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The Impact of Corporate Governance on Capital Structure: Mediating Role of Employees Ownership

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Abstract

This research investigates the complex relationship between corporate governance, capital structure, and employee ownership as a moderator, while also taking firm size as a control variable. Understanding how these factors interact has significant implications for strategic decision-making and firm performance in the ever-changing corporate landscape. The population of this study were manufacturer sector of Pakistan stock exchange and the investigation of this relationships, a comprehensive research framework employing quantitative methodology is developed. Advanced statistical techniques were used to acquire and analyse data from a diverse sample of companies from a variety of industries. Regression analyses was used to examine the direct impact of corporate governance variables on capital structure, while mediation analyses will shed light on employee ownership's mediating role. The repercussions of this study are multifaceted. Practitioners can develop effective governance strategies that promote optimal financial structures if they have a deeper comprehension of how corporate governance practises influence capital structure decisions. This study contributes to the existing body of knowledge by casting light on the intricate relationship between corporate governance, capital structure, and employee ownership. The purpose of this study is to provide a nuanced understanding of how

corporate governance practises influence capital structure decisions and, consequently, firm performance and sustainability by investigating the moderating effect of employee ownership.

Keywords: Corporate Governance, Cost of Capital, Employee Ownership, Board Size, Board Composition, Managerial Ownership

Introduction

In today's corporate world, the conventional concept, separation of ownership and management defines corporate structure. The principal (proprietor) and the agent (management) may have conflicting interests, resulting in governance difficulties in larger businesses. This distribution affects the degree of agency problems, as does the alignment of shareholders between managers and stockholders, according to a comprehensive research by a pioneer of agency theory. That way, businesses, financial difficulties, bankruptcy expenses and corporate collapse can be avoided. These self-centered agent actions and other governance issues put the shareholder's money at risk led to the notion of corporate governance. So, companies must ensure excellent governance for the benefit of their shareholders (Bhagat & Bolton, 2019).

Corporate governance and its impact on firm performance have been extensively studied in developed markets like the United States and the United Kingdom, but less is known about the governance businesses in the Middle East, where economic and cultural variables play a larger role. Play a greater role. In defiance of the region's persistent instability, Jordan's economy has made significant strides in recent years. In the 1990s and 2000s, in order to facilitate Jordan's financial integration with the wider economy, the government made significant efforts to attract investors. Specifically, corporate governance frameworks and capital markets were modified (ASE, 2007).

In addition, Jordan established three essential institutions—the Securities Depository Centre (SDC), the Jordanian the securities Committee (JSC), and the Amman Stock Exchange (ASE)—to improve corporate governance by increasing accountability, transparency, and disclosure. The overarching objective of this study is to evaluate the impact of corporate responsibility on the bottom lines of 115 publicly traded Jordanian manufacturing and service firms (Dhungana, 2022; Hassan et al., 2021).

Capital structure in corporate finance refers to the sources of financing available for a company's current and prospective investment requirements. A capital structure decision is a crucial aspect of financial management decisions involving both equity and debt financing.. Making wise selections about the capital structure may lower business risk and raise the net present value for investment initiatives. As a result, the number of eligible projects grows, increasing profitability and firm value (Alipour et al., 2015).

Furthermore, optimal capital structure decisions assist the firm deal with the competitive climate of the modern world in which it works. The ideal capital structure, according to Modigliani and Miller (1958), is one where the cost of bankruptcy risk is covered by the tax benefits of debt financing, because it provide you a tax shield.

There have been numerous studies of the line of arguments that the presence of effective governance practices in a firm will improve the competitiveness and value of the firm by reducing information asymmetry and agency costs, improving investor protection and confidence in the firm, and reducing information asymmetry and agency costs When it comes to the improvement of corporate affairs, (Dhungana, 2022) examines the importance of good governance practices. The study comes to the conclusion that efficient governance systems are complimentary in terms of increasing corporate success and competitiveness in international markets. Furthermore, (PeiZhi & Ramzan, 2020) offered data to support the proposition that the higher the conformity of a firm to governance standards, the greater the value of the firm.

The firm's financial structure and employee ownership of financing choices may be influenced by better corporate governance practices, according to the available evidence. Moreover, employee ownership affects the firm's value by reducing accounting profit and defining the appropriate capital structure (Ullah et al., 2021). By investigating the role of employee ownership in the link between corporate governance and capital structure, this study aims to explore the impact of corporate governance on financing decisions made by firms. The following are the research questions of the study:

1. What is the relationship between corporate governance and capital structure choices of the firm?
2. What is the employee’s ownership mediating role in relation among effective corporate governance and the capital structure?

