

Impact of Capital Structure on Financial Performance of Textile Sector in Pakistan

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Abstract

The impact of capital structure on the financial performance of firm is the key purpose of this study by using a sample of 60 firms of textile industry in Pakistan for the period of 2010-2014. Panel data procedure is used for the measurement of firm's financial performance. ROA and ROE are depended variables and assets turn over, growth, debt to assets, and debt to equity, total debt ratios, short term debt and long term debt as in-depended variables who lead to capital structure. As well as, firm size as control variable and panel data regression technique is used. ROA and ROE have significant positive relationship with debt to equity and debt to asset. As well as, in sample companies of Pakistan textile industry we found significant positive relationship among performance and growth; ROA and firm size; ROA, ROE and short term debt; long term debt and ROA; total debt and performance of the firm analysis. However, there is negative relationship exist between ROE and firm size; ROE and Long term debt. All the results of correlation matrix, regression model, and descriptive analysis indicate the same results that if a company manages the appropriate capital structure it can increases the financial performance of the corporations. Also, results indicate that manager can improve the textile sector financial performance. To conclude, finding of our study helps to support the arguments of trade-off theory that firms should use more debt incorporate in the capital structure and this help to improve the performance of the organization.

Keywords: firms' financial performance (ROA, ROE), capital structure, Pakistan stock exchange (PSE), asset turn over, textile sector

The material presented by the authors does not necessarily represent the viewpoint of editor(s) and the management of the Khadim Ali Shah Bukhari Institute of Technology (KASBIT) as well as authors' institute.

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Introduction

Capital structure refers to the means by which an organization is financed and to the mixture of preferred equity, common equity, preferred equity, retained earnings and long term debt. As well as, particular to short term debt that a company used to financed its overall operations and growth. Risk and return of the firm are directly relate to capital structure because capital structure is one of the vital financial decision and any immature choice can result in rising of high capital cost. So, the enterprise performance and survival can be seriously affected if the wring mix of finance is used. According to the Damodaran, (2001) the term “Capital Structure” lead to equity and debt mix that a firm employed to finance its business and Weston and Brigham (1979) defined that the steady use of financing represented by long term debt, stock performance and net worth.

How do financial firms choose their capital structure? This important issue take consideration in recent times, making the optimal capital structure has required a focus of attention in many financial and academic institutions for a long time because capital structure is crucial in competitive environment. Determining capital structure risk level of company a key factor is fixed cost, whether it is engaged in fixed financial charges or production process. Ruzben J. and Bodhanwala, (2003) reported that the determination of financing or capital structure choice is significant managerial decision and assets of the company can be financed by loaner or the owner, as it affects the shareholder return and risk.

Modigliani and Miller initiated the capital structure modern theory in which financial theory stating that, the firm value is in-depended with the capital structure under the perfect capital market. Capital markets are frictionless and if there is no bankrupt cost, and if without taxes, so the best capital structure of an enterprise should be the

hundred percent debts because debt can reduce the tax to pay. But, in the real corporate world this appears unreasoning. The M&M theorem demonstrate being more profitable makes the debt laden company more valuable. This theorem is used by economic and financial advisors to constitute the optimal debt level; a company should leverage in order to exploit its value. In their famous 1958 article Miller and Modigliani confronted that view. The market value of enterprise, company earning power, risk of its real assets and if certain assumptions are satisfied, capital investment of the company is held fixed; the independent choice of the capital structure is the combined market value of the company debt and equity. MM theory model was valid in theory but in practice there were bankruptcy costs and that these costs were directly proportional to the level of the debt of company as per Brigham and Gapenski (1996), as well as, these costs were directly proportional to the company debt levels.

In the financial world the relationship between capital structure and firm performance got considerable attentions in recent times. This study is conduct to explore the impact of capital structure on firm financial performance, will help us to know the potential problems in financial market performance and capital structure. Erasmus (2008) and Ruzben and Bodhanwala, (2003) and other studies based on capital structure and firm performance established a significant relationship. The reseearch remanied ignored espacilly in developing coountries like Pakistan on the effect of capital strcture on firms fiancial performance particulary in textile industry. Therefore, essential to understand how financing of firm's choice affects their performance. The main research objectives of this study are;

- The study/determine the relationship between capital structure and financial performance.

