DETERMINANTS OF CORPORATE FINANCING PATTERNS AND THEIR IMPACT ON CORPORATE FINANCIAL PERFORMANCE

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CERTIFICATE

This is to certify that Syed Muhammad Amir Shah has incorporated all observations, suggestions and comments made by the external evaluators as well as the internal examiners and thesis supervisor. The title of his Thesis is: **DETERMINANTS OF CORPORATE FINANCING PATTERNS AND THEIR IMPACT ON CORPORATE FINANCIAL PERFORMANCE.**

Forwarded for necessary action

Prof Dr. Syed Tahir Hijazi
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DEDICATION

Dedicated to my beloved parents whose prayers always pave the way to success for me

TABLE OF CONTENTS

LIST OF TABLES

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ABSTRACT

For decades, factors affecting corporate financing patterns are being debated. It starts with the Miller and Modigliani (1958) theory of capital structure irrelevance. The theory passed through evolutionary process and researchers observed the behavior of corporate financing. Studies in late 1990s observed the role of corporate ownership structure in determining corporate financing pattern. However, literature provides no uniformity in determinants of financing patterns in different environments.

This study investigates factors affecting corporate financing patterns in various ownership structures in textile and sugar sectors of Pakistan. It also discovers the relationship between financing patterns and companies' financial performance. It explores applicability of financing theories (trade off and pecking order) to the general situation in Pakistan, and in particular to the textile and sugar sectors.

Textile sector is by far the biggest slice of six hundred and fifty listed companies at Karachi Stock Exchange (KSE) and sugar sector is the second largest sector of Pakistan. Majority of these companies are family-owned, with controlling equity interest which leads to insider control and concentrated ownership. During 1995-2004, textile sector financial performance was poor (Shah, 2007). The empirical analysis pursued 108 listed companies from textile and thirty five companies from sugar sector of Pakistan for the period 2001-06.

Using Fixed Effect Model, the study concludes that group businesses, managerial ownership, institutional ownership, fixed assets business risk and profitability are statistically significant variables for both textile and sugar sectors of Pakistan. The analysis show negative relationship between debt financing and corporate financial performance in both the sectors. Major financing source for the textile and sugar sector is debt financing, particularly short term debt. Both the sectors depend on bank loan because the loan can be accessed at subsidized rate and political influence. This pattern of corporate finance reduced the incentive to mobilize capital through equity and public debt market. Partial support has been found for tradeoff theory in the textile sector of Pakistan. Sugar sector has partial support for pecking order theory.

Securities and Exchange Commission of Pakistan (SECP) should take measures to strengthen the capital market for debt in order to attract the corporate sector to be listed and traded actively. Measure should be taken to provide confidence to the investors and frequent market crashes should be avoided. This will provide more opportunities to the corporate sectors for financing businesses instead of relying only on the financial institutions.

Instead of prevailing numerous debt recovery laws used for different motives, a comprehensive bankruptcy law should be framed that could protect the rights of debtor as well as creditors. The policies are needed that help to strengthen the institutions. No political influence could be able to get undeserved financing on non professional basis.

CHAPTER 1

1 INTRODUCTION

This study empirically investigates factors that affect corporate financing pattern in various ownership structures in light of capital structure theories and their impact on corporate financial performance in the textile and sugar sectors of Pakistan. Textile sector is by far the biggest slice of six hundred and fifty listed companies at Karachi Stock Exchange (KSE) and sugar sector is the second largest sector of Pakistan. These two sectors represent thirty eight percent of total listed companies at Karachi Stock Exchange. The empirical analysis pursued 108 listed companies from textile and 35 companies from sugar sector of Pakistan. The sample represents fifty one percent of textile and hundred percent of sugar sectors listed companies which combined are twenty two percent of total listed companies. The period of analysis is 2001 to 2006. In these two sectors majority of companies are family-owned, who also have a controlling equity interest in these companies[1]. Textile and sugar sectors financial performance was poor during 1995-2004 (Shah, 2007).

Financing patterns implies sources of corporate financing, in other words it is short term debt, long term debt and equity financing. Financing patterns have impact on firm financial performance (Kochhar, 1997). Firm survival depends on financial performance. A successful corporation is beneficial for all stakeholders.

The literature provide support that the financing of a firm is a mix of different arrangements; it can be sourced by issuing equity securities, issuing debt securities, spontaneous financing, seeking loan from banks and/or utilize its retained earnings. Literature also provides evidence that financing can be broadly classified into equity and debt financing (Machangu, 2003). In due course many ideas emerged and some of them were transformed into theories that discuss different financing patterns. Some of the studies came up with the discussion on optimal mix that increases shareholders wealth (John, 2000; Akintoye, 2008).

[1] Bankruptcy Law , Keynote Address of Governor SBP at the seminar on "Bankruptcy Law" organized by the Federation of Pakistan chamber of commerce and industry at Karachi on Monday, 28th January,2002.

Formal research in the developed countries on the financing patterns started when Modigliani and Miller (1958) developed the capital structure irrelevance theory. On the basis of strict assumptions the authors argued that value of firm is independent of its capital structure. Later Modigliani and Miller (1963) relaxed one of the assumptions of corporate taxes and argued that corporate tax matters, as interest on debt is a tax deductible expense and provides a tax shield and increases the return on equity. Fourteen years later, Merton (1977) came up with the personal tax effect; the higher tax rate on interest income as compared to equity income increases investors' risk adjusted return for debt securities. Therefore, it increases the cost of debt for corporate sector. Modigliani and Miller theory (1958) which was on restrictive assumptions was under constant focus of research for other researchers.

Myers (1984); Myers and Majloof (1984) observed the behavior of corporate financing and argued that bankruptcy cost cannot be ignored and the capital structure is tradeoff between corporate tax benefit and bankruptcy cost. They further argued that firms follow pecking order of securities for their needs. In spite of several research initiatives the capital structure remained one of the unsettled topics in finance. Antoniou et al (2002) contended that the capital structure of a firm is influenced by firm specific factors but surrounding environment also plays an important role in capital structure decisions and its outcome. It affects the firm's financing patterns for number of causes, for example, the condition of a stock market in a country, and the size of banking sector. Booth et al (2001) took the view that financial market characteristics are as important as other financial variables while determining the debt financing.

Graham et al (2004) while exploring the question "the extent to which financial behavior is affected by country specific factors" concluded that there is variation between the determinants of financing patterns of European countries. The firm specific variables used in the study were profitability, size, growth, age and assets. The variation in the determinants in different European countries was ascribed to newer and old firms in the sample and due to the country level factor i.e. borrowing attitude, disclosure of information, social differences, cultural differences and firm's relation with banks. The European countries study sought support from Myers (1984) who argued that difference in

capital structure in different industries may be due to firm specific factors rather than industry factors. Estonian studies provided evidences that financing patterns are more prone towards pecking order theory (Sander 1998, 2003; Seppa, 2008). Industry factors and country specific factors play significant role in debt financing (Joeveer, 2006). This study focused on smaller unlisted firms and argued that it was the financial market that played a pivotal role in determining financing patterns.

Civil law countries[2] have more reliance on bank borrowing as their financial markets are less developed (Farhat et al 2006). Tangible assets have negative relationship with leverage in transition countries[3] as there are inefficient and illiquid secondary markets due to which collateral prove to be unsupportive (Nivorozhkin, 2004). In case of default, lenders face difficulty in liquidating the collateralized assets in the market.

Different ownership structures have impact on corporate financing decisions. Grossman and Hart (1980) argued that debt financing as an internal control mechanism was used in firms where the ownership stake of managers was less. This practice helped to reduce the agency cost and improved corporate financial performance. But literature provided no uniformity in relationship between ownership variables and financing patterns in different environments. Empirical studies carried out by Kim and Sorenson (1986); Mehran (1992); Brailsford and Pua (1999) showed positive relationship between ownership concentration and leverage. Friend and Lang, (1988); Moh'd, Pery and Rimbey, (1998), show negative relationship between ownership concentration and leverage.

Financing theories emphasized the importance for the firms to find the optimal combinations of debt and equity that maximizes the shareholders wealth and firm's overall performance and market value.

To summarize, it can be evolved that there are firm specific factors, firm ownership factors, and country environment that affect the corporate financing patterns. The financing decisions have impact on firm's financial performance. Literature evidences that

[2] Continental Europe, Latin America, Scotland and others. In Civil Law a structured code of rules is observed.
[3] Countries in the process of economic liberalization – lowering trade barriers and let the market forces set prices.

these factors differ across countries hence, results in one environment cannot be generalized for all other environments.

1.1 UNIQUE CHARACTERISTICS IN PAKISTANI ENVIRONMENT

Pakistan like many other developing markets has certain characteristics, which are unique and differ from developed countries. These include:

i. Majority of the companies especially in the textile and sugar sector are family-owned having controlling equity interest[4]. This leads to insider control and concentrated ownership.

ii. The capital market in Pakistan has not yet been developed. Large numbers of companies are not actively trading on stock market. Less traded companies have alternative modes of financing (Khanna, 2001). It is the ownership structure that facilitates the possibility of credit/bank loan instead of raising capital at stock market (Mumtaz, 2008). Listed companies in 1995 were 764 which decreased to 655 in 2008. The proportion of listed companies to total companies limited by share is also low. Companies limited by shares (public) in 1998 were 2720 and in 2007 these were increased up to 2784; this show lack of confidence and less reliance on market for raising capital (Table 2.16 and 2.17).

iii. Reliance on capital market is low, 82 percent debt financing in textile sector is through bank (Shah 2007).

1.2 RESEARCH QUESTIONS

i. What factors determine different financing pattern in leading corporate sectors (Textile and Sugar) of Pakistan?

ii. Do the factors determining financing patterns as evidenced from literature of developed countries equally apply to Pakistan corporate sectors?

[4] Bankruptcy Law , Keynote Address of Governor SBP at the seminar on "Bankruptcy Law" organized by the Federation of Pakistan chamber of commerce and industry at Karachi on Monday, 28th January,2002.

iii. Do the factors determining financing patterns affect corporate financial performance?

iv. Which financing pattern is most prevalent in leading corporate sectors (Textile and Sugar) of Pakistan?

1.3 RESEARCH OBJECTIVES

The existing empirical studies based on financing theories have been conducted mostly in developed countries and due to their unique economic and country specific factors results cannot be generalized for all other environments. Hence objectives of the study are:

i. Identify the determinants of corporate financing patterns in the leading corporate sectors (textile and sugar) of Pakistan.
ii. Evaluate the impact of financing patterns on corporate financial performance.
iii. Describe which financing pattern is most prevalent in leading corporate sectors of Pakistan? And why?
iv. Analyze the applicability of factors evidenced from literature of developed countries to Pakistani corporate sectors.

1.4 SIGNIFICANCE OF THE STUDY

Financing decision is one of the important decisions that affect financial performance of firm. The financing decisions of firms are not only affected by firm specific factors, but also by its surrounding environment (Antoniou et al, 2002). Different ownership structures have impact on corporate financing decisions. Jensen and Meckling (1976) argued that agency cost could be reduced if managers are engaged in share ownership. Gonenc (2005) observed that agency cost of debt also affected the financing patterns. Business groups are also one of the factors that may affect financing patterns of companies in that business group. Group business serve as internal capital market and also provide access to credit based on group reputation.

In textile and sugar sectors majority companies are part of business groups. In Pakistan, textile and sugar sectors are the largest sectors but on average these sectors financial performance was poor during 1995-2004 (Shah, 2007). As discussed above majority of

textile and sugar sector companies are family-owned with controlling equity interest, insider control and concentrated ownership.

This study focuses on the Pakistan textile and sugar corporate sectors and empirically analyzes and identifies number of factors that determine different sources of financing. The study also analyzes the impact of financing patterns on corporate financial performance. Theoretical justification is compared to the empirical results and reasons for the deviation are traced out. The study attempts to identify weaknesses of financial sector and provides guidelines for improvement. The study is expected to make important contribution for improving the financial performance of textile and sugar sectors of Pakistan.

CHAPTER 2

2 FINANCIAL MARKETS IN PAKISTAN

Financial markets include all markets where transactions relating to the trading of financial securities and extending credit take place. The following sections provide an overview of financial markets in Pakistan by highlighting the Pakistan capital market i.e. equity and debt market characteristics. It also explains the state of affairs of non-performing loans in Pakistan, its impact on the overall economic activities.

2.1 AN OVERVIEW OF FINANCIAL MARKETS IN PAKISTAN

Financial Market Development is key driver of economic activity (Akhtar, 2006). According to Shah (2007) major corporate borrowing is from financial institutions. In seventies, government's nationalization policy paved the way for political control on different established private sector companies and banking sector. The same continued till nineties. A new institution named as "Pakistan Banking Council" emerged for operational control of banks. The Federal government was given the authority for selection of PBC members, whereas PBC had the authority to appoint board members of individual banks. Following the hierarchy banking sector started working under political control. In Pakistan where industrialists have powerful influence and affiliations with political parties this structure has been misused. Cheema (1999) discussed that in eighties and nineties, the industrialists availed the rate of interest on loan at forty percent of the open market interest rate. Subsidized credit continued to provide essential state-created incentives for corporate growth during the eighties and nineties. There are still some privileged sectors getting subsidized loans. In July, 2006 State Bank of Pakistan reduced the interest rate for financing to textile industry by 3 percent whereas the government was already providing a subsidy for financing export oriented project by 6 to 7 percent[5]. Hence the textile and other export product producers were getting loans which were 10 percent less than the market rate. This pattern of corporate finance reduced the incentive to mobilize capital through equity and public debt markets, which in turn might be the reason for underdevelopment of capital markets in Pakistan Furthermore instead of creating efficiency by the provision of subsidized loans; it increased the proportion of debt in the

[5] Pakistan Economic Survey 2006-07, Government of Pakistan, Finance Division, Economic Advisor's wing, Islamabad.

capital structure beyond the optimal level. Firms operating expenses increased and resulted in losses (Shah, 2007). This state of operation increased the non-performing loans of the financial sector of Pakistan (See Table 2.1 – 2.13).

Non-performing Loans and Branches Network Of Financial Institutions (1990-2008)
Table 2.1 Commercial Banks in all 1990-2000

(Rs. in millions)

Years	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
No. of Branches (in Pakistan)	6926	7015	7106	7179	7326	7597	7696	7432	7103	7031	7004
No. of Branches (outside Pakistan)	120	121	118	117	119	119	121	119	109	109	109
Loans sanctioned	217774	227983	262461	328720	369242	459199	513787	561063	591390	676495	787738
Total Non-performing loans	41078	46814	50262	71235	86470	94872	106713	130391	136791	171243	173102
Percentage of non-performing loan to total Assets	18.9	20.5	19.2	21.7	23.4	20.7	20.8	23.2	23.1	25.3	22

Source: State Bank of Pakistan-Financial System Data, (1990-2000) NIBAF

Table 2.2 Commercial Banks-in all (2001-2008)

(Rs. in millions)

Years	2001	2002	2003	2004	2005	2006	2007	2008
No. of Branches (in Pakistan)	6988	6949	6904	7049	7348	7704	8169	8744
No. of Branches (outside Pakistan)	70	70	75	81	88	93	96	99
Total Non-performing loans		165437	156 015	147229	136369	134512	183702	284515
Percentage of non-performing loan to total Loans		17.7	13.7	9	6.7	5.7	6.3	8.5

Source: State Bank of Pakistan: Statistical Bulletin

Table 2.3 Nationalized & Privatized Banks (1990-2000)

(Rs. millions)

Years	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
No. of Branches (in Pakistan)	6881	6962	7003	7058	7163	7359	7426	7117	6765	6681	6641
No. of Branches (outside Pakistan)	120	121	118	117	119	119	121	119	119	109	109
Loans Granted-Advances	200433	204944	220282	273393	291968	348370	373219	390335	400854	461335	532007
Total Non-performing loans	39015	44848	46551	67226	82836	89257	98708	120212	122525	152222	152607
Percentage of non-performing loan to total Loans	19.5	21.9	21.1	24.6	28.4	25.6	26.4	31.6	30.6	33	28.7

Source: State Bank of Pakistan: Statistical Bulletin

Table 2.4 Nationalized & Privatized Banks (2001-2008)

(Rs. millions)

Years	2001	2002	2003	2004	2005	2006	2007	2008
No. of Branches (in Pakistan)	4112	2928	2920	1533	1562	1570	1592	1603
No. of Branches (outside Pakistan)	65	51	55	18	18	18	18	22
Total Non-performing loans		138565	85903	40557	96664	40945	52588	77607
Percentage of non-performing loan to total Loans		25.5	20.4	13.3	10	9	8.4	12.3

Source: State Bank of Pakistan: Statistical Bulletin, Financial Stability Review 07-08

Table 2.5 Private Banks (1990-2000)

(Rs. millions)

Years	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
No. of Branches (in Pakistan)	5	51	66	103	174	202	243	259	269	285
No. of Branches (outside Pakistan)	0	0	0	0	0	0	0	0	0	0
Loans Granted-Advances	0	8638	13798	22714	40604	51325	71074	79856	89920	121756
Total Non-performing loans		1778	1510	1739	2393	3137	4612	8230	12379	14305
Percentage of non-performing loan to total Loans		20.6	10.9	7.7	5.9	6.1	6..5	10.3	13.8	11.7

Source: State Bank of Pakistan-Financial system Data, (1990-2000) NIBAF

Table 2.6 Private Banks (2001-2008)

(Rs. millions)

Years	2001	2002	2003	2004	2005	2006	2007	2008
No. of Branches (in Pakistan)	2259	3415	3377	4902	5137	5535	5970	6515
No. of Branches (outside Pakistan)	5	19	20	63	70	75	78	77
Total Non-performing loans	NA	19807	66373	104027	96664	92325	145031	203905
Percentage of non-performing loan to total loans	NA	15.4	11.3	9	6.4	5.2	6	7.8

Source: State Bank of Pakistan: Statistical Bulletin

Table 2.7 Foreign Banks (1990-2000)

(Rs. millions)

Years	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
No. of Branches (in Pakistan)	45	48	52	55	60	64	68	72	79	81	78
No. of Branches (outside Pakistan)	0	0	0	0	0	0	0	0	0	0	0
Loans Granted-Advances	17341	23039	33540	41529	54559	70226	89243	109654	110679	125239	133975
Total Non-performing loans	2063	1966	1933	2498	1895	3222	4868	5567	6036	6642	6189
Percentage of non-performing loan to total Loans	11.9	8..5	5.8	6.0	3.5	4.6	5..5	5.1	5..5	5..3	4.6

Source: State Bank of Pakistan-Financial system Data, (1990-2000) NIBAF

Table 2.8 Foreign Banks (2001-2008)

(Rs. millions)

Years	2001	2002	2003	2004	2005	2006	2007	2008
No. of Branches (in Pakistan)	90	80	81	90	114	60	68	89
No. of Branches (outside Pakistan)	0	0	0	0	0	0	0	0
Total Non-performing loans	NA	7065	3739	2644	2390	1242	1572	3003
Percentage of non-performing loan to total Loans	NA	3.8	3.1	1.6	1.2	1	1.6	2.9

Source: State Bank of Pakistan: Statistical Bulletin

Table 2.9 Development Financial Institutions (DFIs) (1990-2000)

(Rs. millions)

Years	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
No. of Branches (in Pakistan)	647	666	702	717	729	725	759	806	782	756	735
No. of Branches (outside Pakistan)	0	0	0	0	0	0	0	0	0	1	1
Loans Granted-Advances	79024	92500	98311	108537	117159	128920	132545	161180	134472	128814	115924
Total Non-performing loans	22774	17443	20758	24954	37913	42214	55180	61964	66868	78428	77057
Percentage of non-performing loan to total Loans	28.8	18.9	21.1	23	32.4	32.7	41.6	38.4	49.7	60.9	66.5

Source: State Bank of Pakistan-Financial system Data, (1990-2000) NIBAF

Table 2.10 Development Financial Institutions (DFIs) (2001-2008)

(Rs. millions)

Years	2001	2002	2003	2004	2005	2006	2007	2008
No. of Branches (in Pakistan)	NA	NA	NA	NA	NA	NA	NA	NA
No. of Branches (outside Pakistan)	NA	NA	NA	NA	NA	NA	NA	NA
Loans Granted-Advances	NA	NA	NA	NA	NA	NA	NA	NA
Total Non-performing loans	NA	22358	12568	11676	4118	13219	8278	11722
Percentage of non-performing loan to total Assets	NA	NA	NA	NA	NA	NA	NA	NA

Source: State Bank of Pakistan: Statistical Bulletin

Table 2.11 Non Banking Financial Institutions (NBFIs) (1990-2000)

(Rs. millions)

Years	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
No. of Branches (in Pakistan)	42	72	134	159	179	180	185	154	191	182	183
No. of Branches (outside Pakistan)	1	1	2	6	7	7	8	8	10	9	9
Loans Granted-Advances	4295	6370	7879	30617	38359	43609	52486	59680	63226	63455	58061
Total Non-performing loans	1414	2154	2830	3686	4710	6263	7343	8660	9727	12021	12919
Percentage of non-performing loan to total Assets	32.9	33.7	35.9	12.0	12.3	14.4	14	14.5	15.4	18.9	22.3

Source: State Bank of Pakistan-Financial system Data, (1990-2000) NIBAF

Table 2.12 Specialized Banks (2001-2008)

Years	2001	2002	2003	2004	2005	2006	2007	2008
No. of Branches (in Pakistan)	527	526	526	524	535	539	539	537
No. of Branches (outside Pakistan)	0	0	0	0	0	0	0	0
Total Non-performing loans		78793	54074	52261	55233	38666	32232	29143
Percentage of non-performing loan to total Loans		54.7	55.6	54.1	46	39.1	34.3	28.2

Source: State Bank of Pakistan: Statistical Bulletin, Hand book of statistics on Pakistan economy 2005

Table 2.13 Investment Banks (1990-2000)

(Rs. millions)

Years	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
No. of Branches (in Pakistan)	42	72	128	152	168	168	173	144	182	177	178
No. of Branches (outside Pakistan)	1	1	2	6	7	7	8	8	10	9	9
Loans Granted-Advances	2843	4662	6533	14399	18151	17464	19690	21882	23055	21297	13663
Total Non-performing loans	779	771	841	982	1280	1959	2020	2363	2111	3306	3580
Percentage of non-performing loan to total Loans	27.4	16.5	12.9	6.8	7.1	11.2	10.3	10.8	9.2	15.5	26.2

Source: State Bank of Pakistan-Financial system Data, (1990-2000) NIBAF

Financial health of the financial sector deteriorated due to the political involvements in the loan sanctioning, job provisions in financial institutions, and opening up of branches without any need based analysis. In early 1990s financial sector reforms started to strengthen the regulatory side. It also involved the private sector ownership and divested the government ownership and control to increase efficiency of financial institutions. The process took place through different dimensions; liquidation, merger, off-loading a considerable share ownership of government and involved experienced professionals in the management team and allowed new foreign Banks to operate in Pakistan.

