao, Du, and Hansen (2017) investigated the influence of foreign institutional owner on firms' dividend policy of Chinese listed companies from the period of 2003 to 2013. They claim that foreign institutional owners have little to no influence on the company's dividend policy, in contrast to prior studies that suggested that foreign institutional owners have a favorable impact on the governance system of the company. Li, Yue, and Zhao (2009) examined the effects of the various ownership structures on business debt and equity financing when looking at financing as a financial decision. They found that whereas government ownership is positively related solely with long-term financial leverage, foreign ownership are adversely related with all financial leverage ratios. The assumption that "foreign shareholders can substitute for debt" is challenged by Phung and Le (2013), who discovered that foreign ownership had a beneficial impact on the leverage ratio of Ho Chi Minh Stock Exchange listed firms.

Sivathaasan (2013) found a insignificant but favorable correlation between foreign ownership and leverage ratio in the example of Sri Lankan manufacturing companies. In contrast, there was a negative correlation between local equity holders and leverage during the period of 2009 to 2011. According to Arshad and Javid (2014), who looked at the capital market in Pakistan, the competency of the variables affecting dividend policy is decreased when managers own stock in the company. It significantly affects how the company's finances are structured. It states that if the management of the company owns more equity, the debt-to-equity ratio or the amount of debt lowers.

Turkey has a strong potential for long-term growth, which is why investors favour it. They are not interested in receiving dividends immediately (Al-Najjar & Kilincarslan, 2016). They argue that the

existence of more foreign investors increases the level of management activity oversight, reducing the necessity for dividend payments. They came to the conclusion that paying dividends is inversely correlated with foreign ownership. Bataineh (2021) investigate a sample of 66 Jordanian companies from the period of 2014 to 2017 and assert that companies with higher levels of institutional ownership are more likely to pay higher dividends to their shareholders. On the other hand, the research suggests that foreign ownership is associated with a lower likelihood of paying dividends. Reyna (2017) research suggests that there is a significant and positive correlation between institutional ownership and the payment of dividends. He explained that institutional investors tend to favor companies that pay stable dividends and are more likely to push for dividend payments when they are less involved in their guiding role. This may be because they seek to recover their investments through dividends, which in turn can help mitigate the risk of potential opportunistic behavior from company management.

The accounting records of 100 non-financial companies listed on the Karachi stock exchange from 2011 to 2015 were examined by Sindhu, Hashmi, and Ul Haz (2016). They assert that managerial ownership has had a major impact on the dividend payout ratio, suggesting that they would rather keep the money than share it. Foreign-owned companies have much lower debt ratios than domestically owned companies. The risk of default decreases with debt level, hence Italy and Spain have a better chance of performing successfully (Bamiatzi et al., 2017).

In line with Benjamin et al. (2016) also argued that institutions may push companies to pay higher dividends if they believe that the oversight of their managers is ineffective or extremely costly. This suggests that institutional investors may play an important role in influencing a company's dividend policy. Tariq and Rasheed (2018) inspected the effect of various corporate governance standards on financing decisions using the leverage ratio as a financing measurement by employing the data from Pakistan stock-listed companies from 2010 to 2016. They found that managerial ownership of a company had a considerable negative impact on debt financing decision.

In the chemical industry of Pakistan, Murtaza and Azam (2019) conducted a study to examine the relationship between ownership structure and debt to equity proportion. The findings revealed a significant positive association between ownership structure and firm's debt to equity for the years 2012 and 2017. This suggests that shareholders and managers experience fewer conflicts of interest, as shareholders tend to prefer debt financing over stock financing. The proportion of foreign ownership in many Indian companies has increased. Foreign ownership has a considerably negative effect on financial leverage from 2007 to 2018 (Gupta, Yadav, & Jain, 2020). The impact of ownership structure on dividend policy is examined by Bataineh (2021) for a sample of 66 Jordanian industrial and service companies trading on the Amman Stock Exchange between 2014 and 2017. He examined a number of measures related to ownership, including foreign ownership, and found that foreign ownership is linked to a lower likelihood of dividend payments. The effect of corporate governance and ownership structure on the capital structure of publicly traded companies in Nepal is being researched (Bajagai et al., 2019). They find a correlation between managerial shareholding and leverage ratio, showing that the more managerial ownership a company has, the higher the leverage and long-term debt is in Nepalese firms.

