CORPORATE FINANCIAL POLICY AND ITS IMPACT ON SUSTAINABLE CAPITAL STRUCTURE: EMPIRICAL EVIDENCE FROM TEXTILE FIRMS OF PAKISTAN

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Abstract

Purpose of the study: In this article, the objective is to discover the influence of business financial policy on the firm's Capital structure of the textile zone of Pakistan. The present outcomes of productivity, total assets, future growth, and asset structure have started a discussion over the total debt ratio.

Methodology: The methodology used to conduct this work in order to examine the effect of total assets, future growth, profitability, and asset structure and its impact on total debt ratio, Panel data analysis has been accomplished and together the firm and industry explicit dynamics have been measured, yearly data has been taken off 96 textile firms of Pakistan concluded the period of 2012 - 2017 for OLS, regression model & LSDVM.

Main Findings: The results reveal that the OLS regression model is not a good fit and the model shows that there is no significant impact of all the independent variables on the dependent variables. Whereas the results of LSDVM indicated that this model is a good fit, the model revealed that the entire individuals have combined effect on the dependent variable. Similarly, the alternate hypothesis indicates the significant influence of independent variables on the dependent variable whereas the Null hypothesis indicated no or insignificant influence of independent variables on the dependent variable.

Application of this study: This study contributes toward the financial sector for policymakers in order to construct the best capital configuration of the firm. This study also suggests that which element is having more importance while making capital configuration of the firm.

The originality of this study: Capital structure is a crucial issue for entrepreneurs and CEOs of any firm. The number of studies is available related to other industries but fewer studies are available related to the textile firms of Pakistan so this research work provides the technique while making the best capital configuration for textile firms of Pakistan.

Keywords: *Total Debt Ratio, Corporate Financial Policy, Profitability, Sustainable Capital Structure and Textile Firms of Pakistan.*

INTRODUCTION

Capital is the actual portion of a wide range of business exercises, which are chosen by the size, and nature of the business concern. The monetary change intended to fortify the business sector teach and upgrade the Textile area's aggressiveness. The capacity of the organizations to move their separate development benefit outskirts will be that as it may rely on upon firm particular qualities like gathering connection, Textile administration design, size of the firm, its capital structure (consequently financing example) and business techniques. In the background of the financial changes in Pakistan, the association between capital structure, Textile execution and changes in macroeconomic conditions will enthusiasm to watch. The capital structure decision of firms has been a decent research point for specialists in created and additionally in developing markets. In the event that the money related influence is higher, it demonstrates that the firm has tackled a higher measure of budgetary danger.

Modigliani & Miller (1958) were the first to bring up the issue of the importance of the capital structure of a firm. Money related scholars have subsequent to give a few conceivable clarifications to the financing choice. Real theories incorporate assessment impacts, flagging impacts, office issues, and industry impacts. The center of the greater part of the capital configuration clarifications is on the variables that prompt the determination of the financing blend for a firm, given a specific expected stream of money streams. The vital obligation hypothesis proposes that vital contemplations in the item advertise actuate a higher obligation to increase key favorable position and accordingly sets up linkage amongst obligation and item showcase rivalry. A few elements decide the ideal blend of long haul and fleeting obligation. These incorporate the company's credit standing, its development opportunities, the gainfulness of the task, the capacity to subsidize the venture

from held income or interior supports, the liquidation estimation of advantages (unmistakable quality), the firm size or age, administrative quality and so on. Stephan (2017) acquired solid proof about the significance of organization cost, liquidity, flagging, money related requirements, and assessment impetus in deciding the capital structure of firms even in rising monetary markets. This article uses avant-garde money-related board information and researches the capital structure of material, concrete and pharmaceutical commercial ventures of Pakistan. Diverse capital structure speculations are looked into so as to detail testable propositions concerning the levels of obligation.

The main objective of this article is to know that, is this statement causing any change in the textile firms of Pakistan. Authors are trying to overcome the research gap the first time by adding 96 textile firms of Pakistan upon the relationship of financial policy on the sustainable capital structure.