- To examine the different category effects of firm performance such as DE, DA, TD, STD and LTD.
- To inspect the effect of growth efficiency on firms financial performance.
- How does the firm size affect the performance of firm in textile Sector (Industry) listed in Pakistan Stock Exchange in Pakistan?
- To draw conclusion regarding the relation between capital structure profitability of textile firms registered in Pakistan Stock Exchange.

This study tries to find the answer the following research questions:

- What is the association between debt of the firm and their financial performance in textile sector of Pakistan?
- What are the role of other variables like growth, firm size and efficiency on firm performance?
- How the firm performance measure by ROA, ROE is effective by different categories of debts such as debt to asset, debt to equity, short term debt, long term debt and total debt.
- What is the degree of capital structure and ROA, ROE (Financial performance) in the Pakistan textile industry?

In developed nations of the world, the effect of Capital structure on the financial performance of firms have made recognized. Few studies on that subject issue had conducted in the developing states of the world particularly in Pakistan; this matter had investigated in very few sectors. Still, the consequences of these empirical investigations do not disclose harmony in between them and has disclosed mix reaction i.e. the negative association while other discloses the positive. As per our prior information previously, no

study had conducted on this issue in the textile Sector of Pakistan. This is the empirical research has determined to investigate the relationship between firm's Capital structure and financial performance in textile sector of Pakistan. In which, depended variables ROA and ROE and independed variables are debt to asset, debt to equity, assets turnover, growth, total debt (capital sturcture), long term debratio and short term debt ratio. However, there are certain limitations with the study, we use convenient sampling and the sample size takes 60 textile companies listed in PSE. The study donates to the prevailing body of knowledge as it helps to fill up all gaps arising from other research works.

Literature Review

Van Horne and Wachowicz (1995) defined that the capital structure is the combination of common, debt and preference stock equity in which a represented firm's continual long-term financing. The foundation of study review based on existing literature establishes on Conceptual, theoretical and empirical review includes in literature review.

Conceptual review

Capital structure refers to proportion of capital in shape of money which use in business. As per kennon (2010) there are two types of capital i.e. debt capital and equity capital and Alfred (2007) claim that capital structure implies on percentage of debt and equity. According to Inanga and Ajayi (1999) the firm capital structure is compromise of long term fund that obtained by a firm from various sources. The prevalent argument is given originally by Modigliani and Miller (1958); an optimal capital structure represents balance of risk bankruptcy with the debt of tax savings.

Theoretical review

Capital structure theory

The theory of capital structure refers to a systematic method to finance their business activity by using different sources of fund (Brigham, 2004); this can either be through the mix of equity and debt capital or both. Striving capital structure theories discover the association between equity financing, debt financing and the market value of the firm. Some of the approaches and theories are explain below.

Traditional Approach:

The Traditional theory tells us that a prudent use of debt will increase the value of the firm and minimize the (WACC) cost of capital (M ahmud.et al, 2009) and according to this approach until gearing reach an optimal point, risk of financial debt is more than the beneficial by the introduction of the debt.

Miller- Modigliani Approach:

The theories are;

- ***Irrelevant and Relevant Theory:*** The value of the firm is unresponsive to its capital structure under convinced key assumptions of Modigliani and Miller (MM), 1958 postulated. It also argues that firm value should be irrelevant to its capital structure. By quoting that, decisions of capital structure firms with both corporate and personal taxes conditions are irrelevant according to the Miller (1977) study which added in capital-structure irrelevance proposition. Capital structure may have some impact on the firm's value if these key assumptions are slackened. This theory was criticized on the basis of non-existence of perfect market in real life scenario.

- ***Static Trade-Off Theory:*** Basically, this theory proposes the optimal capital structure non-existence and the theorist of trade-off posit that a firm indicates the quantity

of debt finance and equity finance to use by balancing the costs and benefits. In short, it states that firms will choose combination of debt and equity financing to balance the cost and benefits of debt as per (De Angelo & Masulis, 1990).

- **Agency Cost Theory:** Agency theory concept initially develops by Berle and Means (1932) and claims that due to a continuous dilution of equity ownership of large corporation's the ownership and control becomes more separated. Also, this condition engages opportunity to professional managers/investors. Jensen and Meckling (1976) stated that in capital structure an optimal debt level indicated minimization of the agency costs.

- **Pecking Order Theory:** was introduced by Donaldson (1961) states that capital structure pecking order theory is most influential theories of corporate leverage and it does not support the static trade-off theory. Also, argues the firms which more profitable borrow less due to sufficient finance internally to commence their investment projects and operations.