The objective of the study are:

- To investigate the relationship between corporate governance and capital structure of the firm.
- To investigate the mediating role of employee's Ownership in the extant relationship between corporate governance and capital structure.

Literature Review

Over the past two decades, corporate governance (CG) has been one of the most significant topics of study, and after the failure of many corporations in the late 1990s, there has been a huge acceleration of research into different aspects of corporate governance. Despite the fact that several researchers and pioneers of corporate governance research have discussed it, it is difficult to describe since it is a broad, multidimensional concept that is widely applicable and encompasses a wide range of topics (Rani et al., 2019). Though it seems to be a basic and straightforward issue, when we try to explain it, the notion becomes perplexing due to the many perceptions that surround its various meanings.

Accountability refers to manager's personal responsibility to a board of directors, as well as the representative board's ultimate responsibility for protecting shareholders' rights, Comparatively, When it comes to defending securitization, transparency is conducting business in a way that makes available expeditious and accurate substantive and procedural information in a socially acceptable manner (Jiang, & Kim, 2020).

However, fairness is concerned with protecting shareholders, encouraging equal treatment of shareholders, and safeguarding minority rights. Independence refers to the independence and authority of directors and advisers who must make decisions free of political and other pressures. In general, it refers to the structures and processes that must exist to reduce or eliminate conflict of interest both within and outside the company (Kumar, 2015).

According to Berle and Means, (1932), managers can seize control of businesses thanks to the distributed ownership arrangements found in contemporary, huge enterprises. In a big firm, just a little part of the value is owned by each stakeholder. These shareholders lack sufficient motivation to adequately oversee the managers. This issue has multiple primary causes, such as a dearth of information, time as well as resources. Due to the cost of monitoring, minor shareholders neglect their oversight responsibilities frequently. To capitalize on the benefits of

big shareholders' tracking, small shareholders are interested in delegating the monitoring task to large shareholders. The results of this mentality are unconstrained administrators who are free to pursue their own interests.

Separate owners and managers make the organization less viable, according to Adam Smith, Berle, and Means. Finding procedures that enable the owners to keep an eye on the performance of the managers is therefore the fundamental challenge facing companies. These techniques are required for companies to keep a value-maximizing mindset.

The evolution of corporate governance in the world

Corporations in the United States are governed by the Securities and Exchange Commission (SEC) legislation and regulations, which are applied by stock exchanges, as well as state business law (Mallin, 2013; Tricker, 2012). Another rule that affects corporate governance within the United States is the Sarbanes-Oxley Act of 2002. US public corporations were required to establish audit committees under one of the nation's earliest corporate governance statutes. In 1972, the SEC53 developed this standard. The primary objective of the auditing The committee is responsible for ensuring that the board member directors is thoroughly apprised of any issues that may arise between a third-party auditor and accountants and finance departments financial division of the company.

The evolution of corporate governance In Pakistan

Corporate governance pertains to the framework of regulations, conventions, and procedures by which corporations are managed and supervised. The concept pertains to the interplay among diverse stakeholders, including shareholders, management, employees, customers, and the community, and guarantees transparency, responsibility, and equity in corporate activities. This paper provides an analysis of the progression of corporate governance in Pakistan, emphasizing significant advancements and modifications throughout the course of time.

Models of corporate governance

Corporate governance frameworks, laws, and practises vary across nations. According to various corporate ownership systems, These corporate governance models are often classified into two categories (Aguilera, Desender, & de Castro, 2012; Aguilera & Jackson, 2003, 2010; La Porta et al., 1998; Shleifer & Vishny, 1997). The external model is presented first, then the insider model. According to the aforementioned scholars, the United States and the United Kingdom are

significant examples of the These corporate governance models are often classified into two categories (Aguilera, Desender, & de Castro, 2012; Aguilera & Jackson, 2003, 2010; La Porta et al., 1998; Shleifer & Vishny, 1997). for companies is prevalent in APAC and Europe. This is also referred to as the Continental European model.