An substantial body of study has previously established the impact of ownership structure on a firm's financial decisions. The results show how ownership structure is important and that variations in its impact on decisions may account for some other factors such as corporate governance. According to Nirino, et al. (2022) Corporate governance demonstrate how businesses are directed. However, it concerns how businesses should be run in order to boost consumer confidence and meet the expectations of stakeholders. Corporate governance is a controlling mechanism that is used to address the agency problem. (Jensen & Meckling, 1976).

The implementation of good corporate governance practices within a company serves to bridge the gap of information that exists between the individuals responsible for managing the company and the ultimate owners. Good corporate governance facilitates effective communication and transparency between different levels of management within the company, leading to improved financial decision and better performance for all stakeholders involved (Farooq, Noor, & Ali, 2022).

The research is based on a review of past studies to provide a thorough conclusion about agency issues. Dividends are an effective technique for dealing with the agency problem, and shareholders urged dividend payments when the firm has the free cash flow to monitor the management's activities. To analyze the firm's financial decision, this research proposed the following hypothesis.

H₁: There is a significant impact of foreign ownership on the firm's financial decisions.

H_{1A}: There is a significant impact of foreign ownership on the firm's dividend payout ratio.

H_{1B}: There is a significant impact of foreign ownership on the firm's financial Leverage.

H₂: There is a significant impact of Director ownership on the firm's financial decisions.

H_{2A}: There is a significant impact of Director ownership on the firm's dividend payout ratio.

H_{2B}: There is a significant impact of Director ownership on the firm's financial Leverage.

H₃: There is a significant impact of the institutional ownership on the firm's financial decisions.

H_{3A}: There is a significant impact of the institutional ownership on the firm's dividend payout ratio.

H_{3B}: There is a significant impact of the institutional ownership on the firm's financial leverage.

H₄: corporate governance has a significant moderating role between the relationship of foreign ownership and financial decisions.

H_{4A}: corporate governance has a significant moderating role between the relationship of foreign ownership and dividend payout ratio.

H_{4B}: corporate governance has a significant moderating role between the relationship of foreign ownership on financial leverage.

H₅: Corporate governance has a significant moderating role between the relationship of director ownership and dividend payout ratio.

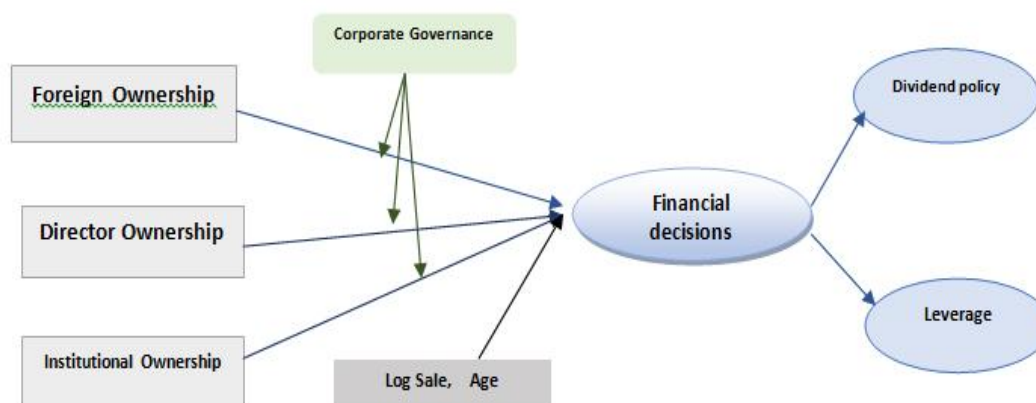
H_{5A}: Corporate governance has a significant moderating role between the relationship of director ownership and financial leverage.