Empirical review

“Capital structure theory of Irrelevance” becomes most interested area of research after Modigliani and Miller's (1958) the theory of capital structure for the economist of the finance. Main focus of this topic was in developed countries but as the time passed it started being investigated in the developing countries as well. Roden and Lewellen (1995) found positive relationship between capital structure and profitability. Champion (1999); Hadlock and James (2002); Ghosh, Nag, and Sirmans (2000), observed Analogous conclusion and found that the firms use more debt having more profit. Margaritis and Psillaki (2010) found positive relationship between firm performance and capital structure (debt). By using Panel data Samuel (2013) conclude positive link between

performance of the firm and capital structure financial debt. Also, significant positive relation establish by Aliakbar, Seyed and Pejman (2013) between capital structure and firm performance, however, Rajan and Zingales (1995) indicate that there is negative association between debt and profitability of the organization. Higher level leverage in capital structure leads to causes the decrease in firm performance as per (Gleason, Lynette & Ike, 2000).

Nor and Fatihah (2012) found a significant negative association between equity and leverage. Manawaduge, Zoysa, Chowdhury, and Chandarakumara (2011) found negative association between short term debt and performance in Srilanka and same results were found in Nigeria by Amos and Jeremiah (2013). Also, found a significant negative relationship between profitability and debt in Bangladeshi firms (Khairul, 2013) however, in the same context Kinsman and Newman (1998) and Mesquita and Lara (2003) claims the mix results. Salim and Yadav (2012) reported that ROA, ROE and EPS having the negative association with the leverage of the companies. Also, Abor (2005) find positive relation between short-term debt and ROE and negative association between debt ratios with long term debt.

Mujahid and Akhtar, (2014) claim that the capital structure of the textile sector is positively related to the wealth of the shareholders (stock price) and the performance of the organizations (ROA, ROE and EPS). Zeitun and Tian (2007) reported negative effect on performance with debt volume in capital structure. Ahmad and Coll (2012) results reveal that the debt with a short-term and long-term debt overhang has link with measures such as profitability remarkable ROA tie-positive has been submitted between the ROE and LTD.

The link between growth, profitability and the lever effect has been negative, while the relationship between size and taking advantage of the Incarnation was discovered positive in companies of Pakistan (Shah & Khan, 2007). Masnoon and Saeed (2014) study result shows that the capital structure has negative connection with the size, growth and profitability. The empirical investigation findings on that particular issue clearly disclose that there is no harmony in their results. To end this, the outcome of these examinations provides us the foundation to formulate the hypotheses and develop the Methodology section.

The alternative hypotheses formulated as follows:

H1: There is significant association between debt to asset ratio and firm financial performance ROA and ROE.

H2: There is positive relationship between debt to equity and firm financial performance ROA and ROE.

H3: There is significant relationship between asset turn over and firm financial performance ROA and ROE.

H4: There is significant association between growth and firm financial performance ROA and ROE.

H5: There is positive relationship between total debt and firm financial performance ROA and ROE.

H6: There is significant relationship between long term total debt and firm financial performance ROA and ROE.

