

## **Corporate Governance, Dividend Policy, Capital Structure and Firm Financial Performance with moderating role of Political Instability**

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### **Abstract:**

*This paper intends to test the impact of CG (corporate governance), CS (capital structure), and DP (dividend policy) on ROA (returns of assets) whereas political instability has been introduced as moderating variable. Textile sector of Pakistan is considered as unit of analysis to achieve the research objective. Total 56 listed companies has been selected out of which 27 companies has been selected over the period of 2012-2016 data has been collected from the audited annual reports. Three determinants of corporate governance have been used to BS (board size), AC (audit committee), and BC (board composition), three determinants to measure the dividend policy EPS (earning per share), DY (dividend yield), and DP ratio (dividend payout ratio) and two determinants used to measure capital structure STD-Ratio (short-term debt) and DEBT-Ratio (debt ratio). Returns on asset as proxy as measure of firm performance (financial). Political instability has been used as moderator and data has been collected from the World Bank indicators. All the determinants of CG, CS and DP indicates a*

*significant and positive relationship with ROA moreover, political instability moderates the relationship.*

**Keywords:** Board size, Audit committee, Board composition, Corporate governance, Dividend payout, Earning per share, Dividend yield, Dividend policy, Debt ratio, Capital Structure, Returns on assets, Political instability.

## **I. Introduction**

Corporate Governance (CG) plays a vital role to achieve the different targets and regulate the organization in a proper way. Fooks and Holden (2013) demonstrated that the corporate governance ensures a transparent process by which suppliers give the assurance to their investors about the return. Moreover, CG is about payments of company's to individuals who regulate and acquire the residual payments (Epps & Cereola, 2008). Furthermore, individual has the ability of opportunistic behavior to increase their own return according to agency theory, in this way stakeholder and management conflict may arise (Fooladi, 2012). According to Merendino and Melville (2019) corporate governance can monitor the firm performance and play a pivotal role in avoiding or manging the conflicts that may arise between management and stakeholders. Corporate Governance leads the way in defining an appropriate direction for the for the organizations. Moreover it takes all those measure which are required to secure the inerests and maximize the wealth of the stake holders of the firms (O'Connell & Cramer, 2010). Corporate Governance plays a catalytic part in establishing the platforms and mechanism that can pave the way for a superior financial performance as compared to the rival firms (Knauer et al., 2018). Hence, corporate governance can actually serve as a source of gaining strategic leverage and competitive advantage.

According to agency theory, most of literature defined that avoidance of opportunistic behavior is very essential argument (Macus, 2008; (Aluchna, 2010), whenever, the owner provide correct and complete information regarding to the firm as compared to asymmetrical information; then, the stakeholders or directors of respective firms may invest their funds in firm operations. As a result, company assests are used by the firm management in the best and most specific interest of the firm. According to agency theory, corporate governance plays an important role in management to confirm their performance that leads towards stakeholders targets and improve the level of interest (Brickley & James, 1987).

Although there is an availability of noteworthy literature with reference to corporate governance and its impact on financial performance in developed countries such as America and European countries (Raheja, 2005; De Andres & Vallelado, 2008; Donadelli et al., 2014; Bottenberg et al., 2017; Melis & Zattoni, 2017; Merendino & Melville, 2019); however, there is dearth of research exploring the role of corporate governance on performance of the firms in developing countries like Pakistan.

Under companies' ordinance 1986, the government of Pakistan started the process of corporate governance in 2002 and announced the term corporate governance about security and exchange for the companies. According to Section 34(4) of the Ordinance, the securities and exchange commission of Pakistan allocated strategies and included their requirements regarding corporate governance data prepared in list according to principals. Therefore, all listed companies and governing body of Pakistan Stock Exchange confirm all the agreements regarding corporate governance with their proper instructions. In accordance with SECP in 2012 all codes were evaluated and modified by which all the information regarding listed companies are specifically mandatory in Pakistan stock exchange (Azeem, Kouser, & Saba, 2015).