In Pakistan numbers of regulations have been framed for the debt recovery. "Debt is largely governed in Pakistan by the code of civil procedure 1908" (Rizvi, 2001). In Pakistan commercial law takes its origin from British Contract Law. The provisions that are incorporated in the companies' ordinance 1984 are based on British counterpart[6]. Emergence of the sick units and bankruptcy is a normal phenomenon for some of the industrial units in any country. Because some of the industrial units may have genuine problem due to management or financing side; hence these cannot flourish. Government intervention is considered necessary for rehabilitation or liquidation of the company as the case may be. The point to be considered is that a company in operation is worth more than a dead unit. If it is operational it provides employment and other social services to the community. Therefore, its rehabilitation is more important than its liquidation. Companies' ordinance has number of provisions dealing with Rehabilitation and Liquidation. There are 149 provisions in the companies' ordinance dealing with liquidation out of a total of 514 provisions (Sheikh and Naqvi, 2008). There are two main provisions dealing with rehabilitation of companies that is section 284 and 296 of the companies' ordinance 1984. Under Section 284 a company by the order of the court can make such arrangements where creditors (three fourth in value) compromise for the company to survive. From 1984 to June, 2008, twelve (12) units used this section for the sake of rehabilitation (Sheikh and Naqvi, 2008). The provisions under this clause are used for Merger and Acquisition. Section 296 provides an opportunity for the sick units to be considered by the committee for rehabilitation. 388 units were handed over to the

[6] Country Commercial Guide for Pakistan US Department of Commerce,2007)

committee for rehabilitation out of which 196 units were revived by the committee (Sheikh and Naqvi, 2008). There are a number of laws enacted in different regimes to deal with bad loans. In 1997 the parliament passed a law as "Banking companies (Recovery of Loan, Advances, credit and Finance) Act 1997." Under this act banking courts were allowed to establish and recover the Non performing loans (NPL). The banking companies prefer to file cases in these courts instead of other courts because these specialize in banking laws. These courts do not provide time to pay the amount due to the mortgagors. Rather they pass decree to recover the debt through the sale of any property pledged mortgaged, hypothecated. In 1999 the then Military government created National Accountability Bureau (NAB) in order to recover the Non Performing Loans (NPL) and for other political purposes. However, NAB started recovery by giving 30 days period to the defaulters for settlement of bank loans. In 2000 the government created another body namely Corporate and Industrial Restructuring Corporation (CIRC). The objective was to clean the public sector bank's balance sheet by taking non performing loans. The CIRC was to function with the provision of sunset clause so as to close it down by 2006. The CIRC also started the function of restructuring of sick units by providing working capital for their revival. Banks had to hand over NPA at their book value and in return got bonds issued by CIRC with 5 years to maturity to meet their liquidity requirements. 4000 units were identified as sick units. Initially the CIRC planned to rehabilitate 900 units out of 4000 units because these could be easily rehabilitated, whereas 500 units were found to have no chance of revival (Rizvi, 2001). 686 sick units were approved for open public auction by the government on identification of CIRC. These units owed Rs107 billion to public sector commercial banks and had been non-functional for one year at that time (Rizvi, 2001). The 90 cases, (textile-20, electonices-3, tanneries-2 other secotrs-65), whose book value was determined as Rs3 billion against actual amount of Rs12.2 billion were set for liquidation through auction (Rizvi, 2001). The recovery in normal cases that is being made by P (Principal) + 25% to P + 50% went to P (Principal) -75% to P -25 % in these cases (Sheikh 2003). Since 1999 to 2003 CIRC disposed of 77 units through auction. During 1999-2003, CIRC purchased the outstanding loan worth of Rs31.28 billion against the sick units from banks at discounted amount worth of Rs5.13 billion which is only 16.4% of actual amount outstanding and was able to recover Rs2.66 billion out of Rs5.13 billion which

is 8.5% of the actual amount outstanding[7]. Up till 2006, CIRC disposed off 126 nonperforming assets. It restructured 249 sick units that had outstanding amount of Rs45.57 billion. But there are still large number of sick units that cannot be rehabilitated either due to non availability of funds or disputes pending in courts. More than 5000 sick units[8] have disputes with commercial banks at court of law and 80,157 cases[9] are awaiting dispute settlement from courts. Government of Pakistan also constituted a Committee for Revival of Sick units (CRSIU). This committee allowed waives off and write off worth of Rs44.1 billion 1999 to 2003. The committee revived 196 sick units (Sheikh and Naqvi, 2008). The banks reported the unit(s) to the committee for revival if it faced problem in financial or operational level with that unit(s). The committee considered the bankers report and if it was of the opinion that the unit had to be declared as sick unit, it referred the case to the government for its declaration as sick unit. If the federal government agreed to the committee recommendations, it sent the case back to the CRSIU for preparation of rehabilitation plan for sick unit.

Developed countries have designed a formal bankruptcy law which provides opportunity to the creditors and debtors[10] to protect their rights. In Pakistan there are plenty of laws but such comprehensive law is non-existent[11]. Bankruptcy law can be traced back to 1800. Zywicki (2008) analyzing the bankruptcy law in America described that the bankruptcy law deals with three important aspect, it provides a collective action approach for the creditors to deal with insolvent debtor, it also provides opportunity to the debtor for "fresh start" and third it preserve the value of business as going concern at times business is in financial distress by providing a chance of reorganization instead of liquidating it. In Pakistan there has been imbalance in the protection of rights of creditors and debtors (Sheikh and Naqvi, 2008). No doubt businesses are run by taking both aspects into consideration that is chance of success or failure. If banks process lending cases professionally without any personal objective and or

[7] An Analysis of the Banks Write-Offs 1999-2003. www.sbp.org.pk/about/speech/2003
[8] The Daily Pakistan times 21st Feb., 2005

[9] An Analysis of the Banks Write-Offs 1999-2003
[10] Creditors mean those who lent money to the company and Debtor means the bankrupt company.
[11] Bankruptcy Law "Keynote Address at the Seminar on Bankruptcy Law organized by the Federation of Pakistan Chamber of Commerce and Industry at Karachi. 28th January, 2002

political influence, the loan default and write off is considered as normal component of loan but high rate of default results due to non-professional approach of lending. International standard for the ratio of non-performing loan to total loans is less than 5 percent[12]. Pakistan deviates largely from this ratio.

2.2 CORPORATE DEBT SECURITIES

During 1960s and early 1970s, before the nationalization of financial institutions in Pakistan, corporate debentures were issued by Pakistani companies. These securities were listed on stock exchanges in Pakistan. Debenture is a debt security bearing interest rate. In Pakistan Muslim population constitute the major part and dislike interest based lending and borrowing as it is against Islamic provisions of Sharia. In the month of June, 1980 the then government introduced an alternative mode to the debenture (being interest based security) through incorporating provisions in the legal Financial System as "Participation Term Certificate" and allowed corporations to issue interest free instruments for raising money for medium and long term and allow participation in the companies' profit and loss as the case may be. Commercial Banks and Financial Institutions participated in company's profit and loss through their investment by purchasing PTCs. The investment through PTC took place where the company (borrower) had already invested its capital and was in the need of more funds to be invested in the project/ activity. The lender was provided security by company's tangible assets as collateral. Participation term certificate holders share profit and loss as per other shareholders of the company. They were entitled to have a share out of profit in case of profit earned by the company and if company sustains loss, it would be first covered out of company's reserves and then (if still left the amount of loss) will be borne by the PTC holders with other shareholders. Later on, in 1984 a provision was incorporated in companies' ordinance 1984 under section (120) where the companies could issue Term Finance Certificate (TFC) by making public debt issue. Since 1995 Pakistani companies started issuing TFC which was different from the traditional corporate bond as it substituted the words expected profit for interest rate. The mechanism was set as, there is original price that the issuer receives in the

[12] An Analysis of the Banks Write Offs 1999-2003 – SBP Report

beginning and there is repurchase price that the issuer pays at the time of maturity or in the years before the maturity. The difference was not fixed rather expected and floating based on PIBs, KIBOR or any other rate. TFC permitted through legislation in 1984 allowed the issuance of security as redeemable capital, but there was no TFC issued by private sector Pakistani companies during 1984 to 1995 period. As long as 1985, privately placed Term Finance Certificates (TFCs) issued by development finance institutions had been in existence. TFCs worth Rs4.57 billion were issued during 1995-2000 and worth Rs80.64 billion 2001-2008. TFCs issued by Pakistani companies since 1995 to 2008 are shown in Table 2.19 and2-20 below. Total worth of TFCs as percentage of market capitalization is less than one percent (see table 2.17)

Table 2.14 TFCs (Debt Securities) by Pakistani companies Year 1995-2000

Security -TFC	Issue date	Maturity date	Size(million Rupees)
*Packages Ltd	7th Fe.,1995	Feb.,2000	232
*SGC1	17TH Oct.,95	Oct.,2000	500
*Nishat Tek	15th Jan.,96	Jan.,1999	250
*ICI1	30th Sep.,96	Sep.,01	1000
Banker's Equity	31st Dec.,97	Dec.,02	700
*Gatron	17th June.,98	June,03	274
FIB (interbank)1	1st Dec.,98	Dec.,03	326
Saudi Pak Leasing1	28 June,99	Jan,03	250
*Dewan Salman1	24th May,99	May,04	864
NDLC	1st Dec.,99	Dec.,04	500
*PILCORP1	21st Dec,.99	Dec.,04	287
Sigma Lease	18th Jan,.00	Jan,.03	110
Paramount Lease	18th Jan,.00	Jan,.04	250
Atlas Leasing 1st	27th Sep.,00	Sep.,05	200
Network Lease	4th Oct.,00	Oct,.05	100
*Al-Noor Sugar Mills	31st Oct.,00	Oct,.05	200
*Nishat Mills	19th Dec,.00	Sep,.01	343

Source: - Pakistan Financial Sector Assessment 2001-02. SBP and SECP annual report

Table 2.15 List of TFCs (Debt Securities) issued by companies (2001- 2008) and listed on KSE

Term Finance Certificate (2008) KSE(listed)						
				Subscription		
Maturity period (No. of Years)	**Sr. No.**	**Name of the issuing company**	**Date of Listing on KSE**	**General Public**	**Institutional Investors**	**Total**
					Private placement	
8	1	Engro Chemical Pakistan Ltd. (II)	14/01/2008	4,382.950	3,000.000	7,382.950
7	2	Faysal Bank Limited	01/02/2008	905.910	750.000	1,655.910
7	3	Pakarab Fertilizers Limited	31/03/2008	7,250.160	3,750.000	11,000.160
8	4	NIB Bank Limited	31/03/2008	1,562.625	3,000.000	4,562.625
5	5	Saudi Pak Leasing Co. Ltd.	22/04/2008	210.530	550.000	760.530
10	6	United Bank Limited (IV)	30/04/2008	624.585	4,500.000	5,124.585
5	7	Pakistan Mobile Communication Limited	05/12/2008	6.970	4,250.000	4,256.970
	7	**TOTAL**		**14,943.730**	**19,800.000**	**34,743.730**

Source: Karachi Stock Exchange (KSE)

Term Finance Certificate (2007) KSE (listed)

			Subscription by			
Maturity period (No. of Years	**S. No.**	**Name of the issuing company**	**Date of Listing on KSE**	**General Public**	**Institutional Investors**	**Total**
					Private Placement	
8	1	Allied Bank Limited	12/01/2007	90.395	1,875.000	1,965.395
8	2	Bank Al-Habib Limited (II)	15/03/2007	721.890	1,125.000	1,846.890
5	3	Orix Leasing Pakistan Limited (II)	02/07/2007	777.415	2,000.000	2,777.415
	3	**TOTAL**		**1,589.700**	**5,000.000**	**6,589.700**

Source: Karachi Stock Exchange (KSE)

	Term Finance Certificate (2006) KSE(listed)				**(Rs. in millions)**	
				Subscription		
Maturity period (No. of Years	**Sr. No.**	**Name of the issuing company**	**Date of Listing on KSE**	**General Public**	**Institutional Investors**	**Total**
					Private Placement	
7	1	Union Bank Limited (III)	09/03/2006	263.560	750.000	1,013.560
5	2	Searle Pakistan Limited	04/05/2006	35.105	240.000	275.105
8	3	United Bank Limited (III)	30/10/2006	28.395	1,500.000	1,528.395
	3	**TOTAL**		**327.060**	**2,490.000**	**2,817.060**

Source: Karachi Stock Exchange (KSE)

	Term Finance Certificate (2005) KSE(listed)				(Rs. In millions)	
				Subscription		
Maturity period (No. of Years	**Sr. No**	**Name of the issuing company**	**Date of Listing on KSE**	**General Public**	**Institutional Investors**	**TOTAL**
					Private Placement	
7	1	Chanda Oil and Gas Securitization Co. Ltd.	04/04/2005	250.000	750.000	1,000.000
8	2	United Bank Limited (II)	27/04/2005	150.005	1,500.000	1,650.005
5	3	Naimat Basal Oil & Gas Securitisation Co.	16/05/2005	65.220	900.000	965.220
8	4	Soneri Bank Limited	08/06/2005	400.485	1,000.000	1,400.485
6	5	Telecard Limited	14/07/2005	128.490	1,900.000	2,028.490
5	6	Al - Zamin Leasing Modaraba	11/07/2005	115.610	215.000	330.610
7	7	Azgard Nine Limited	27/10/2005	543.670	1,600.000	2,143.670
5	8	Trust Leasing & Investment Bank Ltd. (II)	26/12/2005	7.255	300.000	307.255
		TOTAL		**1,660.735**	**8,165.000**	**9,825.735**

	Term Finance Certificate (2004) KSE(listed)				(Rs. in millions)	
				Subscription		
Maturity period (No. of Years	**Sr. No.**	**Name of the issuing company**	**Date of Listing on KSE**	**General Public**	**Institutional Investors**	**Total**
					Private Placement	
5	1	Al - Zamin Leasing Modaraba	26/01/2004	193.740	200.000	393.740
5.50	2	Union Bank Limited II	27/02/2004	106.010	600.000	706.010
8.00	3	Bank AL Habib Limited	30/08/2004	229.805	1,150.000	1,379.805
5.00	4	Trust Leasing Corporation Limited	02/09/2004	119.730	300.000	419.730
8.00	5	United Bank Limited		933.960	1,500.000	2,433.960
		TOTAL		1,583.245	3,750.000	5,333.245

Source: Karachi Stock Exchange (KSE)

Term Finance Certificate (2003) KSE(listed)				(Rs. in millions)	
			Subscription		
Maturity period (No. of Years	**Name of the issuing company**	**Date of Listing on KSE**	**General Public**	**Institutional Investors**	**Total**
				Private Placement	
1	Union Bank Limited	29/01/2003	482.955	600.000	1,082.955
2	Security Leasing Corporation Limited (II)	19/02/2003	349.925	239.000	588.925
3	KASB Leasing Limited (Pak Apex)	05/03/2003	291.780	160.000	451.780
4	Trust Leasing Corporation Limited	04/07/2003	263.700	200.000	463.700
5	Ittehad Chemicals Limited	30/07/2003	262.525	200.000	462.525
6	First Oil & Gas Securitisation Co. Ltd.	20/10/2003	740.315	800.000	1,540.315
	TOTAL		2,391.200	2,199.000	4,590.200

Source: Karachi Stock Exchange (KSE)

Term Finance Certificate (2002) KSE(listed)				(Rs. in millions)	
			Subscription		
S. No.	Name of the issuing company	Date of Listing on KSE	General Public	Institutional Investors	TOTAL
				Private Placement	
1	Engro Chemical Limited	11/01/2002	290.160	400.000	690.160
2	Security Leasing Corp. Ltd.	11/02/2002	40.505	160.000	200.505
3	Crescent Leasing	04/03/2002	86.785	175.000	261.785
4	Reliance Weaving Mills Limited	13/05/2002	46.350	120.000	166.350
5	Union Leasing Limited	12/06/2002	157.070	200.000	357.070
6	Shahmurad Sugar Mills Limited	24/06/2002	18.220	125.000	143.220
7	Saudi Pak Leasing Company Ltd.	15/07/2002	262.755	320.000	582.755
8	Sui Southern Gas Company Ltd. (II)	24/07/2002	350.540	1,050.000	1,400.540
9	Sitara Chemical Industries Limited	24/07/2002	224.105	255.000	479.105
10	Engro Chemical Ind. Ltd. (II)	16/08/2002	888.250	800.000	1,688.250
11	Maple Leaf Cement Factory Ltd.	16/09/2002	115.925	175.000	290.925
12	Muslim Commercial Bank Limited	02/10/2002	1,207.780	1,400.000	2,607.780
13	Orix Leasing Pakistan Limited (II)	11/09/2002	146.835	600.000	746.835
14	Crescent Leasing Corporation Ltd. (II)	14/10/2002	184.200	200.000	384.200
15	WorldCALL Communications Limited	22/11/2002	207.765	250.000	457.765
16	Quetta Textile Mills Limited	27/12/2002	252.805	600.000	852.805
	TOTAL		**4,480.050**	**6,830.000**	**11,310.050**

Source: Karachi Stock Exchange (KSE)

	Term Finance Certificate (2001) KSE(listed)				(Rs. in millions)	
				Subscription		
Maturity period (No. of Years	Sr. No	Name of the issuing company	Date of Listing on KSE	Public	Institutional Investors	Total
4	1	Orix Leasing Pakistan Limited	21-05-2001	191.965	550.000	741.965
5	2	Sui Southren Gas Company Ltd.	16-07-2001	229.600	800.000	1029.600
5	3	Engro Asahi Polmer & Chemicals Ltd.	13-08-2001	106.825	400.000	506.825
4	4	Dewan Salman Fibres Limited	06-08-2001	216.350	1600.000	1816.350
5	5	Pakistan PTA Limited (ICI)	01/10/2001	230.295	1100.000	1330.295
		TOTAL		975.035	4450.000	5425.035

Source: Karachi Stock Exchange (KSE)

For the first time in Pakistan in 1988 WAPDA –a statutory corporation issued five years bond. The market for Term Finance Certificate in Pakistan looked bleak that is below one percent of Gross Domestic product (Arif, 2009). Later the Government of Pakistan introduced another variation of sharia based debt security named as "Sukuk[13]". In 2006 WAPDA being pioneer created a special purpose vehicle and issued sukuk certificate worth Rs8 billion and purchased HP Turbine from WAPDA. The agreement was further extended through Ijara mode. The Sukuk mechanism was started by the creation of special purpose vehicle. This SPV issue these certificates and buy the ownership of the asset. This agreement could take any form of sharia mode that is Ijara, Mudarba, Murabaha, Musharaka etc.

[13] Sukuk is an Arabic name for a financial certificate/Islamic bond that consider Islamic previsions of sharia in paying returns on bond.

The regulatory body to regulate these issues; Securities and Exchange Commission of Pakistan (SECP) established under an Act of Parliament in 1997 and became operative from January 1999. Since July 1, 2002, State Bank of Pakistan (SBP) and SECP jointly agreed upon that, SECP would perform supervisory functions for Non-Bank Financial Institutions (NBFIs), including investment banks, discount houses and housing finance companies. So, other than commercial banks and DFIs, all companies come under the supervision of the SECP. The 1997 Act gives the SECP responsibility (1) regulating the issue of securities; (2) regulating the business of stock exchanges and other security markets; (3) supervising depository and clearing houses; (4) registering stock brokers and sub-brokers; (5) regulating investment schemes and funds; 6) preventing fraud in securities markets; (7) regulating share acquisition and mergers/take-over of companies; and (8) regulating the issues of securities.

Corporations mainly rely on bank loans (Shah, 2007). Although lending agencies for corporate sector are commercial banks, development financial institutions, investment banks, foreign banks but commercial banks are the main source. In Pakistan financial market is bank dominated, issuance of (Bonds) Term Finance Certificate and Sukuk as debt securities could not attract the corporate sector as source of financing. M2/DGP Ratio measures the money available in the market to meet the demand of economic activities. If the rate is on higher side that depicts the financial depth and high level of economic activities in the country. The higher the ratio the better it is. The following table shows the ratio in comparison with china. Pakistan has very low M2/GDP ratio in comparison to China.

Table 2.16 M2/GDP Ratio Pakistan VS China

Year		**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
M2/GDP	Pakistan	36.7	40	43.1	44.9	45.1	45	43.6
M2/GDP	China	165.01	180.67	189.58	185.65	NA	NA	NA

Source: Economic survey of Pakistan 2006-2007 & China's finance and banking Association 2001-2004 reported by Hsiu-Ling Wu, 2009.

Bank Assets to Gross Domestic Product is another measure that gives an insight into the depth of the financial system in an economy and Pakistan is still far behind the East Asian countries (Akhtar, 2006).

Table 2.17 Bank Assets/GDP Ratio

Country	Pakistan	China	Malaysia	Hong Kong	Singapore	Philippines
Bank Assets/ GDP Year-2005	56%	163.1%	159%	444.6%	185%	63.2%

Source: World Bank Report data reproduced by the Akhtar, 2006. Keynote Address at Pakistan capital Market Conference organized by IFC at Karachi on 5th Sep.06

Pakistan being developing country is also in the need of development of infrastructure and needs financing for private and public infrastructure investment. This is only possible when financial markets are developed. According to the estimates of the Government of Pakistan this infrastructure investment requires Rs12 trillion where as total financial sector assets in Pakistan are Rs7.6 trillion (Akhtar, 2008). It is insufficient and this state highlights the importance of developing the financial market. Financial sector growth indicates the economic growth of the country. The effective utilization of existing financial resources is very important and such a high percentage of non-performing loans is not affordable.

