

DETERMINANTS OF CAPITAL STRUCTURE IN TEXTILE INDUSTRY OF PAKISTAN

By

**MUHAMMAD NOMAN
23944**

A thesis presented to the Department of Management Sciences, Bahria University
Karachi Campus, in partial fulfillment of the requirements
of the MBA degree



SPRING, 2017

Bahria University Karachi Campus



MBA Thesis
semester Progress Report & Thesis Approval Statement

No.	Date	Place of Meeting	Topic Discussed	Signature of Student
5	14-06-2017	office	Discussion about literature review	<i>Noman</i>
6	22-07-2017	office	Discussion about results gathered	<i>Noman</i>
7	25-07-2017	office	Complete Discussion	<i>Noman</i>

Supervisor-Student Meeting Record

APPROVAL FOR EXAMINATION

Candidate's Name: Muhammad Noman

Registration #: 23944

Thesis Title: Determinants of Capital Structure in Textile Industry of Pakistan

I hereby certify that the above candidate's thesis has been completed to my satisfaction and, to my belief; its standard is quite suitable for submission for further evaluation. Plagiarism test has been conducted using HEC prescribed software (on turnitin) and found its similarity index at _____ which is within the acceptable limits. I have also found that the thesis is in a format and standard as set the Department of Management Sciences.

Supervisor's signature: *H. Mas* Date: 14-09-2017

Name: Kaleem A Ghias

HOD's Signature: _____ Date: _____

Table of Contents

2nd Half-semester Progress Report	i
Declaration of authentication.....	ii
Dedication	iii
Table of Content.....	iv
List of Tables and Matrices.....	v
List of Figures and Graphs.....	vi
PLAGIARISM REPORT.....	xi
Abstract.....	x
Chapter – 1	1
Introduction.....	1
1.1 Back ground of the Research	1
1.2 Research Context of the Study	3
1.3 Problem Statement of the Research	4
1.4 Objective of the Research	5
1.5 Research Questions	5
1.6 Research Hypotheses.....	6
1.7 Introduction to the Textile Industry	6
1.8 Significance of the Research	7
1.9 Research Ethics	7
1.10 Research Limitations.....	7
1.12 Prospect for future Research	8
1.13 Organization of Research	8
Chapter – 2.....	9
Literature Review.....	9

2.1 Capital Structuring	9
2.2 Capital Structuring Theories	10
2.2.1 <i>Theory of Static Trade</i>	10
2.2.2 <i>Pecking order theory</i>	11
2.2.3 <i>Agency theory</i>	11
2.2.4 <i>Signaling theory</i>	12
2.3 Determinants of Capital Structuring Theories	12
2.4 Conceptual Framework	14
Chapter 3	16
Research Methodology	16
3.1 Research Approach	16
3.2 Nature of the Study	16
3.3 Type of the Study	16
3.3 Targeted Population	17
3.4 Sampling Technique.....	17
3.5 Sampling Size.....	17
3.6 Data Collection Process	17
3.9 Research Model.....	17
3.9 Statistical Technique	18
Chapter 4	19
Data Integration	19
4.1 Panel Regression Technique	19
4.2 Hausman Test.....	20
4.3 Random Panel Regression Model	20
4.4 Hypotheses Summary.....	21
Chapter 5	23

Critical Debates.....	23
Chapter 6.....	26
Conclusion and Recommendations.....	27
6.1 Conclusion.....	27
6.2 Policy Recommendations.....	27
References.....	28
Appendix.....	30

Abstract

Purpose: This study is performed with an objective understand capital structuring process in textiles industry of Pakistan. It also focuses to identify different financing options available to finance managers in textiles industry of Pakistan. It also aims to identify different financial factors that are responsible for variation in capital structuring process of textile firms in Pakistan.

Research Methodology: This research study is performed following explanatory research approach to explain and understand the impact of size of firm, earnings, sales growth, tangible assets and lag of financial leverage on financial leverage of the firm. This research study is secondary in nature because in present study already published data is available on selected variables that is extracted from financial statement so of the listed firms in textile industry in Pakistan. In this research study quantitative approach has followed. The targeted population of present research study is composed of listed firms in textile industry in Pakistan with significant level of operations. In this stratified random sampling technique has applied with preconditions that includes that firms is operating for more than one year and listed in Pakistan stock exchange. In this research study a sample size of 8 listed textile firms has selected to gather data on selected variables i.e. size of firm, earnings, sales growth and tangible assets and financial leverage.

Findings of the Research: The study revealed that there is significant role of size of firm, earnings and lag of financial leverage in determination of financial leverage of listed firms in textile industry in Pakistan with significance value of 0.000, 0.0036 and 0.0017 therefore significant at 5 percent level of significance hence hypothesis for thesis variables i.e. H1, H3 and H5 are accepted while tangible assets of firms and sales growth has found no significant impact on financial leverage hence hypotheses for these variables i.e. H2 and H4 are rejected. Furthermore it is clearly evident that lag of financial leverage positively determines financial leverage current value with coefficient value of 0.705.

Practical Implications: This study provided with useful information to determine the role financial indicators to determine financial leverage position of firm.

Keywords: Size of the firm, Sales growth, Earnings, Tangible Assets, Financial leverage