Similarly, Dividend policy is defined to allocate the earnings among the shareholders according to rules of company. In the literature most of studies are based on dividend policy about the level of significance and insignificance. Moreover, according to research experience most of authors follow the assumptions regarding the dividend policy (Thafani & Abdullah, 2014). According to dividend irrelevance theory assumptions are well defined that the value of irrelevant is influenced by the dividend rules and regulations of the company (Miller and Modigliani, 1961). In contrast, Lintner (1956); Ross (1977) and a few other researchers stated that the value of relevant is influenced by dividend policy. Furthermore, the dividend policy is an option of very clear and significant therefore, the company's directors are more responsible to design dividend policy assumptions to make them company strong. Whenever, if they not present the policies and plans then it will influence the firm's value (Deeptee & Roshan, 2009).

Dividend decisions are particularly mandatory for company progress that explains about the conversion of capital gain into share prices as the wealth maximization

process of shareholders is very dominant objective of finance managers that will help them to show return on investment cost in value of firm. The term return is defined according to two elements; first is dividends and other is capital gain, although the relationship of dividend and earnings ratio is opposite, as the interest of shareholder's wealth maximization directed towards dividend and retained earnings: the value of unshared profit (retained earnings) are utilized for different important projects and also dividend enhance the negotiating power of shareholders.

Nevertheless, in order to enhance the basic operational excellence and financial performance of the company; the finance managers struggle on the daily bases: the basic financials of companies include: payout ratio, dividend yield, EPS, and earnings. The shareholder's wealth maximization is defined by the returned in share prices according to measure in stock market are called best basics of firm (Egbeonu Oliver , Edori Iniviei, & Edori Dan, 2016). However, the financing decisions are very important for the companies. For the use of financing, the combination of equity and capital structure is very mandatory. Creditors with the fixed period of time are considered in debt category (Ahmad & Ali, 2016). The wealth maximization also helps to enhance the firm's objectives not only related to firm's productivity with financing decisions (Mwangi, Makau, & Kosimbei, 2014).

For any decisions of firm are very important in terms of financial wealth. Short and long both terms are included in these decisions. Short-term decisions more focused on liquidity while long-term decisions focus on capital. The important result of combination of debt and equity gives the assurance to enhance the wealth of shareholders (Maina & Ishmail, 2014).

In literature most of studies are documented about efficiency and effective methods for existence of the firm. The performance of financial and strategic business affected by the allocated factors e.g. CG, CS, and DP to ensure the shareholders interest (Rehman, 2016). The supporting theory is defined about corporate governance is dealing regarding issues related to conflict of interest and ensure transparency. In the light of codes BOD supposed to choose appropriate dividend policy (DP), capital structure (CS) and to minimize the agency cost. Moreover, BOD ensure the transparency in agent and principal relationship and boost the confidence of shareholders and positive single to

market that organizations is focusing on the shareholder wealth maximization (Okiro, 2014) and Basheer et al. (2019). Nevertheless, developed and developing countries are may affected by the demographic, business culture and controlling changes according to corporate governance practices. Moreover, the financial and non-financial performance of organizations is directly or indirectly associated with dividend policy and capital structure of organization (Musyoka, 2017).

Major research questions of the study are as follows:

- Do determinants of CG influence the firm performance (financial) with the moderating variable political instability?
- Does DP influence the firm performance (financial) with the moderating variable political instability?
- Does CS influence the firm performance (financial) with the moderating variable political instability?
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Major research objectives of the study are as follows:

- Corporate governance associate with firm performance with the moderating variable political instability.
- Dividend policy has associate with firm performance (Financial) with the moderating variable political instability
- Determinants of capital structure has associate with firm performance (financial) with the moderating variable political instability

In line with research objectives and research questions, following hypotheses of the study were formulated:

**H<sub>1</sub>:** Determinants of corporate governance a significant relationship with ROA and Political Instability moderate the relationship.

**H<sub>2</sub>:** Determinants of dividend policy has a significant relationship with ROA and Political Instability moderate the relationship.