2.3 EQUITY SECURITIES MARKET

This section describes the equity position in capital market. Data shows a low trend of listed companies as compared to total companies. Only a few IPOs and corporate debt securities were listed on stock exchange during the period under study. The data given below (see Tables 2.16-2.17) show that capital market could not attract the corporate sector at appropriate level. Pakistan has very low percentage of market capitalization to GDP ratio as compared to other emerging markets (See Table 2.18).

Table 2.18 Companies registered in Pakistan 1995-2007

Companies	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Limited by Shares(Public)	2720	NA	2,752	2,895	NA	2711	2768	2757	2823	2784
Limited by Shares (Private)	36965	NA	38300	38886	NA	38050	39769	41320	46548	46125
Companies limited by Guarantee and Associations not for profit	374	NA	387	425	NA	465	NA	352	424	462
Foreign companies	540	NA	574	651	NA	550	NA	606	710	725

Source: Corporate Law Authority (presently SECP)

Table 2.19 Detail show the position of listed companies along with new issues-1995-2008

Companies	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Listed companies	764	782	782	779	769	762	617	635	701	666	659	658	652	655
Total listed capital (Rs billions)	134.4	202.7	206.7	211	215	229	291.2	300.9	313	377	439	496	631	706
IPO(number)	NA	NA	7	2	0	3	2	6	3	11	12	7	11	
New Debt Instrument-TFC issued/ listed (numbers)	NA	NA	1	1	3	4	5	16	6	5	8	3	3	7
Amount of TFC Rs in billions	NA	0.751	1.00	0.274	1.44	1.1	5.425	11.3	4.59	5.33	9.83	2.82	6.59	34.7
Market	NA	NA	470	259	286	392	339	408	756	1422	2068	2801	4019	3778

Capitalization(Rs Billions)														
TFC/Market Capitalization	NA	NA	0.002	.001	.005	.002	.015	.027	.006	.003	.004	.001	.001	.009
GDP (Rs Billions)	1866	2142	2457	2737	2938	3147	4163	4402	4823	5641	6500	7594	8707	NA
Market Capitalization/GDP			19.13	9.46	9.73	12.45	8.14	9.27	19.7	25.2	31.4	36.3	46.1	36.1

Source: SBP annual reports, Financial Stability Review 07-08 and SECP annual report &economic survey of Pakistan 2004-05

Table 2.20 Market Capitalization/GDP Ratio Comparative Statement Year-2005

Country	Malaysia	Thailand	Korea	Pakistan
Market capitalization/GDP Year-2005	138%	70%	91.2%	31.4%

Source: World Bank Report data reproduced by the Akhtar 2006 Keynote Address at Pakistan capital Market Conference organized by IFC at Karachi on 5th Sep.06.

Summarizing the above discussion, it can be concluded that strength of financial market is imperative for economic activities and growth. The regulatory bodies play an important role in the development of financial markets. Corporate financing patterns have close link to the operations of the financial markets. If the financial markets are well regulated, the resources are optimally utilized. If flaws exist in regulations, the resources are misused and economic activities suffer. It is observed that in Pakistan financial resources are scarce. The high percentage of nonperforming loans cannot be tolerated. The regulatory bodies, State Bank of Pakistan and Securities and Exchange Commission of Pakistan should take measures to strengthen the financial market by effective utilization of scarce resources and facilitate the corporate sector of Pakistan to expand and develop in professional way.

CHAPTER 3

REVIEW OF LITERATURE

3 CONTEXT OF THE RESEARCH

There are firm specific factors, firm ownership factors, and country specific factors that affect the corporate financing patterns, and have impact on firm's financial performance. Hence results in one environment cannot be generalized for all other environments. Formal research in the developed countries on the financing patterns started when Modigliani and Miller (1958) presented the capital structure irrelevance theory. Modigliani and Miller theory (1958) which was on restrictive assumptions was also under constant focus for other researchers, Myers (1984); Myers and Majloof (1984) observed the behavior of corporate financing and argued that bankruptcy cost cannot be ignored and the capital structure is tradeoff between corporate tax benefit and bankruptcy cost, named as tradeoff theory. Tradeoff theory suggests that companies follow debt level that equates the tax advantage of additional debt against the bankruptcy cost. This is called optimal level. It is further argued that firms follow pecking order of securities in financing their needs known as pecking order theory. Ownership structures also have impact on corporate financing (Grossman and Hart, 1980). Literature provides evidence that the financial decision is one of the important decisions that affects performance of the firm (Joshua, 2007). The author also considered the agency issues as the reasons of raising high level of debt which ultimately result poor performance. Number of studies highlighted that firms use leverage to improve their financial performance (Champion, 1999; Hadlock and James, 2002).

3.1 Static Trade off Theory

Followers of the tradeoff theory believe debt - equity financing decision is a tradeoff between interest tax shield and the cost of financial distress. Baxter (1967) and Altman (1984) argued that firms attain optimal capital structure- where benefits from tax shield equaled the cost of financial distress. The trade off theory predicts that higher optimal debt is associated with higher profitability. There could be three reasons to support this theory; (1) debt allow tax shield (2) investors trust that more profitable firm will not go

bankrupt; hence high profitable firms get advantage of investors trust and seek more debt (3) agency cost, for the profitable firms, lenders/creditors give relaxation in monitoring charges, which reduces the debt cost. This motivates profitable firms to go for more debt. Jose et al (2002) in their study on Brazilian firms found an association between financing and profitability. The study concluded that in Brazilian firms, there are evidences of positive relationship in the short run and negative in the long run.

H1: There is a positive relationship between debt ratio and profitability

Business risk is associated with normal business operations like volatility in sales price, product demand, input cost and the firm's ability to adjust output prices for changes in input costs etc. If a firm has more business risk and also increases debt financing, the chance of bankruptcy increases. More debt increases the probability of bankruptcy. When companies opt for debt financing, it increases the risk level of firm. Increase in risk decreases the ability of borrowing because the lenders either charge more or avoid lending to such firms. Hence professional lenders consider firm's business risk before taking the lending decision. Bankruptcy costs can be direct and/or indirect. Megginson (1997*)* stated that direct bankruptcy costs are "out-of-pocket cash expenses directly related to bankruptcy filing and administration". Indirect costs include, loss of sales, lower capital investment and R&D spending**,** loss of key employees, etc. Warner (1977) and Ang et al (1982) argued that the direct costs are negligible especially in the case of larger firms. Altman (1984); Lang and Stulz (1992) and Opler and Titman (1994) argued in their studies that the indirect costs are quite significant in large firms.

H2: There is negative relationship between debt ratio and business risk

Fixed assets serve as collateral to the lenders for loan. Literature provides the evidences that companies having more fixed assets qualify for more loan as compared to the companies having less tangible assets. Fixed assets are considered as important factor for bank loan (Antoniou et al, 2002). Agency cost of secured debt is lower as compared to unsecured debt (Scot, 1977). Tangibility of assets is an important determinant of corporate financing (Rajan and Zingales, 1995). Fixed assets were found having a positively correlation in G 7 countries (Rajan and Zingales ,1995). Hence the optimal debt level of these companies increases comparatively and fixed assets serve as one of the determinants

of the corporate financing. Aleksandar (2005) showed relationship the low collaterisability of fixed assets in Russia's agriculture sector. Antonoiu et al (2002) concluded that fixed assets are a major variable in borrowing from bank in case of Germany. Frank and Vidhan (2005) established that leverage and size had positive relationship. The authors in this study found a positive relationship between fixed assets and leverage. Frank and Vidhan (2005) in this study found a positive relationship between fixed assets

H3: There is positive relationship between debt ratio and tangibility (Fixed Assets)

Growing companies need financing for expansion purposes. Literature provides evidences that a company, in order to cope with growth opportunities, has to go for financing. The option of financing growth opportunities through debt or equity rests with the management. Growth is one of the factors that have an impact on corporate financing (Booth et al 2001; Gonenc, 2003 and 2005). Loan is sought to avail the growth opportunities (Graham et al, 2004). Hence growth is considered as one of the determinants of corporate financing.

H4: There is positive relationship between debt ratio and growth

3.2 Pecking Order Theory

Literature provides evidence that asymmetric information affects the choice between internal and external financing and between new issues of debt and equity securities, and led to pecking order theory. Myers (1984) highlighted the motivations of corporate managers towards financing; his argument was based on four observations (1) Dividend policy is sticky (2) retained earnings is considered better than external financing either debt or equity. The hierarchy of financing would be from less risky to more risky security. Myers (1984) named this behavior of corporate financing as pecking order of securities. The theory is based on the following assumptions (1) Asymmetric information- where managers are more informed about business investment opportunities (2) Existing shareholders interest- managers increase the existing shareholder's wealth. Literature also provides evidence to the belief that equity issues clustered around the periods of

general price increases in the equity market. Literature supports the argument that firms would avoid equity issuance when their stock is undervalued. It would resort to debt financing as an alternate source. Hence, firms with higher levels of information asymmetries would exhibit higher level of debt. Kroszner and Strahan (2001) argued the observe-ability of the firm by outsiders as an important consideration for financing. A more traded stock is expected to be characterized by lower levels of information asymmetries and less reliance on debt. A less traded stock is expected to be characterized by high level of information asymmetries and more reliance on debt. If investors, while investing in new securities are well informed about the firm, they pay fair price for securities. But if they are less informed than insiders they either hesitate or more conservative in pricing security. This may be the reason for asymmetric information companies to go for banks loans. Companies having information symmetry do not hesitate to go to public for raising funds.

Firms with more tangible assets are more exposed to outsiders and hence tangible assets can be taken as proxy for firm's activities (Kroszner and Strahan, 2001). Tangible assets are found to have negative relationship with leverage in transition countries as these countries have inefficient and illiquid secondary markets due to which collateral proved to be unsupportive (Nivorozhkin, 2004).

Estonian studies provided evidences that financing patterns were more prone towards pecking order theory (Sander 1998, 2003; Seppa, 2007). Industry factors and country specific factors play role in debt financing and it is the financial markets that play a pivotal role in determining financing patterns (Joeveer, 2006). Civil law countries have more reliance on bank borrowing as their financial markets are less developed (Farhat et al, 2006). In Pakistan capital market is also less developed, corporate managers developed expertise in seeking bank loans (Shah, 2007). Investment banks provide consultancy for funds raising in capital market. But in Pakistan there is less reliance on capital market for raising funds. Investment banks started to operate as commercial banks (Raza, 2009). Jeseph (2000) in his study highlighted institutional ownership as one of the factors that determined bank borrowing and influenced the firms' preference for bank loan over non bank borrowing. Bank borrowings involve dealing with few banks instead of general public (Blackwell and Kidwell, 1988; Beston and Smith, 1976). Cambell (1979) argued that as the banks maintain the information provided by their clients as confidential, the

clients are attracted towards bank loans. Chemmanur and Fulghieri (1994) argued the ease in negotiation for future loan is another factor for going to bank loan. Borrowing from a single bank could cause a hold up problem where borrowing firm's growth opportunities are hampered hence in this case the negative relationship exist between single bank loan and growth (Houston and James, 1996).

H5: There is negative relationship between bank debt ratio and information symmetries.

Profitable firms use retained earnings as first preference of financing mode. The hierarchy of financing would be from less risky to more risky security (Myers 1984). This behavior of corporate financing is named as pecking order. Retained earnings are considered better than external financing either debt or equity. Antonoiu et al (2002) while analyzing a relationship between profitability and leverage found that there is an inverse relationship between these variables in France and UK and the study conformed to the pecking order theory. Frank and Vidhan (2005) found negative relationship between leverage and profitability. Hijazi and Tariq (2006) in their study on Pakistan cement industry established a negative relationship between leverage and profitability of firms. This sector was found using more equity financing and less debt comparatively. Rajan and Zingales (1995) suggested that profitability was negatively correlated in all G-7 countries except Germany. Wolfgang and Fix (2003) in their study established that investment opportunities matter for the variation in firm leverage ratio; the study found that firms generating profit used less debt financing.

H6: There is a negative relationship between debt ratio and profitability

3.3 Ownership Context

Literature review suggests that ownership structure has impact on corporate financing decisions. Grossman and Hart (1980) argued that debt financing as an internal control mechanism is used in corporations, where the ownership stake of managers is less. This practice help to reduce the agency cost and improve corporate financial performance. But literature provided no uniformity in relationship between ownership variables and financing patterns in different environments. Empirical studies carried out by Kim and

Sorenson (1986); Mehran, (1992); Brailsford and Pua, (1999) showed positive relationship between ownership concentration and leverage. Friend and Lang (1988); Moh'd, Pery and Rimbey (1998) showed negative relationship between ownership concentration and leverage.

3.3.1 Agency theory –Managerial Ownership

In a joint stock company, there is separation of ownership and management; it can cause conflict of interest between owners and the managers, generally known as agency cost. If the managers have no ownership stake in the firm, they can indulge in increasing their benefits and incentive. They can invest business cash flows even in negative NPV projects just to take new positions of higher status and benefits at the cost of owners. Grossman and Hart (1980) argued that debt financing could serve as internal control mechanism that reduced agency cost. Managers were made bound to pay cash in debt servicing and their discretion in cash utilization was minimized. Jensen and Meckling (1976) argued that agency cost can be reduced if managers are engaged in share ownership. However, after a certain point where the control shifts to the managerial ownership, entrenchment occurs. At high level of ownership stake, self interest involves in, hence, in order to reduce risk exposure, debt is reduced comparatively. Gonenc (2005) observed that agency cost of debt also affected the financing patterns. If there is concentrated ownership it reduces the agency cost of debt so these firms have high level of debt. The lenders offer more debt if they have a strong monitoring system through managerial control. The percentage of controlling ownership is different in international and domestic firms for UK, Germany and Turkey; short term debt play an important role for Turkish domestic and international firms' total debt financing for Turkish international firm is higher than domestic firm, Turkish international firms showed an increasing trend in their debt financing (Gonenc, 2005). Newly established companies used debt as a source of external financing in USA. The private, public and bank debt financing choices in USA corporations are dependent on the discretion of managers (David and Vassal, 2003). In USA banks can exercise comparatively effective control over the managers; so firms with low managerial ownership stake opt for public debt issue and avoid bank monitoring and control. But where there is high ownership stake they opt for bank loan, to be secure and to send good signals of market for effective control and monitoring which

increase the firm value. On the other hand David and Vassal (2003) found a week influence of managerial discretion on debt choices.

There are number of studies i.e. McConnel and Servaes (1990, 1995); Keasey and Watson (1994) wherein they argued that there exists a non-linear relationship between managerial share ownership and firm value. The relationship is non-linear when unit change in the managerial ownership (*x* variable) will not bring the same change in the firm value (*y* variable). The line in this relationship is curved instead of a straight line. At first when managerial ownership increased, it increased the firm value due to convergence of interest, but when managerial ownership reached at high level, entrenchment occurs, this again gave rise to conflict of interest between minority shareholders and owner-managers and consequently firm vale declines. The argument taken by authors in most of the studies that firms that are highly concentrated do not want to lose their control so these firms opt for debt as financing source and avoid equity issuance. This argument is based on two assumptions that the ownership is very confident that firm would earn profit so debt would increase the shareholders wealth, hence firm value and the ownership do not want to lose control. However, there is still another argument that ownership might not prefer debt if it brought more stringent convents and strict monitoring (Jensen and Meckling, 1976).

Agency cost of debt rises due to the conflict of interest between debt providers and shareholders. Shareholders are inclined towards debt because if investment fails, the lenders are likely to bear more cost as compared to shareholders and in case investment is successful, it gives more benefit to the shareholders as compared to the lenders.

Kim and Sorensen (1986) in the light of agency cost suggested that the presence of agency cost-resolving covenants is more effective and disciplinary when the contracts are written by firms with high inside ownership. The possible reason might be that the cost of violating such covenants is higher for insiders with a high percentage ownership in the firm than those with a low percentage ownership.

In Pakistan, especially in textile and sugar sectors majority of the companies are family-owned who have a controlling equity interest. This leads to insider control and concentrated ownership. Family members also serve as directors on the board. At the same time they have positions as directors on the boards of subsidiary companies. Forty

six family businesses have been identified in this study (see Appendix A). The majority of ownership rest with owner-manager. Hence, a line cannot be drawn between managerial ownership and family ownership.

Anderson and Reeb (2003) worked on a sample of 252 U.S. industrial firms and found that founding family ownership firms had significantly lower costs of debt financing as compared to non-family ownership firms. Such a finding was attributed to the lower agency costs of debt present in such companies due to undiversified family holdings, the desire to pass the firm onto subsequent generations, and concerns over family and firm reputation.

To conclude this discussion it can be said that the reduction in the debt agency costs emanating from the incentive effects is expected to increase the firm's debt capacity. Hence, the following two hypotheses are set.

H7: Managerial owned firms have positive relationship with debt financing up-to a certain point of ownership percentage after which entrenchment set in and debt ratio start decreasing.

H8: Family controlled firms have high debt ratio

3.3.2 Maturity

Debt maturity is another important factor that influences in agency cost of debt in ownership structure. Buferna et al (2005) stated that short term debt might lessen the agency problem as any attempt by shareholders to extract wealth from debt holders is likely to restrict the firm’s access to short term debt in the immediate future. Short term debt is considered riskier for the borrowers as there is wide fluctuation in interest expense. Family ownership businesses avoid short term debt due to this risk factor and prefer long term debt. If firm is unable to pay interest expense due to unexpected rise in interest rate, it might go bankrupt. According to Brigham and Gapenski (1997) the interest rate that banks charged large corporations for short term debt was more than tripled over a two year period in the 1980s, rising from 6.25 to 21 percent and firms that had borrowed heavily on

short term basis could not meet their rising interest costs, and as a result bankruptcies hit record levels. Jensen and Meckling (1986) argued that the use of secured debt might reduce the agency cost of debt. Hence, family controlled firms borrow a lower level of short-term debt and higher level of long term debt.

H9: Family owned/managerial owned firms have negative relationship with short term debt

3.3.3 Institutional Ownership

In family controlled businesses top managerial positions are often controlled by family members in some major sectors, for example in textile sector and sugar sector, appointment of directors to the board is largely a family matter with a majority of the directors categorized as insiders. When the board of directors does not act according to the satisfaction of some shareholders, shareholder activism becomes imperative. Institutional owners being professional managers can play monitoring role on the board and help in increasing shareholders wealth which also protect the minority shareholder's right. Securities and Exchange Commission of Pakistan (SECP) promulgated the Code of Corporate Governance in 2002. Afterward the code was incorporated in the listing regulations of the three stock exchanges. The code of corporate governance is applicable to listed public companies. The basic objective of this code was to create an institutional system, which could protect stakeholders and provide an environment, conducive for investment.

The code encouraged an effective representation of independent non-executive directors on their Boards of Directors. According to Section (b) of Clause (i) of the Board of Directors:

"The Board of Directors of each listed company includes at least one independent director representing institutional equity interest of a banking company, Development Financial Institution, Non-Banking Financial Institution (including a modarba, leasing company or investment bank), mutual fund or insurance company; and the independent director representing an institutional investor shall be elected by such investor through a resolution

of its Board of Directors and the policy with regard to selection of such person for election on the Board of Directors of the investee company shall be disclosed in the Directors' Report of the investor company".

The Code is pushing for increased representation of institutional shareholders, in this way the monitoring role of these shareholders can be promoted. Institutional ownership is defined as share ownership by financial institutions (both banks and non-bank financial companies) and non-financial corporations. These include both the public-owned as well as privately owned institutions.

Institutional concentration is considered one of the main types of external block holding that theoretically might play an important role in agency problem reduction. Given a sizable investment in the firm, such external shareholders may have more incentives to monitor management than atomistic shareholders. This active monitoring hypothesis implies lower agency costs of debt and, therefore, higher debt ratios (Shleifer and Vishny, 1986).

H10: There is positive relationship between (external block holders) banking and non-banking financial institutions in a firm and debt ratio.

3.3.4 Business Groups

Business groups are also one of the factors that may affect financing patterns of companies in that business group. Khanna and Rivkin (2001) defined Business group as "a set of firms which, though legally independent are bound together by a group of formal and informal ties and are accustomed to taking coordinated action". Alchain (1969) argued that group business create the internal capital market facility. Scharfstein and Stein (1994) extended the Alchain argument by comparing the financing arrangement with-in the group and financing through bank (in case bank is not a group member). The author argued that group headquarter is better able to monitor and access to information regarding member company than bank. Where capital market is underdeveloped, business groups facilitate capital allocation among group members (Perotti and Gelfer, 2001). Through groups, companies could access intra- group financing and might have better access to credit, based on the group reputation (Khanna and Rivkin, 2001). Gertner

et al (1994) contended choice of internal and external financing as trade-off between benefit and cost of internal and external financing. Jesus Saa Requajo (1996) studied the Spanish firms with comparison to American firms. The study identified number of differences with respect to financial markets. Spanish firm had more reliance on bank financing. The study highlighted that mostly business groups included banks as group members and these banks were the main source of debt financing to other members. Spanish stock markets were un-developed due to low capitalization, low trading volume, high transaction cost, and because only few main players in the market had control over the market and could manipulate it (Jasus Saa Requejo, 1996). The study highlighted the point that American environment was different to Spanish and the determinants of financing decision for American firms could not be applied to Spanish firms. If bank was a member of the group, the members would have more easy access to bank loan as the bank on the one hand would have updated and easy access to information about the members and on the other hand would give preference to member companies for debt. Hoshi (1991), Kim and Limpaphayom, (1998), in their studies found that Japanese keiretsu structure of companies had close relationship with their main bank and this relationship played a significant role in reducing the costs of financial distress. Kester (1986); Berglof and Perotti (1994) argued that keiretsu structure also reduces the informational asymmetries between creditors and shareholders. This study indentified 46 group businesses in Pakistan (Appendix-A).

