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The Influence of Leverage on Firm Performance: A Comparative Study of Family and Non-Family Firms in Pakistan

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Abstract

This study examines the influence of leverage on firm performance of non-financial sector in Pakistan while emphasizing the ownership pattern of the firms. Analysis of a sample of 400 non-financial enterprises listed on the Pakistan Stock Exchange from 2013 to 2024 utilizing panel data regression reveals a predominantly negative relation between leverage and performance. The performance is measured through Return on Assets (RoA), Return on Equity (RoE) and Tobin's Q. Conversely, non-family-owned enterprises leverage advantages, demonstrating favorable performance, whilst family-owned firms display weaker or negative relations. These findings underscore the agency problems in family-controlled enterprises, where debt may be perceived negatively. The research indicates that financial decision-making in Pakistan must take ownership arrangements into account, and subsequent studies might investigate the impact of board dynamics and succession planning in family enterprises.

Key Words: Agency Problem, Family-Owned Firms, Firm Performance, Leverage, Non-Family-Owned Enterprises, Pakistan Stock Exchange

Introduction

The proposition put forth by Modigliani and Miller (1958) asserts that, within a perfectly efficient market devoid of taxes, the capital structure of a firm does not influence its total value. In practical circumstances where taxation is a factor, such as in Pakistan, companies can increase their value by modifying their capital

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structure to incorporate debt, owing to the tax-deductible nature of interest payments. Moreover, the theories of agency cost and free cash flow, introduced by Jensen and Meckling (1976) and Jensen (1986), underscore the profound impact that capital structure decisions can have on a firm's performance.

This research explores the significance of these theories within the Pakistani context by analyzing the direct link between financial leverage and firm performance. In theory, debt provides companies with a tax advantage on interest payments, which may enhance the overall value of the firm. Furthermore, it is common for shareholders to advocate for firms to incur debt as a means of enforcing financial discipline on management, thereby ensuring that surplus cash is either allocated to productive ventures or distributed as dividends. In Pakistan, financial institutions frequently establish covenants that dictate certain debt-to-asset ratios, thereby shaping the manner in which firms navigate their capital structure.

Agency costs arise from the divergent interests that exist between managers and shareholders. The agency cost hypothesis, as articulated by Jensen and Meckling in 1976, posits that an elevation in financial leverage may mitigate agency costs, given that debt enforces a level of financial discipline upon managers. Within the context of Pakistan, where numerous enterprises are characterized by family ownership or concentrated control, the utilization of debt could potentially enhance organizational performance by limiting managerial autonomy and promoting more judicious investment choices. Increased levels of indebtedness may serve as a protective mechanism against the inefficient allocation of resources, thereby potentially improving organizational performance and mitigating the risks of financial distress or underinvestment.

In order to mitigate the potential for excess liquidity among management, shareholders might favor the distribution of elevated dividends—particularly in organizations where executives are recruited from outside and do not belong to

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the controlling family (Damodaran, 2014). This inclination is frequently noted within the corporate landscape of Pakistan, where dividend policies may serve as indicators of organizational discipline and a focus on shareholder interests.

Furthermore, the influence of financial leverage on corporate performance is not invariably instantaneous. The pecking order theory posits a temporal delay in this relationship, suggesting that a firm's historical performance may exert a more significant impact on its capital structure than its present performance. Despite numerous international studies investigating the relationship between leverage and performance, a consensus has yet to be reached. The empirical evidence available from Pakistan is both limited and varied, underscoring the necessity for deeper exploration within this particular institutional and economic context.

It is crucial to emphasize that there is a paucity of research about the influence of financial leverage on corporate performance specifically in the Pakistani setting. It is crucial to analyze the impact of financial leverage on the performance of enterprises in Pakistan. Examining a substantial sample of Pakistani enterprises guarantees uniformity in accounting standards, regulatory frameworks, and economic conditions, hence augmenting the trustworthiness and pertinence of the results. Furthermore, the study encompasses a sufficiently extensive time frame, facilitating the analysis of several economic cycles and enhancing the generalizability of the findings across distinct sub-periods.

This research provides practical insights for investors in Pakistan by identifying an optimal debt-to-assets ratio for enterprises within the local market. Such insights allow investors to discern firms that are either overleveraged or underleveraged, so facilitating better informed investment decisions and the identification of enterprises with more long-term growth potential.