There are numerous proprietors and a diverse distribution of corporate ownership in the Anglo-Saxon model. The administrators in the Anglo-Saxon model have greater influence over choices than those in the Continental European model as a result of distributed ownership. Moreover, according to Bhasa (2004), the Anglo-Saxon paradigm offers superior security for shareholders and more qualified executives and managers. One of the primary factors enhancing In this concept, investor protection is provided through strong power to offer effective shareholder protection. To guarantee that all investors have access to credible information to guide their investment choices, corporate disclosures are usually subject to severe rules. Another distinction between the Anglo-Saxon and Continental European models is the incidence of takeovers. Under this paradigm, external stock market control is more successful than internal board of director control, according to Hillman and Dalziel (2003). This is due to the danger of corporate takeover if management is unable to enhance the value of the firm.

A critical component of internal corporate governance is the board of directors, which oversees daily operations and represents shareholders. Various board of directors components have been investigated in the past, including independent directors, board committee involvement, and CEO duality (Filatotchev & Nakajima, 2010; Gul & Leung, 2004; Ho & Wong, 2001). These studies show that auditing committees and independent directors have a favourable association, but that CEO duality and corporate disclosures have a negative relationship. These consequences, however, differed depending on the control characteristics. Furthermore, ownership characteristics are a component of internal corporate governance.

Stockholders having a considerable position in a company's shares, according to Shleifer and Vishny (2000), may have a major influence on the success of corporate governance processes. Regardless, the empirical findings of trials examining the influence of shareholder characteristics on company disclosures have caused a strong pushback. According to certain studies (Haniffa & Cooke, 2002), there is a positive relationship between business disclosures and ownership concentration. This may not be the case for family businesses.

Dimensions of Corporate Governance

Board Size

Larger boards are less effective at tracking agents because they have more coordination and communication issues (Eisenberg and colleagues, 1998; Jensen, 1993; Lipton and Lorsch, 1992). Intuitively, a larger board would be preferable because it would allow for a more diversified board of directors with a wide range of experience. According to Lipton and Lorsch (1992), larger have a diminished capacity to critique senior management and evaluate corporate performance.

Jensen (1993) discovered that big committees are prone to incur considerable administration expenditures and perform ineffectively. According to the agency model, a big board exacerbates the agency's issue of director free-riding by making the board "more metaphorical and less a part of the leadership process" (Hermalin & Weisbach, 1998). In big boards, the CEO has a higher chance of managing and directing administration than the board.

Board Composition

Concerning the There is substantial discussion over the nature of the board's makeup and its impact on performance. Executive directors (managers that serve in management and board positions) and non-executive directors are the two sorts of board directors. Each group has its own set of motivations and behavior (De Andres et al., 2005). The expertise and knowledge that executives bring to boards of directors makes them valuable members, but they may also be driven by their own self-interest at the cost of the business and its shareholders. On the other side, non-executive directors (NEDs) provide impartial oversight and boost company performance, but they lack executives' level of familiarity with the day-to-day operations of businesses. A varied and effective board of directors increases the worth of an enterprise since it allows for better strategic decision-making and the generation of fresh ideas (Gabrielsson, 2007).

Managerial Ownership

Managers are more interested with boosting their personal wealth and professional career opportunities than shareholders are with raising earnings. As a consequence, there is a conflict of interest between shareholders and managers since the former seek to guarantee that their money are not misused or wasted (Jensen & Meckling, 1976; Fama, 1980; Jensen, 1993). Expropriation

may take numerous forms, including investment in initiatives that benefit the managers rather than the firm, manipulating price via transfer, and managerial invasion. Interests coming together hypothesis, often referred to as the harmony of interest theory, has been put out as a tactic for lining up the interests of management with shareholders. According to Sappington (1991), incentives must be provided to managers in order to encourage them to maximize shareholder value in order to reconcile managers' interests with those of shareholders from the perspective of agency theory.

Female Directorship

It is especially important to comprehend how female directors might limit earnings management while upholding openness and accountability. To the best of our knowledge, no study on the connection between female directors and managing earnings has been done in Bangladesh. Governance in business systems are conceptualized as either internal processes or external mechanisms, respectively. The market for corporate control, on the other hand, is an example of a third-party mechanism (Martin-reyna & Duran-encalada, 2012). The ownership structure, capital, and board of directors are all instances of internal mechanisms.