H 11: If a firm is affiliated with a group then it will have higher levels of debt and less equity

3.4 CORPORATE FINANCIAL PERFORMANCE

Literature provides evidence that the financing decision is one the most important decisions that affects performance of the firm. Different financing patterns have different costs. Financing patterns have impact on firm performance (Kochhar, 1997). Corporation survival depends on financial performance. A successful firm is beneficial for all stakeholders. Financing theories emphasized the importance of finding the optimal combinations of debt and equity that maximizes the shareholders wealth, firm's overall performance and market value. The corporate financial performance is not only affected

by utilization of resources but cost attached to the financing source also matter (Kochhar, 1997). The intent of this study is not only to analyze the determinants of financing patterns but also evaluate the impact of financing patterns on corporate financial performance. Joshua (2007) conducted a study on Ghanian and South African SMEs in order to investigate the impact of debt financing on financial performance of firms. The study used performance variable as Tobin's Q and different variations of debt that is short term debt, long term debt and total debt as independent variables. Using regression as a statistical tool on panel data concluded that long term debt had negative effect on firm performance. The author also considered the agency issues as the reasons of raising high level of debt which ultimately resulted in poor performance. Leverage position had positive effect on the return on equity if EBIT was greater than average cost of debt (Hutchinson, 1995). The author considered the earning volatility as important factor in determining the debt level. There are number of studies that found positive relationship between debt and performance (Taub, 1995; Petersen and Rajan, 1994) Companies used leverage in order to improve their financial performance (Champion, 1999; Hadlock and James, 2002). Ross (1999) based on signaling aspects theorized that debt had positive impact on firm value. Heinkel (1982) also supported the Ross (1977) argument. Jonsen (2007) suggested that only those manager who could foresee good future prospects for companies in terms of performance of companies, could issue debt. Firms considered credit rating and flexibility while deciding to raise finance through debt (Graham and Harvey, 2001)

La Pota et al (1999) contended that when controlling ownership involved in management; they had then dominating role in the management which consequently influenced the firm performance. Jira and Lodhi (2007) investigated the impact of ownership structure on firm performance in Thailand in pre-post Asian crises of 1997 and found no dissimilarities in pre-post times in ownership concentration. The study analyzed top five shareholders percentage in that particular category, return on assets and sales to assets was taken as performance measure and found that both got influenced by concentrated ownership. Chen (2001) in his study on Chinese listed companies found that concentrated ownership had direct association with corporate performance. Thai family ownership and managerial ownership had positive and statistically significant effect on return on assets. Foreign ownership had no statistically significant effect on firm performance (Jira and Lodhi, 2007). The author had also tested non-linear relationship between managerial ownership and performance. The author expected relationship between managerial ownership and

firm performance as positive when managerial ownership took the cubic form and negative relationship when it had squared form. The study found the same relationship.

Agency theory provided the rational for improved firm performance when manager's interests are aligned with those of shareholders through managerial equity holdings.

H12: Family/managerial ownership is positively associated with firm financial performance.

Institutional investors if sufficiently large, encourage these equity holders to actively monitor firm's decisions makers to ensure that the firms are being operated in the best interest of shareholders. Institutional monitoring is aimed at improving firm performance.

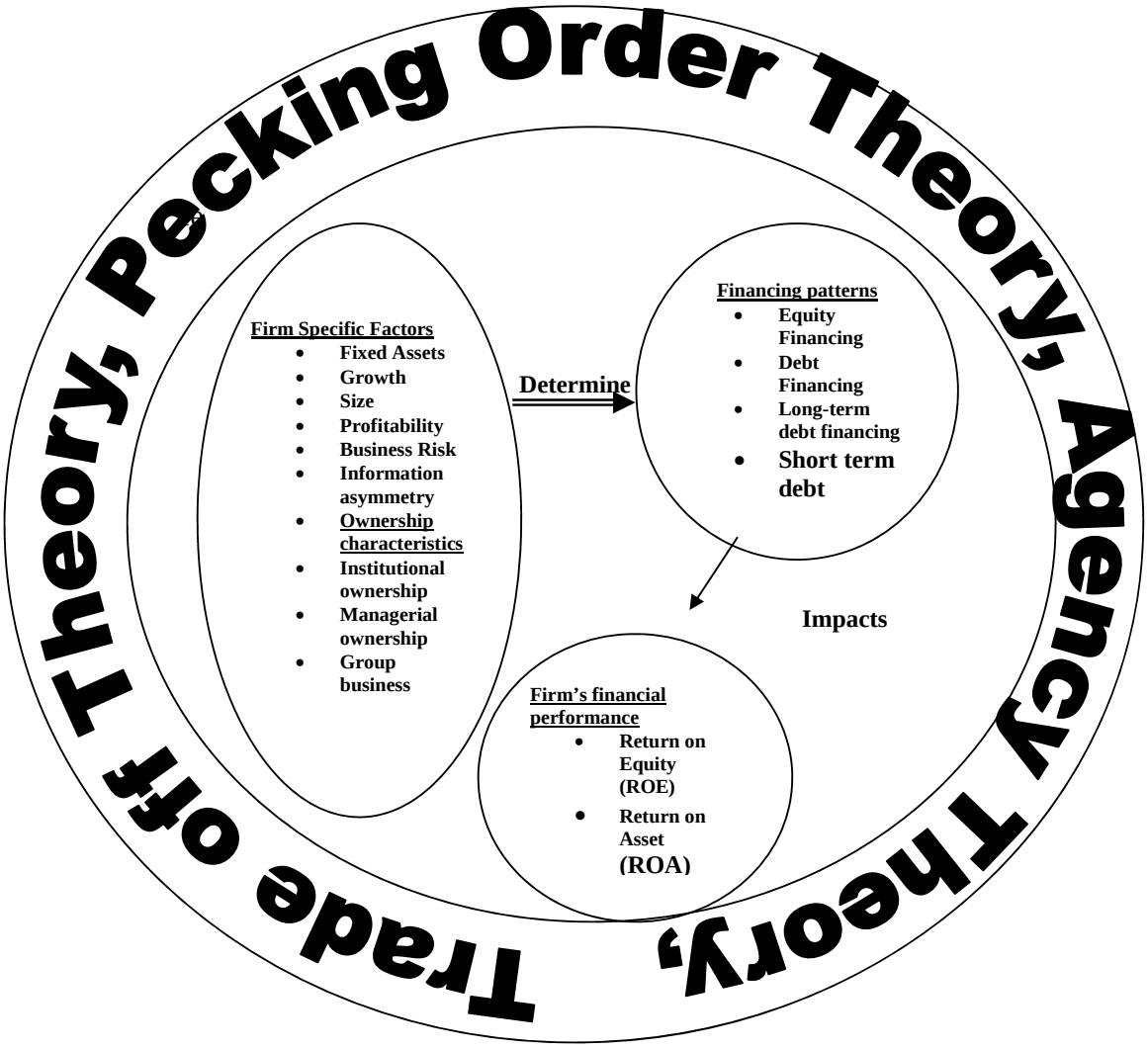
H13: Institutional investor equity holdings is positively associated with firm financial performance

CHAPTER 4

METHODOLOGY AND DATA SOURCE

4.1 Theoretical Model

Based on the review of literature of the financing theories, this study proposed the following model. Firm specific factors have been identified that influence the corporate financing decisions. These factors in association with firm ownership characteristics determine the suitable financing pattern. Each financing pattern has its impact on firm's financial performance. The optimal combination has positive impact on corporate financial performance. If the determinants are taken in care of financing decisions; it helps not only the borrowers to improve corporate financial performance but also the lenders to reduce the non-performing loans. The following model shows relationship between the variables.



4.2 Explanation of the Model-How the variables qualify as determinant of financing patterns

4.2.1 Fixed Assets

Fixed assets serve as collateral to the lenders for loan. Literature provided the evidences that companies having more fixed assets qualify for more loan as compared to the companies having less tangible assets. Fixed assets are considered as important factor for bank loan (Antoniou et al 2002). Agency cost of secured debt is lower as compared to unsecured debt (Scot1977). Tangibility of assets is an important determinant of corporate financing (Rajan and Zingales, 1995). Hence the optimal debt level of these companies increases comparatively and fixed assets serve as one of the determinants of the corporate financing. Fixed assets sometimes also include intangible assets like patents etc. which

do not serve as collateral. Hence the ratio for the tangibility of assets has been calculated as:

Tangibility of assets = Fixed tangible assets / Total Assets

4.2.2 Growth

Growing companies need financing for expansion purposes. Literature provided evidences that a company, in order to cope with growth opportunities, has to go for financing. The option of financing growth opportunities through debt or equity rests with the management. Growth is one of the factors that have an impact on corporate financing (Booth et al 2001, Gonenc 2003, Gonenc 2005). Loan is sought to avail the growth opportunities (Graham et al 2004). Hence growth is considered as one of the determinants of corporate financing. Some of the international studies measured growth by change of current and previous year's assets while others measured by change of current and previous year's sales. There could be numbers of factors to measure growth in business like for example yearly changes in number of employees , in volume of production, in working capital, in gross profit and change in sales. Volume of production is normally used where price of product remained more volatile during the period under study. In order to maintain accuracy, the price affect is removed. Change in working capital has also some limitations. Short term loan is a component of working capital. This study used short term loan as dependent variable. Change in number of employees is considered an inappropriate measure for this study. Human resource is discharged/ employed based on long term future prospects of the business. There are not yearly hired and fired. This study used panel data set which needs to reflect yearly change in data. Hence this study measured growth by change in sales (Hall et al 2004, Eriotis et al 2007).

Growth = (sales of current year-sales of previous year)/sales of previous year

4.2.3 Profitability

Trade off theory suggests that lenders prefer profitable firms in lending as the profitability provides the confidence in loan recovery. However, Majloof (1984) argued that profitable firms use less debt and prefer using retained earnings for investments. Hence profitability

in either way is one the determinants of corporate financing. Titman and Wessels, (1988) used profitability as ratio of operating income to sales. Jensen et al (1992) stated profitability as ratio of operating income to total assets. Wald (1995) argued profitability as ratio of average earnings before interest and taxed over total assets. Ghosh (2006) used profitability ratio as operating profit divided by total assets. The most relevant definition of profitability in this study is the earnings before interest and taxes. The lenders are interested in recovering the interest and principal amount. This shows the earnings power of the firm before payment of interest and taxes. The taxes have also been ignored because in textile sector of Pakistan most of the companies are generating losses, hence paying no taxes.

Profitability = EBIT/ Total Assets

4.2.4 Business Risk

Business risk is associated with normal business operations like volatility in sales price, product demand, input cost and the firm's ability to adjust output prices for changes in input costs etc. When companies opt for debt financing, it further increases the risk level of firm. If there is an increased level of volatility in the above factors, it decreases the ability of borrowing because the lenders avoid lending to such firms. Hence professional lenders consider firm's business risk before taking the lending decision. This approach reduces the non-performing loan ratio of the lenders. Theoretically, all companies are exposed to certain risk attached to its operations. Titman and Wessels, (1988) stated that proxies that were usually used to reflect the firm's business risk included: the standard deviation of the percentage change in operating income. Wiwattanakantang, (1999) used standard deviation of the first difference in sales over 5 years, scaled by the average value of the firm's total assets over the same period. Crutchley and Hansen, (1989) and Booth et al., (2001) used variability of the return on assets over available time period. Financial distress arises at times commitments to creditors are not honored or face some sort of difficulty. Financial distress may cause bankruptcy. In times of financial distress there may be lower capital investment and R&D spending**,** loss of key employees and suppliers find new clients etc. Bradley et al., (1984) suggested the standard deviation of operating income before interest, taxes as a measure of business risk. Lenders consider firm's future

earnings as measure of protection (Bradley 1984). If there is an increase in volatility, it decreases the ability of borrowing as lender will avoid lending to such firms. Gonenc (2005) in his study on Turkish, UK and German firms observed that firms having less variability in profits have more debt financing due to low risk of bankruptcy and higher liquidity. Ghosh (2006) in his study on Bank debt concentration argued that proxy for default risk and firm's health were sales and profit. Firms with higher expected sales and profit were less likely to face default risk (Smith 1987, Berger and Udell 1995, Ghosh 2006). Dinis (2003) found borrower's credit quality as key determinant of debt as a source of financing. This study used standard deviation of EBIT of previous three years as proxy for business risk because volatility in earnings before interest and taxes provides an insight to the lenders for recovery of their loan. In Pakistan, banks use last five years average profit as a measure of risk which is not an appropriate measure, average profitability may be predicted but the chances of default during the tenure cannot be predicted.

Business Risk= Standard of last three years EBIT.

4.2.5 Information Asymmetry

Literature provides evidence that asymmetric information affects the choice between internal and external financing and using debt and equity securities, this leads to pecking order of financing. In case of Pakistan, managers/ executive directors have more reliance on bank loan. They have expertise in generating finance from the banks but have no experience in generating finance from capital market. Investment banks provide these services to the firms when desired. This may be one of the reasons of more reliance on banking sector and less on capital market. Where managers have professional skills to generate finance from market, they succeed in getting finance from the capital market at low cost. They focus the market activities and try to increase the shareholders wealth. Theoretically a more traded stock is expected to be characterized by lower level of information asymmetries as it is more exposed to the investors in the market. Hargis (1997) showed increased trading volume as information symmetry. Ghaddar (2003) used proxy for information asymmetry as the number of days a stock traded on the stock exchange as a percentage of total trading days in a year. The higher percentage was interpreted as lower

information asymmetry. In this study the percentage of number shares traded on KSE in a year to total number of share outstanding of the particular company is used as a proxy for information asymmetry. This measure has been considered more appropriate than number of days. There may be a transaction of shares in a particular day but of negligible number of shares to total outstanding shares. But the day will be taken as traded day hence increase the percentage. This deficiency was removed by calculating the percentage of number of traded shares to that of total number of outstanding share. Data for total number of shares traded in a year for all listed companies was sourced from Daily Business Recorder.

4.2.6 Managerial Ownership

It is argued in the literature that if managers have no ownership stake in the firm, they indulge in activities that increase their benefits, incentives as high perquisites. Grossman and Hart (1980) argued that debt financing can serve as internal control mechanism to reduce agency cost. Managers are bound to pay cash in debt servicing and their discretion in cash utilization is minimized. Jensen and Meckling (1976) argued that agency cost can be reduced if managers are engaged in share ownership. However, after a certain point where the control shifts to the managerial ownership, entrenchment occurs. At high level of ownership stake, self interest involves in, hence, in order to reduce risk exposure, debt is reduced comparatively. Gonenc (2005) observed that agency cost of debt also affect the corporate financing. If there is concentrated ownership it will reduce the agency cost of debt hence these firms will have high level of debt. The lenders offer more debt as they have a strong monitoring system through managerial control.

However literature also supports the argument that shareholders are inclined towards debt as if investment fails, the lenders are likely to bear more cost as compared to shareholders and in case investment is successful, it gives more benefit to the shareholders as compared to the lenders. Hence, managerial ownership also plays an important role in determining corporate financing pattern.

4.2.7 Family Ownership

Different authors define family ownership in different ways; Daily and Dollinger (1992) defined it as “firm is considered a family if key mangers working in the business are related to the owner”. Canaughy Mattews and Fialko (2001) defined it as “public corporations, whose CEO were either the founder or a member of the founder’s family”. Anderson and Reeb (2003) as (1) founding family continues to have an equity ownership stake in the firm (2) family possesses board seats (3) founding CEO is still the acting CEO or descendent of CEO is acting CEO. Belen Villalonga, and Raphael Amit (2005) are of the view that in such companies one or more family members are officers or directors or own 5 percent or more of the firm’s equity, either individually or as group. In Pakistan family ownership is having equity interest in Textile and sugar sectors. Appointment of directors on the Board is family matter. Directors, their spouse and minor children on average have 52 percent share ownership in textile sector and 28 percent ownership in sugar sector (See Table 5.1 and 5.12). The majority of directors are working as executive directors in the company. As the majority ownership rest with owner-managers, managerial ownership has been calculated as equity ownership percentage of shares held by directors their spouse and minor children. The impact investigated at different level of managerial ownership stake i.e. 10%, 15%and 20%equity ownership.

4.2.8 Institutional Ownership

Institutional ownership is considered as external block holding that theoretically might play an important role in agency problem reduction. Given a sizable investment in the firm, such external shareholders may have more incentives to monitor management than atomistic shareholders. This implies lower agency costs of debt and, therefore, higher debt ratios are expected.

In Pakistan’s textile sector and sugar sector, where the appointment of directors to the board is largely a family matter with a majority of the directors categorized as insiders. When the board of directors does not act according to the satisfaction of some shareholders, shareholder activism becomes imperative. Institutional owners being professional managers can play monitoring role on the board and help in increasing

shareholders wealth also protect the minority shareholder's right. In Pakistan, the Securities and Exchange Commission of Pakistan (SECP) introduced the Code of Corporate Governance in March 2002, which was subsequently incorporated in the listing regulations of the three stock exchanges. At present, this basic code is applicable to listed public companies. The objective of the code was to create an institutional system, which could protect various stakeholders and thus provide an environment conducive to investment. In Pakistan Textile and Sugar sectors institutional equity ownership on average has been found as 15 percent and 20 percent respectively (See Table 5.1 and 5.12). Institutional shareholders impact has been investigated on different levels of institutional equity ownership stake i.e. 10%, 15% and 20%

4.2.9 Group Business

Business group is "a set of firms which, though legally independent, are bound together by a group of formal and informal ties and are accustomed to taking coordinated action" (Khanna and Rivkin, 2001). When companies are together with formal or informal ties; these are better able to access credit based on the group reputation. The group also reduces the cost of financial distress. However, companies may have inter-group financing opportunity. Member companies in a group will have higher debt level comparatively. In this study 46 group businesses have been identified in Pakistan (See Appendix A). In textile out of sample 108 companies 46 are members of group and 62 are non group companies. In sugar out of 35 sample companies 29 are group members and 6 are non group companies. Hence, "Group Business" is considered as one of the determinants of corporate financing. A dummy variable has been used in this study taking the value of 1 (one) if company belongs to group and zero (0) otherwise.

4.3Financing Patterns

Academic literature suggests debt, equity or mix of debt and equity as the source of financing for companies. The debt ratio is calculated by dividing total debt to total assets. Burgman (1996), states leverage can be defined as the ratio of the book value of long term debt to book value of long term debt plus market value of equity. Total debt includes long-term as well as short-term debt. Rajan and Zingales (1995) provides definition of leverage

as the ratio of debt to total assets. Number of the studies followed Rajan for the calculation of leverage. This study followed Rajan and Zingales (1995) and scaled all financing patterns to total assets.

Total Debt/ Total Assets
Short term debt/Total Assets
Long-Term Debt/Total Assets
Equity/Total Assets

4.4 Impact of financing patterns on corporate financial performance

Financing Pattern means the sources of corporate financing that is short term debt financing, long term debt financing and equity financing. The optimal level of financing mix improves the firms' financial performance. Debt is a cheaper source of financing as compared to the equity. Tax shield give edge to the debt financing over equity financing in terms of cost of financing. The cost of debt increases with more reliance on debt financing and at one stage its cost is more than the benefits of debt financing. Hence firms' financial performance suffers. If firms maintain an optimal level of debt equity mix, it increases shareholders wealth. The optimal level of debt and equity mix is also a subjective term, it differs industry to industry. Short term debt is also an important component of financing short term business needs. Sometimes companies borrow on short term and invest for long term; it creates the refinancing/role over risk to the company. But this strategy if succeeded increases the return on assets as short term debt has less cost as compared to the long term debt financing. In contrast to this sometimes companies follow conservative approach. A portion of short terms financing needs are covered up through long term financing. In this strategy although companies feel relax in terms of financing but increase the financing cost to the company and reduce the return on assets. Literature suggests the number of corporate performing measures that is Tobin Q, Return on equity and Return on assets. Return on assets as a performance measure has been used in this study. Tobin Q uses market value of the company as component in calculations. In Pakistan capital market has not yet been developed, a large number of companies are not trading actively. Hence Tobin Q as performance measure may mislead the results. Return on equity could

not be used as numbers of companies in Textile Sector are running on negative equity. Hence, in this study, Return on assets has been used as corporate financial performance.

4.5 Model Specification

Literature review revealed that most of the studies used ordinary least square method (OLS). Fixed Effect model used in the few latest studies as technique for analysis. Ordinary Least Square method takes the strong assumption of constant intercept. This deficiency is covered up by the fixed effect model. Fixed Effect model on Panel data set has been used in this study. The model considers different intercepts for different companies to capture firm's specific features.

4.5.1 Application of Static Trade Off Theory

The following equation has been developed to test the application of trade off theory and capture the explanatory power of business risk, managerial ownership, institutional ownership, group businesses and other control variables. Business risk will capture the effect of the trade off theory, ownership variables will capture the agency effect and fixed assets, profitability, and growth factors will serve as control variables to capture the due share of each variable. Theory predicts higher optimal debt ratio with less volatility in EBIT. If there is an increase in EBIT volatility, it decreases the ability of borrowing as lender will avoid lending to such firms. Such companies are exposed to risk attached to its operations; this type of risk is known as business risk. Debt adds to it a financial risk. Bradley (1984) argues lenders consider firm's future earnings as measure of protection. Investors trust that more profitable firm will not go bankrupt; hence high profitable firms get advantage of investors trust and seek more debt. The theory also considers the agency cost of debt. For profitable firms lenders/creditors give relaxation in monitoring charges, which reduces the debt cost. This motivates profitable firms to go for more debt. The more debt, the higher is the probability of bankruptcy. As the debt level increases, probability of bankruptcy also increase, firms choose the optimal level of debt financing. The following equation will capture the explanatory power of business risk, managerial ownership, institutional ownership, group businesses and other control variable.

(Fixed Effect Model)

$$Y_{it} = \alpha_1 + \sum_{i=1}^{n-1} \alpha D_i + \eta BusRisk_i + \lambda Manowner_i + \gamma InstitutionalOwn_i + \varphi BusGroup + \sum_{i=1}^{n} \beta_j X_{it} + \mu_{it} \quad \textbf{(1)}$$

Y_{it} = Financing of individual firm over time. This variable will take different forms- STD/TA, LTD/TA, TD/TA and Equity/TA:

a) STD/TA= Short-Term Assets to Total Assets
b) LTD/TA= Long-Term Assets to Total Assets
c) TD/TA= Total Debt to Total Assets.
d) Equity/TA= Equity to Total Assets.

D_i = Dummy for each company to capture firm specific effect.

