Impact of Capital Structure on Firm Performance: A Case Study of Textile Industry of Pakistan (2004-2014)

IHTESHAM KHAN
PhD- Scholar, Islamia College University, Peshawar
ihtishamkhan@awkum.edu.pk

MAJID KAMAL
MBA student, Abdul Wali Khan University, Mardan

DR. ADNAN AHMAD
Assistant Professor, Abdul Wali Khan University, Mardan
adnankhattak@awkum.edu.pk

DR. JEHANGIR
Assistant Professor, Abdul Wali Khan University, Mardan
janikhan@awkum.edu.pk

Abstract
In this research study investigated the impact of capital structure on firm performance of five textile sector firms in Pakistan during 2004-2014. From the analysis of the results demonstrate that the impact of leverage on ROE is statistically positive and significant. Moreover, reveal that tangibility, firm size and firm growth are negatively related with leverage. The results of this study justify the static trade off theory which says that firms who have high leverage over equity in financing will have high growth and profitability because of high interest on debt tax deductibility decreases.

Keywords: *Capital structure, leverage, ROE.*

1. Introduction

Every financial decision has a very important role in financial well fare/ wellbeing of the business. In this study we are investigating how the capital structure decision that may be influenced by firm performance. First we should know that what capital structure. Capital structure means how to finance the operation by using different means of financing a firm. Capital structure depends upon the issuance of debt, equity and hybrid security for the financing its assets to organized the operation. The companies generate equity from issuance of preferred stock, common stock and retained earnings. While debt is categorized into two parts the first one is long term debt and the second one is short term debt. In long term debt we use bond, long term debt etc. and in short term debt we use short bank loan, short term account payable etc. And the other one is hybrid security the firm may issue hybrid security which has debt and equity. In a simple word

capital structure is the combination of debt and equity. If the company generate cash through debt section so there are some and few benefits for the company first is tax shield and another is discipline manager (Jenson, 1986). Manager use free cash flow for investing the project to paying the dividend so manager use free cash flow of the company to finance in project and manager also use free cash flow to hold on the cash balance. The large firm has more experienced to finance their financial resources as compare to small firm. Small firm having less experienced managed make less efficient decision regarding capital financing which is harmful for the firm. Financing is one of the crucial areas in an exceedingly firm. A finance manager is involved with the determination of the most effective financing combination of debts and equity for his firm. Capital structure decision is the mixture of debt and equity that an organization uses to finance its business (Damodaran, 2001).The firm's assets are supported with a combination of common debt and equity, as the capital structure of the firm. Capital structure decision is the important financial decisions taken by a firm because the impact on the financial performance of the firm. Many research studies support the existence of a positive connection the use of debt and profits.

According firm Baker (1973), the large amount of leverage means more risk and to rise if the capital supplier's industry profit said rates Heinkel (1982)If imperfectly have more information about insiders are informed or the right value of the firm's debt financing and firm value would a positive association. Was found in a study by Ross (1977) that Firms' financial structure point of data for the market and more Leverage indicates good prospects for the future. Graham (1996) said the loan tax benefits are more likely to issue debt than firms with low tax rates for firms with high marginal tax rates. Modigliani-Miller theorem on the structure of financial irrelevancy Rolled assumes that the market is completes the firm's activities. Managers is owner to possess inside information, however, since an office reason (purpose) list of detail and make a money business structure give an idea of information to the market and in competition Signs will be outline inferences balance to verify. This principle means that an empirical, in a cross-section, after the increase in the value firms, will raise with leverage increases the perception of the market. Seeing corporate finance, the results Modigliani- Miller irrelevancy propositions, are well summarized in the following Excerpts. The market price of any company is independent of its capital structure and is given by Reasonable rate of profit expected by investors in class Pak (Miller & Modigliani, 1958).

The present evaluation is not affected by difference in paying the payment Term future and the like. Dividend policy is unrelated for determining the market Prices, the investment strategy (Miller and Modigliani, 1961). Literature on capital structure factors on capital structure mainly focuses on the words. Booth (2001) tested the inspection of ten capital structure determinants in developing countries and concluded the structure of the firm's capital is the result of courses of the same variables in the decisions of the firm's structure decisions, capital economies developed economies are affected by. Singh (2010) Specific capital firm and four developing countries and concluded that capital structure decisions specific analysis of factors is developed in firm characteristic capital structure as well as affected operates financial firm.