Corporate Governance and Capital Structure

Nonetheless, we discovered research that examined this relationship and characterized the effect of supervision mechanisms on company capital structure decisions in emerging and established markets. A comprehensive review of According to the literature, the link among governance and the structure of capital has not been fully investigated. Berger (2007) and Abor (2007) are two examples. However, few researches have looked at the link between corporate governance adheres to and capital structure decisions for Pakistani-listed businesses. According to Jensen and Meckling (1976), because power and ownership are separated in the contemporary business environment, the principal-agent relationship is fraught with conflicts for interest, incompatible objectives, and asymmetric knowledge.

Furthermore, Atanasova et al. (2016) investigated the effect of corporate governance on small size business funding choices in Canada, and their findings confirm theories that posit a link between governance systems and business funding decisions. Their results show that firms with effective governance systems are inclined to issue fresh stock rather than debt funding. whereas

corporations with fewer collateralized commodities have fewer debts and are actually more likely to choose more stringent governance rules.

In 1961, Donaldson introduced the concept of the pecking order. This theory was altered by Myers and Majluf in 1984. They argue that using stock to raise capital is a less preferable option. It asserts that firms order their sources according to the cost of borrowing. As a method of last resort financing, companies favors equity offerings. Therefore, internal resources are utilized initially. When it is depleted, debt is released, and when it is no longer required to issue equity, debt is issued.

Exchange-off theory

The debt-to-equity financing ratio of a company is determined, according to the trade-off theory, by balancing the costs and benefits. In 1973, Kraus and Litzenberge introduced this concept for the first time. They compared the tax savings advantages of debt to the dead weight costs of bankruptcy. This amount includes agency fees as well. According to this theory, companies frequently finance themselves in part with debt and in part with equity. It asserts that using debt has advantages, such as tax advantages, as well as disadvantages, such termed financial stress costs, which encompass both bankruptcy-related and non-bankruptcy expenditures (such as staff flight departures, supplier demands for unfavorable payment terms, bondholder/stockholder disputes, etc.).

Timing the Market

According to the theory of market timing, companies choose between equity and debt financing for their investments. It is a very old theory that businesses attempt to predict the market by paying heed to market conditions. According to Baker and Wurgler (2002), market timing is the primary factor that determines a company's debt and equity capital structure. Consequently, companies frequently They don't care whether they're financed with debt or stock. They just choose the kind of money that appears to be of greater worth at the time on the financial market (Baker, 2002).

When making business decisions, capital expenditure is crucial. Due to the fact that accounting for the cost of capital improves firm knowledge, both academics and practitioners endeavor to gain a thorough comprehension of this cost. Calculating the cost of capital is crucial to the viability of every business. However, the majority of current research focuses on how different

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factors affect the cost of capital on the U.S. and European markets. Each company's financial sector consists of two divisions: debt and equity. Therefore, when evaluating the cost of capital, each of the costs associated with debt and equity must be considered. the expense of debt the cost of debt is the interest which companies must pay on their loans granted, while the monetary value of equity has been the price for shares that investors must be compensated.

Weighted Average Cost of Capital (WACC)

When making business decisions, capital expenditure is crucial. Due to the fact that accounting for the expense of capital improves firm knowledge, both academics and practitioners endeavor to gain a thorough comprehension of this cost. Calculating the cost of capital is crucial to the viability of every business. However, the majority of current research focuses on how different factors affect the cost of capital in the U.S. and European markets. Each company's financial sector comprises of two divisions: debt and equity. Therefore, whenever calculating the price of capital, any of the costs associated with debt and equity must be considered. the expense of debt The cost of debt is the interest which companies must pay on their borrowings, while the cost regarding equity is the amount the fact investors must be compensated.:

$$WdRd\ (1-t) + WeRe = WACC = r$$

Where re represents the equity cost, which is typically calculated using the Capital Asset Pricing Model, and rd is the market interest rate on the company's outstanding debt (CAPM). Wd denotes the percentage of debt in the company financing, while WE denote the percentage of equity.

Expense of equity

Ex-ante and ex-post cost of equity investment are two commonly used approaches for estimating the cost of equity capital. The ex-ante approach has the least amount of support in the literature. The potential for expansion and the money flows are the features of this plan that create worry (Hail, 2006). This technique relies heavily on earnings estimates and expected stock values gathered from several models. These examples were supplied by Claus and Thomas (2001). Ohlson and Juettner-Nauroth (2005), Gebhardt, Lee, and Swaminathan (RGLS), and Easton (2004) are some of the authors.