BusRisk= Business Risk

Man owner= variable for managerial ownership

Institutional Own= variable for external block holders/ institutional ownerships

Bus Group= Dummy will take value of 1 if company belongs to business group

X_{it} = Other independent variables of individual firms over the time as control variables.

a) profitability,
b) growth,
c) fixed asset,

μ_{it} = Residual of individual firm over the time.

4.5.2 Application of Pecking Order Theory

The following equation has been developed to capture the explanatory power of information asymmetry, managerial ownership, institutional ownership, group businesses and other control variable. The following equation has been developed to test the application of pecking order theory and capture the explanatory power of information asymmetry, managerial ownership, institutional ownership, group businesses and other control variables. Information asymmetry will capture the effect of pecking order theory, ownership variables will capture the agency effect and fixed assets, profitability, and growth factors will serve as control variables to capture the due share of each variable.

$$Y_{it} = \alpha_1 + \sum_{i=1}^{n-1} \alpha D_i + \eta Inforsym_i + \lambda Manowner_i + \gamma Institutionalown_i + \varphi BusGroup + \sum_{i=1}^{n} \beta_j X_{it} + \mu_{it} \quad \textbf{(2)}$$

Y_{it} = Financing of individual firm over time. This variable will take different forms- STD/TA, LTD/TA, TD/TA and Equity/TA

STD/TA= Short-Term Assets to Total Assets

LTD/TA= Long-Term Assets to Total Assets

TD/TA= Total Debt to Total Assets.

Equity/TA= Equity to Total Assets.

X_{it} = Independent variables of individual firms over the time-profitability, growth, fixed asset, information asymmetry

D_i = Dummy for each company to capture firm specific effect.

Inforasym= Information symmetry

Man own= variable for managerial ownership

Institutional Ownership = variable for external block holders/ institutional ownerships

Bus Group= Dummy will take value of 1 if company belongs to business group or otherwise zero.

μ_{it} = Residual of individual firm over the time.

This equation will measure the impact of different financing patterns i.e. short term debt financing, long term debt financing and equity financing on corporate financial performance (Return on Assets). The equation will also capture the effect the ownership variables.

$$Y_{it} = \alpha_1 + \sum_{i=1}^{n-1} \alpha D_i + \chi STD_{it} + \nu LTD_{it} + \rho Equity_{it} + \lambda Managerial\ own_i + \gamma Institutional own_t + \mu_{it} \quad \textbf{(3)}$$

Y_{it} = ROA (Return on Assets)

STD = Short-Term Assets to Total Assets

LTD = Long-Term Assets to Total Assets

Equity = Equity to Total Assets.

Managerial own= managerial ownership

Institutional own= variable for external block holders/ institutional ownerships

μ_{it} = Residual of individual firm over the time.

4.6 DATA SOURCE

The data obtained from the State Bank of Pakistan Publications "Balance Sheet Analysis of listed companies on KSE" for the period from 2001 to 2006 (6 years). Data for the year 2007 and 2008 has not yet been published by the SBP. Due to the non-availability of data for 2007-08, the study could not cover up these two years' time period. Data regarding ownership variables have been taken from annul reports of listed companies. Data regarding daily trading of stock was obtained from [14]Business Recorder. Group business data has been collected from different sources, such as annual report of companies, web sites and other published materials and telephonic conversation with companies head offices.

population of the study include two hundred and ten (210) Textile Sector companies listed on Karachi Stock Exchange and thirty five (35) sugar Sector companies listed on Karachi Stock Exchange.

Sample of the Study includes one hundred and eight (108) Textile Sector companies listed on Karachi Stock Exchange whose data was available for complete sample for period from 2001 to 2006 and all thirty five (35) Sugar Sector companies listed on Karachi Stock Exchange. Sample represents fifty one percent of textile and hundred percent of sugar sector listed companies which combined are twenty two percent of total listed companies.

[14] A leading daily business news paper

CHAPTER 5

ANALYSIS AND RESULT

5 DESCRIPTIVE STATISTICS

Table 5.1 (Textile Sector)

Factors	Means	Standard Deviation
Long-Term Debt/Total Assets	0.22	0.22
Long-Term Bank Loan/Total Assets	0.20	0.22
Short-Term Debt/Total Assets	0.56	0.32
Total Debt/Total Assets	0.77	0.38
Equity/Total Assets	0.23	0.41
Debt/Equity	4.14	17.39
Business Risk	0.64	1.46
Profitability	0.017	0.16
Growth	0.27	2.86
Fixed Assets/Total Assets	0.58	0.18
Managerial Ownership	0.52	0.76
Institutional Ownership	0.15	0.18
Information symmetry	0.25	2.38
Number of observations	642	
Group companies=46 Non-group companies=62		

In Textile sector, on average 56 percent of financing has been arranged through shot- term source 22 percent from long term financing source and 23 percent has been arranged through equity finance. Proportion of total assets financed through debt represents 77 percent. Proportion of managerial ownership on average is 52 percent and institutional ownership is 15 percent. On average 25 percent of outstanding shares traded on stock market. 46 percent of the sample represents group businesses and 54 percent represent non group businesses. Profitability on average is 1.7 percent and growth has been found 28 percent on average during period under study in sample companies.

The following tables describe results of analysis against each independent variable. The independent variables, business risk, profitability, growth, fixed assets, managerial ownership%, institutional ownership% and group businesses have been regressed against different dependent variables- total debt/total assets, long-term debt/total assets, long-term bank loan/total assets, short term debt/total assets, and equity/total assets separately.

Table 5.2 Regression Analysis – Fixed Effect Model (*Y= T D/ T A)*

Independent Variables	**Dependent Variable= Total Debt/Total Assets**		
	Coefficient	**Coefficient**	**Coefficient**
Business Risk	*-0.0001533	*-0.000152	*-0.000149
	-2.13	-2.4	-2.06
Profitability	*-0.2828262	*-0.277942	*-0.281572
	-5.93	-5.78	-5.9
Growth	0.0000227	0.000022	0.0000309
	0.85	0.84	1.15
Fixed Assets	**0.1718303	**0.151563	**0.1702072
	1.68	1.68	1.67
Managerial Ownership 10%	*1.922411		
	6.28		
Managerial Ownership 15%		*1.517774	
		5.78	
Managerial Ownership 20%			*1.562363
			6.14
Institutional Ownership 10%	*0.6803107		
	3.46		
Institutional Ownership 15%		*0.269614	
		2.4	
Institutional Ownership 20%			*0.3200944
			3.3
Group Businesses	*1.22846	*1.231895	*1.228565
	8.98	8.95	8.97
Number of observations	642	642	642

F(113, 528)	22.05	F(112, 529) = 20.39	F(112, 529) = 20.5
Prob > F	0	Prob > F = 0	Prob > F = 0
R-squared	0.83	0.82	0.81
Adj R-squared	0.79	0.77	0.77
**significant at 10% level *significant at 5%and 1% level			

Variables used in analysis have been measured as follows: dependent variables as the ratio of total debt to total assets. Independent variables- Business Risk as the standard deviation of last three years EBIT. Profitability- is the ratio of EBIT to total assets. Growth- is change in current year's sales from previous year sales divided to previous year sales. A fixed asset is the ratio of tangible assets to total assets. Managerial ownership is dummy variable equal to one (1) if the ownership is 10 % or more in a company otherwise zero (0). If the ownership is 15 % or more in a company equal to one otherwise zero (0). If the ownership is 20 % or more in a company equal to one and otherwise zero (0). Institutional ownership is dummy variable equal to one (1) if the ownership is 10% or more in a company otherwise zero (0). If the ownership is 15% or more in a company equal to one otherwise zero (0). If the ownership is 20% or more in a company equal to one otherwise zero (0). Business Group is dummy variable equal to one (1) if the firm belongs to a group and zero (0) otherwise.

The results suggest that total debt ratio increases in companies where managerial and institutional equity ownership stake is higher as compared to the companies where this percentage is less.

The analysis suggests that managerial ownership and institutional ownership variables are significant at all three levels of ownership (10%, 15%, and 20%). This relationship shows that ownership increases either at managerial or institutional level debt ratio also increases. The results suggest that total debt ratio is determinant by profitability, fixed assets, business risk, group business and equity stake of managers and institutions.

Table 5.3 Regression Analysis – Fixed Effect Model (*Y= LT D/ T A)*

Independent Variables	Dependent Variable= Long term Debt/Total Assets		
	Coefficient	**Coefficient**	**Coefficient**
Business Risk	0.0000389	0.0000398	0.0000411
	0.63	0.44	0.66
Profitability	*0.1367264	*0.1361505	*0.1362264
	3.32	3.29	3.28
Growth	-0.000012	-0.0000105	-8.34E-06
	-0.52	-0.45	-0.36
Fixed Assets	*0.4359261	*0.4215498	*0.4305379
	4.95	4.75	4.85
Managerial Ownership10 %	*1.007553		
	3.81		
Managerial Ownership %15		*0.6525284	
		2.88	
Managerial Ownership20 %			*0.6321279
			2.83
Institutional Ownership10 %	*0.5204328		
	3.06		
Institutional Ownership 15%		**0.1610279	
		1.66	
Institutional Ownership 20%			**0.1335168
			1.8
Group Businesses	*0.3373864	*0.3399382	*0.3571501
	2.85	2.56	2.98
No of observations	642	642	642
F(113, 528)	7.09	F(112, 529) =6.78	F(112, 529) =6.78
Prob > F	0	Prob > F =0	Prob > F =0
R-squared	0.6028	0.5893	0.5894
Adj R-squared	0.5178	0.5023	0.5025
**significant at 10% level *significant at 5% and 1%level			

Variables used in the analysis have been measured as follows: dependent variables as the ratio of long term debt to total assets. Independent variables- Business Risk as the standard deviation of last three years EBIT. Profitability- is the ratio of EBIT to total assets. Sales Growth- is change in current year's sales from previous year sales divided to previous year sales. A fixed asset is the ratio of tangible assets to total assets. Managerial ownership is dummy variable equal to one (1) if the ownership is 10 % or more in a company otherwise zero (0). If the ownership is 15 % or more in a company equal to one otherwise zero (0). If the ownership is 20 % or more in a company equal to one and otherwise zero (0). Institutional ownership is dummy variable equal to one (1) if the ownership is 10% or more in a company otherwise zero (0). If the ownership is 15% or more in a company equal to one otherwise zero (0). If the ownership is 20% or more in a company equal to one otherwise zero (0). Business Group is dummy variable equal to one (1) if the firm belongs to a group and zero (0) otherwise.

The analysis at three levels of managerial ownership and institutional ownership (10%, 15%, and 20%) suggests that managerial ownership and institutional ownership variables are significant at all three levels of ownership (10%, 15%, and 20%). This relationship shows that ownership increases either at managerial or institutional level; the long term debt ratio also increases. Business Risk and sales growth are statistically insignificant. The results suggest that long term debt ratio is determinant by profitability, fixed assets, group business and equity stake of managers and institutions.

Table 5.4 Regression Analysis – Fixed Effect Model (*Y= STD/ T A)*

Independent Variables	Dependent Variable=Short term Debt/Total Assets		
	Coefficient	**Coefficient**	**Coefficient**
Business Risk	*-0.0001868	*-0.0000878	*-0.000184
	-2.45	-1.96	-2.42
Profitability	*-0.4186328	*-0.416185	*-0.416905
	-8.3	-8.24	-8.29
Growth	0.0000333	0.0000331	0.0000379
	1.18	1.17	1.34
Fixed Assets	*-0.2721357	*-0.278062	*-0.268461
	-2.52	-2.58	-2.5
Managerial Ownership 10%	*0.9118727		
	2.82		
Managerial Ownership 15%		*0.8601722	
		3.12	
Managerial Ownership 20%			*0.9337816
			3.48
Institutional Ownership 10%	0.1618309		
	0.78		
Institutional Ownership 15%		**0.108439	
		1.62	
Institutional Ownership 20%			**0.1851888
			1.81
Group Businesses	*0.8885911	*0.8894827	*0.8876364
	6.14	6.15	6.15
No of observations	642	642	642
F(113, 528) =12.39	F(113, 528)=12.39	F(113, 528)=12.39	F(113, 528)=12.40
Prob > F =0	Prob > F =0	Prob > F =0	Prob > F =0
R-squared	0.7262	0.7261	0.7262
Adj R-squared	0.6675	0.6675	0.6676
** Significant at 10% level * Significant at 5% level			

Variables used in the analysis have been measured as follows: dependent variables as the ratio of short term debt to total assets. Independent variables- Business Risk as the standard deviation of last three years EBIT. Profitability- is the ratio of EBIT to total assets. Growth- is change in current year's sales from previous year sales divided to previous year sales. A fixed asset is the ratio of tangible assets to total assets. Managerial ownership is dummy variable equal to one (1) if the ownership is 10 % or more in a company otherwise zero (0). If the ownership is 15 % or more in a company equal to one otherwise zero (0). If the ownership is 20 % or more in a company equal to one and otherwise zero (0). Institutional ownership is dummy variable equal to one (1) if the ownership is 10% or more in a company otherwise zero (0). If the ownership is 15% or more in a company equal to one otherwise zero (0). If the ownership is 20% or more in a company equal to one otherwise zero (0). Business Group is dummy variable equal to one (1) if the firm belongs to a group and zero (0) otherwise.

The analysis show short term debt ratio is determinant by profitability, fixed assets, business risk, group business and equity stake of managers. Sales growth is insignificant.

The analysis carried out at three levels of managerial ownership and institutional ownership (10%, 15%, and 20%) to find the determinants of short term financing. The results suggest that managerial ownership is significant at all three levels of ownership (10%, 15%, and 20%). But an institutional ownership variable is significant only at 15% and 20% level of ownership. This relationship shows that ownership increases either at managerial or institutional level; the short term debt ratio also increases.

Table 5.5 Regression Analysis – Fixed Effect Model (*Y= LT Bank Loan/ T A)*

Independent Variables	Dependent variable=Long term Bank Loan/Total Assets		Dependent variable=Equity/ Total Assets
	Coefficient.	Coefficient.	Coefficient.
Business Risk	0.000023	0.000024	*0.00015
	0.37	0.38	2.05
Profitability	*0.1280632	*0.1310033	*0.282748
	3.1	3.14	5.84
Growth	-0.0000112	-1.13E-05	-0.000022
	-0.49	-0.49	-0.83
Fixed Assets	*0.3281767	*0.3135501	**-0.181209
	3.71	3.53	-1.75
Managerial Ownership10%	*1.035022		
	3.9		
Managerial Ownership15%		*0.7047769	
		3.1	
Managerial Ownership10%			*-0.246093
			-7.93
Institutional Ownership 10%	*0.5122538		
	3		
Institutional Ownership 15%		**0.1744301	
		1.8	
Institutional Ownership 10%			*-0.680955
			-3.41
Group Businesses	*0.3595863	*0.36213	*-1.2275
	3.03	3.04	-8.84
No of observations	642	642	642
F(113, 528) =12.39	F(113, 528) = 7	F(112, 529) = 6.73	F(113,528)=25.7
Prob > F =0	Prob > F = 0	Prob > F = 0	Prob>F=0
R-squared	0.5996	0.5878	0.8462
Adj R-squared	0.514	0.5005	0.8132
** Significant at 10% level *significant at 5% and 1% level			

Variables reporting in table have been measured as follows: dependent variables as the ratio of long term bank loan to total assets. Independent variables- Business Risk as the standard deviation of last three years EBIT. Profitability- is ratio of EBIT to total assets. Growth- is change in current year's sales from previous year sales divided to previous year sales. A fixed asset is the ratio of tangible assets to total assets. Managerial ownership is dummy variable equal to one (1) if the ownership is 10 % or more in a company otherwise zero (0). If the ownership is 15 % or more in a company equal to one otherwise zero (0). If the ownership is 20 % or more in a company equal to one and otherwise zero (0). Institutional ownership is dummy variable equal to one (1) if the ownership is 10% or more in a company otherwise zero (0). If the ownership is 15% or more in a company equal to one otherwise zero (0). If the ownership is 20% or more in a company equal to one otherwise zero (0). Business Group is dummy variable equal to one (1) if the firm belongs to a group and zero (0) otherwise.

The above analysis show results for long term bank loan and equity financing as dependent variable. The analysis conducted at 10%, 15% and 20%levels of managerial and institutional ownership. However, the results for 10 and 15%levels have been shown for long term bank loan as same results have been found for 20% level. In case of equity financing results have been shown at 10% level as same results have been found at 15% and 20% levels of managerial and institutional ownership.

The analysis show, long term bank loan is determinant by profitability, fixed assets, group business and equity stake of managers and institutions. Business Risk and growth are statistically insignificant variables.

The analysis show equity financing is determinant by profitability, business risk, fixed assets, group business and equity stake of managers and institutions. Growth is statistically insignificant. The results also suggest that equity to assets ratio decreases in companies, where managerial and institutional equity ownership is 10 and more as compared to the companies, where this percentage is less than 10 percent. The analysis also suggests that group businesses have less equity to assets ratio and compared to non group businesses.

The following paragraphs discuss the analysis for determinants of total debt, long term debt, short term debt, long term bank loan and equity with changing managerial and institutional equity ownership stake (10%, 15%and 20%).

The analysis show, group business variable as statistically significant that evidences group businesses differs in financing than non group businesses. Analysis evidences, companies belonging to groups have more financing through debt either short term or long term as compared to non group companies.

Business risk has been found as insignificant in case of long term debt financing. In case of total debt and short term debt and equity financing, the variable is statistically significant. Trade-off theory establishes a negative relationship between business risk and debt financing, so theoretically this variable should have significant negative relationship with debt financing. Empirical results show, "business risk" statistically significant negative relationship with total debt and short term debt. Long term debt relationship with business risk evidences that volatility in operating profit is not considered as an important factor at the time of extending long term loan to the companies. This can be regarded one of the reasons of high non-performing loan of the banking industry of Pakistan Table (2.1-2.13).

Growth is another variable that has been found as statistically insignificant with short term as well as long term financing. Fixed assets have been found playing statistically significant role in the long term financing as well as in short term financing. For higher level of fixed assets more financing is made available either long term or short term , and for low level of fixed assets less financing is provided either long term or short term. Although this factor is an important from lenders point of view and theoretically this should have statistically significant positive relationship, but giving more importance to the business risk would have shown professional approach of lenders in extending debt financing as live business is worth more for the economy than dead.

Profitability is another important variable that is statistically significant. But its role is different for long term and short term financing. It has inverse relationship with short term financing that is when profitability decreases; short term financing increases. The profitability position of this sector is very discouraging. On average this sector earned 1.7

percent profit in the sample period (Table-5.1). The analysis suggests the low profitably can be associated with non-optimal use of debt.

Managerial and institutional ownership has been analyzed at different levels of ownership stake. When data analyzed for the companies having below 10 percent managerial ownership stake as compared to the companies having equal to or more 10 percent managerial ownership stake, the co-efficient found statistically significant. Same results have been found at 15% and 20% level of managerial ownership stake. This shows where managerial ownerships stake increases, long term as well as short term financing increases. The results are supported by agency theory.

Institutional ownership has also been analyzed at different levels of ownership stake. Results suggest that when the intuitional ownership is below 10 percent as compared to companies having institutional ownership equal to or above 10 percent level, the co-efficient found statistically significant for long term financing that shows companies having equal to or more than 10 percent institutional ownership stake get more financing through long term source as compared to the companies having less than 10 percent institutional ownership stake. But in case of short term financing no difference has been found between companies having below 10 percent level of institutional ownership stake and equal to or more than 10 percent institutional ownership stake. Other classification of institutional ownership stake has also been analyzed at 15% and 20%. Results show companies having more institutional ownership, increase the debt financing level of companies.

Concluding the discussion on analysis, it is observed that profitability; fixed assets, business risk, group business and equity stake of managers and institutions are the determinants of financing patterns in textile sector of Pakistan. However, growth is statistically insignificant variable and does not qualify as determinants for textile sector financing patterns. Hence, results found partial support for trade off theory in textile sector of Pakistan.

In equation No 2 “Business Risk” has been replaced with another variable “information symmetry” to seek support for pecking order theory in textile sector of Pakistan.

$$Y_{it} = \alpha_1 + \sum_{i=1}^{n-1} \alpha \ D_i + \lambda Manower_i + \gamma Institutio nalOwn_t + \varphi \ BusGroup_i + \sum_{i=1}^{n} \beta_j X_{it} + \mu_{it} \quad \textbf{(2)}$$

Table 5.6 Regression Analysis – Fixed Effect Model (*Y= LTD/TA)*

Independent variables	**Dependent variable=Long Term Debt/Total Assets**		
	Coefficient	**Coefficient**	**Coefficient**
Information symmetries	.0003127	.0003133	.0003118
	0.46	0.45	0.45
Profitability	*.1328272	*.1351500	*.1320897
	3.26	3.29	3.22
Growth	-.0000105	-.0000105	-6.78e-06
	-0.46	-0.45	-0.29
Fixed Assets	*.4356917	*.4213123	*.4302478
	4.94	4.75	4.85
Managerial Ownership 10%	*1.009436	*.6539574	*.6230434
	3.82	2.88	2.82
Managerial Ownership 15%		*.6539574	
		2.88	
Managerial Ownership 20%			*.6230434
			2.82
Institutional Ownership 10%	*.5206496		
	3.06		
Institutional Ownership 15%		.1607530	
		1.65	
Institutional Ownership 20%			.1325022
			1.65
Group Businesses	*.3380183	*.3405857	*.3391465
	2.86	2.86	2.85
Number of observations	642	642	*642*
F(113, 528) =	7.09	6.94	6.94
Prob > F =	0.0000	0.0000	0.0000
R-squared =	0.6026	0.5977	0.5975
Adj R-squared =	0.5176	0.5116	0.5113
*Significant at 5% and % level			

Variables reporting in the table have been measured as follows: dependent variables as the ratio of long term debt to total assets. Independent variables-information symmetry measured as the percentage of number shares traded on KSE in a year to total number of share outstanding of particular company, used as a proxy for information asymmetry. Profitability- is the ratio of EBIT to total assets. Growth- is change in current year's sales from previous year sales divided to previous year sales. A fixed asset is the ratio of tangible assets to total assets. Managerial ownership is dummy variable equal to one (1) if the ownership is 10 % or more in a company otherwise zero (0). If the ownership is 15 % or more in a company equal to one otherwise zero (0). If the ownership is 20 % or more in a company equal to one and otherwise zero (0). Institutional ownership is dummy variable equal to one (1) if the ownership is 10% or more in a company otherwise zero (0). If the ownership is 15% or more in a company equal to one otherwise zero (0). If the ownership is 20% or more in a company equal to one otherwise zero (0). Business Group is dummy variable equal to one (1) if the firm belongs to a group and zero (0) otherwise.