H_{5B}: Corporate governance has a significant moderating role between the relationship of director ownership and financial decisions.

H₆: corporate governance has a significant moderating role between the relationship of institutional ownership and financial decisions.

H_{6A}: Corporate governance has a significant moderating role between the relationship of institutional ownership and dividend payout ratio.

H_{6B}: Corporate governance has a significant moderating role between the relationship of institutional ownership and financial leverage.



METHODOLOGY

This Section provides a comprehensive explanation of the research methodology employed in this study, elucidating all the strategies and techniques utilized to effectively achieve the study's goals.

Study Period and Sample Selection

The research covers non-financial firms listed on the Pakistan Stock Exchange. To sustain the research's integrity and relevance, filtering method is utilized to refine the sample for analysis. Specifically, only firms with complete data and detailed firm-specific information, including governance and various forms of ownership (foreign, director, and institutional), are included. After applying these filters, the initial sample comprised 192 firms. During the initial screening, outliers were identified in the data. Subsequently, data trimming technique is employed, resulting in the exclusion of an additional 6 firms with extreme values from the sample. Data for these selected firms was collected for the period from 2009 to 2019.

Data Collection and Description

The data exhibits an unbalanced panel structure. The rationale behind selecting this timeframe stems from concerns about potential parameter instability arising from the 2008 financial crisis. Hence, the collection of data began subsequent to this pivotal period. Additionally, the unprecedented disruptions caused by the COVID-19 pandemic in 2020 prompted a reevaluation of the study's scope. Recognizing the significant shifts in the global economic and financial landscape, this research wraps up the data by the end of 2019. This choice ensures that the data reflects pre-pandemic conditions, offering a more stable and representative basis for analyzing long-term trends and patterns. Consequently, the research focuses on the period from 2009 to 2019.

Regression Model of the Study

In this research, the independent variables consist of foreign ownership and director ownership, while two metrics of financial decision i.e debt to equity ratio for leverage and dividend payout ratio serve as the dependent variables. The regression model employed in this study is as follows.

$$\text{Financial Decision} = f(\text{ownership variable, control variable})$$

$$D/E = \beta_0 + \beta_1 FOR_i + \beta_2 DIR_i + \beta_3 INST_i + \beta_4 LOG(sales) + \beta_5 (age) + \mu$$

$$\text{Dividend payout ratio} = \beta_0 + \beta_1 FOR_i + \beta_2 DIR_i + \beta_3 INST_i + \beta_4 LOG(sales) + \beta_5 (age) + \mu$$

Measurement and Operationalization of Variables

Ownership Structure

The calculation of the ownership structure involves the percentages of equity owned by institutional investors, foreign investors, and the company's directors.

Moderating Variable

The objective of corporate governance is to enable effective decision-making and strategic oversight within companies (Lu, Ntim, Zhang, & Li, 2022). In this context, the board structure assumes a critical role by directly impacting key processes within the organization. It involves various dimensions, such as board independence, board size, CEO duality, and the frequency of board meetings (Lu, Ntim, Zhang, & Li, 2022). Serving as a crucial link between shareholders and management, the board of directors shapes organizational performance by influencing the alignment of ownership goals with managerial actions (Guluma, 2021).

This study employs the CG index proposed by Fernando et al. (2020) to evaluate corporate governance practices. A score of 1 is allocated if a company holds four or more annual board meetings, complying with Pakistan's CG rule requiring a minimum of four meetings; otherwise, a score of 0 is assigned. For the presence of independent directors, a score of 1 is given if there are more than two, in accordance with the CG code stating that each listed company must have at least two or a third of its board members as independent directors, whichever is higher (CCG 2019). If the roles of CEO and chairman are separate, a score of 1 is assigned; otherwise, a score of 0 is given, aligning with the separation of dual roles advocated by the CG code. The percentage of directors on the board equal to or greater than the median value of the sample receives a score of 1; otherwise, the score is 0, following the approach by Harjoto et al. (2014).