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Literature Review

This section offers a concise analysis of the current research about the relationship between leverage and firm performance. In advanced economies, many findings align with agency cost theory. In the U.S. banking sector, Berger and Patti (2006) substantiated the hypothesis by utilizing a parametric measure of profit efficiency to evaluate agency expenses, revealing a positive relationship between increased financial leverage and improved company performance. In the United Kingdom, Nickell, Nicolitsas and Dryden (1997) established a positive link between leverage and total factor productivity (TFP), which acts as an indicator of performance.

Ali and Abdullah (2020) did research in Malaysia to assess the impact of leverage on the financial performance of publicly listed companies. The researchers examined 528 non-financial companies listed on Bursa Malaysia from 2005 to 2016. The research indicated that leverage enhances business performance till reaching an optimal threshold. Exceeding this threshold, more leverage adversely impacts performance, demonstrating a nonlinear connection aligned with trade-off and agency cost theories.

A study by Abideen (2023) in China utilized data from 2010 to 2022 to investigate the relationship between financial leverage and the financial success of publicly listed enterprises. This study determined that financial leverage substantially improves firm performance in China, particularly when paired with robust liquidity and greater firm size. The findings highlight the significance of accounting for firm-specific variables in capital structure determinations. Research by Alghamdi (2022) and Arhinful and Radmehr (2023) identified a negative association between financial leverage and company performance in the non-financial sectors of Saudi Arabia and Japan, respectively.

An examination of global literature regarding the link between financial leverage and corporate success indicates inconsistent and even opposing findings. Numerous studies in developed economies, including the United States and the

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United Kingdom, indicate a positive impact, consistent with agency cost theory and trade-off theory; however, some studies reveal negative or negligible relationships, especially in scenarios where excessive debt heightens financial distress. In Japan and several emerging markets, elevated leverage has been associated with decline in company performance, indicating that the effects of debt are significantly context-dependent. The inconsistencies suggest that the link is affected by variables including industry type, business size, market development, regulatory frameworks, and managerial efficacy, highlighting the necessity for evaluations that are relevant to both country and sector.

Investigations in Pakistan also show varying results. Rehman (2013) analyzed the association between financial leverage and company performance in Pakistan's sugar sector. The results reveal a multifaceted relationship: a positive connection exists between the debt-equity ratio and both return on assets and sales growth, while a negative association is shown with earnings per share, net profit margin, and return on equity. Javed, Rao, Akram, and Nazir (2015) and Ahmad, Salman, and Shamsi (2015) discerned an adverse impact of financial leverage in the textile and cement sectors of Pakistan, respectively. This indicates that an increase in financial leverage negatively impacts the functioning of these companies.

Iqbal and Usman (2018) investigated the relationship between financial leverage and corporate performance in Pakistan. They found that financial leverage negatively and considerably influences Return on Equity (ROE) but favorably and significantly affects Return on Assets (ROA) in the textile composite industry. This suggests that while leverage may enhance asset efficiency, it could adversely affect equity returns. Ahsan, Nizam, Ijaz, and Raza (2023) conducted a study to investigate the impact of financial leverage on the performance of chemical sector companies listed on the Pakistan Stock Exchange. The study revealed a considerable negative effect of financial leverage on profitability, while

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no significant influence was detected on Tobin's Q, asset turnover, and liquidity. This suggests that heightened debt could reduce profitability in Pakistan's chemical sector.

These studies highlight that the effect of financial leverage on corporate performance in Pakistan varies across industries and performance indicators. While some industries may benefit from increased leverage, others may experience adverse effects, emphasizing the need for industry-specific financial policies.

Although current research has thoroughly investigated the relationship between leverage and company performance, notably in established markets, a notable deficiency exists in comprehending this link inside emerging economies, particularly in Pakistan. The influence of ownership structure, particularly the distinction between family-owned and non-family-owned enterprises, remains inadequately examined in this context, in the literature. The corporate sector in Pakistan is predominantly governed by family-controlled enterprises, potentially affecting the relationship between leverage and performance in contrast to non-family corporations. This study examines the influence of ownership structure on the leverage-performance connection, offering significant insights for policymakers, regulators, and business executives in emerging countries characterized by prevalent family ownership.