LITERATURE REVIEW

Modigliani and Miller (1958) demonstrated that the association's capital structure has no importance to its reasonable worth. Subsequently, the association's financing choice and capital structure, when its goal is to boost its reasonable worth, is impartial to the corporate system.

A General Equilibrium Model was presented by (Auerbach & King, 1980). He explores the portfolio behavior of investors differing with respect to both tax rates and risk-aversion(Boyd & Smith, 1998)presents the article on debt and equity markets in economic development An important Question also rises by (Marsh, 1982). Barton & Gordon (1987) stated that neither budgetary hypothesis nor research has possessed the capacity to give attractive assertion regarding what variables influence the capital structure choice, or even how (if) the choice influences firm execution.

Subsequently, some budgetary researchers have proposed a more extensive, administrative (behavioral) point of view is important to completely comprehend the obligation/value blend at the level of the individual firm. In light of this circumstance, Barton and Gordon (1987) suggested that a customary money worldview at the level of the economy. This reasonable improvement depended on an essential procedure point of view that useful (budgetary) choices are made by administrators working in a mind-boggling environment, and not exclusively a deterministic result of outside business sector powers as suggested by the money worldview. Using the methodology viewpoint and surviving money related examination on the capital structure issue, they placed that the crucial administration worries in figuring a fitting capital structure are a monetary danger, alongside keeping up control and adaptability in administrative basic leadership.

Lowe, Naughton, & Taylor (1994) stated that the motivation behind the financial structure is the long haul creation and administration of quality inside a business. Techniques might be acknowledged through a procedure of "discerning" basic leadership or may develop in a less requested manner, the Capital structure is one of the wealthiest territories as far as distributed work) suggested that, in all actuality, the association's corporate system influences its capital structure. This suggestion is bolstered by the outcomes in (Barton and Gordon, 2007) an experimental study utilizing US information acquired from the COMPUSTAT tape for the 1970-74 periods.

Another study was conducted by (Dewatripont, Jewitt, & Tirole, 1999) which was published in the Quarterly Journal of Economics, November 1994. This article presented how the optimal financial structure of a firm complements incentive schemes to discipline managers, and how the securities' return streams determine the claim-holders' incentives to intervene in management (Dewatripont et al., 1999) a professor at University of Kentucky publishes his article on the difference between Debt and equity. In their article about the maturity structure of debt and equity explains the empirical examination of the determinants of corporate debt maturity. Berger & Udell (1998) also revealed on isolated equity & debt market upon the monetary development. According to them, Firms are viewed through a financial growth cycle paradigm in which different capital structures are optimal at different points in the cycle.

Hovakimian, Hovakimian, & Tehranian (2004) wrote an article on dual debt and equity issue authors scrutinize that whether the market and working presentation distress corporate invest in performance because they are linked to target leverage.

Chathoth & Olsen (2007) exposed that in the examination space that contains the investigation of firms from a key administration viewpoint, firm methodology definition, and execution choices have been indicated to be the key in clarifying prevalent firm execution. Sims (2012) in his article about debt and equity in the primary surplus said that the fiscal model of the amount level elucidates how the intertemporal low-priced limitation of a government that matters fiat-currency denominated debt can be supposed of as determining the price level.

Rapp, Schmid, & Urban (2012) stated that, In the post-liberalization period, the corporate segment, particularly the assembling firms have assumed an essential part as the driver of development and advancement in the Indian economy The primary motive of this investigation is to inspect the factors of investment configuration & corporate execution and they're between linkage with regards to macroeconomic cycle in India and make inference in view of the activity. Chang, Chou, & Huang (2014) revealed that the effect of the organization clashes amongst directors and shareholders on the pace of capital

structure change by considering the impact of corporate administration quality i.e., quality of shareholder rights. Dang & Garrett (2015) Late experimental work on the capital structure has explored whether firms change halfway toward target influence and whether the pace at which they modify their influence.