Theoretical Background

The primary capital sources are equity and debt holders. Equity holders are the firm's owners who have a residual claim on its assets and carry the majority of the risk (Dreyer, 2010). They get repaid for their investment mostly through an increase in stock prices. However, they are occasionally helped by dividend income, which is divided to common shareholders according to the agreed payout ratio (Gitman, 2003).

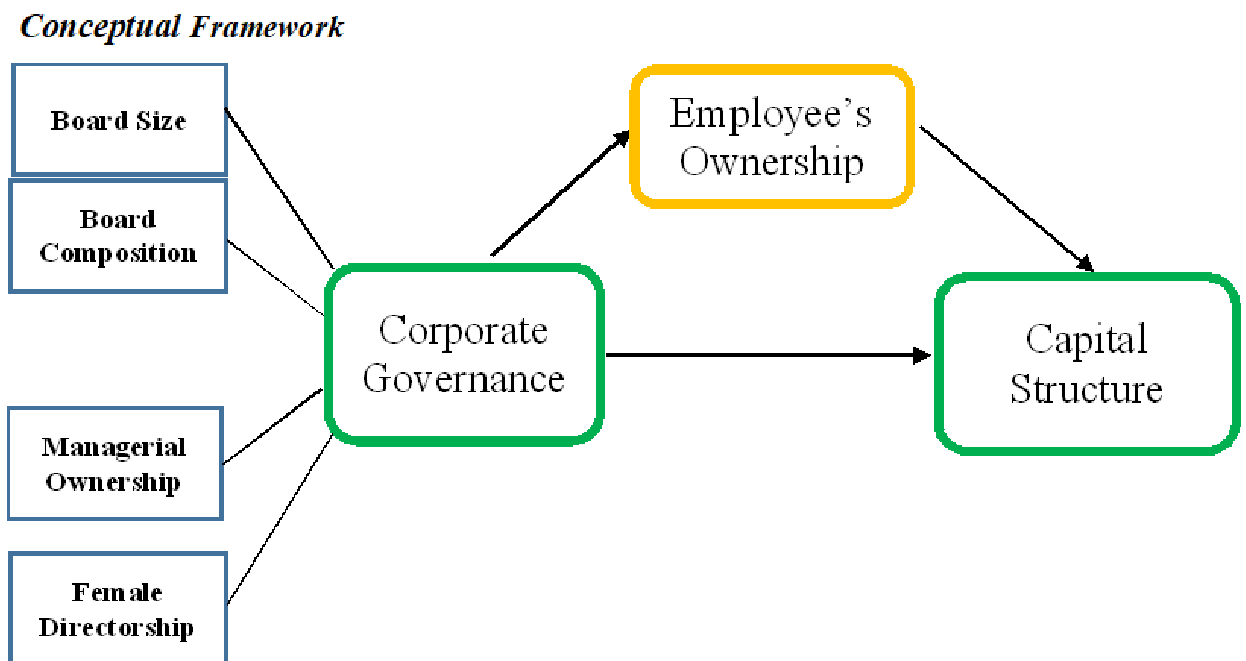

Figure 2.*Conceptual Model*

Methodology

The research conducted, aligned with the positivist philosophical viewpoint. As far as the research approach was concerned, quantitative and deductive approaches were employed. On the other hand, the research was based on a descriptive and mono method. Moreover, the penal data set were used for

analysis. The population of the study was all the companies of manufacture sector of Pakistan stock exchange. The sample were selected through purposive sample technique. The information about the sample companies was gathered from 2012 to 2021, a period of ten (10) years. The data were collected from the annual reports of the companies and financial statement analyses which are issued by the state bank of Pakistan, Pakistan stock exchange and business recorder etc. on the collected the following test were applied for analysis descriptive statistic, correlation, regression analysis and mediation analysis. STATA were used for analysis.

Data Analysis

The descriptive statistics provided offer insights into several key variables related to the impact of corporate governance on capital structure, particularly focusing on the mediating role of employee ownership. Let's interpret these statistics in the context of the study.

Firstly, examining the Debt to Equity (DTE) ratio, which is a crucial indicator of a firm's capital structure, we observe that the mean DTE ratio is 0.1912 with a median of 0.1429. This suggests that, on average, firms tend to have a higher proportion of equity in their capital structure compared to debt. The relatively high standard deviation of 0.1956 indicates considerable variability in the DTE ratios among the sampled firms, potentially reflecting diverse industry sectors or varying financial strategies.