Methodology

Data and Data Sources

This study aims to investigate the relationship between financial leverage and company performance among companies listed on the Pakistan Stock Exchange. The dependent variable is firm performance, quantified by ROA, ROE, and Tobin's Q. The independent variable is financial leverage, considered in both linear and non-linear (squared) forms. Control variables are incorporated to guarantee the efficacy of the results. The duration of this study spans from 2013 to

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2024. The subject of this study comprises non-financial enterprises listed on the Pakistan Stock Exchange. The sampling criterion is the accessibility of the data that produced the sample of 400 firms.

The data for this study is sourced from multiple origins. Accounting data is sourced from the financial reports accessible on the websites of the different companies. This research use reports accessible on the Pakistan Stock Exchange website. Stock price data for the computation of Tobin's Q is sourced from the Pakistan Stock Exchange website.

Variables of the Study

The independent variable of this study is financial leverage, while the dependent variable is company performance. To ensure the robustness of findings, firm performance is assessed using Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. This study includes control variables such as firm size, dummy variables indicating whether the firm is in manufacturing or wholesale and retail, growth potential, and liquidity. The measurement of variables is presented in the subsequent table.

Table 3.1: Nature, Variable, Measurement and Source

Nature	Variable	Measurement	Source
Dependent	Return on Assets (ROA)	$\frac{Net\ Income}{Total\ Assets}$	Alabdullah, Nor, Ahmed & Yahya (2018)
	Return on Equity (ROE)	$\frac{Net\ Income}{Total\ Equity}$	Karyawati & Kusumawardhani (2023)
	Tobin's Q	(Market Value of Equity + Book Value of Debt + Preferred Stock) / Total Assets	Chung, & Pruitt (1994)

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Control	Size of Firm (Size)	Natural Logrithm of Total Assets	Alabdullah, Nor, Ahmed & Yahya (2018)
	Manufacturing Dummy (DMFG)	If firm is a manufacturing concern, then 1, otherwise 0	Akerman (2018)
	Wholesale or Retail Dummy (DWR)	If firm is a wholesale or retail concern, then 1, otherwise 0	Akerman (2018)
	Growth Opportunities (GOP)	$\frac{Stock\ Price}{Earnings\ per\ Share}$	Karyawati & Kusumawardhani (2023)
	Liquidity (Liq)	$\frac{Current\ Assets}{Current\ Liabilities}$	Karyawati & Kusumawardhani (2023)
Independent	Leverage (Lev)	$\frac{Total\ Debt}{Total\ Equity}$	Karyawati & Kusumawardhani (2023)ββ
	Family-CEO	A firm with a family member as the CEO is coded as 1, and 0 otherwise	Peng & Jiang (2010)

Econometric Model and Data Analysis

This study analyses the impact of financial leverage on the performance of non-financial firms listed on the Pakistan Stock Exchange. Data is panel in nature. Independent, dependent and control variables are discussed in the precious section.

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To find out the relationship between variables this study employs panel data regression technique and the econometric model for this study is as follows:

$$PERF_{i,t} = \alpha_0 + \beta_1 Lev_{i,t} + \beta_2 sqLev_{i,t} + \beta_3 Size_{i,t} + \beta_4 DMFG_{i,t} + \beta_5 DWR_{i,t} + \beta_6 GOP_{i,t} + \beta_7 Liq_{i,t} + \epsilon_i$$

PERF represents firm performance, that is, measured through ROA, ROE and Tobin's Q. Lev is leverage and sqLev is squared leverage to diagnose non-linear relationship. Size represents size of the firm, DMFG is a dummy variable the value of which is 1 if the firm is a manufacturing concern and 0 otherwise. DWR is a dummy variable the value of which is 1, if the firm is a wholesale or retail concern and 0 otherwise. GOP is growth opportunities and Liq represents liquidity of the firm.

Data is analyzed through descriptive statistics and panel data regression techniques. Data normality is checked through Variance Inflation Factor (VIF), White test for heteroskedasticity and student-t test is utilized. To select the best suited model between random effect and fixed effect models, Hausman test is utilized.

Results and Discussion

This section details the results of diagnostic analysis. First the descriptive statistics summarize the trends in the data.