Bandyopadhyay & Barua (2016) proved that in the post-liberalization period, the corporate segment, particularly the assembling firms have assumed an essential part as the driver of development and advancement in the Indian economy. The benefit of the venture, the capacity to subsidize the undertaking from held profit or inward finances, the liquidation estimation of advantages (unmistakable quality), the firm size or age, administrative quality and so on Utilizing adjusted board information of 1,594 Indian assembling firms (standalone and bunch firms, both Private Indian and remote firms) more than 14 years (1998-2011).

Thompson and Jones (2017) examined that thoughtfully, this relationship is indicated to be inside the worldview that clarifies the impact of environment, procedure, and structure, on firm execution. In this way, predictable with Andrews's (2017) idea of the corporate system, the master represented that the capital structure choice depends on the qualities and objectives of administration, in the mix with outer and interior relevant components that affect the essential worries of danger and control. As a result, they recommended a 'technique capital configuration relationship similar to (Chandler 1962) 'system association structure' relationship.

Numerous readings have inspected capital configurations of corporations upon the base of especially the hitting instruction notion & the trade-off notion, so the theme& research techniques are not novel. Nevertheless, maximum readings so far have attentive to US companies (Titman & Wessels, 1988);(Shyam-Sunder & Myers, 1999) cross-country (Rajan & Zingales, 1995); (De Jong, Kabir, & Nguyen, 2008); (Alves & Ferreira, 2011).

BRIEF SUMMARY OF THE LITERATURE REVIEW

Study	Methods/ Country Region / Variables	Brief Results
Modigliani and Miller (1958)	OLS Regression	Capital structure has no importance to its reasonable worth. Subsequently, the association's financing choice and capital structure, when its goal is to boost its reasonable worth, is impartial to the corporate system.
Auerbach & King, (1980)	Equilibrium Model	The study revealed that in the examination space that contains the investigation of firms from a key administration viewpoint, firm methodology definition and execution choices have been indicated out be the key in clarifying prevalent firm's capital execution.
Lowe, Naughton, & Taylor, (1994)	OLS Regression	Stated that the motivation behind the system is the long haul creation and administration of quality inside a business. Techniques might be acknowledged through a procedure of "discerning" basic leadership or may develop in a less requested manner.
Rapp, Schmid, & Urban, (2012)	OLS regression	The main cause of this investigation is to observe the factors of investment configuration and corporate execution and there between linkage with regards to the macroeconomic cycle in India and make inference in view of the activity.

Andrews (2017)	Debt Ration	Represented that the capital structure choice depends on the qualities and objectives of administration, in the mix with outer and interior relevant components that affect the essential worries of danger and control.

METHODOLOGY

In this study, we use board information investigation to experimental analyze the speculations that have examined further. Board information sets for the financial examination have a few noteworthy points of interest over customary cross-sectional or time-arrangement information sets. Panel data has been used by 96 listed companies over the period of 2012-2017.

Every one of the information in this study will accumulate from the distinctive sources from the Karachi stock exchange. An aggregate number of 96 firms that fulfilled the definitional and information prerequisites for their hunt was arbitrarily chosen. While trying to make the database we chose firms from all the same businesses of the economy.

VARIABLES

Dependent Variable

A dependent variable is what you extent in the trial and what is pretentious throughout the trial. The dependent variable retorts to the independent variable. It is called dependent for the reason that it "depends" on the independent variable.

Total Debt Ratio, Total debt to the total asset.

Independent Variables

The entire variables castoff in this research is established on book values. Additionally, there is a great difference in the size of firms; a direct contrast of these variables is incredible. To regulate our procedures, we practice a size-related denominator and multiply ratios. Therefore, where suitable, we devalue the variables by total assets.

Size: Total asset.

Profitability, Ratio of profits to the total asset.

Future Growth Opportunities: The ratio of a fixed asset to total asset. Fixed assets include land, building, and equipment, etc.

Asset Structure: We use one measure for asset structure: One is the ratio of current assets to total fixed assets.