Moving on to governance-related variables, such as Board Size (BS) and Board Composition (BCOM), we find that the mean board size is 8.22 with a median of 8.01. The relatively low standard deviation of 1.00 suggests that board sizes across firms are relatively consistent. However, the variability in board composition, with a mean of 0.7012 and a median of 0.7155, indicates differences in the proportion of independent directors or other compositional factors among the sampled firms.

Managerial Shareholding (MS) is another governance variable of interest. The mean MS is 0.1403 with a median of 0.0223, indicating that, on average, managers hold a relatively small proportion of shares in the firms they manage. The standard deviation of 0.2158 suggests considerable variability in managerial shareholding practices, which could influence decision-making and firm behavior.

Female Directorship (FD) is also included as a governance variable. The mean FD is 0.1500, indicating that, on average, approximately 15% of board positions are held by females. The

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relatively high standard deviation of 0.3615 suggests significant variability in female representation across firms, potentially reflecting differences in gender diversity policies or cultural factors.

Firm Size (FS) is an important control variable in this context. The mean FS is 7099.23, reflecting the average size of firms in the sample. The minimal standard deviation of 0.005 suggests relatively little variability in firm sizes among the sampled firms.

Lastly, examining Employee Ownership (EO), which is the focal mediating variable, we find that the mean EO is 0.1227 with a median of 0.0691. This indicates that, on average, employees own a relatively small proportion of shares in the firms they work for. The standard deviation of 0.1294 suggests variability in the extent of employee ownership across the sampled firms.

Overall, these descriptive statistics provide a foundation for understanding the relationships between corporate governance, capital structure, and employee ownership. Further analysis, such as regression modeling, could explore the interplay between these variables and their implications for firm financial decisions and performance.

Table 1: Descriptive statistics

	N	Mean	Median	Std Dev	Min	Max
DTE	370	.1912	.1429	.1956	.0000	.9352
BS	370	8.22	8.01	1.00	3.00	20.00
BCOM	370	.7012	.7155	.2051	0.00	1.00
MS	370	.1403	.0223	.2158	.0000	.9544
FD	370	.1500	.0000	.3615	.0000	1.000
FS	370	7099.23	7080.72	0.005	79.38	64549.1
EO	370	.1227	.0691	.1294	0.000	.7649

Table 2: VIF

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Variable	VIF	1/VIF
Board Size	1.28	0.781935
Board Composition	1.27	0.789497
Managerial Ownership	1.24	0.807567
Female Director	1.14	0.875193
Firm Size	1.05	0.955643
EO	1.04	0.965475
Mean VIF	1.18	0.54318

It is evident that the estimated VIF values are consistently small, significantly below the threshold of 10. The average VIF value of 1.18 further confirms the absence of any multicollinearity issues within the dataset.

	FS	**DTE**	**BS**	**BCOM**	**MS**	**FD**	**EO**
FS	1						
DTE	-0.04	1					
BS	.351**	0.020	1				
BCOM	.165**	0.026	.353**	1			
MS	-0.322**	.314**	-.164**	-.263**	1		
FD	-0.015	0.038	.142**	-0.047	-0.01	1	
EO	0.006	-0.209**	-0.02	-0.071*	-0.064	0.168	1

Overall, this correlation matrix provides a preliminary understanding of the relationships between corporate governance variables and capital structure, shedding light on potential mechanisms through which employee ownership may mediate these relationships. However, further analysis, such as regression modeling or structural equation modeling, would be

necessary to ascertain the causal relationships and the extent of employee ownership's mediating role in the context of corporate governance and capital structure.

Table 8: Multiple Regression with Mediator

B	Coeff	Std Err	t-stats	Sign
(Constant)	0.051	0.013	3.92307692	0
Employee Ownership	0.212	0.051	4.15686275	0
Board Size	0.241	0.114	2.11403509	0.001
Board Composition	-0.342	0.313	-1.09265176	0.031
Female Directorship	0.048	0.021	2.28571429	0.014
Managerial Shareholding	0.351	0.221	1.58823529	0.143
Firm Size	-0.241	0.101	-2.38613861	0.008

F-Stats: 16.77 (P-Value: 0.000) R-Square= 0.421

The regression analysis conducted in the context of the impact of corporate governance on capital structure, with a focus on the mediating role of employee ownership, provides valuable insights into the relationships between various independent variables and the dependent variable, Debt to Equity ratio (DTE).