**H<sub>3</sub>:** Determinants of capital structure has a significant relationship with ROA and Political Instability moderate the relationship.

## **II. Literature Review**

A comprehensive literature review makes it evident that firm's non-financial and financial performance is directly or indirectly associated with DP, CG and CS. Moreover, the role of CS on the firm performance (financial) affirms the significance of relationship around the globe. Moreover, previous studies used various dependent variables to test the impact of independent variables on dependent variable for instance ROCE, Tobin Q's with board composition, audit committee, firm size etc. However, magnitude and direction of relationship indicates a mix results for instance few studies claims significant and a positive association (Ali, 2016). While, other studies indicates positive and insignificant relationship while few studies indicates a negative and significant relationship while few studies indicates a negative but insignificant results (Arslan, Zaman, Malik, & Mehmood, 2014).

Furthermore, using the descriptive methods Obradovich and Gill (2013) and Wanyama and Olweny (2013) claims ROA and ROE is significantly and positively influenced by CG practices while the board size indicates a negative but board composition (BC) influence firm performance (financial) significantly. Literature evident inconsistencies in terms of whether financial or non-financial performance and CG practices. Literature is fails to provide the appropriate justification about this variation among the results from same country and even using the same unit of analysis come up with two different results.

The results of dividend policy (dividend payout) reported the mix results for instance Perveen and Hussain (2014) using the 20 companies' as sample by computing DPO and net income to ensure the association between firm performance (financial) and dividend payout ratio, study affirms the negative association among the dividend payout and firm performance (financial). Furthermore, similar results have been documented by Arslan, Zaman, Malik, and Mehmood (2014) using the sample of non-financial sector dividend yield with stock returns indicates a negative and significant association.

Corsi and Prencipe (2015) examined association between CS and CG through leverage of firm. In this study data of 303 Italian companies were used for the period from 2004 to 2013. Results revealed the firm leverage can be controlled through concentrated ownership. Shareholders of any company want to reduce debt but this was

not achieved even with existence of independent directors. BS (board size) also has no impact on firm leverage. Salim and Yadav (2012) found that positive correlation exists between growth and performance. Long and short-term association has a positive relationship with Tobin's Q, while, total debt indicate a negative association with Tobin's Q based on the sample of 237 companies.

Agency theory has been considered as underpinning theory which was established in 1976 by Jensen & Meckling (Jensen & Meckling, 1976). Agency theory claims that board of director's act as agents for the owners (shareholders). Weak or no internal control boost the agency issues eventually companies has been to face the cost of these agency issues in form of monitoring cost, residual loss, bonding cost and agency cost. Shareholder preference is with strong internal control to safe guard their interest to maximize shareholder wealth.

Signaling theory by Ross (1977) has been taken as a supportive theory, signaling theory claims that dividend policy is a signal for shareholders to access the value of firm. Literature documented that if a firm's is paying more dividend its mean that firm is high quality as compare to other competitors operating in the same sector (Bhattacharya, 1979). However, other studies indicates that high dividend cash payout mean firm is using high debt cost while other school of thought indicates that if firm is paying less or no dividend than use less debt. Moreover, literature affirms the association between earning per share and dividend payout ratio (Kuczynski, 2005).