Table 4.1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min.	Max.
Return on Assets	0.235	0.164	-0.568	0.875
Return on Equity	0.675	0.251	-0.1.784	0.861
Tobin's Q	0.512	0.169	0.154	0.992
Size	12.942	0.273	9.316	18.254
DMFG	0.558	0.198	0	1
DWR	0.264	0.025	0	1
Growth	1.471	0.268	0.541	2.65

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Opportunities				
Liquidity	2.201	0.354	0.785	3.4
Leverage	0.587	0.236	0.164	1.64
Family Ownership	0.485	0.108	0	194

For the panel data regression estimates data was analyzed for the normality. Data was winsorized from top and bottom at 1 percent. Student-t test reported no outlying observation in the data and data remained balanced. According to the results of Hausman test random effect models suits more this data, therefore it is applied to estimate the relationship between variables. Regression estimates of the baseline model are presented below.

Table 4.2: Baseline Regression Model Estimates

$$(\boldsymbol{PERF_{i,t} = \alpha_0 + \beta_1 Lev_{i,t} + \beta_2 sqLev_{i,t} + \beta_3 Size_{i,t} + \beta_4 DMFG_{i,t} + \beta_5 DWR_{i,t} + \beta_6 GOP_{i,t} + \beta_7 Liq_{i,t} + \epsilon_i})$$

*Table 4.2 displays the regression estimates analyzing the relationship between firm leverage and performance metrics: Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. The quadratic leverage term (SqLeverage) is incorporated to account for possible non-linear effects. DMFG serves as a dummy variable for manufacturing enterprises, whereas DWR functions as a dummy variable for wholesale and retail firms. Growth opportunities and liquidity serve as control variables. association. Standard errors are indicated within parenthesis. Significance levels are indicated as *p < 0.1, **p < 0.05, ***p < 0.01.*

Variable	Return on Assets	Return on Equity	Tobin's Q
Leverage	-0.145***	-0.162**	-0.091**
	(0.018)	(0.025)	(0.017)
SqLeverage	0.007	0.0014	0.0125
	(0.012)	(0.002)	(0.003)
Size	0.034***	0.025***	0.017**

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	(0.125)	(0.109)	(0.007)
DMFG	0.009	0.011*	0.016**
	(0.007)	(0.051)	(0.042)
DWR	0.048**	0.059**	0.034*
	(0.011)	(0.017)	(0.109)
Growth	0.045***	0.087***	0.042**
Opportunities	(0.105)	(0.125)	(0.287)
Liquidity	-0.009	-0.013	-0.004
	(0.014)	(0.007)	(0.142)
Constant	0.875**	0.548***	1.254**
	(0.254)	(0.378)	(0.725)
Observations	4,800	4,800	4,800
R^2	0.259	0.214	0.187

The regression results displayed in Table 4.2 analyze the influence of leverage and other control factors on company performance, quantified by Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. The results indicate that leverage has a substantial negative relationship with all three performance metrics, implying that elevated debt levels correspond with diminished profitability, reduced returns for equity holders, and lower market valuation. This corroborates the trade-off theory of capital structure, emphasizing the potential consequences of financial crises linked to excessive leverage. The squared term of leverage (SqLeverage) is statistically insignificant in all models, suggesting a lack of strong evidence for a non-linear influence of leverage on performance.

The size of the firm demonstrates a consistently positively related with ROA, ROE, and Tobin's Q. This indicates that larger organizations generally exhibit superior performance, likely attributable to economies of scale, enhanced operational efficiency, and improved access to financial resources. The dummy variable for manufacturing businesses (DMFG) has weak and statistically

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negligible coefficients, suggesting that being a manufacturing firm does not substantially affect firm performance in this sample. The dummy variable for wholesale/retail businesses (DWR) exhibits a positive and substantial related with all three performance metrics, indicating that firms in this sector generally attain superior financial and market results relative to organizations in other industries.

Growth prospects provide a robust positive effect on all performance metrics. This discovery aligns with the idea that companies with enhanced growth potential are more inclined to employ their resources efficiently and yield superior profits. Liquidity exhibits a modest negative association with performance; however, this effect is statistically insignificant, indicating that possessing greater liquid assets does not inherently improve business performance and may instead signify inefficient capital allocation.

The findings highlight the detrimental impact of leverage on corporate performance, the beneficial influence of company size and development prospects, and the sector-specific benefits for wholesale and retail enterprises. These findings hold significant implications for financial decision-making, capital structure optimization, and strategic planning.