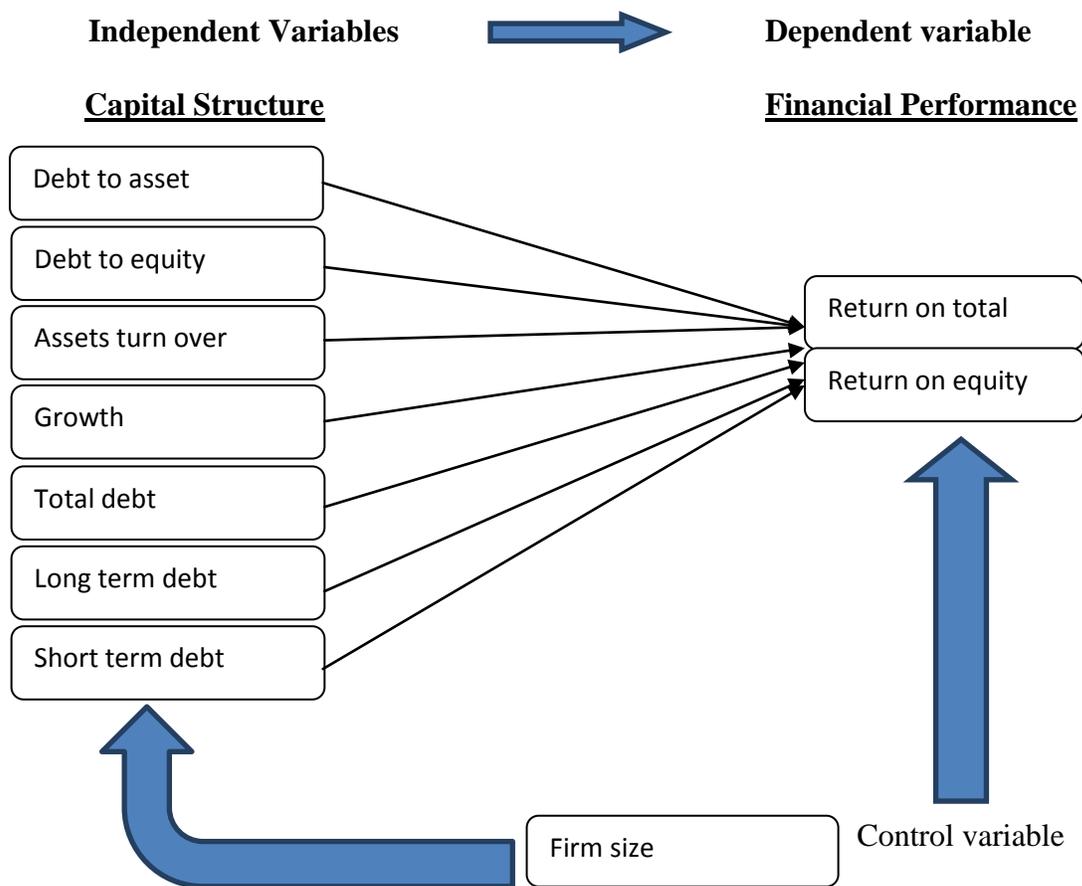
H7: There is significant relationship between short term total debt and firm financial performance.

H8: *There is positive relationship between firm size and firm financial performance ROE and ROA.*

Research Methodology

This study tries to carry out the effect of capital structure on firm's performance using model specification with specific variables. The methodology is limited to quantitative method with descriptive statistics and inferential statistics i.e., correlation, descriptive & regression analysis. The proxy variable used in the study is in-dependent capital structure and depended financial performance variables shown in figure 3.1 below. Firm size is used as control variable in the study. The framework for the study is presented in Figure 3.1.

Figure 3.1: Capital Structure and Firm Financial Performance



In this study panel data for the analysis is used and data is collected in both dimensions cross sectional and time serious in which company is individual and time period is annual data. Secondary data is collect for the purpose of analysis was obtained from official websites of the selected sample firms. This study consists on the sample of 60 textile companies listed in PSE for the time period of year 2010- 2014 which is based on balance panel data because all the entities are observed for equal time. This data is short panel data because it contains many individual but only few time periods. For sake of getting the quantitative results three models can be applied on this panel data i.e. polled effect, fixed and random effect. Total industry population contains 129 textile firms overall and three categories in the whole industry in PSE i.e. textile spinning (76), textile weaving (13) and textile (13) composite companies. This study 60 firms based 47% of population which are large and well known listed in PSE for the year 2010-2014 as a convenience sample. These firms are taken as a sample for a whole industry of textile.

Table 3.1: Measures of dependent variables that are measured by firm’s financial performance

Measures/ Subgroup	Indicators/ Description
Return on Total Asset:	Net profit after tax / total assets
Return on Equity	Net profit after tax / stock holder equity.

Table 3.2: Measures of proxy seven independent variable of Capital structure

Measures/ Subgroup	Indicators/ Description
Debt to Asset:	(long term debt +short term debt) / stock holder equity
Debt to Equity	It is calculated as long term debt plus short term debt and divides by total asset.
Asset Turnover	total asset / total sale
Growth “GROW”	Zeitun and Tian (2007) contend that growth firms are capable to maximize profit from investment. Growth = Variation in the natural logarithm of total assets.
Total Debt (Capital	(is used as proxy of leverage), total debt /total asset

Structure)	
Long Term Debt Ratio	(a capital structure variable), long term debt / total asset.
Short Term Debt Ratio	Short term debt / total asset

Table 3.2: Measures of Control Variable

Measures/ Subgroup	Indicators/ Description
	Total assets common logarithm was also employed by (Ebaid, 2009). Size of Firms is estimated by taking logarithm of total assets of listed firms in PSE.
Firm size (SIZE)	Logarithm of total assets of a firm

There are three common types of the panel data i.e. short panel (many individual and few time periods), long panel (few individual and many time periods) and both (many time period and many individuals). Such data have both dimensions cross sectional and time serious data. Pooled OLS is used as estimation technique to list above hypotheses.