The analysis shows information symmetry and growth as statistically insignificant variables. The results suggest that total long term debt ratio increases in companies where managerial and institutional equity ownership is higher as compared to the companies where this percentage is low.

The above analysis at three levels of managerial ownership and institutional ownership (10%, 15%, and 20%) suggests that managerial ownership and institutional ownership variables are significant at all three levels of ownership. This relationship shows that ownership increases either at managerial or institutional level the long term debt ratio also increases. The results suggest that long term debt ratio is determinant by profitability, fixed assets, group business and equity stake of managers and institutions.

Table 5.7 Regression Analysis – Fixed Effect Model (*Y= ST D/ T A)*

Independent variables	Dependent variable= Short Term Debt/Total Assets		
	Coefficient	**Coefficient**	**Coefficient**
Information symmetries	-.0002956	-.0002952	-.0002968
	-0.35	-0.35	-0.35
Profitability	*-.3993738	*-.3969293	*-.3978579
	-7.97	-7.91	-7.96
Growth	.0000260	.0000259	.0000308
	0.92	0.92	1.09
Fixed Assets	*-.2709832	*-.2769263	*-.2671392
	-2.50	-2.55	-2.47
Managerial Ownership 10%	*.9028952		
	2.78		
Managerial Ownership 15%		*.8536319	
		3.08	
Managerial Ownership 20%			*.9303312
			3.45
Institutional Ownership 10%	.1608000		
	0.77		
Institutional Ownership 15%		**.1098245	
		1.62	
Institutional Ownership 20%			**.1896405
			1.85
Group Businesses	*8854341	*.8863314	*.8844801
	6.09	6.09	6.10
Number of observations	642	642	642
F(113, 528) =	12.20	12.21	12.29
Prob > F =	0.0000	0.0000	0.0000
R-squared =	0.7231	0.7232	0.7245
Adj R-squared =	0.6638	0.6640	0.6656
*Significant at 10% level **Significant at 5% level			

Variables reporting in the table have been measured as follows: dependent variables as the ratio of short term debt to total assets. Independent variables-information symmetry measured as the percentage of number shares traded on KSE in a year to total number of share outstanding of the particular company, used as a proxy for information asymmetry. Profitability- is the ratio of EBIT to total assets. Growth- is change in current year's sales from previous year sales divided to previous year sales. A fixed asset is the ratio of tangible assets to total assets. Managerial ownership is dummy variable equal to one (1) if the ownership is 10 % or more in a company otherwise zero (0). If the ownership is 15 % or more in a company equal to one otherwise zero (0). If the ownership is 20 % or more in a company equal to one and otherwise zero (0). Institutional ownership is dummy variable equal to one (1) if the ownership is 10% or more in a company otherwise zero (0). If the ownership is 15% or more in a company equal to one otherwise zero (0). If the ownership is 20% or more in a company equal to one otherwise zero (0). Business Group is dummy variable equal to one (1) if the firm belongs to a group and zero (0) otherwise.

The above analysis shows information symmetry, growth and institutional ownership are statistically insignificant variables. Institutional ownership role in short term financing at 10% level of ownership is same for companies either having institutional equity ownership 10% or below.

The analysis conducted at three levels of managerial ownership and institutional ownership (10%, 15%, and 20%) to find determinants of short term financing. The results suggest that managerial ownership is significant at all three levels of ownership (10%, 15%, and 20%). But an institutional ownership variable is significant only at 15% and 20% level of ownership. This relationship shows that ownership increases either at managerial or institutional level the short term debt ratio also increases. Information symmetry and growth have been found statistically insignificant. The results at three levels suggest that short term debt ratio is determinant by profitability, fixed assets, group business and equity stake of managers and institutions.

Table 5.8 Regression Analysis – Fixed Effect Model (*Y= TD/ T A)*

	Dependent variable=Total Debt/Total Assets		
Independent variables	**Coefficient.**	**Coefficient.**	**Coefficient.**
Information symmetries	-1.01e-06	7.06e-08	-3.01e-06
	-0.00	0.00	-0.00
Profitability	*-.2669142	*-.2621328	*-.2661092
	-5.64	-5.50	-5.62
Growth	.0000167	.0000166	.0000252
	0.63	0.62	0.94
Fixed Assets	**.1727815	**.1524937	**.1712775
	1.69	1.68	1.67
Managerial Ownership 10%	*1.915057		
	6.23		
Managerial Ownership 15%		*1.512472	
		5.74	
Managerial Ownership 20%			*1.55957
			6.11
Institutional Ownership 10%	*.6794667		
	3.44		
Institutional Ownership 15%		*.2707642	
		2.40	
Institutional Ownership 20%			*.3236623
			3.32
Group Businesses	*1.225844	*1.229301	*1.225996
	8.92	8.90	8.92
Number of observations	642	642	642
F(113, 528) =	21.82	21.52	21.78
Prob > F =	0.0000	0.0000	0.0000
R-squared =	0.8236	0.8216	0.8234
Adj R-squared =	0.7859	0.7835	0.7856
**significant at 10% level *significant at 5% level			

Variables used in the analysis have been measured as follows: dependent variables as the ratio of total debt to total assets. Independent variables-information symmetry measured as the percentage of number shares traded on KSE in a year to total number of share outstanding of the particular company, used as a proxy for information asymmetry. Profitability- is the ratio of EBIT to total assets. Growth- is change in current year's sales from previous year sales divided to previous year sales. A fixed asset is the ratio of tangible assets to total assets. Managerial ownership is dummy variable equal to one (1) if the ownership is 10 % or more in a company otherwise zero (0). If the ownership is 15 % or more in a company equal to one otherwise zero (0). If the ownership is 20 % or more in a company equal to one and otherwise zero (0). Institutional ownership is dummy variable equal to one (1) if the ownership is 10% or more in a company otherwise zero (0). If the ownership is 15% or more in a company equal to one otherwise zero (0). If the ownership is 20% or more in a company equal to one otherwise zero (0). Business Group is dummy variable equal to one (1) if the firm belongs to a group and zero (0) otherwise.

Information symmetry and growth are statistically insignificant variables. The results also suggest that total debt ratio increases in companies where managerial and institutional equity ownership stake is higher as compared to the companies where this percentage is low.

The analysis suggests that managerial ownership and institutional ownership variables are significant at all three levels of ownership (10%, 15%, and 20%). This relationship shows that the ownership increases either at managerial or institutional level, the debt ratio also increases. Information symmetry and growth are statistically insignificant variables. The results suggest that total debt ratio is determinant by profitability, fixed assets, group business and equity stake of managers and institutions.

Table 5.9 Regression Analysis – Fixed Effect Model (*Y= LTBL/T A)*

Independent variables	Dependent variable=Long term bank loan/Total Assets		Dependent variable= Equity/ Total Assets
	Coefficient	**Coefficient**	**Coefficient**
Information symmetries	.0000184	.0000191	.0001079
	0.03	0.03	0.14
Profitability	*.1256812	*.1285184	*.2902172
	3.08	3.12	6.53
growth	-.0000103	-.0000104	-.0000164
	-0.45	-0.45	-0.66
Fixed Assets	*.3280342	*.3134037	-.0832143
	3.71	3.53	-0.86
Managerial Ownership 10%	*1.036128		
	3.91		
Managerial Ownership 15%		*.7056156	
		3.10	
Managerial Ownership 20%			*-1.064877
			-4.93
Institutional Ownership 10%	*.5123807		
	3.00		
Institutional Ownership 15%		*.1774097	
		1.82	
Institutional Ownership 20%			*-.6714651
			-3.62
Group Businesses	*.3599773	*.3625372	*-2.437131
	3.03	3.04	-13.36
Number of observations	642	642	642
F(113, 528) =	7.00	6.87	30.51
Prob > F =	0.0000	0.0000	0.000
R-squared =	0.5995	0.5952	0.8672
Adj R-squared =	0.5138	0.5086	0.8388
*significant at 5% and 1% level			

Variables used in the analysis have been measured as follows: dependent variables as the ratio of long term bank loan to total assets. Independent variables-information symmetry measured as the percentage of number shares traded on KSE in a year to total number of share outstanding of the particular company, used as a proxy for information asymmetry. Profitability- is the ratio of EBIT to total assets. Growth- is change in current year's sales from previous year sales divided to previous year sales. A fixed asset is the ratio of tangible assets to total assets. Managerial ownership is dummy variable equal to one (1) if the ownership is 10 % or more in a company otherwise zero (0). If the ownership is 15 % or more in a company equal to one otherwise zero (0). If the ownership is 20 % or more in a company equal to one and otherwise zero (0). Institutional ownership is dummy variable equal to one (1) if the ownership is 10% or more in a company otherwise zero (0). If the ownership is 15% or more in a company equal to one otherwise zero (0). If the ownership is 20% or more in a company equal to one otherwise zero (0). Business Group is dummy variable equal to one (1) if the firm belongs to a group and zero (0) otherwise.

The above analysis show results for long term bank loan and equity financing as dependent variable. The analysis conducted at 10%, 15% and 20% levels of managerial and institutional ownership. However, the results for 10 and 15%levels have been shown for long term bank loan as same results have been found for 20% level. In case of equity financing results have been shown at 20% level as same results have been found at 10% and 15% levels of managerial and institutional ownership.

The analysis shows long term bank loan is determinant by profitability, fixed assets, group business and equity stake of managers and institutions. Information symmetry and growth are statistically insignificant variables. The results also suggest that total debt ratio increases in companies where managerial and institutional equity ownership is higher as compared to the companies where this percentage is lower.

The analysis shows determinants of equity financing as profitability, group business, managerial and institutional equity ownership stake. Information asymmetry, fixed assets, growth have been found as statistically insignificant variables for equity financing in textile sector of Pakistan.

Summarizing the above discussion, it is concluded that information symmetry is insignificant variable for debt as well as equity financing. This is because of low trading percentage of total outstanding shares i.e. on average 25%. This low trading on overall basis evidences the presence of information asymmetry and industry prone towards more bank loan. Ownership concentration with managers and financial institutions in textile industry on the average found as 52% and 15% respectively which supports the results of low share trading in the market as percentage of total shares outstanding. This also supports the theory that a less traded stock is expected to be characterized by high level of information asymmetries and more reliance on bank loan**.** Saibal Ghosh (2006) in his study on use of bank debt found information asymmetry as one of the determinants of bank loan concentration. Banks have their ongoing relationship with client firms; hence theoretically it is comparatively easy for banks to play effective and efficient role over the client firms. This bank –client firm relationship provide, an opportunity to the firm to arrange finance for availing growth opportunity through bank loan financing.

Analysis results show, growth as statistically insignificant with bank loan both at long term, short term financing and equity financing as well. This shows company's loan financing is not used for growth. Linking it to this sector's profitability position, it is revealed that due to low level of profitability (Table 5.1), this sector is fighting for survival by using bank loan. It is evident from analysis that short-term debt financing and total debt financing has negative relationship with profitability. Debt increases when profitability decreases. Long term debt financing has positive relationship with profitability. Major reliance of this sector is on short term financing (Table 5.1).

Analysis evidences, companies belonging to groups have more financing on debt either short term or long term as compared to non group companies. Fixed assets have been found playing statistically significant role in long term financing as well as in short term financing. Total debt and long term debt have statistically significant positive relationship with fixed assets. Short term debt has statistically significant negative relationship with fixed assets. Fixed assets also have negative statistically significant relationship with equity. For the higher level of fixed assets more long term financing is made available, whereas short term financing and equity have been found increasing with decrease in fixed assets. On average this sector earned 1.7 percent profit in the sample period (Table5.1). Managerial and institutional ownership variables have been analyzed at different levels of

ownership stake 5%, 10% and 20%) and found as statistically significant. Agency theory supports the results.

Summarizing the above discussion, it is concluded that profitability; fixed assets, group business and equity stake of managers and institutions are the determinants of financing patterns in textile sector of Pakistan. However, information symmetry and growth are statistically insignificant variable and do not quality as determinants for textile sector financing patterns. The analysis found no support for pecking order theory in textile sector of Pakistan.

5.1 THE IMPACT OF FINANCING PATTERNS ON CORPORATE FINANCIAL PERFORMANCE

Financing decision is one of the important decisions that affect financial performance of firm. Financing theories emphasized the importance for firms to find the optimal combinations of debt and equity that maximizes the shareholders wealth and firm's overall performance and market value. Joshua Abor (2007) conducted study on Ghanian and South African SME data in order to investigate the impact of debt financing on financial performance of firms. The author used performance variable as Tobin's Q and regressed against different variations of debt, which is short term debt, long term debt and total debt as independent variables. Using regression as a statistical tool on panel data concluded that long term debt has negative effect on firm performance. The author also considers agency issues as the reasons of raising high level of debt which resulted poor performance. Leverage position give positive effect on return on equity if EBIT is greater than average cost of debt (Hutchinson 1995). The author considers the earning volatility as important factor in determining the debt level. There are number of studies that found positive relationship between debt and performance (Taubs 1995, Petersen and Rajan, 1994) Companies use leverage in order to improve their financial performance (Champian 1999, Hadlock and James 2002). Ross (1999) based on signaling aspects theorized that debt has positive impact on firm value. Heinkel (1982) supports the Ross (1977) argument. Only those manager who foresee good future prospects in terms of performance, decide to issue debt (Jonsen Abos, 2007). Firms consider credit rating and flexibility as a whole while deciding to raise finance through debt (Graham and Harvey, 2001). La Pota (1999)

contended that when controlling ownership have involved in management; they have then dominating role in the management which lead to influence the firm performance. Chen (2001) in his study on Chinese listed companies found that concentrated ownership has direct association with corporate performance. Thai family ownership and managerial ownership have statistically significant positive effect on return on assets (Jira and Lodhi, 2007).

The following equation tests the financial performance of companies in textile sector of Pakistan.

$$Y_{it} = \alpha_1 + \sum_{i=1}^{n-1} \alpha D_i + \chi STD_i + \nu LTD_i + \rho Equity_i + \lambda Managerialown_{it} + \gamma Institutionalown_{it} + \mu_{it} \quad \textbf{(3)}$$

Table 5.10 Textile Sector

Number of obs = 636
F(31, 145) = 8.64
Prob > F = 0.0000
R-squared = 0.0642
Adj R-squared = 0.0567

ROA	Coefficient	t-value	P-value
Long-term Debt/Total Assets	-.0412676	-1.40	0.161
Short-term Debt/Total Assets	-.0813491	-3.15	0.002
Equity/Total Assets	.0019657	0.09	0.931
Institutional Ownership 10%	-.0333309	-0.74	0.459
Managerial Ownership 10%	-.0064102	-0.72	0.470

The analysis suggest the negative relationship of long-term debt and short-term with Return on Assets, but only short-term debt has been found as statistically significant. This shows that textile sector of Pakistan's performance decreases with increase in debt, particularly short-term debt. If we link this result with descriptive analysis Table (5.1) which show week profitability position of sector i.e. on average 1.7 percent, during the period under study by the sample firms. It is evident from the analysis that increase in short-term debt is the main reason for the poor performance of industry. Looking at Table

(5.1) the major portion of financing of the sector is from short-term debt. Managerial and institutional ownership variables are statistically insignificant; hence companies having managerial and institutional ownership equal to or more that 10 percent are not differently behaving than companies having less than 10 percent managerial and institutional ownership. Results show companies in the textile sector are running on dis-optimal level of debt financing that is becoming the reason of poor performance.

Table 5.11 Summary of Analysis –Textile Sector of Pakistan

Factors	Observed Relationship with Financing patterns		Statistical Significance	Hypothesis
Business Risk	TD/TA	Negative	Significant.	H2=There is negative relationship between debt ratio and business risk Hypothesis is rejected for long term Debt Financing. However, accepted for total debt financing, short term debt financing and equity financing.
	LTD/TA	Positive	Insignificant	
	STD/TA	Negative	Significant.	
	Equity/TA	positive	Significant	
Information symmetry	TD/TA	Negative	Insignificant	H5=There is negative relationship between bank debt and information symmetries. Information symmetry has been found insignificant variable in this study. This study confirms the earlier studies result that a less traded stock is expected to be characterized by high level of information asymmetry and more reliance on debt (Myer
	LTD/TA	Positive	Insignificant	
	STD/TA	Negative	Insignificant	
	Equity/TA	Positive	Insignificant	

				1984).
Profitability	TD/TA	Negative	Significant	H1= There is a positive relationship between debt ratio and profitability (Trade off theory) H6=There is negative relationship between debt ratio and profitability. (Pecking order theory) Profitability has been found statistically significant variable, explaining changes in debt financing. The behavior of this variable is supported by theory. The negative relationship is consistent with the Antonoiu and Paudyal (2002) study on UK and France data. The results also support Rajan and Zingals (1995) study on G-7 countries.
	LTD/TA	Positive	Significant	
	STD/TA	Negative	Significant	
	Equity/TA	Positive	Insignificant	
Growth	TD/TA	Positive	Insignificant	H4=There is positive relationship between debt ratio and growth Hypothesis rejected. The variable has been found statistically insignificant. The reason may be associated to the under utilization of production
	LTD/TA	Negative	Insignificant	
	STD/TA	Positive	Insignificant	
	Equity/TA	Positive	Insignificant	

				capacity. Gonenc (2003, 2005) found growth as a common determinant in Turkey, UK and Germany.
Fixed Assets	TD/TA	Positive	Significant	H3=There is positive relationship between debt ratio and fixed assets The variable has been found statistically significant. Negative relationship is supported by argument that where secondary market is illiquid, collateral prove un supportive (Nivorozhkin 2004). Positive relationship is supported by Frank and Vikhan (2005) study that establishes a positive relationship between debt and fixed assets.
	LTD/TA	Positive	Significant	
	STD/TA	Negative	Significant	
	Equity/TA	Negative	Significant	
Group Business	TD/TA	Positive	Significant	H11=If a firm is affiliated with a group then it will have higher levels of debt and less equity. Hypothesis accepted. The variable has been found statistically significant. The results are supported by Khanna and Rivkin (2001) study on emerging markets. The results are supported by Jasus Saa Requajo (1996) study of Spanish firms. It is
	LTD/TA	Positive	Significant	
	STD/TA	Positive	Significant	
	Equity/TA	Negative	Significant	

				noteworthy that Spanish stock market has much similarly with Pakistan stock market, it is un developed, low trading volume, and low capitalization.
Managerial Ownership	TD/TA	Positive	Significant	H7=Managerial owned firms have positive relationship with debt financing up-to a certain point of ownership percentage after which entrenchment set in and debt ratio start decreasing. H8= Family controlled firms will have high debt ratio. H9=Family owned/managerial owned firms have negative relationship with short term debt Hypothesis 7 & 9 rejected while hypothesis 8 accepted. The study rejects the hypothesis that entrenchment sets in when managerial ownership increases and debt ratio starts decreasing. The study found statistically significant positive
	LTD/TA	Positive	Significant	
	STD/TA	Positive	Significant	
	Equity/TA	Positive	Significant	

				relationship between managerial ownership and debt ratios. The increase in managerial ownership increases the debt ratio. The average managerial ownership in textile sector of Pakistan has been found 52%.
Institutional Ownership	TD/TA	Positive	Significant	H10=If There is higher ownership of banking and Non-banking Financial Institutions (external block holders) in a firm it will have high debt ratio. The hypothesis accepted. Theory supports the significant positive relationship of increased level of external block holders with debt. As the institutional investment increases, it is expected that institutional investors will exercise the monitoring role over the managers. The results are supported by the Australian study (Brailsford, B. Oliver and Pua. 2002).
	LTD/TA	Positive	Significant	
	STD/TA	Positive	insignificant	
	Equity/TA	Positive	Significant	
Return on Assets	LTD/TA	Negative	insignificant	H: 12. Family/Managerial ownership is positively associated with firm financial performance.
	STD/TA	Negative	Significant	
	Equity/TA	Positive	insignificant	
	Managerial	Negative	insignificant	

	Ownership			H: 13. Institutional investor's equity holding is positively associated with firm financial performance. Hypothesis 12&13 are rejected. The results show short term financing as statistically significant variable. It established negative relationship with ROA. Analysis show the most prevalent financing source in textile sector is short term financing (Table 5.1). Managerial ownership and institutional ownership have been found playing no role to improve corporate financial performance.
	Institutional Ownership	Negative	insignificant	

5.2 SUGAR SECTOR ANALYSIS

The following sections describe the sugar sector analysis. Sugar sector is the second largest corporate sector in Pakistan. There are thirty five sugar companies listed on KSE. Twenty nine companies belong to group business and only six companies are non-group companies.

5.3 DESCRIPTIVE STATISTICS

Table 5.12 (Sugar Sector)

Factors	Means	Standard Deviation
Long-Term Debt/Total Assets	0.22	0.31
Long-Term Bank Loan/Total Assets	0.21	0.31
Short-Term Debt/Total Assets	0.66	0.52
Total Debt/Total Assets	0.88	0.65
Equity/Total Assets	0.12	0.65
Debt/Equity	5.44	26.11
EBIT(Standard Deviation)	0.70	0.47
Profitability	0.00	0.12
Sales Growth	0.18	0.55
Fixed Assets/Total Assets	0.57	0.18
Managerial Ownership	0.28	0.24
Institutional Ownership	0.20	0.15
Information symmetry	0.20	0.40
Number of observations	177	
Group Companies=29 Non-group companies=6		

Sugar sector's on average 66 percent of financing has been arranged through shot- term source 22 percent from long term financing source and 12 percent has been arranged through equity finance. Proportion of total assets financed through debt represents 88 percent. Proportion of managerial ownership on the average is 28 percent and institutional ownership is 20 percent. 29 companies (83 %) of the sample represent group businesses and 6 companies (17%) represent non group businesses.