Table 4.3: Regression Estaimates for Long-Term Leverage

$$(\boldsymbol{PERF_{i,t} = \alpha_0 + \beta_1 LT - Lev_{i,t} + \beta_2 sqLev_{i,t} + \beta_3 Size_{i,t} + \beta_4 DMFG_{i,t} + \beta_5 DWR_{i,t} + \beta_6 GOP_{i,t} + \beta_7 Liq_{i,t} + \epsilon_i})$$

*Table 4.3 displays the regression estimates analyzinging the link between firm long-term leverage and performance metrics: Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. The quadratic leverage term (SqLeverage) is incorporated to account for possible non-linear effects. DMFG serves as a dummy variable for manufacturing enterprises, whereas DWR functions as a dummy variable for wholesale and retail firms. Growth opportunities and liquidity serve as control variables. association. Standard errors are indicated within parenthesis. Significance levels are indicated as *p < 0.1, **p < 0.05, ***p < 0.01.*

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Variable	Return on Assets	Return on Equity	Tobin's Q
LT-Leverage	-0.235**	-0.194**	-0.058*
	(0.026)	(0.156)	(0.023)
SqLeverage	0.005	0.001	0.000
	(0.008)	(0.013)	(0.000)
Size	0.057***	0.034***	0.015**
	(0.148)	(0.014)	(0.0136)
DMFG	0.008*	0.019**	0.036**
	(0.000)	(0.136)	(0.061)
DWR	0.026**	0.031**	0.039*
	(0.014)	(0.010)	(0.110)
Growth	0.137***	0.168**	0.005**
Opportunities	(0.269)	(0.268)	(0.287)
Liquidity	-0.009	-0.011	-0.001
	(0.014)	(0.000)	(0.000)
Constant	1.254***	0.687***	1.687**
	(0.294)	(0.236)	(1.254)
Observations	4,800	4,800	4,800
R^2	0.279	0.238	0.214

The regression estimates utilizing long-term leverage as the primary explanatory variable further corroborate the results of our baseline model that utilized total leverage. Long-term leverage continues to exhibit a significant negative relationship with firm performance, measured through accounting-based indicators such as Return on Assets (ROA) and Return on Equity (ROE). This substantiates the idea that greater dependence on long-term debt may negatively impact a firm's profitability and shareholder returns, likely due to heightened financial risk and long-term repayment commitments. However, one notable difference is observed in the case of Tobin's Q, a market-based performance

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measure, where the negative association with long-term leverage is weaker and less pronounced compared to total leverage. This indicates that market participants might see long-term debt more favorably or as less hazardous than short-term or overall debt commitments.

The data thus far demonstrate a negative link between leverage and both accounting-based (ROA, ROE) and market-based (Tobin's Q) performance metrics, implying that elevated debt levels may impede company performance. Nonetheless, a significant structural feature of the Pakistani corporate sector is the predominance of family-owned enterprises, where ownership and management are frequently interconnected. The effect of leverage in such firms may differ significantly from that in non-family-owned firms due to differences in governance structures, risk preferences, and financing motives. Existing literature supports this distinction, noting that family firms tend to be more risk-averse and conservative in their use of debt, while non-family firms may use leverage more strategically to discipline managers or fund growth (Denison, Lief). Consequently, performing a distinct analysis for family-owned and non-family-owned enterprises may yield more profound insights into how ownership structure influences the leverage-performance relationship within the Pakistani environment.

Table 4.4: Regression Estimates of Baseline Model for the Non-Family-Owned Businesses

$$(PERF_{i,t} = \alpha_0 + \beta_1 Lev_{i,t} + \beta_2 sqLev_{i,t} + \beta_3 Size_{i,t} + \beta_4 DMFG_{i,t} + \beta_5 DWR_{i,t} + \beta_6 GOP_{i,t} + \beta_7 Liq_{i,t} + \epsilon_i)$$

The panel A of this table displays the regression outcomes for non-family-owned firms, measured through Family-CEO, examining the influence of leverage and control variables on firm performance, quantified by Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. All models use control variables including

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company size, industry dummies (manufacturing and wholesale/retail), growth prospects, and liquidity.

The panel B of this table displays the regression outcomes for family-owned firms, measured through Family-CEO, examining the influence of leverage and control variables on firm performance, quantified by Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. All models use control variables including company size, industry dummies (manufacturing and wholesale/retail), growth prospects, and liquidity.