Polled model specifies the constant coefficient, the assumption of the cross sectional data is;

$$\mathbf{y} = \boldsymbol{\alpha} + \mathbf{x}_{it}\boldsymbol{\beta} + \mathbf{u}_t$$

$$ROA_{it} = \alpha_0 + \alpha_1 DE_{it} + \alpha_2 GR_{it} + \alpha_3 ATO_{it} + \alpha_4 SIZ_{it} + \mu_{it}$$

$$ROE_{it} = \beta_0 + \beta_1 DE_{it} + \beta_2 GR_{it} + \beta_3 ATO_{it} + \beta_4 SIZ_{it} + \mu_{it}$$

$$ROA_{it} = \alpha_0 + \alpha_1 DA_{it} + \alpha_2 GR_{it} + \alpha_3 ATO_{it} + \alpha_4 SIZ_{it} + \mu_{it}$$

$$ROE_{it} = \beta_0 + \beta_1 DA_{it} + \beta_2 GR_{it} + \beta_3 ATO_{it} + \beta_4 SIZ_{it} + \mu_{it}$$

$$ROA_{it} = \alpha_0 + \alpha_1 TD_{it} + \alpha_2 GR_{it} + \alpha_3 ATO_{it} + \alpha_4 SIZ_{it} + \mu_{it}$$

$$ROE_{it} = \beta_0 + \beta_1 TD_{it} + \beta_2 GR_{it} + \beta_3 ATO_{it} + \beta_4 SIZ_{it} + \mu_{it}$$

$$ROA_{it} = \alpha_0 + \alpha_1 LTD_{it} + \alpha_2 GR_{it} + \alpha_3 ATO_{it} + \alpha_4 SIZ_{it} + \mu_{it}$$

$$ROE_{it} = \beta_0 + \beta_1 LTD_{it} + \beta_2 GR_{it} + \beta_3 ATO_{it} + \beta_4 SIZ_{it} + \mu_{it}$$

$$ROA_{it} = \alpha_0 + \alpha_1 STD_{it} + \alpha_2 GR_{it} + \alpha_3 ATO_{it} + \alpha_4 SIZ_{it} + \mu_{it}$$

$$ROE_{it} = \beta_0 + \beta_1 STD_{it} + \beta_2 GR_{it} + \beta_3 ATO_{it} + \beta_4 SIZ_{it} + \mu_{it}$$

Where:

Y = dependent variable, D = independent variable, β_0 = intercept, β_1 = explanatory variables coefficient, μ = term of error, i = cross-sectional variable, t = variable of time series, ROA = return on total assets, ROE= return on equity, ATO = assets turn over, GR = growth, TD = total debt, LTD = long term debt, STD = short term debt and SIZ = firm size.

Result and Discussion

In the presentation and discussion of results first part comprises the descriptive analysis and the second is the inferential analysis. By using E-views for statistical analysis of data the regression model otherwise known as ordinary least square (OLS) estimation technique employed. The descriptive statistics of variables cover minimum, maximum, mean and standard deviation.

The detailed results have reported in table 4.1

.Table 4.1: Descriptive statistics

Correlation Analysis Matrix

To check the existence of correlation among of the variables correlation matrix has used. The result shows capital structure DA, AST, TD, DA, STD positively in finial performance related with ROA and ROE and will bring positive change. Positive change

	ROA	ROE	DA	DE	GR	AST	TD	LTD	STD	FS
Mean	0.44	0.19	0.65	3.53	0.01	5.30	0.65	0.85	2.82	21.52
Median	0.05	0.16	0.36	1.22	0.08	1.34	0.36	0.11	0.19	21.48
Maximum	114.27	21.05	48.95	115.04	5.29	1144.29	48.95	101.70	391.26	25.30
Minimum	-0.26	-11.22	0.00	-12.07	-6.74	0.01	0.00	0.00	0.00	14.41
Std. Dev.	6.60	1.58	2.90	11.31	1.08	65.99	2.90	7.90	29.33	1.34
Observations	300	300	300	300	300	300	300	300	300	300

in FS, DE, will bring negative change in ROA, ROE. Positive change in GR, DA, will bring Positive change in change in ROA, but negative in ROE.