A few studies have been led on the Capital Structure King and Hijazi (2004**),** these studies have concentrated on distinguishing determinants of Capital Structure for non-monetary firms in Pakistan. In any case, these studies have not analyzed the Capital Structure influences the financial execution of the firm. Since a decision firm has utilizing the benefits of obligation or value financing, the need to investigate how the organization financing blend influence its budgetary execution.In this paper we examine the effect of debt financing on Pakistan's financial performance in Textile Company. Loan financing may be different for the relationship between different performances does not assume monotony and financial leverage in formal level in a square shape to create a linear relationship between the evaluations of the application and return ratio. Assets and debt-to-asset ratio of debt to equity, the increase in equity until early in the loan repayment is reached then start declining. We have chosen the textile business since it is most created industry in Pakistan Textile business% (GDP) and financial records for 60 of GDP% Of Pakistan's exports. Furthermore, it provides employment40% of the industrial workforce (for the government of Pakistan, 2013) the aim to explore doubled study is relative. The financial performance of corporate debt and textile firms also finding the best capital structure for these firms. Whatever remains of the paper is sort out as takes after. The following segment describes the information and talks about the structure of the textile firms think What Pakistan was trailed by a segment on model and estimation strategies. Next, we exhibit the practical results. The last segment draws Results. Management and capital structure is an increasing significant strategic issue for companies all over the world. Misstatements managers not only to make the conclusions that the impact on the capital structure and may violate the matching principle.

Companies heavy manipulation of money and points, suffers from some kind of innocent times robes shareholders, counting investors "all that glittered is not gold". All resources are created by sources as it is not directly linked with the capital structure of total assets the main sources of the debt and equity. Equity shows the risk of economic weakness and the company's high debt ratio. It also shows the debt and capital employed is financed by long-term liabilities percent. Managers of earnings management will affect this ratio and to attract investors to develop their business windows. Although Miller and Modigliani (1958) proved that there theory of Capital Structure of business firms of wealth. The Capital Structure of the future economic benefits, long-term, the distribution of a company's financial assets, long-term debt, including common stock, preferred stock and retained earnings. Different mix of capital gives you different income. Managers can develop a legal and legitimate ways to mix and manipulate it to achieve favorable results by making management. Ownership capital structure and debt induction of changes can play an important role to prevent management from the revenue management practices can be explained as the Capital Structure of a company's specific short-term debt, long term debt and preferred equity and common equity last but not least. Capital structure to its overall operations using diverse sources of funding and development of a company is what the fund. Reducing the cost of funds and management as the firm more manipulates the structure of its capital in this way.

1.1 Research Questions

- What type of Capital Structure is adopted by textile sector in Pakistan?
- What are the factors of Capital Structure in textile sector in Pakistan?

1.2 Objective of the Study

The major objective of this paper is examining the effect of capital structure on the performance of firms in Pakistan. The exact objectives are the following.

- To find that how the firm specific factors can be affected on the capital structure decision (leverage) in textile sector of Pakistan.
- Find the most important and significant factors/determinants which relate to leverage in the sector of textile in Pakistan.

1.3 Statement of the Problem

One of the major issues encountered by fund managers today is not just procurement of funds but also their meaningful deployment to generate maximum returns. Sources of funds are generally the same across all businesses but then why is it that some businesses are able to do better than the rest. If the logic of outstanding performance is a viable business idea, then why is it that some companies still fail to achieve success even with ample funds and the right business idea? The above debate clearly implies that there is something beyond financial success of business besides great ideas and good geographic presence. Capital structure is one of the important determinants of a firm's success. This study aimed by analyzing the capital structure decision on the firm performance

1.4 Significance of the Study

This paper will try to determine associated analyze the determinants of capital structure in an orderly method. The study will provide workable and practical instruction for anyone who wants to understand the theme. Usually will cover many aspects of the theme of this particular study, but will try to define the capital structure of the textile enterprises registered on the Karachi Stock Exchange. This research will help managers make decisions financing for these firms. Creditors funding firms in a particular sector can take advantage of to minimize their risk**.**

1.5 Scope of the study

There are many fields in Karachi stock exchange such as agriculture, forestry, fishing, food services activity, banking, insurance activity fuel and energy, motor vehicles and etc. Though due to time constraint this study just spotlight on textile sector for the period from 2004 to 2014

2. Literature Review

According to trade-off theory a large firm have expert with special knowledge business managers So that they can easily diversify risk and have a lower level of default risk as compare to small companies. Large companies tend to use debt in financing setup investment. Trade-off theory maintains there is a positive association amongst firm size and leverage. Their agency cost of debt is at a lower level and large firm are more credible in money markets. Thus large sized companies are was looking on as to come to intensively use debt (Rajan, 1995). Rafiq (2008) performing the research on determinants of the capital structure of the chemical sector in Pakistan. He used penal data for the period of 12 years from 1993 to 2004.

