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DETERMINANTS AFFECTING THE CAPITAL STRUCTURE DECISION OF A FIRM (A CASE STUDY OF TEXTILE SECTOR IN PAKISTAN)

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ABSTRACT

In this paper, we have examined the influence of specific factors based on a capital structure sample of five Pakistani textile sector (Leveraged) companies. The secondary data came from an analysis of the balance sheets of five companies listed on the Karachi Stock Exchange between 2004 and 2014. Regression and correlation analysis on the panel data shows that profitability is negatively correlated with leverage ratio, while tangibility is positively correlated with leverage ratio, but not significantly. Firm size and firm growth are also positively and significantly correlated with leverage. Return on equity is also negatively correlated with leverage. Our findings also show that large textile firms, compared with small ones, finance long-term through debt.

Keywords: Capital Structure, Return on equity, Profitability, Tangibility, Leverage, Debt to equity ratio, Pakistan.

INTRODUCTION

Every financial decision has a very significant role in the financial welfare of business (Al Breiki & Nobanee, 2019). In this study we investigate how can the capital structure decision that may be influenced by firm performance. First we should know that what capital structure is? Capital structure means how to finance the operation by using different means of financing a firm (Myers, 2001). Capital structure depends upon the issuance of debt, equity and hybrid security for the financing its assets to organized the operation (Bevan & Danbolt, 2002). 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 (Clingermayer & Wood, 1995). 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 (Schroeder, Chappuis, & Kocak, 2014). Simply put, capital structure is a blend of debt and equity (Myers, 2001). If an enterprise generates cash through the debt department, then there are two advantages, the one is the tax shield and the other is the disciplinary manager (Jenson, 1986). Managers use free cash flow to invest in projects to pay dividends, to finance projects and also to hold cash balances. Large companies are more experienced at raising money than small ones. Small enterprises with insufficient operation experience have low decision-making efficiency in capital financing, which is harmful to the enterprises.

The finance manager's job is to determine the most efficient capital structure and to make Capital structure decisions for the firm to finance its operations (Fernandez, 2001). The firm's assets are supported with a combination of common debt and equity, as the capital structure of the firm. The decision of capital structure is an important financial decision of an enterprise, because it has a great impact on the financial performance of an enterprise. Many studies support a positive link between the use of debt and profits. According to firm Baker (1973), the large amount of leverage means more risk to rise the capital supplier's industry profit (Baker, 1973). The company raises debt and equity capital to perfectly finance a positive net present value project, competitive capital market; Insiders know the function of randomly generating corporate cash flow, but potential suppliers of capital are not. (Heinkel, 1982). The value of the company is going to go up as leverage goes up, because leverage goes up leverage increases the market's perception of value (Ross, 1977). For companies with high marginal tax rates, tax breaks on loans are more likely to issue bonds than for those with low tax rates (Graham, 1996).

Modigliani-Miller theorem on the structure of financial irrelevancy assumes that the market has all the information about a firm's activities. However, if managers have internal information, then the choices of management incentive plans and financial structures convey information to the market, and in competitive equilibrium the inferences drawn from these signals will be tested (Villamil, 2008). Hence the Modigliani- Miller theorem's results illustrates that the market price of any company is independent of its capital structure and is given by reasonable rate of profit expected by investors (Modigliani & Miller, 1958). The present evaluation is not affected by difference in paying the payment term in future and the like. Dividend policy is unrelated for determining the market prices and the investment strategy (M. H. Miller & Modigliani, 1961). Booth in (2001) evaluated whether capital structure theory can be transplanted to different institutional structures among countries, analyzed the capital structure choices of firms in 10 developing countries (India, Pakistan,

Thailand, Malaysia, Turkey, Zimbabwe, Mexico, Brazil, Jordan, and Korea), and provided evidence that these decisions are affected by the same variables in developed countries. However, there are persistent differences between countries, suggesting that specific country factors are at work (Booth, Aivazian, Demirguc-Kunt, & Maksimovic, 2001). A study in (2010) on specific capital firm and four developing countries concluded that capital structure decisions specific analysis of factors is developed in firm characteristic capital structure as well as affect the operations of financial firm (Gurcharan, 2010).