JUSTIFICATIONS OF THE VARIABLES AND METHOD USED

Various studies have been used above dependant and independent variables that include Hovakimian & Tehranian (2004), Chathoth et al., (2007), Rapp et al., (2012), Dang & Garret (2015), Bandyopadhyay & Barua (2016). Panel data has been used over the following econometric technique correlation analysis, Variance inflation factor, OLS regression, least squares dummy variable model (LSDV), Random effect model, and Hausman test. The sample size of the study is 96 firms (top) over the population of textile firms of Pakistan.

RESULTS AND DISCUSSIONS

Table 1: Descriptive Analysis

Variable	Observation	Mean	Std. Dev.	Min	Max
TDR	576	1.292952	1.25166	0	17.76
SIZE	576	3825296	7194919	0	5.85E+07
PROFITABLITY	576	0.004378	0.272426	-3.06173	0.829236
FUTURE GROWTH	576	0.606133	0.210383	0	1
ASSETS STRUCTURE	576	2.160138	13.65747	0	203.825

Source: Author's self-calculation

Here in this table, we can see that we can have complete 576 values of our data it's mean that no value is missing. The mean value represents the middling of the data, which is the summation of all the annotations alienated by the number of observations. Use the mean to designate the taster with a solerate that signifies the midpoint of the data. Many arithmetical

studies use the mean as a standard measure of the middle of the dissemination of the data. From the overhead table we can realize that the despicable value of size is large from all additional variables it means that additional data is focused among 38 and profitability has the lowermost mean value.

Table 2: Correlation Analysis

	Tdr	**Size**	**Profitability**	**Future growth**	**Asset structure**
TDR	1				
SIZE	-0.012	1			
	0.7741				
PROFITABLITY	0.0403	0.113	1		
	0.3341	0.0066***			
FUTURE GROWTH	0.0572	-0.2022	-0.1472	1	
	0.1703	0***	0.0004***		
ASSET STRUCTURE	0.0391	-0.0162	-0.004	-0.3222	1
	0.3494	0.6987	0.9232	0***	

Source: Author's self-calculation

The relationship between TDR and Size is negative and low correlation and this relationship is insignificant. Any change in TDR has no impact on Size and vice versa. Same is with Profitability and Future Growth which shows there is negative and weak correlation and relationship is highly significant. Size has also a negative and low correlation with Asset Structure and the relationship is also insignificant.

Table 3: Variance Inflation factor

Variable	**VIF**	**1/VIF**
FUTURE GROWTH	1.19	0.837326
ASSET STRUCTURE	1.13	0.887285
SIZE	1.06	0.945384
PROFITABLITY	1.03	0.968899
Mean VIF	1.1	

Source: Author's self-calculation

We perform (VIF) Variance Inflation factor test to know that the relationship is problematic or not. All individual cases and in the overall mean values is not more than 5 so we have included all the variables for further analysis.

Table 4: OLS regression

Number of observations = 576

$F_{(4, 571)} = 1.40$

Prob> F = 0.2313

R square = 0.0097

Adj R-squared = 0.0028

Root MSE = 1.2499

TDR	**Coef.**	**Std. Err**	**t**	**P>t**
TOTALASSETS	1.13E-10	7.45E-09	0.02	0.988
PROFITABLITY	0.2448713	0.1943817	1.26	0.208
FUTUREGROWTH	0.5167802	0.2707607	1.91	0.057
ASSETSSTRUCTURE	0.0061651	0.0040517	1.52	0.129
_cons	0.9648935	0.1830212	5.27	0

Source: Author's self-calculation

In the above table, we see that the value of the F test is more than 0.05 which demonstrations this model is not a good fit. The value of R square which demonstrations the shared difference in the dependent variable (total debt ratio) due to the independent variables (Total Assets, Profitability. Future Growth and Asset structure) is very low that is 0.0097. This means that the collective effect of all independent variables on the dependent variable is just 0.0097. The value of the adjusted R square is also very low. It will depend a lot on the sample size of the sample.