DATA ANALYSIS

Descriptive Statistics

Table 1 contains important statistics such as the total number of observations, the maximum and minimum values of each sample variable, the standard deviation, mean, and median of the dataset.

Table 1 : Descriptive Statistics

Variables	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis
DIVPAYOUT	0.254	0.156	0.57	0	0.241	1.23	3.43
D/E	0.869	0.907	2.11	0.008	0.71	-0.27	3.19
FOR	0.161	0.05	0.9586	0	0.264	1.83	2.06
DIR	0.221	0.103	0.9747	0	0.257	1.37	2.23
INST	0.12	0.069	0.9833	0	0.15	1.13	2.02
CGI	0.5418	0.5	1	0	0.1973	-0.194	2.4122
AGE	37.46	36	155	7	17.35	0.27	0.74
LOG_SALE	6.658	6.62	7.0046	6.296	0.074	1.54	1.08

This study uses dividend payout and debt-to-equity ratios as measures to analyze a company's financial decisions. The mean value of the dividend payout is 0.24, with a minimum and maximum value of 0 to 0.57, respectively, and a standard deviation of 0.24. This means that the non-financial sector of Pakistan usually prefers to pay 24% of its net income as a dividend. The average rate of the debt-to-equity ratio is 0.869, with a range of 0.008 to 2.11 and a standard deviation of 0.71. This indicates that for every unit of equity, there are 0.86 units of debt. This suggests that Pakistan's non-financial sectors have a moderate level of leverage, with slightly more equity financing than debt financing

This research categorizes the ownership structure into three main components, the percentage of foreigners holding equity, directors holding equity and institutional equity holding. In Pakistan, an average 16.14 percent of equity is held by foreigners, with zero to 95 percent. At the same time, directors hold an average of 22.18 percent firm's equity with 10.3 to 97.4 percent, whereas institutions own averagely 12.03 percent of firm's equity with ranging zero to 98 percent. Whereas the average value of CGI is 0.54 with standard deviation is 0.19.

All of the variables' skewness and kurtosis values can be confirmed to be within the acceptable range. This research uses two control variables Log sale and age; the average value of log sale is 6.65, whereas the average age of firms in Pakistan is 37 years. Overall, descriptive statistics provided a useful summary of the data, allowing us to gain insights of Pakistani firms and the characteristics of the variables in the dataset.

Correlation

The correlation between the research's variable is shown in Table 2. It is obvious that the independent variables do not show any evidence of a significant correlation when looking at the prospective correlation summarized in Table 2.

Table 2: Correlation

	Div payout	D/E	For own	Dir own	Inst own	CGI	logsale	Age
Div payout	1.00							
DE	0.05 (0.89)	1.00						
For own	-0.04 (0.15)	0.003 (0.06)	1.00					
Dir own	-0.02 (0.04)	-0.32 (0.02)	-0.37 (0.00)	1.00				
Inst own	-0.34 (0.02)	0.13 (0.10)	-0.03 (0.26)	-0.23 (0.00)	1.00			
CGI	0.33 (0.09)	0.43 (0.07)	0.43 (0.06)	0.56 (0.06)	0.23 (0.07)	1.00		
Log sale	-0.04 (0.11)	0.02 (0.36)	0.28 (0.00)	-0.31 (0.00)	0.14 (0.00)	0.09 (0.10)	1.00	
Age	-0.03 (0.32)	-0.01 (0.80)	0.18 (0.00)	-0.03 (0.23)	0.03 (0.25)	0.001 (0.23)	0.06 (0.02)	1.00

Regression Analysis

To gain a better understanding of the relationship between ownership structures and firm decisions, this study compares empirical findings. Empirical research was conducted through testing assumptions and panel specification tests to determine the appropriate model which in this case is from 2009 to 2019. The objective of this study was to investigate the impact of ownership structure on decisions of non-financial listed firms in the Pakistan Stock Exchange. Firm's financial decision were measures by using payout ratio and debt to equity ratio.