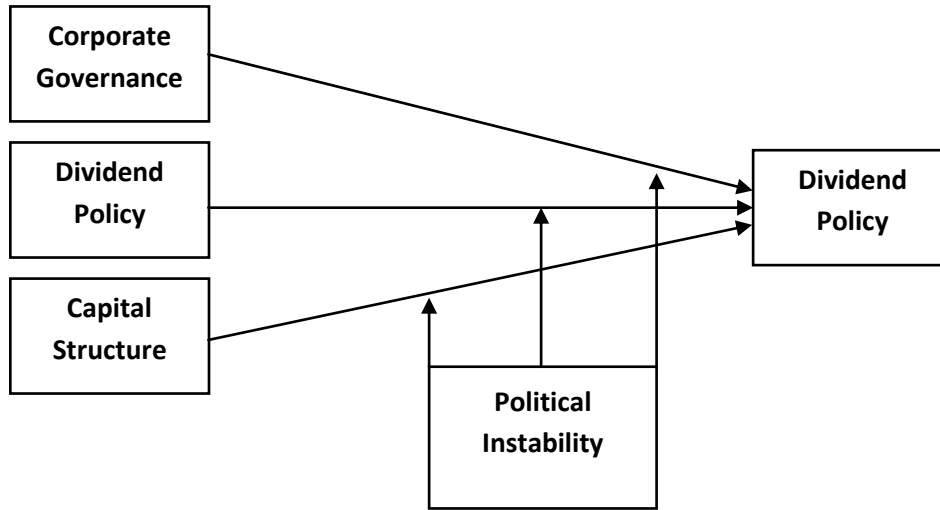
### **III. Research Methodology and Variables**

In this study analysis is done through panel data regression and descriptive statistics related to performance of listed companies. Target population of this study was Textile sector. In Pakistan Stock Exchange textile sector is divided into composite, weaving, and spinning sector. 10 companies from each sector were selected based on market capitalization. Data is collected for period of five year stating from 2012 to 2016.

Data was collected from official website of SBP Pakistan, Pakistan Stock Exchange, and companies selected for study. Dependent variable was financial performance of firms and political instability was used as moderator variable. Independent variables were representing corporate governance, dividend policy, and

capital structure. This study was conducted to analyze impact of independent variables on firms performance with political instability acted as role of moderator.

**Figure 1: Theoretical Framework**



To achieve the research objectives of current study following techniques has been applied; pooled regression, fixed and random effect model, Hausman test, and fixed effect least square dummy variable.

#### **IV. Results and Discussion**

The results of pooled regression reported in table 1 returns on assets is dependent variable and independent variables includes capital structure (CS), dividend policy (DP), and corporate governance (CG). The output of pooled regression indicates that CG (board composition and board size), DP (EPS, D\_Y\_Ratio and D\_P\_Ratio) positively and significantly associated with ROA moreover, CS (debt ratio and short term) indicate no or weak association with ROA. R-square value shows ROA explained by CG, CS, and DP is 53% and the p-value of F-stat is 0.000 which affirms the good fitness of model.



**Table 1: Pooled Regression Model**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-7.434392	0.981587	-7.573846	0.0000
BS	0.361771	0.113018	3.201013	0.0019
BC	1.856507	0.583222	3.183189	0.0020
AC	-0.167978	0.155223	-1.082170	0.2819
D_P_RATIO	-0.633031	0.170504	-3.712706	0.0003
D_Y_RATIO	0.386481	0.142912	2.704320	0.0081
EPS	0.928669	0.114148	8.135686	0.0000
DEBT_RATIO	-0.114364	0.057575	-1.986335	0.0499
STD_RATIO	0.448013	0.519483	0.862420	0.3907
R-squared	0.530068	Mean dependent var		-3.162708
Adjusted R-squared	0.490074	S.D. dependent var		0.994846
S.E. of regression	0.710411	Akaike info criterion		2.237376
Sum squared resid	47.44024	Schwarz criterion		2.467595
Log likelihood	-106.2249	Hannan-Quinn criter.		2.330623
F-statistic	13.25364	Durbin-Watson stat		1.006467
Prob(F-statistic)	0.000000			

The results of fixed effect least square dummy variable has been reported in table 2. The values of R-square is 0.61 its means 61% variation is due to independent variables moreover, results affirms association level is moderate between CG, CS, DP and ROA and the value of durbin-watson is within the range.

In table 3, Wald test compares the least square dummy variable and pooled regression. The results affirms on the basis of p-value 0.000 pooled regression is better explain the association between variables.