The values of t of all the four independent variables are low. If this value is more than 1.96 than we can say that there is a significant impact of the independent variable on the dependent variable but here we conclude that there is an insignificant impact of the independent variable on the dependent variable.

Table 5: Fixed Effects using least squares dummy variable model (LSDV)

Number of obs = 576

F (9,566) = 2.15

Prob> F = 0.0244

R-squared = 0.0330

Adj R-squared = 0.0176

Root MSE = 1.2406

TDR	Coef.	Std. Err	t	P>|t|
PROFITABLITY	0.2149283	0.1935572	1.11	0.267
TOTALASSETS	-1.88E-09	7.42E-09	-0.25	0.801
FUTURE GROWTH	0.3757985	0.2737129	1.37	0.17
ASSETSSTRUCTURE	0.0049198	0.004041	1.22	0.224
_cons	0.8470829	0.209285	4.05	0

Source: Author's self-calculation

In the above table the prob. > F value is smaller than 0.05 which spectacles that this model is a good fit. R square which displays a shared difference caused by the independent variables in the dependent variable that is 0.0330. The assessment of adjusted R_square is 0.0176 which will increase as the sample size increase.

All the independent variables have an insignificant impact on TDR. In LSDVM we create dummies on which we spread out the unknown and non-measurable impact of the independent variables. We can see that out of four entities no one having a substantial influence upon the dependent variable. P>t displays the significance or insignificance of the independent variables on the dependent variable.

Table 6: Fixed effects: n entity-specific intercepts using xtreg

Fixed-effects within regression	Number of observations = 576
Group variable: firmed	# of groups = 96
R_square: within = 0.0129	Observations per group: min = 6
Concerning= 0.0061	average = 6
Total = 0.0073	maximum = 6
F(4,476) =1.55	Prob> F = 0.1859
corr(u_i, Xb) = -0.0338	

TDR	Coef.	Std. Err.	t	P>|t|
TOTALASSETS	5.08E-09	1.21E-08	0.42	0.674
PROFITABLITY	0.4278585	0.239339	1.79	0.074
FUTUREGROWTH	0.4143544	0.2529292	1.64	0.102
ASSETSSTRUCTURE	0.0057814	0.0033417	1.73	0.084

_cons	1.007993	0.1675375	6.02	0

Source: Author's self-calculation

The above table shows that it is not a good fit. The value of the prob. >F is more than 0.05 which displays this model of study is not a good fit. Coefficients of the Total Assets. Profitability, Future Growth and Assets Structure shows the amount of change these variables bring in the dependent variable TDR. The t values of all independent variables are low which shows that there is no relevance between these variables and the dependent variable. Profitability and Assets Structure have some significant impact on the TDR.

Table 7: Random Effect Model

Random-effects GLS regression	Number of obs = 576
Group variable: firmid	Number of groups = 96
R_sq: within = 0.0127	Observation per group: min = 6
Concerning = 0.0071	average =6.0
Total = 0.0082	maximum= 6
Wald chi2 (4) = 6.79	
corr(u_i, X) = 0 (assumed)	Prob> chi2=0.1476

TDR	Coef.	Std. Err.	z	P>|z|
TOTALASSETS	2.93E-09	9.84E-09	0.3	0.766
PROFITABLITY	0.3859521	0.2125996	1.82	0.069
FUTUREGROWTH	0.421955	0.2362455	1.79	0.074
ASSETSSTRUCTURE	0.0058229	0.0031937	1.82	0.068
_cons	1.011718	0.1923476	5.26	0

Source: Author's self-calculation

The results show that this model is not a good fit for the analysis. The value of Wald chi2 (4) is 6.79 it is a test which shows that all the coefficients in the model are different than zero. Profitability, Future Growth, and Assets Structure have a significant impact on TDR.