The detailed results have showed in table 4.2.

Table 4.2: Correlation Analysis of variables

By assuming that the intercept and slope coefficient is equal across the production areas and years this study considered the pooled regression model. Panel Least Squares method is used in which included periods 5, Cross-sections 60 and total panel (balanced) observations are 300.

	ROA	ROE	DA	DE	GR	FS	TD	STD	LTD	ATO
ROA	1.00									
ROE	0.02	1.00								
DA	0.97	0.05	1.00							
DE	-0.02	0.25	0.00	1.00						
GR	0.01	-0.30	-0.02	-0.15	1.00					
FS	-0.31	-0.09	-0.37	-0.09	0.20	1.00				
TD	0.97	0.05	1.00	0.00	-0.02	-0.37	1.00			
STD	0.09	0.00	0.09	-0.01	0.01	-0.31	0.09	1.00		
LTD	-0.01	0.00	0.00	-0.01	0.01	-0.29	0.00	0.99	1.00	
AST	1.00	0.01	0.97	-0.02	0.01	-0.31	0.97	0.09	-0.01	1.00

Results of Pooled OLS Regression Models

The Impact of DE on Firm Performance model of DE, GR, FS and AST with ROA having the f statistics is .2092, DA Model f statistics is 233312.7561, TD model f statistics is 0.99 Model STD f statistics is 2069, AST model f statistics is 2069 and it is significant at .05 means that model is good fitted. The null hypothesis of the DE, DA, TD, LTD, STD AND AST to ROA, ROE is rejected and alternate is accepted means there is positive relationship between the DE to ROA. GR with ROA has negative relationship, the coefficient value of FS, AST and ROA is significant level. The model of DE, GR, FS and AST with ROE having the f statistics is 11.47 and it is significant at .005 means that model is good fitted. In TD Model indicates that there is negative relationship between GR and ROE. The relationship between FS, AST with ROA has positive significant relationship. The model of TD, GR, FS and AST with ROE having the f statistics is 9.276159 and it is significant at .005. The relationship between AST and ROE is .000 and

it is not significant. ROA and ROE have significant positive relationship with debt to equity and debt to asset. As well as, in sample companies of Pakistan textile industry we.

Impact of DE on Firm Performance

Note: *, **, *** indicate significant 1%, 5%, 10% respectively

found significant positive relationship among performance and growth; ROA and firm size; ROA, ROE and short term debt; long term debt and ROA; total debt and

Table 4.3.1 Impact Of DE On Firm Performance

ROA			ROE		
Variable	Coefficient	Prob.	Variable	Coefficient	Prob.
C	-0.283	0.025	C	0.447	0.765
DE	0.001	0.064***	DE	0.030	0.000*
GR	-0.014	0.050**	GR	-0.389	0.000*
FS	0.009	0.122***	FS	-0.017	0.811
AST	0.100	0.000*	AST	0.000	0.875
R-squared	0.999684001		R-squared	0.13464	
F-statistic	209282.965		F-statistic	11.47469	
Prob(F-statistic)	0.000		Prob(F-statistic)	0.00	

performance of the firm analysis. However, there is negative relationship exist between ROE and firm size; ROE and Long term debt

Impact of DA on Firm Performance

Table 4.3.2 Impact of DA on Firm Performance

ROA			ROE		
Variable	Coefficient	Prob.	Variable	Coefficient	Prob.
C	-0.477	0.000	C	0.898	0.000
DA	0.057	0.000*	DA	0.310	0.010*
GR	-0.012	0.058**	GR	-0.414	0.000*
FS	0.017	0.003*	FS	0.012	0.866
AST	0.098	0.000*	AST	-0.013	0.013*
R-squared	0.999684001		R-squared	0.111726	
F-statistic	233312.7561		F-statistic	9.276159	
Prob(F-statistic)	0		Prob(F-statistic)	0	