The methodical approach that is employed to ensure the validity and reliability of the panel data regression analysis is that which makes it significant. The exogeneity assumption is important in panel data analysis because it protects the explanatory variables from being impacted by the outcome variable or other components in the model, leading to unbiased estimates of the relationships between the variables of interest (Wooldridge, 2010).

The data does not have endogeneity problems based on the lack of any correlation between ownership measures and error terms. The residual inclusion approach, also known as the IV-indirect approach, is an important method for testing endogeneity in panel data models. (Wooldridge, 2010).

Table 3: Regression Analysis

IV	Div payout			D/E		
	OLS	REM	Fix effect	OLS	REM	Fix effect
C	3.813	3.662	3.697	3.57	3.51	3.418
p-value	(0.043)	(0.046)	(0.045)	(0.393)	(0.438)	(0.452)
For-own	-1.243	-1.05	-1.047	1.544	1.583	1.721
p-value	(0.115)	(0.173)	(0.176)	(0.019)	(0.042)	(0.010)
Dir-own	-1.544	-1.132	-1.084	-2.749	-2.939	-2.891
p-value	(0.046)	(0.046)	(0.044)	(0.033)	(0.044)	(0.047)
Inst-own	-2.047	-1.581	-1.474	4.427	4.985	5.514
p-value	(0.117)	(0.211)	(0.254)	(0.056)	(0.054)	(0.064)
log sale	-0.36	-0.356	-0.357	0.646	0.659	0.65
p-value	(0.059)	(0.0630)	(0.051)	(0.298)	(0.316)	(0.325)
Age	-0.007	-0.01	-0.012	-0.009	-0.018	-0.021
p-value	(0.53)	(0.332)	(0.272)	(0.729)	(0.504)	(0.65)
R-square	0.367	0.362	0.357	0.48	0.479	0.476
F- stat	1.717	1.817	1.617	1.966	1.976	1.943
p-value	(0.052)	(0.052)	(0.062)	(0.044)	(0.043)	(0.48)1
Method	OLS			OLS		
Wall Test		1.262 (0.247)			1.504 (0.119)	
Breusch-Pagan		0.004 (0.947)			0.608 (0.435)	
Hausman		10.11 (0.100)			9.871 (0.115)	

Heteroskedasticity Test	18.297 (0.568)	27.416 (0.124)
Serial Correlation	1.341655 (0.1691)	1.250213 (0.222)

A comprehensive series of assumption tests specific to panel data was conducted before initiating the panel data regression tests. These tests, which encompass evaluations for normality, stationarity, multicollinearity, heteroscedasticity, and serial correlation, were conducted to evaluate the appropriateness of the data for panel data analysis. This meticulous approach was adopted to guarantee that the fundamental assumptions underlying panel data regression models were met, thereby enhancing the robustness and credibility of the subsequent analysis and its findings. The suggested model selection differs based on the measures after the model specification test is carried out to evaluate the direct influence of ownership on decision. Ordinary Least Squares (OLS) is the suggested model for analyzing both measures of financial decisions.

According to statistical finding shown in Table 3, it concluded that foreign ownership has positively connected with leverage indicator (i.e debt to equity ratio). Le (2013) found that the leverage ratio of listed firms on the Ho Chi Minh Stock Exchange increases from foreign ownership. Phung and Le (2013) claims the idea that "foreign ownership may substitute for debt. Whereas (Sivathaasan, 2013). Bamiatzi et al. (2017) provide an explanation for the notable decline in firm leverage ratios observed in foreign-owned companies. Li, Yue, and Zhao (2009) revealed that foreign ownership is inversely connected with all metrics of financial debt. The recent study of Do, Lai, and Tran, (2020) explained that foreign investor play an important role in shaping firm's optimal leverage.