Table 8: Fixed or Random: Hausman test

	Coefficients			
	(b) fixed	**(B)** random	**(b-B)** Difference	**sqrt(diag(V_b-V_B))** S.E.
TOTALASSETS	5.08E-09	2.93E-09	2.15E-09	7.00E-09
PROFITABLITY	0.4278585	0.3859521	0.0419064	0.1099299
FUTUREGROWTH	0.4143544	0.421955	-0.0076005	0.0903394
ASSETSSTRUCTURE	0.0057814	0.0058229	-0.0000415	0.0009834

Source: Author's self-calculation

b = reliable below Ho and H1; attained from xtreg

B = unreliable under H1, proficient below Ho; acquired from xtreg

Test: Ho: variance in coefficients not efficient

chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B) =   0.26

Prob>chi2 =   0.9667

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In order to compare the result of random effect and fixed effect the rule is we have to go for the Hausman test. Here we develop the null and alternate hypothesis. Various studies used this test that includes Hovakimian & Tehranian (2004), Chathoth et al., (2007), Rapp et al., (2012), Bandyopadhyay & Barua (2016).

Ho: The variance in coefficient is not systematic

H1: Variance in coefficient is systematic.

If the outcomes are less than 0.05 that displays a significant effect this thing leads us toward the fixed effects

If the outcomes are further than 0.05 that displays insignificant consequence than we use random effects and we will supplementary go to the Lagrange Multiplier.

Table 9: Testing for random effects: Breusch-Pagan Lagrange Multiplier -LM

Assessed outcomes:

	Var	sd = sqrt(Var)
TDR	1.566652	1.25166
e	0.3973028	0.6303196
u	1.219931	1.104505

Source: Author's self-calculation

Test: Var (u) = 0

chibar2 (01) = 798.99

Prob > chibar2 = 0.0000

As the value of LM test is less than 0.05 so we can say that random model is good fit for our analysis.

CONCLUSION

In this article, our purpose is to find out the influence of corporate financial policy on the firm's capital configuration of the textile sector of Pakistan. We took some variables like Size, Profitability, Future Growth, and Asset structure and wanted to find out the impact on Total Debt Ratio. For this purpose, we have developed an alternate and null hypothesis. An alternate hypothesis indicates the significant impact of all independent variables on the dependent variable whereas the Null hypothesis indicates the no or insignificant impact of all independent variables on the dependent variable. For this purpose, first of all, we have performed descriptive statistics in which the mean value and standard deviation of all the variables are given. Size has a greater mean value while profitability has less value of a mean as compared to others. The standard deviation of these variables is high values and low values respectively.

We have performed a VIF test in order to find out the relationship is problematic or not and we have found our result that is less than 0.05 which means that we can move for further analysis. After that, we find out the OLS regression model which is not a good fit and the model shows that there is no significant impact of all independent variables on the dependent variable. No one shows a significant impact on each other. We used LSDVM by assuming that all the entities have some factors which are not controllable and we have controlled it by spreading it over dummy variables. The result of this model shows that this model is a good fit for analysis. This model shows that the entire individuals have a combined effect on the dependent variable but these effects are not significant.

After that, we went for further analysis and that is Random Affect analysis. In this model, we assumed that there are no effects of entities that are not controllable and that are why we have ignored them. The results of this model show that this model is a good fit. We have performed the Hausman test to know which model is perfect either random or fixed. As a result of the Hausman Test is 0.9667 which indicates that the random effect model is a good fit for our analysis and we have further gone for Lagrange Multiplier Test. LM test also proves that random effect is a good fit for our analysis. This study approved/accepted the null hypothesis.

LIMITATION AND STUDY FORWARD

The limitations include, this study is just coving specific sector (textile sector) cannot implement upon other sectors of industry. For future studies, other authors can take other variables and other listed companies from different stock exchange markets of Pakistan such as the Lahore Stock Exchange, Islamabad Stock Exchange.

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AUTHOR CONTRIBUTION

Dr. Sultan and Dr. Ramyar were responsible for carrying out the research and report preparation as a whole, while Mr. Raheem and Mr. Muzammal subsidized in the data collection and tabulation whereas Mr. Bayar was responsible *overall proofreading as well as formatting of the paper.*

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