He found that profitability, non-debt tax shield, size of the firm, income variations and firm growth are the major determinants of capital structure in chemical sector of Pakistan. Frielinghaus (2005) South African companies, the option of pre-stages for the insiders maintain that support more debt in the early stages. They conclude that this bill is the right approach. Beattie. (2006) that are not publicly traded determine the most targeted leverage ratio of small and medium sized UK firms find you. On the other hand, the large size seems to be that big a target leverage ratio specified in the number of firms. The Grundströmer and Gustafson (2007) on financial flexibility as the most important factors affecting trade in Swedish company's capital structure decisions publicly, reporting capability and long-term credit rating.

Serkan (2011) Find a significant association between firm size and common stock issues. He added that celebrated a significant relationship between firm size and personal loans. However, the setup cost, financing for ongoing operations and future investment priorities seem to be independent of firm size. In addition, there was a hierarchical preference for internal resources, debt and common stock issues. Sources of financing are compatible with the pecking order theory of sequential order. Other results are also connected with the validity of the packing order theory in explaining the capital structure of Turkish companies. Trade off theory maintains close positive relationship between firm size and leverage. Big companies money and debt markets reliable cost of the agency at a lower level. Thus, large companies are expected to constrict credit (Rajan, 1995). On the other hand, the pecking order theory suggests that large companies are quite low levels and equity sources. As a result, they are disposed to use retained earnings as the main financing source. Any additional financing needs are met by debt and common stock issued in the last step (Frank, 2003). Leverage and firm performance can be divided into 2 teams. This is supported information asymmetries. Signaling Ross (1977) came up with a model that outlined criteria regarding the choice of debt-to-equity quantitative relation by a firm need to send the sign signal. As a result firms borrow less money than quality and increase the firm value of leverage with a similar model was established by Leland and Pyle (1977) wants to share high quality manager, manufacturing manager is to get the attention of high finance. Having a firm will end with the lower risk debt that's why. The association between firm performance and capital structure over the agency cost of another group studies (Jensen &Meckling, 1976; Myers, 1977). Agency costs are associated to conflicts of interest among different groups of agents (managers, creditors, stockholders).There are two types of agency problem might be r elated.

2.1 Agency problem between directors and stockholders

It arises whenever managers own less than 100% of shares of firm's assets due to unwillingness of managers to do their best in order to maximize firm value (which is preferable for shareholders). Jensen (1986) considered benefit of debt as a restriction of managerial discretion and stated that "the problem is how to motivate managers to disgorge the cash rather than invest it below the cost of capital or waste it on organizational inefficiencies". Managers of low-indebted firms are inclined to spend free cash flows more freely, thus taking less effective projects and generating lower return. In the opposite situation, when a company has debt in its capital structure, managers are

committed to make interest payments, thus having less free cash flow left and choosing a more effective way to distributing these cash flows. An alternative point of view is that shareholders delegate some part of their control over managers to debt holders, giving possibility to evaluate firm performance to capital markets.

2.2 Agency problem between stockholders and bond holders

The issue is that this type of reasonable distinction among investors and debt holders. I agree with the latter and to reduce the risk of low returns, while the former, taking risks demand higher and higher returns. Therefore, we prefer shares will give holders debt holders want to projects with high risk. All debt holders and investor losses Meckling and Jensen, (1976), will earn additional returns. As a result more obliged firms with minor risk projects. On the other hand, Myers (1977) may be underinvestment debt holders and shareholders contradictions between the goals that have appeared. As a result he can lead to poor corporate performance with high leverage.