The analysis reveals several significant findings worthy of discussion. Firstly, Employee Ownership (EO) emerges as a significant predictor of DTE, with a positive coefficient of 0.212. This indicates that firms with higher levels of employee ownership tend to have higher debt-to-equity ratios, suggesting that employee ownership plays a role in shaping the capital structure decisions of these firms. This finding aligns with theoretical expectations, as employee-owned firms may have a greater propensity for leveraging their capital structure to align with the interests of employee-owners.

Furthermore, Board Size exhibits a significant positive association with DTE, indicated by a coefficient of 0.241. This suggests that firms with larger boards tend to have higher debt-to-equity ratios. The positive relationship between board size and leverage may be attributed to the increased diversity of perspectives and expertise brought by larger boards, potentially leading to more aggressive capital structure decisions aimed at maximizing shareholder value.

On the other hand, Board Composition demonstrates a significant negative association with DTE, reflected by a coefficient of -0.342. This finding suggests that firms with more diverse board compositions, potentially comprising a higher proportion of independent directors, tend to have lower debt-to-equity ratios. This negative relationship may stem from the enhanced governance and risk management practices associated with diverse boards, which could result in more conservative capital structure decisions.

Female Directorship also emerges as a significant predictor of DTE, with a positive coefficient of 0.048. This indicates that firms with a higher proportion of female directors tend to have higher debt-to-equity ratios. The positive relationship between female directorship and leverage contrasts with some theoretical expectations but aligns with empirical findings suggesting that gender diversity on boards may influence financial decisions, potentially leading to higher leverage ratios.

Additionally, Firm Size demonstrates a significant negative association with DTE, indicated by a coefficient of -0.241. This suggests that larger firms tend to have lower debt-to-equity ratios. The negative relationship between firm size and leverage may reflect the enhanced financial flexibility and access to capital markets enjoyed by larger firms, allowing them to maintain lower leverage ratios.

Overall, the regression analysis provides robust evidence of the influence of corporate governance mechanisms, particularly employee ownership, board size, board composition, and female directorship, on capital structure decisions. These findings underscore the importance of considering diverse governance factors in understanding the determinants of capital structure and highlight the potential mediating role of employee ownership in shaping these dynamics. However, it's essential to note that while the regression model exhibits a relatively high explanatory power (R-Square= 0.421), further research may be warranted to explore additional factors and their interplay with corporate governance mechanisms in influencing capital structure decisions.

Conclusion

This study delved into the complex interplay between corporate governance, capital structure decisions, and the mediating role of employee ownership, focusing specifically on the manufacturing sector listed on the Pakistan Stock Exchange. Utilizing secondary data collected

over a span of ten years, the study employed a census-based sampling technique to analyze the relationships among various variables. The findings of the analysis revealed significant insights into the determinants of capital structure decisions within the context of corporate governance, highlighting the importance of factors such as board size, board composition, female directorship, and employee ownership.

One of the key findings of the analysis was the significant influence of employee ownership on debt-to-equity ratios, consistent with theoretical expectations and empirical evidence. The study underscored the potential mediating role of employee ownership in shaping capital structure decisions, emphasizing its importance as an internal financing mechanism that aligns the interests of employees with those of other stakeholders. Furthermore, the analysis identified significant associations between corporate governance mechanisms, such as board size and composition, and capital structure decisions, providing valuable insights into the dynamics of governance practices in influencing financial policies.

Employee ownership's mediating function further complicates the relationship between corporate governance and capital structure. Corporate governance practices are crucial to the determination of a company's capital structure because they provide a framework for making prudent decisions and managing risk. As a mediating factor, employee ownership can substantially influence the relationship between corporate governance and capital structure. Employee ownership results in improved corporate governance procedures because employees are more likely to align their interests with those of the shareholders. As a result of this alignment, improved financial performance, lower agency costs, and increased shareholder value can be obtained.

In terms of future directions, researchers could delve deeper into the specific mechanisms through which employee ownership influences capital structure decisions, examining factors such as employee involvement in decision-making processes and the impact of employee ownership structures on firm performance. Additionally, comparative studies across different industries or countries could provide insights into the contextual factors shaping the relationship between corporate governance, employee ownership, and capital structure. Moreover, exploring the role of regulatory frameworks and institutional factors in influencing governance practices and financial policies could enrich our understanding of the dynamics at play. Overall, while this study offers valuable insights into the relationships between corporate governance and capital

structure decisions, there is ample room for further research to advance our understanding of these complex phenomena and their implications for firm behavior and performance.

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