**Table 2: Least Square Dummy Variable Model**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.088405	0.121296	0.728836	0.4678
BS	-0.014016	0.014741	-0.950832	0.3440
BC	-0.051501	0.077900	-0.661125	0.5101
AC	0.000674	0.016960	0.039765	0.9684
D_P_RATIO	0.015290	0.020095	0.760898	0.4485
D_Y_RATIO	-0.020524	0.018057	-1.136651	0.2584
EPS	0.033672	0.017550	1.918622	0.0579
DEBT_RATIO	-0.066486	0.035586	-1.868319	0.0646
STD_RATIO	0.008675	0.058760	0.147630	0.8829
ID=2	-0.042826	0.042409	-1.009843	0.3150
ID=3	0.100577	0.053720	1.872263	0.0641
ID=4	0.206411	0.055702	3.705638	0.0003
ID=5	0.137655	0.045462	3.027913	0.0031
ID=6	0.064416	0.056099	1.148250	0.2536
ID=7	0.087189	0.048692	1.790622	0.0764
ID=8	0.068976	0.048214	1.430618	0.1557
ID=9	0.038400	0.052348	0.733553	0.4649
ID=10	0.465042	0.215453	2.158442	0.0333
ID=11	-0.080371	0.049246	-1.632009	0.1058
ID=12	0.057938	0.046922	1.234776	0.2198
ID=13	0.046388	0.052293	0.887066	0.3772
ID=14	0.101795	0.056130	1.813546	0.0727
ID=15	0.005521	0.042723	0.129218	0.8974
ID=16	0.079632	0.048237	1.650834	0.1019
ID=17	0.042501	0.048909	0.868970	0.3869
ID=18	0.059089	0.049932	1.183383	0.2395
ID=19	0.046282	0.060520	0.764745	0.4462
ID=20	0.089870	0.054344	1.653728	0.1013
ID=21	0.111943	0.053929	2.075745	0.0405
ID=22	0.188407	0.054936	3.429555	0.0009
ID=23	0.009547	0.052406	0.182183	0.8558
ID=24	0.119760	0.050132	2.388904	0.0188
ID=25	0.055044	0.047719	1.153495	0.2515
ID=26	0.091676	0.050507	1.815101	0.0725
ID=27	0.076690	0.044743	1.714014	0.0896
R-squared	0.616231	Mean dependent var		0.028792
Adjusted R-squared	0.485749	S.D. dependent var		0.084279
S.E. of regression	0.060438	Akaike info criterion		-2.555988
Sum squared resid	0.365274	Schwarz criterion		-1.802769
Log likelihood	207.5292	Hannan-Quinn criter		-2.249901
F-statistic	4.722745	Durbin-Watson stat		2.223571
Prob(F-statistic)	0.000000			

**Table 3: Wald Test**

Test Statistic	Value	Df	Probability
F-statistic	5.000782	(27, 100)	0.0000
Chi-square	135.0211	27	0.0000

The results of FE model has been reported in table 4. P-value of F-stat is 0.000 and the value of R-square is 0.89 variation is due to CG, CS, and DP in ROA. The value of durbin-watson is within acceptable limits. STD ratio, debt ratio, EPS, D\_Y\_Ratio, and D\_P\_Ratio and BS indicates a significant impact on the ROA.

**Table 4: Fixed Effect Model**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.400310	0.948168	-6.750189	0.0000
BS	0.254406	0.116009	2.192988	0.0317
BC	-0.746318	0.595990	-1.252233	0.2147
AC	0.204286	0.130622	1.563944	0.1224
D_P_RATIO	-0.628670	0.159084	-3.951810	0.0002
D_Y_RATIO	0.503899	0.138508	3.638052	0.0005
EPS	1.704830	0.145237	11.73825	0.0000
DEBT_RATIO	-0.551757	0.235036	-2.347541	0.0218
STD_RATIO	1.121016	0.462933	2.421551	0.0181
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.896901	Mean dependent var		-3.162708
Adjusted R-squared	0.847592	S.D. dependent var		0.994846
S.E. of regression	0.388382	Akaike info criterion		1.205919
Sum squared resid	10.40802	Schwarz criterion		2.075636
Log likelihood	-28.10484	Hannan-Quinn criter.		1.558184
F-statistic	18.18961	Durbin-Watson stat		2.290752
Prob(F-statistic)	0.000000			