5.4 TRADE OFF THEORY

Theory predicts higher optimal debt ratio with less volatility in EBIT. If there is an increase in EBIT volatility, it decreases the ability of borrowing as lender will avoid lending to such firms. Such companies are exposed to risk attached to its operations; this type of risk is known as business risk. Debt adds to it a financial risk. Bradley (1984)

argues lenders consider firm's future earnings as measure of protection. Investors trust that more profitable firm will not go bankrupt; hence high profitable firms get advantage of investors trust and seek more debt. The theory also considers the agency cost of debt. For profitable firms lenders/creditors give relaxation in monitoring charges, which reduces debt cost. This motivates profitable firms to go for more debt. The more debt, the higher is the probability of bankruptcy. As the debt level increases, probability of bankruptcy also increase, firms choose the optimal level of debt financing. The following equation has been developed to capture explanatory power of business risk, managerial ownership, institutional ownership, group businesses and other control variable.

5.5 Fixed Effect Model

$$Y_{it} = \alpha_1 + \sum_{i=1}^{n} \alpha\ D_i + \lambda Manower_i + \gamma InstitutionalOwn_i + \varphi\ BusGroup_i + \sum_{i=1}^{n} \beta_j X_{it} + \mu_{it} \qquad \textbf{(1)}$$

The independent variables, business risk, profitability, growth, fixed assets, managerial ownership%, institutional ownership% and group businesses have been regressed against different dependent variables long-term debt/total assets, long-term bank loan/total assets, short-term debt/total assets, total debt/total assets and equity/total assets separately. Results have been in the following tables separately against each dependent variable for three levels (10%, 15%, and 20%) of managerial and institutional equity stake.

Table 5.13 Regression Analysis TD/TA, LTD/TA, STD/TA, LTD/TA, E/TA

Independent Variables	Dependent Variables				
	Total Debt/ Total Assets	**Long Term Debt/ Total Assets**	**Short Term Debt/ Total Assets**	**Long Term Band Loan/ Total Assets**	**Equity/Total Assets**
	Coefficient.	**Coefficient.**	**Coefficient.**	**Coefficient.**	**Coefficient**
Business Risk	*0.0012539	*0.0016622	-0.0004027	*0.0015284	*-0.0012552
	2.42	4.17	-0.72	3.8	-2.42
Profitability	*-0.3770525	*0.3282707	*-0.6982995	*0.3594039	*0.3771747
	-1.92	2.17	-3.29	2.36	1.92
Growth	*0.0009465	-0.0003303	*0.0012676	-0.0003008	*-0.0009479
	2.41	-1.09	2.98	-0.99	-2.41
Fixed Assets	0.1624761	*0.6433518	**-0.4773087	*0.5782111	-0.1623522
	0.7	3.59	-1.89	3.2	-0.7
Managerial Ownership 15%	*1.459158	*0.9377219	*0.5178126	*0.9675725	*-1.45914
	8.95	7.47	2.94	7.64	-8.95
Institutional Ownership 15%	*1.707436	*1.173361	*0.5300024	*1.18753	*-1.70741
	11.63	10.38	3.34	10.42	-11.6
Group Businesses	*1.216944	**0.1368896	1.080152	*0.1558382	*-1.216845
	6.83	1.88	4.95	1.9	-6.83
Number of observations	177	177	177	177	177
F(31, 145) =	39.89	F(31, 145) = 13.14	F(31, 145) = 18.97	F(31, 145) = 13	F(31, 145) = 39.9
Prob > F =	0	Prob > F = 0	Prob > F = 0	Prob > F = 0	Prob > F = 0
R-squared =	0.895	0.7375	0.8022	0.7354	0.8951
Adj R-squared =	0.8726	0.6814	0.7599	0.6788	0.8726

* significant at 5% level

** significant at 5% level

The analysis shows determinants of total debt in sugar sector of Pakistan are profitability, growth, and business risk, and group business, managerial and institutional ownership. The results have been shown at 15% level of managerial and institutional ownership. The analysis at 10% and 20% levels of managerial and institutional ownership give same results and provide an evidence that total debt ratio increases as the managerial and institutional equity ownership stake increases.

The analysis shows the determinants of long term debt financing are profitability, fixed assets, business risk, and group business, managerial and institutional ownership. Growth has been found as an insignificant variable. The analysis at 10% and 20% managerial and institutional equity ownership provide same results. The results provide evidence that long term debt ratio is more in companies where the managerial and institutional ownership stake is higher.

The analysis show determinants of short term debt financing are profitability, growth, fixed assets, and group business, managerial and institutional ownership. Business risk has been found as insignificant variable for short term financing. The analysis at 10% and 20% level of managerial and institutional equity ownership provide same results. The results show that short term debt level is higher in companies where managerial and institutional equity ownership is higher.

The analysis suggests determinants of long term bank loan are profitability, fixed assets, business risk, and group business, managerial and institutional ownership. The analysis at 10% and 20% provide the same results. The results show the long term bank loan ratio is higher in companies where managerial and institution equity ownership is higher.

The analysis suggests the determinants of equity financing are profitability, growth, business risk, group business, managerial and institutional ownership. Same results have been found at 10% and 20% managerial and institutional equity ownership stake. The analysis shows significant negative relationship between managerial and institutional equity ownership and equity financing. This evidences that companies where managerial and institutional equity ownership is higher, debt financing is higher.

Group business variable is statistically significant that evidences group businesses differ in financing than non group businesses. Analysis evidences, companies belonging to groups have more financing through debt either short term or long term as compared to non group companies.

Business risk has been found as statistically significant in case of long term debt financing. The relationship has been found as positive which is contrary to theory. This state of relationship evidences that volatility in operating profit is not considered as an important factor at the time of extending loan to the companies. In case of short term financing, the coefficient is statistically insignificant. Trade-off theory establishes a negative relationship between business risk and debt financing. Results show the positive relationship with debt financing in sugar industry of Pakistan. This can be regarded one of the reasons of high non-performing loan of banking industry of Pakistan Table (2.1-2.13).

Growth is another variable that has been found as statistically insignificant with long term financing and significant with short term debt financing and equity. Fixed assets have been found playing statistically significant role in the long term financing as well as in short term financing. For the higher level of fixed assets more long term financing is made available. But for short term debt financing and equity financing, there is statistically significant negative relationship. That shows for lower level of fixed assets more financing is arranged through short term debt or equity. Fixed asset is an important from the lenders point of view as it provides collateral and theoretically, this should have statistically significant positive relationship but giving more importance to business risk would have shown professional approach of the lenders in extending debt financing as live business is worth more for the economy than dead.

Profitability is another important variable that is statistically significant. But its role is different for long term, short term debt financing and equity financing. When profitability increases long term and short term debt financing increases whereas, it has inverse relationship with equity financing that is when profitability decreases, companies go for equity financing. But the profitability position of this sector is very discouraging. On average this sector earned zero profit in the sample period (Table-5.12). The analysis suggests non-optimal use of debt.

Managerial and institutional ownership has been analyzed at different levels of ownership stake 10%, 15%, 20%). Results suggest that the companies where managerial and intuitional equity ownership is higher, debt financing is higher comparatively.

Concluding the above discussion, it is said that profitability, fixed assets, business risk, growth, group business, managerial and institutional ownership are the determinants of financing patterns in sugar sector of Pakistan. The analysis found no support for trade off theory in sugar sector of Pakistan.

5.6 TESTING PECKING ORDER THEORY

Pecking order theory argues that manager usually have access to information about prospects that is not available to outsiders. Literature provides evidence that asymmetric information affects the choice between internal and external financing and using debt and equity securities, this lead to pecking order of financing. A more traded stock is expected to be characterized by lower levels of information asymmetries and less reliance on debt. A less traded stock is expected to be characterized by high level of information asymmetries and more reliance on debt. A proxy for informational asymmetries is calculated as percentage of shares traded in a year.

$Y_{it} = \alpha_1 + \sum_{i=1}^{n} \alpha \ D_i + \lambda Manower_{\ i} + \gamma Institutio\ nalOwn_{\ i} + \varphi \ BusGroup_{\ i} + \sum_{i=1}^{n} \beta_j X_{it} + \mu_{it}$	**(2)**

Table 5.14 Regression Analysis – Fixed Effect Model

Independent Variables	Dependent Variables				
	TD/TA	LTD/TA	STD/TA	LTBL/TA	Equity/TA
	Coefficient.	Coefficient.	Coefficient.	Coefficient.	Coefficient
Information symmetries	*0.000492	*0.050242	-0.000029	*0.0004405	*-0.0004931
	1.96	2.52	-0.11	2.21	-1.96
Profitability	**-0.3683507	**0.2477224	*-0.7090515	*0.3798461	**0.3684751
	-1.86	1.8	-3.34	2.42	1.87
Growth	*0.0009644	0.00034	*0.0012988	-0.0003246	*-0.0009658
	2.42	-1.14	3.03	-1.02	-2.42
Fixed Assets	0.2968897	*0.6172319	**-0.4824232	*0.6950116	-0.2969508
	1.21	3.41	-1.82	3.55	-1.21
Managerial Ownership 15%	*0.4761204	**0.2410649	**0.2391949	*3091196	*-0.476136
	2.93	1.87	1.7	2.39	-2.93
Institutional Ownership 15%	*0.5479175	*0.3157917	**0.2350294	*0.3057292	-0.5479104
	3.7	2.7	1.89	2.6	-3.7
Group Businesses	*0.303799	**0.1709175	**0.1328819	**0.1732521	0.0392694
	3.64	1.87	1.78	1.88	0.28
Number of observations	177	177	177	177	177
F(31, 145) =	39.29	F(31, 145)=12	F(31, 145) = 18.89	F(31, 145) = 11.94	F(31, 145) = 39.30
Prob > F =	0	Prob > F =0	Prob > F = 0	Prob > F = 0	Prob > F = 0.00
R-squared =	0.8936	0.7196	0.8015	0.7185	0.8937
Adj R-squared =	0.8709	0.6596	0.7591	0.6583	0.8709

** significant at 10% level

* significant at 5% level

Analysis shows determinants of total debt ratio are profitability, growth, information symmetries, and group business, institutional and managerial ownership. Fixed asset has been found as insignificant variable. Same results have been found at 10% and 20% level of managerial and institutional equity ownership. The results show that total debt ratio is comparatively higher in companies where managerial and institutional ownership is higher.

The analysis shows determinants of long term debt are profitability, fixed assets, information symmetry, business group and institutional and managerial ownership. Growth is an insignificant variable. The analysis also suggests same results at 10% and 20% level of managerial and institutional ownership. The results show long term debt ratio increases with increase in managerial and institutional equity ownership stake.

The analysis shows determinants of short term debt are profitability, fixed assets, information symmetry, sales growth, business group and institutional and managerial ownership. The analysis also suggests same results at 10% and 20% level of managerial and institutional ownership. The results show long term debt ratio increases with increase in managerial and institutional equity ownership stake.

The analysis shows determinants of long term bank loan are profitability, fixed assets, information symmetry, business group and institutional and managerial ownership. Growth found an insignificant variable. The analysis also suggests same results at 10% and 20% level of managerial and institutional ownership. The results show long term bank loan increases with increase in managerial and institutional equity ownership stake.

The analysis shows determinants of equity are profitability, fixed assets, information symmetry, growth, business group and institutional and managerial ownership. The analysis also suggests same results at 10% and 20% level of managerial and institutional ownership. The results show statistically significant negative relationship between equity and fixed assets. This means companies acquire fixed assets by debt financing. The results also suggest that debt ratio is at higher level in companies where the managerial and institutional equity ownership is comparatively higher.

Summarizing the above, it is said that information symmetry is statistically significant variable for long term financing. The average annual trading percentage of shares for sugar industry has been found 20% of outstanding share. This supports the theory that a less traded stock is expected to be characterized by high level of information asymmetries and more reliance on debt**.** In Pakistan managers have their ongoing relationship with banks and feel easy to deal with banks for financing. They have expertise how to seek loan from bank but no experience to raise funds from capital market. This bank–client

firm relationship provides an opportunity to the firm to arrange finance for availing growth opportunity through bank loan financing. Analysis show, growth is statistically insignificant with bank loan and long term financing. This shows company's loan financing is not used for growth. Linking it to this sector's profitability position, it is revealed that due to zero level of profitability, this sector is fighting for survival by using bank loan. It is evident from analysis that total debt financing has negative relationship with profitability. Debt increases when profitability decreases. Major reliance for this purpose is on short term financing. Analysis evidences, companies belonging to groups have more financing through debt either short term or long term as compared to non group companies. Fixed assets have been found playing statistically significant role. In the long term financing it has positive statistically significant role and negative relationship has been found with short term debt financing and equity financing. For the higher level of fixed assets more long term financing is made available. For lower level of fixed assets short term debt and equity financing increases which is supported by theory. Managerial and institutional ownership has been analyzed at three levels of ownership stake. The data analyzed for 10%, 15%, and 20% and found the debt financing ratio is higher in companies where managerial and institutional equity ownership is higher comparatively. Managerial ownership has inverse relationship with equity financing. This also provides evidence that companies having higher managerial equity ownership stake have increased level of debt financing. The results are supported by agency theory.

Concluding the above discussion, determinants of financing in sugar sector of Pakistan are profitability, fixed assets, information symmetry, growth, business group and institutional and managerial ownership. The results partially support the pecking order theory in sugar sector of Pakistan.

5.7 IMPACT OF FINANCING PATTERNS ON CORPORATE FINANCIAL PERFORMANCE

The following equation measures financial performance of sugar sector of Pakistan. Dependent variable used in the study is Return on Assets (ROA). Independent variables are: short term debt, long term debt and equity financing.

$$Y_{it} = \alpha_1 + \sum_{i=1}^{n-1} \alpha \ D_i + \chi STD_i + \nu LTD_i + \rho Equity_i + \lambda Managerial\ own_{it} + \gamma Institutio\ nalown_{it} + \mu_{it} \quad \textbf{(3)}$$

Table 5.15 Sugar Sector

Number of obs = 210
F(31, 145) = 10.71
Prob > F = 0.0000
R-squared = 0.17
Adj R-squared = 0.16

ROA	Coefficient	t-value	P-value
Long-term Debt/Total Assets	-.0785479	-2.87	0.004
Short-term Debt/Total Assets	-.0813646	-5.01	0.000
Equity/Total Assets	.0021000	0.10	0.97
Institutional Ownership 10%	.0047439	0.26	0.793
Managerial Ownership 10%	.0075058	0.37	0.712

The analysis suggests the statistically significant negative relationship of long-term as well as short-term debt with Return on Assets. This shows that sugar sector of Pakistan's financial performance decreases with increase in debt, short-term debt as well as long term. Theoretically debt provides the tax shield and with increase in debt up to optimal level, profit of company increases. If we link this result with descriptive analysis Table (5.12) which shows profitability position of the sector as zero percent on average during the period under study by the sample firms, it is evident that increase in debt may be reason for poor performance of industry. Managerial and institutional ownership variables are statistically insignificant hence companies having managerial and institutional ownership equal to or more that 10 percent are not differently behaving than companies having less than 10 percent managerial and institutional ownership.

Table 5.16 Summary of Analysis- Sugar Sector of Pakistan

Factors	Observed Relationship with Financing patterns		Statistical Significance	Hypothesis
Business Risk	TD/TA	Positive	Significant.	H2=There is negative relationship between debt ratio and business risk Hypothesis rejected. "Business Risk" has been found statically significant with positive relationship that means with high level of business risk more long term debt financing is sought. Results suggest that lenders do not consider this factor while debt financing. This is one of the reasons of increasing non-performing loan. Results are contrary to the earlier studies (Gonenc 2005). However, this study confirms the results of Antonuous et al (2002).
	LTD/TA	Positive	Significant.	
	STD/TA	Negative	insignificant	
	Equity/TA	Negative	Significant.	
Information symmetry	TD/TA	Positive	Significant.	H5=There is negative relationship between bank debt ratio and information symmetries. Hypothesis rejected. Information symmetry has been found significant
	LTD/TA	Positive	Significant.	
	STD/TA	Negative	Insignificant	
	Equity/TA	Negative	Significant.	

				variable having positive relationship with bank loan. In Pakistan managers rely on bank loan as they have developed expertise over time in bank dealing. Results show when trading of shares in the stock market increases equity financing decreases and debt financing increases.
Profitability	TD/TA	Negative	Significant	H1: There is a positive relationship between debt ratio and profitability (Trade off theory) H6: There is negative relationship between debt ratio and profitability. (Pecking order theory) Profitability has been found statistically significant variable, explaining changes in debt financing. The behavior of this variable is supported by theory. It supports not only the trade off theory but also the pecking order theory. The negative relationship is consistent with the
	LTD/TA	Positive	Significant	
	STD/TA	Positive	Significant	
	Equity/TA	Negative	Significant	

				Antonoiu and Paudyal (2002) study on UK and France data.
Growth	TD/TA	Positive	significant	H4=There is positive relationship between debt ratio and growth The variable has been found statistically significant except for long term debt. As the industry's profitability position has been found very poor, the industry has more reliance on short term debt, it show industry is fighting for survival by the use of debt.
	LTD/TA	Negative	Insignificant	
	STD/TA	Positive	Significant.	
	Equity/TA	Negative	Significant.	
Fixed Assets	TD/TA	Positive	insignificant	H3=There is positive relationship between debt ratio and fixed assets The variable has been found statistically significant for debt financing. Negative relationship in case of short term debt is supported by argument that where secondary market is illiquid, collateral prove un supportive (Nivorozhkin 2004). Lenders prefer for
	LTD/TA	Positive	Significant	
	STD/TA	Negative	Significant	
	Equity/TA	Negative	insignificant	

				short term financing. Positive relationship is supported by Frank and Vikhan (2005) study that establishes a positive relationship between debt and fixed assets.
Group Business	TD/TA	Positive	Significant	H11=If a firm is affiliated with a group then it will have higher levels of debt and less equity. Hypothesis accepted. The variable has been found statistically significant. The results are supported by Khanna and Rivkin (2001) study on emerging markets. The results are supported by Jasus Saa Requajo(1996) study of Spanish firms.
	LTD/TA	Positive	Significant	
	STD/TA	Positive	Significant	
	Equity/TA	Negative	insignificant	
Managerial Ownership	TD/TA	Positive	Significant	H7=Managerial owned firms have positive relationship with debt financing up-to a certain point of ownership percentage after which entrenchment set in and debt ratio start decreasing. H8= Family controlled firms will have high debt ratio.
	LTD/TA	Positive	Significant	
	STD/TA	Positive	Significant	
	Equity/TA	Negative	Significant	

				H9=Family owned/managerial owned firms have negative relationship with short term debt Hypothesis 7 & 9 rejected and hypothesis 8 is accepted. The study rejects the hypothesis that entrenchment sets with increase in managerial ownership and debt ratio starts decreasing. It also rejects the hypothesis that managerial/ family businesses have negative relationship with short term debt. The study found a positive statistically significant relationship and suggests that with the increase in managerial ownership, debt ratio increases. Its relationship with equity financing has been found negative. Where the managerial ownership increases there is more reliance on debt financing.

Institutional Ownership	TD/TA	Positive	Significant	H10=If there is higher ownership of Banking and Non-banking Financial Institutions (external block holders) in a firm then it will have high debt ratio. The hypothesis accepted. Theory supports the significant positive relationship of increased level of external block holders with debt. As institutional investment increases, they are better able to protect their investment and exercise the monitoring role over the managers. The results are supported by the Australian study (Brailsford, B. Oliver and Pua. 2002). The relationship with equity financing has been found negative that shows where institutional ownership increase, there is more reliance on debt financing.
	LTD/TA	Positive	Significant	
	STD/TA	Positive	insignificant	
	Equity/TA	Negative	Significant	
Return on Assets	LTD/TA	Negative	Significant	H: 12. Family/Managerial ownership is positively associated with firm
	STD/TA	Negative	Significant	
	Equity/TA	Negative	Significant	

	Managerial ownership	positive	Insignificant	financial performance. H: 13.Institutional investor's equity holding is positively associated with firm financial performance. Hypothesis 12&13 are rejected. The results show short term, long term and equity financing are statistically significant variable. They established negative relationship with ROA. The analysis suggests that more financing is arranged with decrease in return on assets. Results also show the average profitability position of sugar at zero level during the period of analysis. This analysis show sugar sector is increasing its loan financing due to suffering losses. Managerial ownership and institutional ownership have been found playing no role to improve corporate financial performance.
	Institutional ownership	positive	Insignificant	

Table 5.17 Inter Sector comparison

The following differences and similarities have been found between the sectors under study

Factors	Observed Relationship with Financing patterns		Statistical Significance	Remarks
Business Risk	TD/TA **(Sugar Sector)**	Positive	Significant	The direction of association between two variables is contrary to theory and its ultimate results are the increase in non-performing loan to the lenders and closure of business entity.
	TD/TA **(Textile Sector)**	Negative	Significant	The direction of association between two variables is in accordance with theory and statistically significant. The factor should have been considered more by the lending agencies
	LTD/TA **(Sugar Sector)**	Positive	Significant	The direction of association of variable in both the sectors is same with its dependent variable but in case of textile industry it is statistically insignificant and in case of sugar industry.
	LTD/TA **(Textile Sector)**	Positive	Insignificant	

				This direction of association between two variables is contrary to theory and its ultimate results are the increase in non-performing loan to the lenders and closure of business entity.
	STD/TA **(Sugar Sector)**	Negative	insignificant	The direction of association between two variables is in accordance with theory but its practical contribution in explaining dependent variable in negligible. The factor should have been considered more by the lending agencies. Results are contrary to the earlier studies (Halit Gonenc 2005). However, this study confirms the results of Antonuous et all (2002).
	STD/TA **(Textile Sector**)	Negative	Significant	
	Equity/TA	Negative	Significant	
Information symmetry	TD/TA **(Sugar sector)**	Positive	Significant	Theoretically companies having information symmetry (more traded stock) go
	TD/TA	Negative	Insignificant	

	(Textile Sector)			the public market for financing instead of bank loan. In case of textile sector, the direction of association of variable with dependent variable is negative but found statistically insignificant.
	LTD/TA **(Sugar sector)**	Positive	Significant	Its practical contribution in explaining dependent variable in negligible.
	LTD/TA **(Textile Sector)**	Positive	Insignificant	Results found statistically insignificant.
	STD/TA **(Sugar sector)**	Negative	Insignificant	The direction of association of variable with dependent variable is negative that is in accordance with theory but found statistically insignificant. This study confirms the earlier studies that a less traded stock is expected to be characterized by high level of information asymmetry and more reliance on debt (Myer
	STD/TA **(Textile Sector)**	Negative	Insignificant	
	Equity/TA **(Sugar sector)**	Negative	Significant	
	Equity/TA **(Textile Sector)**			

				1984).
Growth	TD/TA **(Sugar Sector)**	Positive	Significant	Theoretically the relationship between the dependent and independent variable is positive. Higher the growth, higher the debt financing is needed. But in both the sectors either the coefficient is statistically insignificant or very week that practical contribution in explaining dependent variable is negligible.
	TD/TA **(Textile sector)**	Positive	Insignificant	
	LTD/TA **(Sugar sector)**	Negative	Insignificant	
	LTD/TA **(Textile Sector)**	Negative	Insignificant	
	STD/TA **(Sugar sector)**	Positive	Significant	
	STD/TA **(Textile)**	Positive	Insignificant	
	Equity/TA **(Sugar)**	Negative	Significant	
	Equity/TA **(Textile)**	Positive	Insignificant	
Fixed Assets	TD/TA **(sugar Sector)**	Positive	insignificant	Theoretically fixed assets have direct relationship with financing. Fixed assets serve as collateral. In case of long term debt the theoretical relationship with fixed assets has been observed with strong coefficient and
	TD/TA **(Textile)**	Positive	Significant	
	LTD/TA **(sugar Sector)**	Positive	Significant	
	LTD/TA **(Textile)**	Positive	Significant	

				statistically significant. But in case of short term debt the relationship has been found as negative. This shows where fixed assets decrease, the short term debt increases. These companies more rely on short term debt. Sugar sector's reliance on short term debt financing is comparatively high. When total debt financing has been regressed with fixed assets, due to high ratio of short term financing, its relationship between two variables has been found positive but statistically insignificant so its practical contribution in explaining dependent variable in negligible. Equity financing established no statistically significant relationship
	STD/TA **(sugar Sector)**	Negative	Significant	
	STD/TA **(Textile sector)**	Negative	Significant	
	Equity/TA **(Textile Sector)**	Negative	Significant	
	Equity/TA **(Sugar Sector)**	Negative	Insignificant	

				with fixed assets in sugar sector of Pakistan. This shows fixed assets are financed by debt financing. In textile sector equity financing has found negative statistically significant relationship. It also evidences that fixed assets are financed by debt.