When the dividend payout ratio was assumed as a measure of financial decisions, the result shows that foreign ownership has a negative but not significant relation to the dividend pay out ratio. The finding is consistent with Hasan et al. (2023); they used five different ownership measures and found that only foreign ownership has an insignificant impact on the dividend payout ratio in Bangladesh. According to Cao, Du, and Hansen (2017), there is no conclusive evidence linking dividend payout to a company's foreign investors. In contrast, Al-Najjar and Kilincarslan (2016); Bataineh (2021) found less chance of paying dividends with foreign ownership. According to Moffett (2011), companies with large numbers of foreign shareholders pay out greater dividends. In a sample of the Indonesian Stock Exchange from 2006 to 2012, Setiawan et al. (2016) also discovered the favorable influence of foreign ownership on dividend distribution. The specific factors that influence financial decisions depend on the firm's characteristics and the country in which it operates, differences in tax regimes and interest rate across countries can affect a firm's financial decision (Do, Lai, & Tran, 2020).

The statistical analysis indicates a significant inverse relationship between director ownership and the debt-to-equity ratio, meaning that the firm's management prefers equity financing instead of issuing borrowing more debt showing postulates of the Agency Theory. These findings support the previous finding of Murtaza and Azam (2019); Tariq and Rasheed (2018); Arshad and Javid (2014); Sivathaasan (2013); Javid (2011). In contrast (Bajagai et al., (2019); Lumapow (2018); Vijayakumaran, and Vijayakumaran (2019); found a positive relationship between director ownership and debt to equity ratio. Directors may prefer equity financing over other forms of financing because of the financial flexibility, lower bankruptcy risk, lower agency costs (Wu, Chua, & Chrisman, 2007).

The result also suggests that the dividend payout ratio is much lower because the director holds more ownership it is in the line what Javid and Iqbal (2009); Sindhu et al. (2013) revealed. According to the

(Barros, Matos, & Sarmento, 2020) Retaining earnings enables the company to finance new investment initiatives and expand its operations. Directors may opt to keep profits if they think that investing in new initiatives would result in higher returns for shareholders than paying dividends.

The aim of this study is to explore the relationship between different ownership types and a firm's financial decision. As part of this objective, this research also investigates whether institutional ownership has an impact on a firm's financial decisions. Our findings indicate that institutional ownership does not have a significant relationship with a firm's dividend policy, but it does have a significant positive impact on the firm's debt-to-equity ratio. In other words, institutional owners tend to prefer debt financing over equity financing. The finding is consistent with Cabral, Laksamana, and Rahayu. (2018) found insignificant relation between institutional ownership and dividend policy. Choi et al. (2020) found that institutional investors tend to prefer firms with higher leverage ratios. This preference may be due to the fact that institutional owners are able to reduce their monitoring costs by closely monitoring the debt levels of the firms they invest in. Over the long term, sustainable levels of institutional ownership can have a significant impact on the capital structures of firms, potentially leading to higher levels of debt financing. Whereas in case of Indonesia Basri (2019) suggest that institutional ownership is one of the important determine of dividend policy.

In statistics, moderation arises when the association between two variables is influenced by a third variable, termed the moderator variable or simply the moderator (Jose, 2013). A moderator variable can improve a regression model by aiding in the explanation of the relationship between the independent and dependent variables (Jose, 2013).

The previous literature has extensively examined the impact of ownership structure on a firm's financial decision. Our findings confirm that ownership structure is indeed an important factor that can significantly influence a firm's financial decisions. The varying impact of ownership structure on decision may be attributable to other factors. As part of our investigation into the factors that can influence the relationship between ownership structure and financial decisions. Our research hypothesizes that the Corporate Governance Index (CGI) may moderate the relationship between ownership structure and financial decisions. Our objective is to examine how variations in corporate governance may influence the impact of ownership structure on a firm's financial decisions.