Note: *, **, *** indicate significant 1%, 5%, 10% respectively

Impact of TD on Firm Performance

Table 4.3.3 Impact of TD on Firm Performance

ROA	ROE
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Variable	Coefficient	Prob.	Variable	Coefficient	Prob.
C	-0.477	0.000	C	-0.201	0.898
TD	0.057	0.000*	TD	0.310	0.010*
GR	-0.012	0.058**	GR	-0.414	0.000*
FS	0.017	0.003*	FS	0.012	0.866
AST	0.098	0.000*	AST	-0.013	0.013*
R-squared	0.999684001		R-squared	0.11173	
F-statistic	233312.7561		F-statistic	9.27616	
Prob(F-statistic)	0		Prob(F-statistic)	4.50E-07	

Note:*, **, *** indicate significant 1%, 5%, 10% respectively

Impact of LTD on Firm Performance

Table 4.3.4 Impact of LTD on Firm Performance

ROA			ROE		
Variable	Coefficient	Prob.	Variable	Coefficient	Prob.
C	-0.2784	0.0370	C	1.026	0.524
LTD	0.0004	0.7060	LTD	-0.002	0.892
GR	-0.0154	0.0254*	GR	-0.429	0.000*
FS	0.0090	0.1451**	FS	-0.039	0.605
AST	0.1000	0.0000*	AST	0.000	0.995
R-squared	0.999643778		R-squared	0.091276	
F-statistic	206960.1444		F-statistic	7.407727	
Prob(F-statistic)	0		Prob(F-statistic)	0	

Note:*, **, *** indicate significant 1%, 5%, 10% respectively

Impact of STD on Firm Performance

Table 4.5 Impact of STD on Firm Performance

ROA			ROE		
Variable	Coefficient	Prob.	Variable	Coefficient	Prob.
C	-0.280	0.036	C	0.987	0.539
STD	0.000	0.674	STD	0.000	0.952
GR	-0.015	0.025*	GR	-0.430	0.000*
FS	0.009	0.141**	FS	-0.037	0.621
AST	0.100	0.000*	AST	0.000	0.993
R-squared	0.99964382		R-squared	0.09123	
F-statistic	206984.3191		F-statistic	8.40773	
Prob(F-statistic)	0		Prob(F-statistic)	1.08E-05	

Note:*, **, *** indicate significant 1%, 5%, 10% respectively

Conclusion, Suggestions and Policy Implications

The impact of capital structure on the financial performance of firm is the key purpose of this study, so far that investigation performed by using sample of 60 textile industry listed firms in Pakistan Stock Exchange (PSE) for the period of 2010-2014. Panel data procedure is used for the measurement of two firm financial performance ROA & ROE depended variables and assets turn over, growth, debt to assets, debt to equity, total debt ratios, short term debt and long term debt as in depended variables leads to capital structure. As well as, firm size is used as control variable and for firm performance through panel data regression technique.

The results revealed that there is a positive relationship between ratio of debt to equity (DE) on firm's financial performance ROA and ROE at 10% significant confidence interval. Regression model result of debt to assets ratio (DA) also shows the positive link between firm financial performances at 10% significant confidence interval. The independent/exogenous variable assets turnover has positive significant relationship on ROA. Whereas, they are inversely associated with ROE and the result of regression model suggests that the increase in assets over a time indicates the company will grow into capacity. The higher the firm size more the better performance of the organization. All the results indicate that debt is major and better source of funding instrument of the capital structure of the firms.

To conclude results shows that ROA and ROE have significant positive relationship with debt to equity and debt to asset. As well as, in Pakistan textile industry sample companies we found significant positive relationship among performance and growth; ROA and firm size; ROA, ROE and short term debt; long term debt and ROA; total debt and performance of the firm analysis. However, there is negative relationship

exist between ROE and firm size; ROE and Long term debt. All the results of analysis techniques and literature results indicate that if a company manages the appropriate capital structure it can increase the financial performance of the corporations.

To conclude that, capital structure has a significant role in the firm performance and firms having more debt in capital structure are generating more profit and better performance. Finding of our study helps to support the arguments of trade-off theory that firms should use more debt incorporated in the capital structure and this helps to improve the performance of the organization. In addition, it is suggested that the finance manager of the firm should use more debt to finance the business and ultimately to improve the firm performance of the organization.

The debt will be helpful to private sector industries to expand their business and maximize their performance and achieve targets. This will play a vital role in the economic condition of Pakistan. This topic of capital structure is very wide for the research. Further studies can be built in various sectors that can be tested under the condition of the capital structure management relationship or cross border comparison. To the end, our study can be extended by incorporating more control variables, larger sample size and longer time period data to obtain better results to achieve sustainable socio economic development and stability through textile industry performance.

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