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Research Article

Nexus between Ownership and Capital Structure through Firm Performance: A Study of Indian Service Firms

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ABSTRACT

Purpose: the study aims to investigate the impact of ownership structure on capital structure along with a mediating and a moderating role of firm performance.
Design/Methodology/Approach: this study is purely based on the secondary data which was extracted from the Prowess IQ data base. The sample consists of the 65 Bombay Stock Exchange listed Service firms with a data period consists of 10 years from 2012-2013 to 2021-2022. Panel data regression technique was adopted for the data analysis.
Findings: the outcomes showed a significant and positive impact of institutional ownership on capital structure and in contrast the promoter ownership showed a negative and insignificant impact on capital structure. Earnings per share partially mediates the relationship between capital structure and institutional ownership while no mediating role of earnings per share was found between the relationship of capital structure and promoter ownership. Results further revealed that Tobin'Q acts as a moderator in the relationship between promoter ownership and capital structure while as no moderation was found between institutional ownership and capital structure.
Practical Implications: the study has practical implications for many stakeholders like policy makers, regulators and investors. This study will prove beneficial to policy makers and regulators to promote policies that encourages institutional owners' participation in the service firms. This study will also prove helpful to the investors as they find firm with high profitability under certain ownership pattern may be managed in a better way and are less risky.
Originality: the inclusion of firm performance in a dual analytical role both as a mediator and moderator in the relationship between ownership structure and capital structure offers a novel methodological and theoretical contribution, filling a notable gap in corporate finance literature especially within the context of emerging economies like India.

Keywords: Ownership, Capital Structure, Firm Performance, India

1: Introduction

Business firms required to enlarge viably to grapple successfully and attract shareholders. The diversification is possible by proper financing of their investment and functional operations (Komara et al., 2016). To avail finance from various sources, companies need crucial management of funding activities (Wahidah and Ardiansari, 2019). Capital structure is the critical financial decision for the managers which encompasses the combination of debt and equity along with the preference shares (Indriani and Widyarti, 2013). Companies that have considerable debt financing and greater dependence on equity capital structure make balance between the internal and external capital of these companies (Pujihastuti et al., 2022). In this situation, debt