**Table 5: Random Effect Model**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-7.001326	0.823037	-8.506700	0.0000
BS	0.323781	0.099419	3.256724	0.0016
BC	0.122395	0.504176	0.242762	0.8087
AC	0.050722	0.114667	0.442344	0.6593
D_P_RATIO	-0.728991	0.131891	-5.527206	0.0000
D_Y_RATIO	0.553662	0.114954	4.816383	0.0000
EPS	1.410115	0.107938	13.06412	0.0000
DEBT_RATIO	-0.234925	0.084982	-2.764422	0.0069
STD_RATIO	1.023883	0.393523	2.601837	0.0108
Effects Specification				
		S.D.	Rho	
Cross-section random		0.496788	0.6207	
Idiosyncratic random		0.388382	0.3793	
Weighted Statistics				
R-squared	0.707723	Mean dependent var		-1.131176
Adjusted R-squared	0.682849	S.D. dependent var		0.824481
S.E. of regression	0.446737	Sum squared resid		18.75994
F-statistic	28.45161	Durbin-Watson stat		1.377843
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.343533	Mean dependent var		-3.162708
Sum squared resid	66.27127	Durbin-Watson stat		0.561631

**Table 6: Huasman Test**

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	30.444725	8	0.0002

The results of RE reported in table 5 and the p-value of F-stat is 0.000 which is less than 5% level. The value of coefficient of determination is 0.70 which mean 70% variation in dependent variable is due to CG, CS, and DP. BC (board composition) and AC (audit committee) indicates an insignificant relationship with ROA while, Debt\_Ratio

(debt ratio), STD\_Ratio (short-term debt ratio), EPS (earning per share), D\_P\_Ratio (dividend payout ratio), D\_Y\_Ratio (dividend yield), and BS (board size).

Table 6 indicates outcome of huasman test to compare two models random and fixed effect which model perform better. The result pertinent to p-value is 0.0002 which infers that FE (fixed effect) is better as compared to RE (random effect) and therefore we can reject the null Hypothesis.

Table 7 reports the results of fixed effect by incorporating the moderating variable (political instability) interaction term has been used to test the impact of moderating variable on the relationship of independent variables and dependent variable. Results of table 7 indicate that all the variables exhibit insignificant relationship with dependent variable after the incorporation of moderating effect. Value of R-square is 0.62 means variation is explained by independent variables as compare to 89% variation was explained by independent variables without moderating effect. The result affirms the significance of interaction term (political instability) on the relationship of CG, CS, DP and ROA.

**Table 7: Fixed Effect Model with Moderator**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.127501	2.230788	-0.505427	0.6145
BS	0.202470	0.295762	0.684571	0.4954
BC	0.158085	1.237472	0.127749	0.8986
AC	-0.162016	0.504828	-0.320933	0.7490
D_P_RATIO	-0.036959	0.434547	-0.085051	0.9324
D_Y_RATIO	0.221431	0.294362	0.752238	0.4538
EPS	0.155880	0.271569	0.573998	0.5674
DEBT_RATIO	-0.065212	0.150806	-0.432423	0.6665
STD_RATIO	0.312866	0.998700	0.313273	0.7548
PI	0.509483	0.872510	0.583928	0.5607
BS*PI	-0.086261	0.118093	-0.730450	0.4670
BC*PI	-0.080111	0.483342	-0.165744	0.8687
AC*PI	0.065858	0.203463	0.323686	0.7469
D_P_RATIO*PI	0.020074	0.172741	0.116207	0.9077
D_Y_RATIO*PI	-0.096716	0.115936	-0.834222	0.4063
EPS*PI	-0.048719	0.107369	-0.453756	0.6511
DEBT_RATIO*PI	-0.001557	0.067445	-0.023084	0.9816
STD_RATIO*PI	-0.114692	0.398774	-0.287612	0.7743
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.627118	Mean dependent var		0.028792
Adjusted R-squared	0.450921	S.D. dependent var		0.084279
S.E. of regression	0.062451	Akaike info criterion		-2.451434
Sum squared resid	0.354911	Schwarz criterion		-1.504530
Log likelihood	209.4718	Hannan-Quinn criter.		-2.066638
F-statistic	3.559188	Durbin-Watson stat		2.211936
Prob(F-statistic)	0.000000			