2.3 Theoretical Discussion on Capital Structure

We represent and have some theoretical need to test potential determinants of leverage stage. The significance of making a decision regarding the capital structure of the first He proved that by Modigliani in 1958 and published by Miller (MM), No tax in the world, is not affected through the leverage of the firm. In the field made by MM important task after a few studies have made assumptions. Indeed, the benefits of MM hypothesis great appreciation of the benefits of the ideal capital structure in an appreciation companies to back and should not stable, explains the empirical results on the capital structure. Then, after such criticism, they include corporate tax element and reviewed their Capital structure theory Model 1963. Profit and publish a new article, published Miller, in 1977 another article includes corporate tariff and individual income tax models. According to MM theory, subject to a maximum capital structure of the loan tax benefits and why Firms Consists almost entirely of the loan should have a capital structure. However, in this present reality firms In general obligation to utilize due to its high debt moderate amounts of loans for bankruptcy costs. After MM Theorem, they developed the fundamental theorem of capital structure.

2.3.1 Agency theory of Capital Structure

Jensen and Mackling (1976) conduct the agency theory agency theory recommends that the managers (agent) are given power by the shareholders (the principal) to deal with the firm in a path by which company's welfare and shareholder's riches are expanded. Specifically, the supervisors don't generally act in light of a legitimate concern for the shareholders in which the chiefs can embrace a pioneering conduct and advantage them from accomplishing their own self-centeredness that may put the firm at danger. In the end, accomplishing the objective of augmenting the estimation of the firm regularly gets to be unattainable. Such an irreconcilable circumstance will make office issues and expenses. As per Jensen and Mackling (1976), an individual will work harder for a firm on the off chance that he/she claims a huge rate responsibility for organization than if he/she possesses a little rate. In any case, when chiefs hold a critical bit of a company's value, an expansion in administrative possession may prompt an expansion in administrative advantage and in this way may bring about lower obligation.

Jensen and Mackling (1976) contend that directors maintain a strategic distance from influence to decrease the danger of corporate chapter 11 and exchange of control to bondholders. The misfortune to supervisors from chapter 11 is conceivably more noteworthy when administrators hold bigger proprietorship. Grossman and Hart (1982) recommend that the utilization of obligation expands the odds of chapter 11 and employment misfortune that further rouse directors to utilize the authoritative assets effectively and diminish their utilization on advantages. Jensen's (1986) has delivered free cash flow hypothesis to limit management discretion. He said the financing available to managers explains free cash flow as the amount of cash all the projects has a positive net present value. Jensen's concerns with enough revenue should drop the director's vibration or adult incontinent less than ideal in business activities. If so Regarded as an issue then it can be unraveled by then or more benefit or installment of credit. Indeed, even settled a firm can apply to both arrangements along with the principle of free cash to reduce debtor flows to pay interest and principal of the firm. Furthermore, the rise Profit managers the ability to chase in vain should benefit reduced the stockholders Activities.

2.3.2 Signaling theory of Capital Structure

A Signaling theory was introduced by Ross (1977) consistent with Ross Managers are often used as a sign of the capital structure of the companies to investor. A Ross manager (internal) assumes that the return address is real distribution firm, but not investors. Decided to include supervisors Debt in the capital structure, investor's higher future cash flows and interpreted as a sign of the organizations promise to his treaty responsibility. It represents the high stage of self-esteem under his leadership, the public sentiment to think that there are possibilities in the delightful firm Future. if financial manager of firm want to issue new share of equity, indicating the firm Share unfavorable prospects and disadvantages to the new investors. Accordingly, He concluded that the broader level of debt as a symbol of high quality investors.

2.3.3 Trade off theory of Capital Structure

This theory (Scott, 1977) claims that the maximum debt ratio of an organization is find out by a trade-off Debt (interest payments tax deductibility) the advantages then disadvantages of using (Insolvency value). High profits of a firm decreases in the estimated cost of the financial the pain and increasing their tax benefits from increased leverage of the firm. Furthermore an organization with Small investment will have tangible resources in financial distress costs than a company relies on intangible resources. The finding of this theory show that the company will give prefer to debt financing rather than equity financing. Financing the tax benefit is equal to the point at which the possibility of bankruptcy creditors.

2.3.4 Pecking order theory of Capital Structure

This theory was present by Majluf and Myers (1984).According to them this theory cannot pursue the leverage of firm which is targeted each firm decide debt and equity ratio base on their financial needs. Companies retained earnings from the fund projects. The firm issue more equity to shareholders in case of low retained earning when they need loan for further investment. Because retained earnings have low cost as compare to issuing new shares. External resources can be used on behalf of very high cost of financing in the issuance of new shares. Profitable firms on domestic cash and reduce debt.POT facing difficulty to obtain funds at sensible cost.

2.2 Relationship between Firm Performance and Leverage

According to Kinsman and Newman in 1999 to inveterate the relationship among the capital structure and firm performance they found some reason which is given as follows, first element is debt variable in which this level of the firm have boost in the greater extend for a time which is required in explanation of debt level impact on the performance of the firm. From that reason firms can take OCS (optimal capital structure) decision in the particular situation. The other reason is that the purpose of the investor and manager is distinguished for the effects of debt level in the performance of the firm in the particular circumstances. The last one is the most important reason which show the association among the debt level and firm performance to measure the relation among the debt level and stockholder wealth because the main objective for the firm manager is to maximization of the wealth.

Gleason (2000) In the European countries firm performance measured by profit margin and ROA found a negative and vital relation of leverage level with firm performance. Upneja and Dalbor (2001) on the capital structure of restaurant business in this respect comparing the older firms with newer showing that older firms in total funding used long term funds as they have more confirmed inflow of money, and growing firms with much of opportunities so having high scale of leverage in their capital structure as compare to lower growth firms use each short term debt finance to finance its operations. Although for risky businesses it is very difficult to raise debt financing because there is a lot of chances of bankruptcy so therefore they mostly prefer short term borrowing as compare to long term financing. There is data imbalance problem in long term debt while short term debt financing can be obtained from domestic lenders.

Chinese and modern finance theory phases and developed the relevant factors of the particular firm that is the same, and Chen. (2004) in an analysis of Chinese corporate environment and the evolution of its properties that is similar. But the trade in the POT established markets offers no explanation for the choice of optimal capital structure (OCS) by a Chinese company. First, the use of retained earnings and opt for the long-term debt financing and equity financing these companies seem to have implemented a new instruction. Deesomsak (2004) Leverage found in the bonding surface with a negative gross profit margin measured firm performance in their study on Malaysian firms. Internally generated funds beak profits in favor of the idea, through the Malaysian firms. Moreover, Singapore, Taiwan and the negative correlation between the performances of the firm's leverage and firms in Australia but was mediocre. Leverage was a slight concern is backed firms in Singapore and the positive impact they are less visible to financial distress costs because of the size of the firm for all countries except Singapore. San and Heng (2011) also invested the relation of capital structure with firm performance of the Malaysian construction industry considering the financial crises of 2007 - 08 that seriously affected Malaysia and most of the economies of the world. The findings of the study shows that the financial crises do not have huge impact on the performance of construction industry because of the high scale developmental work going on in the country. And further they depicted Weak relation among leverage and performance measured by ROE, ROA and profitability in the Malaysian construction industry comprising of small, medium and large size companies.

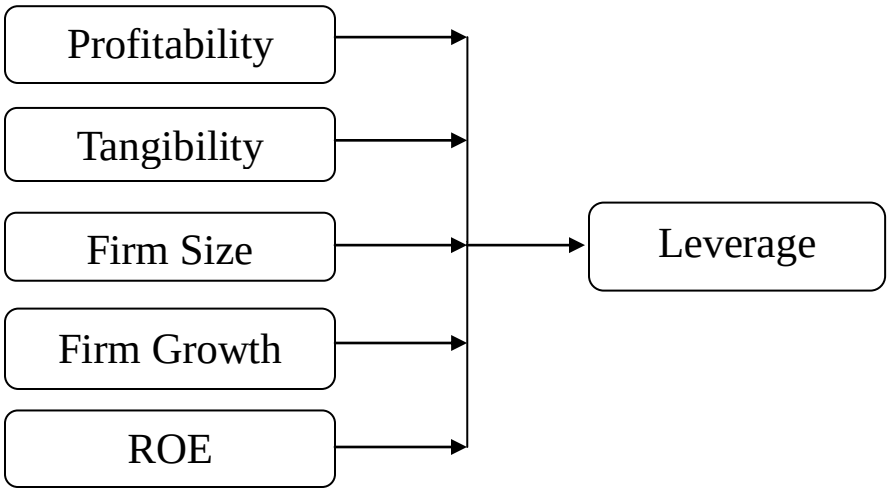

Figure 1: Theoretical Framework

2.3 Hypotheses

For the current research an alternative hypothesis are as under. Which I have been done formulated out from the literature review.

H_1: There is significant and negative relationship among profitability and leverage.
H_2: There is positive and significant association between tangibility and leverage.
H_3: There is also significant and positive relationship among firm size and leverage.
H_4: There is significant and positive association between firm growth and leverage.

3. Methodology

This data collection and data analysis method describes the events was used for this study. Section I, data collection for the study with a view to reach the objective results, the most appropriate research methodology needed for presentational and analysts also highlighted. This research method research design, nature and sources of data and techniques used in the analysis were also outlined will also be included. It tries to take out the paper on the performance of the firm's capital structure model using the details with specific variable.

3.1 Data Sources

In this paper the method used in collecting the secondary data was the evaluation of the capital structure after the yearly report and record of five firm of textile sector which is listed in the Karachi stock exchange market using arbitrary testing procedures.

3.2 Firm Specific Factor Determinant of Capital Structure

Many type of business they may be small, medium or large needs finance and financial resources for the business operation to full fill their needs. Capital structures of any firm base on the cost of benefit analysis of equity or debt. In this paper we explore the effect of specific elements of the Capital Structure.

3.2.1: Profitability

The pecking order theory is more probable to be funded from inside sources external sources rather than a profitable firm. More profitable organization reduce the debt because they are able to produce profits and leverage an inverse relation shows that the project cost for the easy investment funds and cost effectively insiders to between be

expected to hold. Rajan and Zingales (1995) a negative relation between profitability and leverage is irrelevant in determining the structure of the profit is found in the capital. On the other hand, is subject to all debt is common for lenders, in considering these factors, the debt obligations of the payment capacity of most tolerable level of debt the firm after firm profitability measures. The most profitable firms can easily add additional debt in their Capital Structure is argued. However the TOT signaling theory and agency cost theory maintain there is a positive relation among profitability and leverage. After Rajan and Zingales in 1995.AndSupanvanij (2006), is used as a proxy for the profitability ratio of operating income to total assets

3.2.2 Tangibility

Guarantees against default risk of borrowers on the loan could be considered as collateral to ensure tangible assets of a firm. Leverage measure of tangible assets and predict the positive relation among the tradeoff theory Be that as it may, the impact is not yet clear. Incorporates the above experimental studies affirm the hypothetical forecasts, Lang and friend (1988), I need more benefits to firms with assets less collateralizable pay a heavy price for the debt to limit the tendency to consume manager, suggested that it should use debt to oversee management activities. There is a negative association between tangibility and leverage assets, which means confirm the results of the Sheikh and Wang (2010).The study measured total assets and net fixed assets as a ratio tangibility following Lang and friend (1988).

3.2.3 Firm Size

The association among firm size and leverage is unclear. Many large firms' literature diverse reasons cause more stable or less unstable cash flows are less often failed also a positive association relating firm size and leverage with the securities most likely use the economies of scale to continue the offer. Finally, large firms can issue debt at a lower cost as well as compare to smaller firms. In this case we suppose the size to be positively associated to leverage. Thus, Raja and Zingales (1995), and empirical studies by Booth (2001), generate that the leverage is generally positively interrelated with the size of the company On the other hand. Chung (1993), and Ozkan (2001) by size of firm conducted studies and exposed no ordered relation between Total debt ratios but since of Fame and Jansen's (1983) discussion firms under asymmetric information, maybe these firms to make ready more information to strange investors than smaller Firms. The debt equity increases their comparative prime concern. In such Ickes and Ivgen (2011), Farooq and Elli (2011) and the results of some studies exposed a negative relationship among size and leverage. Follow Zingales and Rajan (1995) is used as a proxy for the natural logarithm of the size of net sales.

3.2.4 Firm Growth

Myers (1977) will need to reduce debt in the capital structure of companies with growth potential that argument. The opportunity can generate moral hazard effects and push firms to get extra risk. To reduce this problem, the cause of shareholder assets in increase opportunities should be financed with debt rather than equity to at least have a reduction / risk. Gued (2003), Sayilgan (2009), Buferna (2005), and former and Oliver (the results of 2009) which supported the upside in growth and leverage the firm. On the other hand, Titman &Wessel's (1988), growth opportunities and found a positive association between leverage Prefers the idea of a new project with internal funds to

finance the firm's beak. Nevertheless, growing firms often do not have enough internal funds to finance new projects. Equity financing, debt financing firms as a result of the loans require that prefers. Chen, J.(2004) and Buferna (2005), then used as a proxy for the growth of the percentage change in the price of the firm's total assets.

3.3 Dependent and Independent Variables

Firm specific factors or determinants of Capital structure can be classified in to dependent and independent variables. Leverage used as dependent variables related to debt and equity. Profitability, tenability, size, growth and return on equity are used as independent variables

3.3.1 Econometric Model

Pooled regression analysis is regressed on dependent variable leverage and explanatory variables profitability, tangibility, firm size, return on equity and firm growth.

Therefore, equation for regression model is following,

$LG = \beta 0+\beta_1 (Prof)+\beta_2(Tang)+\beta_3(FS)+\beta_4(FG)+\beta_5(ROE)+\varepsilon$

Where,

LG= Leverage
Prof= Profitability
Tang= Tangibility
SZ= Firm Size
Gr= Firm Growth
Roe=Return on equity

4. Result and Analysis

Table 4.1: Descriptive Statistics

	Range	*Minimum*	*Maximum*	*Mean*		*Std. Deviation*	*Variance*	*Kurtosis*	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic	Statistic	Std. Error
Leverage	146.69	-30.80	115.89	4.03	2.45	17.32	299.83	37.38	.66
Profitability	23.82	-7.60	16.22	1.55	.73	5.14	26.46	.31	.66
Tangibility	.49	.38	.87	.65	.019	.13348	.018	-.67	.66
Roe	894.20	-847.67	46.53	-20.00	17.43	123.22	15183.61	43.79	.66
Firm growth	93.11	-10.89	82.22	8.22	2.57	18.15	329.48	5.83	.66
Firm size	15.21	.00	15.21	13.50	.31	2.18	4.75	30.75	.66
Valid N (listwise)									

The above table 4.1 shows the mean value of each variable standard deviation, maximum value, minimum and kurtosis. The mean value of leverage is 4.0250. With standard deviation17.31586, minimum and maximum values -30.80 and 115.89 correspondingly. It means that average firm in Pakistan textile sector use high In Capital Structure portion of debt. In the above table 1 the mean value of profitability is 1.5486, with standard deviation is 5.14429, minimum and maximum value is -7.60 and 16.22. This point out that profitability is in a good position this point show that all the company is profitable. In the

above table the mean value of the tangibility is 0.6538 with standard deviation 0.1334 minimum and maximum value is 0.38 and .87.In the above table 1 the mean value of the ROE is -20.0036. With standard deviation 123.22 minimum and maximum values is -847.67 and 46.53.In the above table the mean value of the firm growth is 8.2154 with standard deviation 18.1516 minimum and maximum value is -10.89 and 82.22. So it expresses that some textile firm increase their sales but some in weak position. In the above table the mean value of the firm size is 13.4943 with standard deviation 2.1816 minimum and maximum value is .00 and 15.21.

Table 4.2: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	18.348	11.738		1.563	.125
	profitability	-.677	.242	-.201	-2.798	.008
	Tangibility	-15.172	9.615	-.117	-1.578	.122
	Roe	-.129	.009	-.916	-14.067	.000
	firm growth	.033	.062	.034	.527	.601
	firm size	-.459	.573	-.058	-.801	.427

a. Dependent Variable: leverage

The above table 4.2 show that profitability having negative relation with leverage (-0.201) but it is statistically significant (.01<p=.05) at. 05% level so our research hypothesis H1 is accepted, so there is negative and significant relationship between profitability and leverage". Thus, profitability depends upon leverage. Tangibility is negatively correlated with leverage (-0.117) but it is not statistically significant (.15>p) under any three level of significant. 01%, 05% or. 1%. So our research hypothesis H2 is rejected. Here is positive and significant association among tangibility and leverage. So our result does not favor the tradeoff theory offered by (Myers, 1977) that debt tends to increase fixed assets of the firms. Firm size is negative correlated with the leverage (-0.058) and it is not statistically significant with leverage (.000<p=.01) at 1% significance level. So our research hypothesis H3 is rejected, "There is negative and not a significant relationship between firm size and leverage". Firm growth is positively related with leverage (0.034) and it is also statistically significant with leverage (.04<p=.05) at 5% significance level. Hence, our research hypothesis is accepted, "There is positive and significant relationship between firm growth and leverage". This proves that the growth of firms is very high in textile sector of Pakistan and they used more debt for financing new product instead of equity. The only reason is that the firms need more cash flow for growing and they have to rely on debt because they do not able to meet their financing through internal resources.