A few studies have been conducted on the capital structure and have concentrated on distinguishing determinants of capital structure for non-monetary firms in Pakistan (El-Baih, Bakari, & Hijazi, 2004); (Farrukh & Asad, 2017); (Farrukh & Asad, 2017); (Asad, Iftikhar, & Jafary, 2019). But none of these studies have analyzed the capital structure's influences on the financial execution of the firm. Since the decision making company has taken advantage of the benefits of debt financing or value financing, it needs to investigate how the organizational financing mix affects its budget execution.

In this paper we examine the effect of debt financing on Pakistan's financial performance in Textile sector. Loan financing may vary, relationships between different performances do not assume monotony, and financial leverage creates a linear relationship between application evaluation and yield on a formal level in a square form. Ratio of Assets and Liabilities to Assets Liabilities to Equity, an increase in equity that does not begin to decline until the early stage of loan payments is reached. We chose the textile industry because it is the most creative industry in Pakistan. Textiles account for 60 per cent of Pakistan's export GDP (as per 2013 report). In addition, it provides employment of 40% of the industrial labor force (for the Government of Pakistan, 2013) with the aim of exploring double research is relative, corporate debt and the financial performance of textile companies also found the best capital structure for these companies. The rest of the paper is arranged in a fashion that it describes the information and discuss the structure of textile companies that are considered to be tracked by models, draws the results and evaluate strategies for Pakistan.

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 that is financed by long-term liabilities. Managers' earnings management will affect this ratio and attract investors to develop their business window. Although Miller and Modigliani (1958) theory of Capital Structure of business firms proved that Capital Structure of the future economic benefits in long-term, the distribution of a company's financial assets, long-term debts including common stock, preferred stock and retained earnings have different effects on the returns i.e. different capital-mix gives different level of income. Managers can develop a legal way to mix and manipulate it, and manage to achieve good results. Ownership, capital structure, and debt-induced changes can play an important role in preventing management from taking earnings management practices that can be interpreted as a company's capital structure with specific short-term debt, long-term debt and preferred stock and common stock last but not least. The capital structure of a company that operates as a whole and uses multiple sources of capital is a fund. To reduce capital and administrative costs, companies manipulate their capital structure in a much efficient way. The major objective of this paper is

examining the effect of capital structure on the performance of textile 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.

Scope of the Study

There are many fields registered on 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 and data availability, this study just spotlight on textile sector for the period 2004-2014.

LITERATURE REVIEW

Management and capital structure is an increasing significant strategic issue for companies all over the world (John & John, 1993). Mismanagement will not only affect the capital structure, but also may violate the corresponding principles. "All that glitters is not gold" the company that heavily manipulates, calculates shareholders and investor's money and points, suffers some kind of innocent time robe. Size of firm's capital structure depends on the size of the firm. According to trade-off theory, large firms have business managers with special knowledge, so they can easily spread their risks and have a lower level of default risk than small firms. Trade-off theory maintains a positive association amongst firm size and leverage. Compared with small companies, large companies tend to use debt to finance investments. Their debt agency costs are lower and big firms are more credible in the money markets. So big companies are sitting on the sidelines, hoping to concentrate on using debt (R. Rajan & Luigi, 1995).

Rafiq (2008) performed a study on the capital structure determinants of the chemical industry, for 26 out of 39 firms listed at the Karachi Stock Exchange, using panel data on the period 1993-2004, and found that the major determinants of profitability, non-debt tax shield, changes in the size of the company's revenue and the growth of the firm were the capital structure of the chemical industry in Pakistan (Rafiq, 2008).

A study for South African companies, concluded and supported the approach that insiders can choose to back more debt up front (Frielinghaus, Mostert, & Firer, 2005). The finding further supported the Pecking Order Theory of capital structure and suggested a practical implication of the Life Stage Model to help businesses understand how their financing is likely to change over time. Beattie. (2006) targeted leverage ratio of small and medium sized UK firms concluded that companies are heterogeneous in their capital structure policies .About half of companies try to maintain a target debt level, which is consistent with Trade-off theory, but 60% claim to follow financing tiers, which is consistent with Pecking Order Theory (Beattie, Goodacre, & Thomson, 2006). The results of the survey conducted for Swedish companies, also exposed the determinants that greatly effect financial flexibility are the credit rating, debts payment capability and maintaining of certain liquidities (Gustafsson & Grundströmer, 2007). The results showed that the effective tax rate, asset tangibility and return on assets are negatively correlated with the debt ratio, while free cash flow, non-debt tax shield, growth opportunity, net commercial credit position and firm size seem not to be correlated with the

debt ratio. Although the results of the study partially support the superior order theory, neither the tradeoff nor the superior order theory seems to fully explain the capital structure of Turkish accommodation companies (Karadeniz, Kandir, Balcilar, & Onal, 2009).