Table 8 indicates results of RE model. It also affirms the significance of interaction term on the relationship between CG, CS, DP and ROA. R-square is 0.41, model claims that 41% variation is due to exogenous variables without moderating effect value of R-square was 0.70. The results indicate that all the variables reveal significant relationship with dependent variable with the moderating role of political instability.

The results of huasman test have been documented in table 9 to compare the suitable model between random and fixed effect. The results affirms that fixed effect model is suitable as compare to random effect model and based on the results of p-value current study fails to accept H1.

**Table 8: Random Effect Model**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.961894	1.943063	-0.495040	0.6215
BS	-0.092667	0.260837	-0.355267	0.7230
BC	1.447643	1.146945	1.262173	0.2094
AC	0.125714	0.438684	0.286571	0.7749
D_P_RATIO	-0.378599	0.373837	-1.012739	0.3133
D_Y_RATIO	0.270874	0.270950	0.999719	0.3195
EPS	0.141825	0.253596	0.559254	0.5771
DEBT_RATIO	-0.091734	0.142317	-0.644574	0.5205
STD_RATIO	0.196239	0.928365	0.211382	0.8330
PI	0.342525	0.763910	0.448384	0.6547
BS*PI	0.042926	0.103640	0.414189	0.6795
BC*PI	-0.542237	0.450612	-1.203334	0.2313
AC*PI	-0.051087	0.176508	-0.289430	0.7728
D_P_RATIO*PI	0.157473	0.149240	1.055166	0.2935
D_Y_RATIO*PI	-0.118600	0.107458	-1.103688	0.2720
EPS*PI	-0.046064	0.100232	-0.459570	0.6467
DEBT_RATIO*PI	0.034077	0.056621	0.601853	0.5484
STD_RATIO*PI	-0.151621	0.369549	-0.410287	0.6823
<b>Effects Specification</b>				
			S.D.	Rho
Cross-section random			0.007774	0.0153
Idiosyncratic random			0.062451	0.9847
<b>Weighted Statistics</b>				
R-squared	0.410194	Mean dependent var		0.027737
Adjusted R-squared	0.324496	S.D. dependent var		0.082524
S.E. of regression	0.067826	Sum squared resid		0.538243
F-statistic	4.786490	Durbin-Watson stat		1.891760
Prob(F-statistic)	0.000000			
<b>Unweighted Statistics</b>				
R-squared	0.426577	Mean dependent var		0.028792
Sum squared resid	0.545787	Durbin-Watson stat		1.872293

**Table 9: Huasman Test**

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	17	1.0000

## **V. Conclusion**

The result of study concludes that CG, CS, and DP have significant impact on ROA. The results also affirms that political instability moderate the relationship between CG, CS, DP and ROA. The results of study have been reported without moderating effects and with moderating effect, and the results of study affirms that there is a moderating effect of political instability. All the techniques affirm that CG, DP, and CS have a significant role in explanation of ROA however, the direction and magnitude of association is not consistent as per techniques. Further study need to test this relationship on the other sectors of Pakistan to test the impact of moderating variable. Future studies also need to consider other proxies for CG, CS and DP. Current study highlights the following suggestions based on the results:

Government of Pakistan needs to address the factors which cause the political instability. Textile sector needs to consider the political instability and its impact on the returns on assets and how CG, DP and CS are being affected by political instability. Growth of private sector is based on the political stability so foreign direct investment can be decline due to political instability in Pakistan.

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