CHAPTER 6

CONCLUSION AND RECOMMENDATIONS

6 CONCLUSION

This study empirically investigates relevance of capital structure theories, exploring the factors that affect corporate financing patterns in different ownership structures, and discovers the relationship between financing patterns and companies' financial performance. Textile sector is by far the biggest slice of six hundred and fifty listed companies at Karachi Stock Exchange (KSE) and sugar sector is the second largest sector of Pakistan. These sectors represent thirty eight percent of total listed companies at Karachi Stock Exchange. The empirical analysis pursued one hundred and eight1 listed companies from textile and thirty five companies from sugar sector of Pakistan. The sample represents fifty one percent of textile and hundred percent of sugar sectors listed companies which combined are twenty two percent of total listed companies. The period of analysis is 2001 to 2006. Having reviewed international literature on the topic, the following variables were identified as determinants in different environments:

i) Managerial ownership
ii) Institutional ownership
iii) Affiliation with group
iv) Size of fixed asset that can be used as collateral
v) Profitability position of the business unit
vi) Growth in sales
vii) Information asymmetry
viii) Business risk of the company

6.1 Managerial ownership:

The study rejects the hypothesis, for both the sectors, that entrenchment sets in after 20% of managerial ownership and debt ratio starts decreasing. The study found a statistically significant positive relationship between managerial ownership and debt levels of companies, i.e. companies with higher level of managerial ownership carried higher level of debts. This result is consistent with Turkish study Gonenc (2005) that agency cost of debt affects the financing pattern, if there is

concentrated ownership, it will reduce the agency cost of debt. The lenders offer more debt as they have monitoring system through managerial control. But in the textile and sugar sectors of Pakistan the presence of high managerial ownership on the board could not play an effective role as monitor to reduce the agency cost of debt. This is evident from the poor financial performance and increased percentage of nonperforming loans of these sectors.

6.2 Institutional ownership

The study accepts the hypothesis that as the institutional equity investment increases, corporate debt financing also increases. In Pakistan, corporate sector relies on bank loans (Shah 2007). The institutional investors not only invest in corporate equity but also lend money to these firms. Theory supports the significant positive relationship of increased level of external block holders with higher proportion of debt. The results are also consistent with the Australian study (Brailsford, Oliver and Pua. 2002).

But the role of financial institutions as monitors has not been found effective. The analysis suggested a negative relationship between institutional ownership and financial performance of textile and sugar sector.

6.3 Group businesses

The results suggest that firms affiliated with a group have more debt. These results are in conformity with Spanish firms and supported by (Jasus Saa Requajo 1996) study. It is worth noting that Spanish stock market has much similarity with Pakistan stock market, it is un-developed, low trading volume, and low capitalization. Therefore, firms in both countries have more reliance on bank loan.

6.4 Fixed Assets

The variable has been found statistically significant for debt financing. The study established the negative relationship between fixed assets and short term debt financing and positive relationship between fixed assets and long term financing in textile and sugar sectors. Negative relationship in case of short term financing is supported by the argument that where secondary market is illiquid, collateral prove

unsupportive (Nivorozhkin 2004). Positive relationship in case of long term debt financing is consistent with Frank and Vikhan (2005) study. Again, as stated earlier, in Pakistan the bulk of the long term borrowing is from financial institutions who attach great importance to collateral value of fixed assets.

6.5 Profitability

Profitability has been found statistically significant variable, explaining changes in debt financing. The behavior of this variable is supported by both the trade off theory and pecking order theory. The profitability has negative relationship with short term debt financing and positive relationship with long term debt financing in textile sector. But in sugar sector it has negative relationship with short as well as long term financing. The negative relationship is consistent with the Antonoiu and Paudyal (2002) study on UK and France data.

6.6 Growth

The variable has been found either statistically insignificant or significant with weak coefficient. Debt level in textile and sugar sectors has been found on average 77% and 88% of total assets with major component of short term loan respectively. Results suggest that change in debt is not caused by sales. Theoretically, debt financing help to promote sales and sales growth help to retire loan. If the non existence of relation between sales growth and financing is further explored, it appears that industries' profitability position is very weak. So the increase in debt may be to cover up losses.

6.7 Information asymmetry

In case of textile industry Information symmetry emerged as an insignificant variable in this study. In case of sugar sector it is statistically significant. This study confirms the earlier studies' results that a less traded stock is expected to be characterized by high level of information asymmetry and more reliance on debt (Myer 1984). In Pakistan capital market is not yet fully developed. Corporate managers have developed expertise in raising loans from banks. Managers consult investment banks for raising money from capital market. But due to less reliance of corporate sector on capital market, investment banks started to operate as

commercial banks (Raza 2009). Textile sector's average annual traded stock percentage has been found very low i.e. ranging 5%to 25% of outstanding shares traded during the sample period. This low trading activity generates the information asymmetry and support the more reliance on bank loans.

6.8 Business Risk

Hypothesis is accepted for textile sector that there is negative relationship between debt ratio and business risk. For sugar sector Business Risk has been found statistically significant with positive relationship that means with high level of business risk more long term debt financing is sought. Hence lenders do not consider this factor while debt financing.

6.9 IMPACT ON FINANCIAL PERFORMANCE

6.9.1 Textile sector

The analysis suggested a negative relationship of debt (both long-term debt and short-term) with Return on Assets but only short-term debt has been found as statistically significant. This showed that the performance of Pakistan's textile sector decreased with the increase in debt, particularly short-term debt. Equity financing has been found as statistically insignificant.

6.9.2 Sugar sector

The analysis suggested a statistically significant negative relationship of debt (both long-term debt and short-term) with Return on Assets. This showed that sugar sector of Pakistan's performance decreased with the increase in debt, short-term debt as well as long term. Equity financing has been found as statistically insignificant.

The major financing source for the textile and sugar sector is debt financing, particularly short term debt. Both the sectors depend on bank loan because the loan can be accessed at subsidized rate and political influence. This pattern of corporate finance reduced the incentive to mobilize capital through equity and public debt

market. This might be the reasons for underdevelopment of capital market in Pakistan.

6.10 RECOMMENDATIONS

6.10.1 Business Risk

Theoretically Business Risk (volatility in EBIT) is an important consideration for lenders. Lenders consider firms' future earnings as measure of protection (Bradely 1984). In case of Pakistan textile sector, this variable has been found insignificant with long term debt financing and established positive relationship with both short term and long term debt financing in sugar sectors. This is becoming a cause of poor financial performance of textile and sugar sector and high ratio of non-performing loans of the financial sector of Pakistan. It is recommended to follow professional approach while sanctioning loans to the corporate sectors so that the country's scarce resources are efficiently utilized. The ratio of non-performing loans should be further decreased to bring it at par with international standard.

6.10.2 Optimal level of capital structure

Theoretically debt is a cheaper source of financing and if used optimally it increases shareholders wealth. But in Pakistan textile and sugar sectors financial performance is very poor. This analysis provided evidence that debt financing has not been used optimally. The analysis showed an inverse relationship of long term as well as short debt with Return on Assets. These sectors should observe the optimal level of capital structure and improving financial performance.

6.10.3 Strengthen the Capital Market

SECP should take measures to strengthen the capital market for debt in order to attract the corporate sector to be listed and traded actively. Measure should be taken to provide confidence to the investors and frequent market crashes should be avoided. This will provide more opportunities to the corporate sectors for financing businesses instead of relying only on the financial institutions.

6.10.4 Code of Corporate Governance

SECP should amend the code of corporate governance by giving reasonable representation to the independent non-executive directors on the board. The analysis suggested that institutional shareholders did not play the due role as monitor.

6.10.5 Bankruptcy Law

Instead of prevailing numerous debt recovery laws used for different motives, a comprehensive bankruptcy law should be framed that could protect the rights of debtor as well as creditors. The policies are needed that help to strengthen the institutions. No political influence could be able to get undeserved financing on non professional basis.

The research indicates an important area where model of this study can be applied for further research. Companies that more rely on bank loan suffer with corporate governance problems. Corporate Governance is an important area that has an impact on corporate financial performance. This study reveals more reliance of textile sector and sugar sector on bank loan for financing purposes. Hence, research can be extended by exploring the corporate governance issues in both the sectors.

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Appendix –A
Group of Businesses in Pakistan

Group Name	Owning Family	Member companies in the Group
Arif Habib Securities Limited (AHSL): The group is primarily in the brokerage services, investment banking, and financial consultancy services. This group takes it origin from 14th November 1994 as a Public Limited Company.	Arif Habib	1. Arif Habib Limited – Brokerage House with 75% shareholding 2. Arif Habib Bank Limited – Commercial Bank with 92.68% shareholding 3. Arif Habib Investment Management Limited – Asset Management Company with 62.67% shareholding 4. Pakistan Private Equity Management Limited – Venture Capital Management Company with 85% shareholding Strategic investment include: 1. Pak Arab Fertilizers Limited with 30% shareholding 2. Al Abbas Cement Limited with 10% shareholding 3. Rozgar Microfinance Bank Limited with 19.01% shareholding 4. Takaful Pakistan Limited with 10% shareholding 5. Sweet Water Pakistan Dairies (Pvt.) Limited with 16.49 shareholding 6. Sunbiz (Pvt.) Limited with 4.65 shareholding 7. Aisha Steel with 25% shareholding

Atlas Group: This Group established in 1962 with the Shirazi Investments (Pvt) doing business in trading shares and real estate. This Company played primary part in the success of the Atlas Group of Companies. Presently this is a diversified includes trading, engineering, and financial services. It includes seven public limited companies out of which (6) companies are quoted on the Stock Exchanges in Pakistan, and (5) companies are private limited.	Mr. Yousaf Shirazi	Engineering: 1. Atlas Honda Limited 2. Atlas Battery Limited 3. Atlas Engineering 4. Honda Atlas Cars (Pakistan) Ltd. Trading Sector: 1. Shirazi Trading co.(Pvt) Ltd. 2. Honda Atlas Power Product (Pvt.)Ltd 3. Total Atlas Lubricants Pakistan (Pvt)Ltd Financial Sector: 1. Atlas Bank Limited 2. Atlas Insurance Limited 3. Atlas Capital Market Limited 4. Atlas Asset Management Limited
Bestway Group: This group started as a specialist Asian food store in West London in 1962. In l970's they opened 10 general food stores. Then this Group moved towards wholesale business in late 1970s by opening up cash and carry warehouse in London in 1976. They	Sir Anwar Pervaiz	1. Bestway Cash & Carry 2. United Bank 3. Best-One - Retail Development 4. MAP Trading 5. Bestway Milling 6. Palmbest 7. Bestway Cement 8. Batleys

involved in the cement business in 1995 and set up a cement plant in Pakistan .In the year 2002, this Group acquired a 25.5% stake in United Bank Limited.		
Chenab Group: established in early 70's. This group involved in the wide range of fabric finishing operations.	Mian Muhammad Latif	**1** ChenOne Stores **2** ChenSoft Limited **3** CGI UAE **4** Chenab USA **5** ChenOne Stores
The Dadabhoys started his business in Pakistan at the time of independence in 947. His role in industrialization of this country is recognized as he was one of those traders who started their entrepreneurship on the call of Mr. Mohammad Ali Jinnah and contributed in the economic growth of Pakistan. At present the third and fourth generation is running the family business.	Mr. Abdul Ghani Dadabhoy	1. Dadabhoy cement industries limited 2. Dadabhoy construction technology limited 3. Dadabhoy energy supply company limited 4. Dadabhoy sack limited 5. Dadabhoy trading corporation limited
Dewan Mushtaq Group: This group has history in	Dewan Abu Bakar	Automobile Manufacturing: 1. Dewan Farooque Motors Ltd.

business since 1916 from the cottage industry in garments manufacturing in India and then 1918 started establishing business in Karachi. Since 1947 family shifted to Pakistan and started trading in sugar, tea, second-hand clothing, garments and fabrics polyester and equity participation in a private bank.	Farooqui, Dewan Muhammad Yousaf Farooqui	2. Dewan Mushtaq Motor Company. 3. Dewan Automotive Engineering Ltd. 4. Dewan Motorcycles limited. Fiber: 1. Dewan Salman Fiber Limited Sugar : 1.Dewan Sugar Mills Limited 2. Dewan Khoski Sugar Mills Limited Textile: 1. Dewan Mushtaq Textile Mills Limited 2. Dewan Farooque Spinning Mills Limited 3. Dewan Textile Mills Limited 4. Dewan Khalid Textile Mills Limited Cement: 1. Dewan Cement Limited 2. Dewan Hattar Cement Limited
Gul Ahmed/AL- Karam Group: This group started from the textile industry; history of the group being in business in textiles starts from early 1900's. The group entered in the field of manufacturing in the year		1. AL-Karam Textile Mills (Pvt.) Limited 2. Amna Industries (Pvt.) Ltd. 3. Pakistan Synthetics company 4. Scattar(Private) Ltd. 5. Dabheji Salt works Lt. 6. Orient Textile Mills Ltd. 7. Pakistan Dairy Products (Private) Ltd. 8. Gul Agencies (Pvt) Ltd.

1953. In 1972 listed on the Karachi Stock Exchange, salt, dairy companies and others.		9. Imran Crown Corks (Pvt.) Ltd. 10. Gull Ahmed textile Mills 11. Globe textile mills 12. Nakashbandia Industries Financial Services: 1. Security Investment Bank 2. Metropolitan Bank
Colony Group: This group has grown and became a leading player. This group has major investments in textile.	Mr. Nasir A. Sheikh	Textile: **1.** Colony (Sarhad)Mills Limited **2.** Colony (Woolen) Mills Ltd **3.** Colony Textile mills Ltd. **4.** Colony (Thal) Textile Ltd
Hashoo Group: This group is in hospitality industry in Pakistan since1972.	Mr. Sadrudin Hashwani	Hotel: 1. Marriot Hotel Islamabad 2. Marriot Hotel Karachi 3. Zaver Pearl Continental hotel Gwadar (HHL),(PSL) Oil & Gas: 1. Orient petroleum inc, 2. Zaver petroleum co ltd 3. International operations IT(information technology): 3. Tejari Pakistan Pharmaceuticals: 1. USP (pharmacopoeia) and 2. Good manufacturing Practices (GMP) Minerals:

		1.Zaver chemical limited Trading 1 Hasan Ali and Company 2 Genesis Trading & Hashoo International pvt limited. Real Estate 1. Associated builders (pvt) ltd. Ceramics 1.Cera-e-Noor perfection Textile: 1. Regent textile mills 2. Landmark spinning mills
House of Habib (Habib Group): This group has the history back from 1941 and 1942 with the establishment of Habib Bank Limited and Habib Insurance Co. Ltd.	Mohammed Ali Habib	Sugar: 1. Habib sugar mills Automobile: 1.Indus Motor Company Limited 2.Agriauto Industries Limited 3.Thal Limited - Engineering Division Chemicals 1. DYNEA Pakistan Limited Construction 1 Baluchistan Laminates Division 2 Noble (Pvt.) Limited 3 Shabbir Tiles and Ceramics Limited Multimedia 1 AuVitronics Limited

		Packaging 1.Pakistan Papersack Corporation Limited 2.Thal Limited Jute Division Plastic 1. AuVitronics Limited 2. DYNEA Pakistan Limited 3. Horn Plastics Inc Retail 1. Makro Habib Pakistan Limited Tractor 1. Agriauto Industries Limited Financial 1. Habib Insurance Company Limited 2. Habib investment bank 3. First Habib Mubaraba
Kassim Dada Group: Kassim Dada belongs to Memon family who set up Dada Commercial house in the 19th century. He had business offices in Burmah, South Africa and countries of the Far-East. Dadas had business projects in Pakistan. He had investments in Cement Factory plants, textile mills, cotton and chemical plants. Dadas had held ruling positions	Kassim Dada	1. Dadex Entrite 2. Punjab Building Products Major equity in the following Multinationals. 1. Smith Kline 2. Brook Bond 3. Berger Paints

in Karachi Stock Exchange.		
Lakson Group: This group has the chain of McDonald's restaurants in Pakistan. This group has stakes in paper, media, surgical equipment tobacco, chemicals insurance, and cotton, packaging, detergents. They also have business of house-hold items, through joint ventures with leading international conglomerates.	Sultan Ali Lakhani	1. Accuray Surgical Ltd.-involved in Surgical, Dental, Manicure & Veterinary Instruments 2. Century Insurance Co. Ltd. 3. General Insurance 4. Century Paper & Board Mills Ltd. 5. Paper & Board 6. Century Publications (Pvt.) Ltd. 7. Newspapers & Magazines 8. Clover Pakistan Ltd. 9. Food Product 10. Colgate-Palmolive (Pakistan) Ltd. 11. Detergents, Soaps & Toothpaste 12. Cyber Net Internet Services (Pvt.) Ltd. 13. Internet Service Provider 14. Lakson Business Solutions Limited. 15. Software & Web Solutions 16. Hasanali Karabhai Foundation 17. Philanthropic Work 18. Merit Packaging Ltd. 19. Printing & Packaging 20. Princeton Travels (Pvt.) Ltd. 21. Travel Services 22. Broadcasting Media Pakistan 23. SIZA Foods (Pvt.) Ltd. (McDonald's) Quick Service Restaurants

		24. Tritex Cotton Mills Ltd. Cotton Yarn 25. Tetley Clover (Pvt.) Ltd. Tea 26. Lakson tobacco 27. Company limited
Nishat Group: This group was established in 1984 and considered a diversified type of business group. This group has well-built involvements in three very important business sectors; that is Financial Services, Cement and Textiles. This Group has investments in Power Generation, Insurance, Paper products and Aviation.	Mian Mohammad Mansha	Textile: 1. Nishat textiles 2. Nishat chunian Ltd 3. Umer Fabrics Cement: 1. Dera Ghazi Khan Cement Company Financial services: 1. Muslim Commercial Bank 2. Fidelity Investment Bank
Saif Group: This group is one of the leading groups involved in industrial and services corporations. The group operates in textiles manufacturing oil and gas exploration, healthcare services power generation, real estate development, information technology services, and	Anwar saifullah, saleem saifullah	Textile: 1. Saif Textile Mills 2. Kohat textile Mills Cement: 1. Lucky Cement Saif Holdings Ltd.-It provides consultancy and other related services to the group companies. Oil and Gas: 1. Green Fuels (Private) Limited: Energy: 1. Saif Energy Limited

environmental management software development.		Reat Estate: 1. Elite Estate (Private) Limited Non-profit NGO 1. Saifullah Foundation for Sustainable Development*:*
Saigol Group: This has history in Pakistan since 1948 when they started business in Faisalabad then Lyallpur. This group has investments in textile sector, Cement sector, energy, power and electronics.	Amin Saigol and Yousaf Saigol. Presently: Naseem Saigol, Trariq saigal, Rafeeq saigal.	1. Kohinoor Textile Mills. 2. Pak Elektron Ltd. (PEL). 3. Kohinoor Power Company. 4. Faisalabad Grammar School Faisalabad (FGS). 5. Kohinoor Energy 6. Saigol Computers (Private) Limited 7. Kohinoor Motor Works Limited 8. Saigol Motors 9. Azam Textile Mills 10. Muhib textile mills 11. Kohinoor Sugar Mills Financial services: 1. United Bank Ltd.
Sapphire group: This group has made brand name in Asia, Australia Europe, and North America. Sapphire started business in textile in 1969 and made a tremendous growth	Mian Abdullah	1. Sapphire Fibres Ltd. 1 And 2 2. Sapphire Fibres Ltd. 3 3. Sappire Fibres Knits Units 4. Sapphire Fibres Dyeing Units 5. Sapphire Fibres Stitching Units 6. Sapphire Cotton Units Pvt Ltd. 7. