

How Firms Finance Their Investment.
Shariah Compliant vs Shariah non-Compliant Firms



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ABSTRACT

This study examines different sources of capital utilized by the investors according to their respective scenario. It helps the investors, managers and other stakeholders of firms to make accurate decision regarding their combination of different sources of capital. The firms chosen for the study are Shariah Compliant (SC) and Shariah Non-Compliant (SNC) pertains to Pakistan for the period from 2009 to 2019 except financial institutions. In the starting year, number of firms pertains to Non-Compliant were more than Compliant firms. Later they were given almost equal contribution by the investors as they were shifting to Shariah Compliant firms or either new investors started their businesses on the principles of Shariah Compliant. There are two panels in this research study, Panel A represents Shariah Compliant Firms and Panel B represents Shariah non-Compliant firms. Both the panels of firms have almost equal percentage of Market Capitalization i.e. 50% each. These firms have been further divided into 12 industries in order to know that which industry has more investments either by SC or SNC principles. Here we have seen that overall investors are investing more in these three industry i.e. Consumer non-Durable, Money and Manufacturing as compared to other nine industries. Results of the study are generated by applying Seemingly unrelated Regression (SUR) Model and Quantile Regression (QR) Model. SUR Model is being applied by 3 Equation Model where Short Term Debts and Long Term Debts are treated as single source of capital i.e. Total Debts whereas in 4 Equation Model Short Term Debts and Long Term Debts are treated as separate sources of capital. For Shariah Compliant Firms, the results of both SUR 4 Equation Model and 3 Equation Model shows that only for Cashflow investment, Pecking Order Theory (POT) concept has been seen where first priority was given to Cash for fulfilling the investment whereas for the rest three investments POT concept was not utilized as external financing was availed by Investors for investments. For Shariah non-Compliant Firms, the results of SUR 4 Equation Model shows that for Cashflow and Dividends investment, Pecking Order Theory concept has been seen where first priority was given to Cash for fulfilling the investment whereas for the rest two investments POT concept was not utilized as external financing was availed for investments. Similarly the results of SUR 3 Equation Model shows that for all four investment, POT concept was not utilized as external financing was availed for investments. By applying QR Model for Shariah Compliant firms, the results shows that throughout Equity remains the top source from start to end whereas for Shariah non-Compliant firms, the results shows that equity issuance is one of the important source of capital from third group to end because at first two groups ST Debt was utilized as first priority by the investors. This shows that POT concept was not utilized as external financing was availed for investments. All the results of SUR Models & QR Model pertains to Shariah Compliant and Shariah non-Compliant firms shows that all the sources of capital are being utilized for the investments by Investors.

Keywords: "Seemingly unrelated Regression (SUR), Quantile Regression (QR), Pecking Order Theory, Shariah Compliant (SC), Shariah non-Compliant (SNC) and Investment"