A study conducted for Turkish firms in 2011, for finding the association between firm size and common stock issues discovered a significant relationship between firm size and personal loans (Karadeniz, Serkan, & Iskenderoglu, 2011). However, the cost of setting up, financing for continuing operations, and future investment priorities appear to be independent of company size. In addition, there are class preferences on internal resources, debt and common equity issues. The sources of financing are consistent with the sequencing theory. Other results also relate to the validity of the pecking-order theory in explaining the capital structure of Turkish firms.

As discussed earlier that Trade-off theory maintains a confined positive relationship between firm size and leverage. The cost of reliability in the capital and debts markets for large companies is at a low agency level. As a result, big companies are expected to tighten credit (R. G. Rajan & Zingales, 1995). On the other hand, pecking order theory suggests that the level and source of equity of large firms is quite low. As a result, they tend to use retained earnings as their primary source of financing. Any additional financing needs could be covered by a last-step issue of debt and common stock (Frank & Goyal, 2003). As we have a number of theories needed to test the potential determinants of leverage levels so in this study we represent some of them. The significance of making a decision regarding the capital structure for the first time proved by Modigliani in 1958 and a publication by Miller (MM) that, No tax in the world, is not affected through the leverage of the firm. After a field study of the important tasks performed by the MM, hypotheses were made for some of the studies. Indeed, the return MM assumes that the maximum value added return in an ideal value added firm's capital structure is supported and should not be stable, explaining the empirical results on capital structure. Then, after such criticism, they added corporate-tax considerations and, in 1963, conducted a review of their theoretical model of the capital structure (Modigliani & Miller, 1963). Another paper by Miller, published in 1977, included models of corporate tariffs and personal taxes (W. R. Miller, 1977). According to MM theory, the tax preference for loans subject to the largest capital structure and almost all loans composed by enterprises should have a capital structure. However, in the current reality, enterprises are generally obligated to take advantage of their high debt and a moderate amount of loan bankruptcy costs. After the MM theorem, they put forward the fundamental theorem of capital structure. Jensen and Mackling (1976) proposed the agency theory. According to this theory, managers (agents) are empowered by shareholders (principals) to conduct transactions with companies by expanding corporate welfare and shareholder assets (Jensen & Meckling, 1976). Specifically, the supervisors often do not take into account the legitimate concerns of shareholders, because in this case, executives can engage in a pioneering behavior and allow them to fulfill their egoism, potentially putting the company at risk. Finally, the goal of regularly increasing corporate valuations is difficult to achieve. This irreconcilable situation can cause office problems 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 degree responsibility for organization than the one who possesses a little rate of responsibility. In any case, where the CEO owns a key part of the company's value, an increase in administrative possession

may promote an increase in administrative advantage, which may result in lower obligations. In addition, Jensen and Mackling in (1976) argued that directors maintain a strategic distance of influence to reduce the risk of the company and the exchange of control to bondholders. When managers have greater ownership, the woes of regulators can be imagined to be even more remarkable. Grossman and Hart (1982) argue that the use of obligations expands the possibility of employment misfortune, further motivates directors to make effective use of authority assets and reduce their use of advantages (Mccall, Grossman, Hart, & Grossman, 1982). M. Jensen (1986) proposed the hypothesis of free cash flow to limit the discretion of management. 'The financing available to managers suggests that free cash flow is the positive net present value of the total cash of all projects,' further added (Jensen, 1986). Jensen's concern about sufficient income should be to drop the director vibration or adult incontinence not ideal for commercial activities. If this is seen as a problem, then it can be solved with or more benefit or installment credit. In fact, even a settled company can be applied to both arrangements, as well as the free cash principle to reduce the debtor flow to pay the company's interest and principal. In addition, an increase in managers' profitability will reduce shareholder activity. Leverage and corporate performance can be divided into two groups. The association between leverage and corporate performance differs through countries, which inclines to encourage the influence of recognized factors on this relationship and the effect of the efficiency of the legal system and the lower degree of bank credit access on the relationship between leverage ratio and corporate performance (Weill, 2008). Signaling, Ross proposed model in 1977 that Outlines the criteria for selecting a debt-equity quantitative relationship when an enterprise needs to signal. As a result firms borrow less money than quality and increase the firm value of leverage (Ross, 1977). Similarly the studies about finding out the association between firm performance and capital structure over the agency cost (Jensen & Meckling, 1976); (Florackis, 2008); (Myers, 1977). Agency cost is related to the conflict of interest among different agency groups (managers, creditors, shareholders). There are two types of agency problems that are stated below which are quite interrelated.