Robust standard errors are presented in parentheses. *, **, and *** denote levels of significance: $p < 0.1$, $p < 0.05$, $p < 0.01$.

Panel A (Non-Family-Owned)

Variable	Return on Assets	Return on Equity	Tobin's Q
Leverage	0.127**	0.143***	0.076*
	(0.013)	(0.108)	(0.087)
SqLeverage	-0.004	-0.007	-0.002
	(0.001)	(0.000)	(0.000)
Control	Yes	Yes	Yes
Observations	2,472	2,472	2,472
R^2	0.258	0.220	0.168

Panel B (Family-Owned)

Variable	Return on Assets	Return on Equity	Tobin's Q
Leverage	-0.012*	-0.435	0.126
	(0.054)	(0.165)	(0.049)
SqLeverage	0.001	0.000	0.002
	(0.000)	(0.000)	(0.000)
Control	Yes	Yes	Yes
Observations	2,382	2,382	2,382

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R^2	0.198	0.134	0.084

The regression results reveal a distinct disparity in the influence of leverage on firm performance between non-family-owned and family-owned enterprises in Pakistan. Panel A provides evidence from non-family enterprises indicating a positive relation between leverage and both accounting-based (ROA, ROE) and market-based (Tobin's Q) performance metrics. The significance values ($p < 0.05$ and $p < 0.01$) for ROA and ROE indicate a strong positive relationship. This corresponds with the agency theory perspective (Jensen & Meckling, 1976), which asserts that in enterprises with fragmented ownership, the existence of debt might mitigate management opportunism by enforcing financial discipline. In these contexts, debt financing serves as a monitoring tool, aligning the interests of managers with those of shareholders. This is especially pertinent in Pakistan, where non-family enterprises frequently encounter more robust institutional governance structures, rendering leverage a tool for increasing performance.

Conversely, Panel B illustrates the outcomes for family-owned enterprises, wherein the leverage coefficient is negative for ROA (significant at $p < 0.1$) and either insignificant or weakly related for ROE and Tobin's Q. This indicates that, in family businesses, more leverage may diminish firm performance, maybe due to entrenchment effects or a desire for control. Family enterprises in Pakistan frequently exhibit significant risk aversion and may view debt as a potential threat to their authority because of creditor influence. Furthermore, the utilization of leverage may indicate financial strain or operational inefficiency rather than a strategy focused on growth. The findings align with the research regarding Type II agency conflicts, wherein dominant family shareholders may favor private interests at the expense of corporate value (Villalonga & Amit, 2006).

This pattern of uneven impact is corroborated by previous research within the context of Pakistan. Javid & Iqbal (2008) observed that concentrated ownership structures frequently reduce the regulatory function of debt, whereas

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Shah and Butt (2009) identified a negative relation between leverage and company performance in companies with significant ownership concentration. The current findings reflect that leverage enhances performance in non-family enterprises, whereas it may impede performance in family firms, emphasizing the ownership-structure-specific characteristics of capital structure decisions. The findings underscore the necessity of differentiating ownership kinds when examining financial decisions and their consequences. They offer compelling evidence that agency issues vary between family and non-family contexts, impacting the relationship between leverage and company performance in Pakistan.

Conclusion

This study investigated the relation between leverage and company performance in Pakistan, emphasizing the moderating influence of ownership structure, specifically contrasting family and non-family ownership. The baseline results validated a predominantly negative relation between leverage and business performance, aligning with a substantial body of empirical evidence from emerging countries. Further analysis, however, disclosed divergent effects among ownership types: non-family-owned enterprises benefited from leverage, exhibiting positive relations with both accounting and market-based performance metrics, whereas family-owned firms encountered either negative or tenuous associations.

These findings underscore the intricate nature of agency issues within Pakistan's corporate sector, characterized by predominant family control. In non-family enterprises, debt serves as an effective disciplinary mechanism, improving performance by reducing managerial agency costs. In contrast, inside family enterprises, debt may be viewed as a risk to handle or utilized ineffectively, which could result in value erosion.

The research emphasizes the necessity for contextually aware financial decision-making in Pakistan. Policymakers and regulators ought to take ownership

arrangements into account when developing governance and funding systems. Future research may expand upon this study by examining the interplay between leverage and board dynamics, generational control, or succession planning within family enterprises.

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