Table 4.3: Model Summary[a]

Model	**1**
R	.908[a]
R-square	.825
Adjusted R Square	.805
Std. Error of the estimate	7.63936

a. Predictors: (Constant), Firm Size, ROE, Firm Growth, Profitability, Tangibility

Table 4.4: ANOVA

Model	**Regression**	**Residual**	**Total**
Sum of Squares	12124.275	2567.831	14692.106
Df	5	44	49
Average Square	2424.855	58.360	
F	41.550		
Sig.	.000[b]		

Table 4.4 shows the result of pooled regression analysis. Adjusted R square is. 805 which mean that there is 80.5 % variation in leverage (dependent variable). So, it means that the choice of firm specific Capital Structure is defined by five independent variables particularly more explained by two variables profitability and firm size.

Table 4.5: Expected and Observed Results

Determinants	**Proxy/Measure**	**Expected relationship with Leverage**	**Observed Relationship**
Profitability	*Net Income/Total Assets*	negative	*Positive*
Tangibility	*Net Income/Total Assets*	Positive	*Negative*
Roe	*Net income/total Equity*	Positive	*Negative*
firm growth	*Net Income/Total Assets*	Positive	*Negative*
firm size	*Log of Sales*	Negative	*Negative*

Table 4.5 Present the result of hypothesis that we have tested. Out of 5 independent variables 2 variables are statistically significant with leverage Tangibility and growth are both negative related with leverage.

Table 4.6: Correlation Matrix of Independent Variables

Variable	Leverage	Profitability	Tranquility	Firm size	Firm growth	RoE
Leverage	1					
Profitability	.027	1				
Tangibility	-.113	-.378**	1			
Firm size	-.096	.293*	-.440**	1		
Firm growth	-.029	.202	-.003	.148	1	
Roe	-.888**	-.212	.106	.039	.016	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 4.6 shows the correlation matrix of variables which explain the presence of multicollinearity between independent variables. The highest correlation exists between the return on equity and leverage which is negative 88%. The second highest correlation exists between the tangibility and leverage which is also negative 11%. The relation among Firm growth and leverage which is 2.9% which show there is negative and weak relation between the firm growth and leverage. The relationship among the profitability and leverage is 2.7% which show the positive relation. The relation between the firm size and leverage is 9.6% which is also show the negative relation among the firm size and leverage.

5. Conclusion and Recommendations

5.1 Conclusion

This study has observed the effect of firm specific Factors on capital structure decision (leverage) of Pakistan textile five firms from 2004 to 2014. We found that there characteristic capital structure profitability firm growth and ROE are statistically significant with leverage in textile sector of Pakistan. Profitability is positive related with leverage while tangibility, firm size, firm growth and ROE are negatively related with leverage. The results of this study justify the static trade off theory which says that firms who have high leverage over equity in financing will have high growth and profitability i.e. due to high interest on debt tax deductibility decreases. There is positive relationship between profitability and leverage. This paper investigate that, in textile sector, large firms do more financing through debt because there financing demand cannot be meet only through equity finance and as they have more accessibility to this source of finance as in comparison the small firms do not have much access to such type of finance. The rate of growth of assets is high because all assets are financed by debt. One of the major reasons is that, more growth of assets needs more cash flow so firms cannot meet their financing through only internal resources so firms are intended to borrow debt and finance their assets. Out of four hypotheses, our two hypotheses are accepted. Profitability and firm growth is having positive and significant relationship with leverage while tangibility, firm size and ROE is negative related with leverage.

5.2 Suggestions and recommendation for further research

The company financial performance debt to equity ratio shows the impact on the financial performance of the element or move companies. When considering the research result will be more valuable if it is different from the kinds of measures. Many sectors are listed in the Karachi Stock Exchange but have taken a sector research and are composed of a small number of firms. The sample size will be increased to expand the analysis. Only some technique is used to test hypothesis such as descriptive statistic correlation and regression. Further the research can add much variety of technique to generalize their finding. Optional information that are collected for this research to test it out we can use the secondary information on each organization.

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