Agency Problem Between Directors and Stockholders

It occurs when managers own less than 100 percent of the company's assets because managers are unwilling to do their best to maximize the value of the company (which is better for shareholders). Jensen realized the benefit of debt as a constraint on management's discretion, and passed the comments that "the problem is how to incentivize managers to cough up cash rather than invest it below the cost of capital or waste it in places where the organization is inefficient" (Jensen, 1986).

Managers of low-debt companies tend to use free cash flow more freely, thus choosing less efficient projects that generate lower returns. In the opposite case, when a company has debt in its capital structure, the manager promises to pay interest and therefore has less free cash flow, and chooses a more efficient way to allocate those cash flows. Another idea is that shareholders delegate some of their control over managers to bondholders, making it possible to assess a company's performance to the capital markets.

Agency Problem Between Stockholders and Bond Holders

This is simply a conflict to decide between investors and creditors. In this case the latter, reducing the risk of low returns, while the former, taking risks, requires higher and higher returns. Therefore, debt holders are preferred because the shareholders will run projects with

high risk in with the expectations of high returns. All debt holders and investor will reap additional rewards. As a result, more companies are being forced to take on low-risk projects (Jensen & Meckling, 1976). On the other hand, in the case of high leverage, the contradiction between holders of investment liabilities and shareholders will lead to poor performance of the company (Myers, 1977).

METHODOLOGY AND DATA SOURCES

Data Sources

In the collection of secondary data for this paper, an arbitrary test procedure was used to assess the annual reports and recorded capital structures of five textile enterprises listed on the Karachi Stock Exchange.

The specific influencing factors of enterprise capital structure can be divided into dependent variables and independent variables. The leverage ratio as a dependent variable related to debt and equity. Taking profitability, sustainability, scale, growth and return on equity as independent variables.

Firm Specific Factor Determinant of Capital Structure

Businesses of any type, whether small, medium or large, need capital and financial resources for their business operations to meet their needs. The capital structure of any company is based on a cost-benefit analysis of equity or debt. This paper discusses the influence of some concrete factors in the capital structure.

Profitability

Pecking Order theory is more likely to come from internal and external sources than from profitable companies. More profitable organizations reduce debt because they are able to generate an inverse relationship between profit and leverage, indicating that project costs are expected to be held between easily invested capital and cost-efficient insiders. The study of Rajan and Zingales(1995) shows that the negative correlation between profitability and leverage ratio has nothing to do with determining the structure of profit in capital (R. G. Rajan & Zingales, 1995). On the other hand, creditors subject to all debts are common, and when these factors are taken into account, the ability to pay debt obligations is a measure of corporate profitability after the most tolerable level of corporate debt. The most profitable companies can easily add additional debt to their capital structures. The Signaling theory and Agency Cost theory believe that there is a positive correlation between profitability and leverage ratio. This was followed by Rajan and Zingales in 1995 and Supanvanij in (2006), using the profitability ratio of operating income as proxy for to total assets (R. G. Rajan & Zingales, 1995); (Supanvanij & Strauss, 2006).

