

Chapter 10

The Impact of Financial Policies and COVID–19 on Sustainable Performance

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ABSTRACT

This study is basically the impact of corporate finance on the firm performance. Two major pillars of the corporate finance are capital structure and dividend policy which play vital role for long term financial success of a firm. We investigate the influence of financial policies such as capital structure and dividend policy on firm sustainable performance. The study also captures the role of COVID-19 as control variable in influencing the sustainable performance. The analysis is done on panel data of 150 non-financial firms listed on Pakistan Stock Exchange from 2010 to

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2023. Our findings show that capital structure has significant and negative effect on sustainable performance, while there is positive correlation between dividend policy and firm sustainable performance.

INTRODUCTION

The COVID-19 pandemic has caused financial instability among firms across the world since its start in China during January 2020 (Ali et al., 2022). In response to this pandemic, firms significantly changed their daily business activities which considerably declined their sustainable performance. Additionally, firms have also change their financial policies such as dividend policy and capital structure (Meyer et al., 2022). Finance is the backbone of every business, individual and every business entity. Business aim to control risk that ultimately results in insolvency (Hussain et al., 2022), therefore, firms need strong financial policies to be successful. For this, an optimal cash level is required to meet such crisis (Hunjra et al., 2022). Finances and the financial decisions always play a pivotal role for the better performance and profit maximization of a firm. It is important for governance to implement strong policies with improved monitoring the acts of management (Abbassi et al., 2021). Major corporate finance decisions include capital structure mix and dividend policy. However, COVID-19 resulted in social distance policy which ultimately negatively influenced the economic activities and financial outcomes of the business. Therefore, corporate finance decisions of the firms also adversely affected by the happening of COVID-19.

For example, many firms stopped paying dividend or decreased the amount of dividend paid during this pandemic period (Krieger et al., 2021). This pandemic severely affected Pakistani financial markets mainly non-financial firms. The selection of non-financial sector of Pakistan is based on the fact that the pandemic has significantly influenced those industries such as non-financial sector that are more sensitive to the COVID-19 and change in government policies (Ngo & Duong, 2024). Considering the importance of financial outcomes of non-financial sector of Pakistan during this pandemic, the current study aims to analyse how financial policies such as dividend policy, and capital structure along with COVID-19 pandemic influence sustainable performance of the firms. Therefore, the study will focus to answer the following research questions:

1. What is the impact of capital structure on sustainable performance of non-financial sector of Pakistan?
2. How the sustainable performance of non-financial sector of Pakistan is affected by dividend policy?

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