Table 4: Regression with moderator

IV	Div payout			D/E		
	OLS	REM	FIX	OLS	REM	FIX
C	3.34	3.32	3.32	-2.79	-2.79	-2.83
P-value	(0.11)	(0.11)	(0.11)	(0.47)	(0.47)	(0.47)
For-own	1.58	1.61	1.63	0.25	0.25	0.00
P-value	(0.47)	(0.47)	(0.47)	(0.07)	(0.095)	(0.079)
Dir-own	-1.37	-1.38	-1.38	-9.13	9.13	8.94
P-value	(0.07)	(0.074)	(0.074)	(0.03)	(0.03)	(0.04)
Inst-own	1.84	2.13	2.25	24.25	24.25	23.5
P-value	(0.64)	(0.59)	(0.57)	(0.00)	(0.00)	(0.00)
CGI	0.67	0.73	0.76	6.61	6.61	6.27
P-value	(0.06)	(0.06)	(0.069)	(0.06)	(0.06)	(0.08)
CGI*For Own	-4.69	-4.75	-4.78	0.95	0.95	1.38
P-value	(0.21)	(0.21)	(0.2)	(0.05)	(0.05)	(0.05)
CGI*Dir Own	0.51	0.6	0.62	-12.6	-12.6	-12.36
P-value	(0.05)	(0.05)	(0.05)	(0.09)	(0.09)	(0.10)

CGI*Ins Own	-5.95	-6.38	-6.55	-39.3	-39.3	-37.68
P-value	(0.37)	(0.34)	(0.33)	(0.00)	(0.00)	(0.00)
log sale	-0.37	-0.37	-0.37	0.24	0.24	0.27
P-value	(0.17)	(0.17)	(0.17)	(0.64)	(0.64)	(0.59)
Age	-0.01	-0.01	-0.01	-0.03	-0.03	-0.03
P-value	(0.35)	(0.31)	(0.29)	(0.11)	(0.11)	(0.11)
R-square	0.4	0.39	0.40	0.55	0.53	0.53
F-stat		1.18			1.94	
P-value		(0.06)			(0.04)	
Method		OLS			OLS	
Wall Test		1.03			0.83	
		(0.41)			(0.6)	
Breusch-Pagan		0.01			0.81	
		(0.82)			(0.35)	
Hausman		9.57			8.87	
		(0.13)			(0.15)	
Heteroskedasticity Test		4.2			5.654	
		(0.898)			(0.774)	
Serial Correlation		0.042			0.077	
		(0.97)			(0.784)	

Our findings revealed that CGI solely plays a significant moderating role between the relationship of ownership structure and debt to equity ratio. Conversely, CGI did not significantly moderate the impact of foreign and institutional ownership on dividend policy. It was determined that the variable CGI does not exert a significant moderating effect on the relationship between director ownership and the dividend payout ratio. The findings of the research are in line with Ngatno, and Youlianto, (2021), they explained that corporate governance is a crucial factor in determining a company's debt-to-equity ratio. They further demonstrate that the decision to finance a company's operations through debt or equity is a critical element in the formulation of the corporate environment, as it directly affects the concentration or diffusion of ownership and the level of corporate risk exposure. Zhou, and Chen (2021) assert that effective corporate governance practices can lead to better management of financial risks, as well as increased transparency and accountability, which in turn can help attract and retain investors. Furthermore, according to Nguyen et al., (2021), a well-functioning corporate governance system can provide a more stable and predictable business environment, which can contribute to the long-term success and sustainability of a company.

CONCLUSION

This study delved into the impact of ownership structure on a firm's financial decisions, encompassing metrics such as the debt-to-equity ratio and dividend payout ratio. Our analysis revealed that director ownership associated with lowered dividend payout and debt to equity ratios, while foreign ownership exhibited no significant impact on dividend policy. Conversely, foreign ownership significantly influenced a firm's debt-to-equity ratio, indicating a preference for equity financing over debt financing.

Institutional ownership, on the other hand, was linked to higher levels of debt financing and lower payout ratios.

Furthermore, our investigation scrutinized the moderating role of corporate governance in the interplay between ownership structure and financial decisions. Notably, our findings underscore the substantial moderating effect of corporate governance on the relationship between ownership structure and the debt-to-equity ratio.

By uncovering these dynamics, our study contributes to a deeper understanding of how ownership structure shapes financial decisions within firms. These insights have implications for corporate governance practices and strategic financial management, ultimately enhancing the sustainability and performance of businesses.

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