Tangibility

The guarantee against the default risk of the loan borrower can be regarded as the collateral to ensure the tangible assets of the enterprise. Leverage measures tangible assets and predicts a positive relationship between tradeoff theories as it may, and the impact is not yet clear. Combined with the above experimental studies to confirm the hypothetical prediction, Lang and Friend (1988) believed that more benefits were needed and that enterprises with fewer mortgageable assets should pay a heavy price for debts to limit managers' consumption tendency (Friend & Lang, 1988). They suggested that debt should be used to supervise management activities. There is a negative correlation between tangible assets and leveraged assets, which implies confirmation of the results of (Sheikh & Wang, 2010).After Lang and

Friend (1988), the study measured total assets and net fixed assets as a ratio of tangibility. The relationship between company size and leverage is unclear. Many large companies in the literature diversify for reasons that lead to more stable or less stable cash flow failures. Firm size and leverage are positively correlated with securities that are most likely to use economies of scale to continue to offer. Finally, large companies can issue bonds more cheaply than small ones. In this case, we assume that size is positively correlated with leverage. Therefore, the empirical studies of Raja and Zingales in (1995) and Booth in (2001) concluded that leverage is usually positively correlated with firm size (R. G. Rajan & Zingales, 1995); (Booth et al., 2001). On the other hand, Chung (1993) and Ozkan(2001) conducted research according to the size of the firm and revealed that there was no orderly relationship between the total debt ratio, but because of the information asymmetry of the firms discussed by Fame and Jansen(1983), it is possible that these firms would provide more information to strange investors than small firms (Chung, 1993); (Ozkan, 2001). Some studies exposed a negative relationship among size and leverage and showed that the debt equity increases their comparative prime concern (Icke & Ivgen, 2011);(Ezeoha, 2008); (Adrian & Shin, 2010).

Firm Growth

According to Myers (1977) it is needed to reduce the debt in the capital structure of companies with growth potential, believing that opportunity can produce moral hazard effect and push companies to acquire additional risks. To reduce this problem, the opportunity for an increase in shareholder assets should be financed with debt rather than equity, with minimal reduction/risk (Myers, 1977). Similarly the former studies have also supported the upside in the firm growth and leverage of the firm (Sayilgan & Yildirim, 2009); (F. M. Buferna, K. Bangassa, & L. Hodgkinson, 2005);(Akhtar & Oliver, 2009). Titman & Wessel (1988), on the other hand, found a positive correlation between growth opportunities and leverage ratios, preferring the idea of using internal funds to fund new projects in the firm's beaks (Titman & Wessels, 1988). However, growing companies often do not have enough internal capital to fund new projects. Equity financing, debt financing enterprises because of the loan requirements are better. Chen (2004) and Buferna (2005), have then used firm growth, as a proxy for the increase in percentage change in the price of a firm's total assets (Chen, 2004); (F. Buferna, K. Bangassa, & L. Hodgkinson, 2005).

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.

Econometric Model

A pooled regression analysis was performed on the dependent and explanatory variables of leverage ratio and profitability, tangibility, company size, return on equity, and company growth.

Therefore, equation for regression model is following,

$$LG = \beta_0 + \beta_1 (\text{Prof}) + \beta_2 (\text{Tang}) + \beta_3 (\text{FS}) + \beta_4 (\text{FG}) + \beta_5 (\text{ROE}) + \varepsilon$$

Where,

LG ⇒ Leverage

Prof ⇒ Profitability

Tang ⇒ Tangibility

SZ ⇒ Firm Size

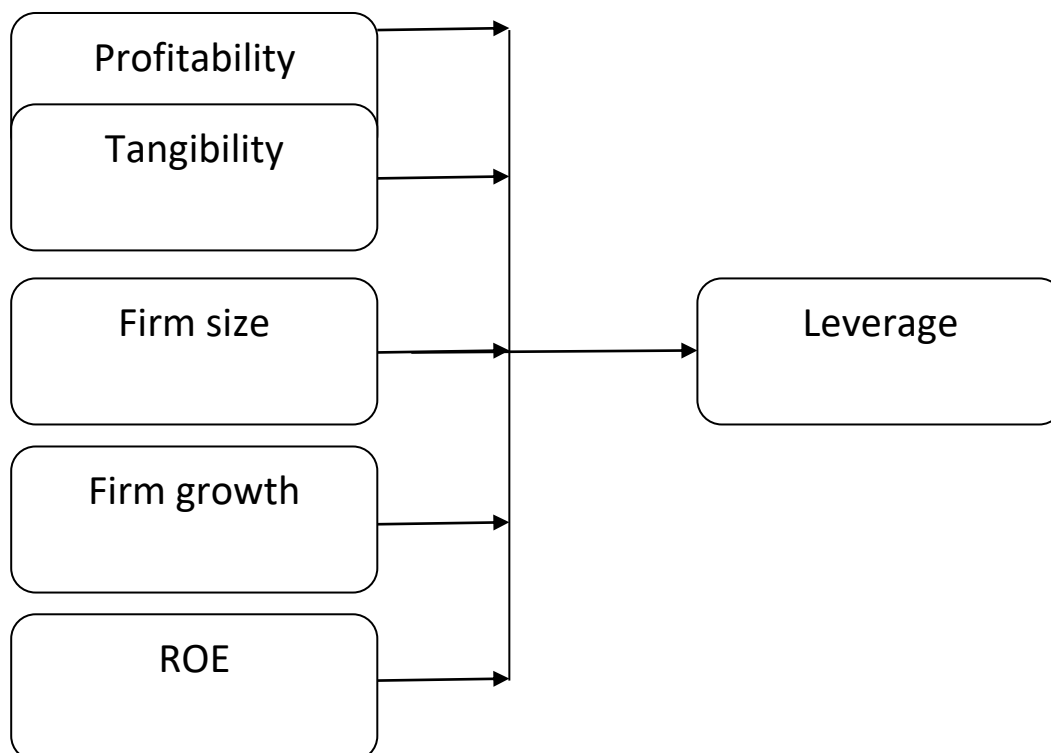
Gr ⇒ Firm Growth

Roe ⇒ Return on equity

Theoretical Framework

Independent Variable

Dépendent Variable



RESULT AND ANALYSIS

Table 1
Descriptive Statistic

	<i>Range</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>		<i>Std. Deviation</i>	<i>Variance</i>	<i>Kurtosis</i>	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic	Statistic	Std. Error
Leverage	146.69	-30.80	115.89	4.0250	2.44883	17.31586	299.839	37.382	.662
Profitability	23.82	-7.60	16.22	1.5486	.72751	5.14429	26.464	.310	.662
Tangibility	.49	.38	.87	.6538	.01888	.13348	.018	-.669	.662
Roe	894.20	-847.67	46.53	-20.0036	17.42619	123.22180	15183.61	43.790	.662
Firm growth	93.11	-10.89	82.22	8.2154	2.56703	18.15168	329.483	5.834	.662
Firm size	15.21	.00	15.21	13.4943	.30853	2.18162	4.759	30.745	.662
Valid N (list wise)									

The above table 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 deviation 17.31586, 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 2
Results of Regression Results

Coefficients				
Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.

		B	Std. Error	Beta		
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

Hypothesis Testing and Discussion

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 01% 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 05% 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.

Model Summary

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.

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		

Interpretations: Table 2 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 3
Expected and Observed Results

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

Table 3, 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
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 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.

CONCLUSION AND RECOMMENDATION

In this study we have examined the impact of firm-specific factors on capital structure decisions (leverage) of five textile firms in Pakistan using the data for the period from 2004 to 2014. We have found that the capital structure characteristics, profitability, corporate growth, return on equity and leverage ratio of Pakistan textile industry are statistically significant. Profitability is positively correlated with leverage, while tangibility, enterprise size, enterprise growth and return on equity are negatively correlated with leverage. The results of this study prove the static Trade-Off theory, that is, companies with high leverage in financing will have high growth and profitability, that is, reduced tax cuts due to high interest rates on debt. There is a positive correlation between profitability and leverage ratio. This paper investigates that in the textile industry, large enterprises do more financing through debt, because only through equity financing needs cannot be met, because they have more access to this financing source than small companies do not obtain this type of financing. The growth rate of assets is high because all assets are financed by debt. One of the main reasons is that more asset growth requires more cash flow, so companies can't meet their financing only through internal resources, so companies intend to borrow debt and finance their assets. Out of the four hypotheses, two of ours were accepted. Profitability and enterprise growths are significantly positively correlated with leverage ratio, while tangibility, enterprise size and ROE are negatively correlated with leverage ratio.

The financial performance of the company; Debt to equity ratio is a factor or driver that shows the impact of a company's financial performance. When considering the research results, it will be more valuable if it is different from the kinds of measures. Many industrial sectors are listed on the Karachi Stock Exchange that is composed of a number of firms. The sample size will be increased to expand the analysis. Only some techniques are used to test hypothesis such as descriptive statistic correlation and regression. For further research we can add much variety of techniques to generalize their findings. Optional information that is collected for this research to test it out can be used as secondary information for each organization.

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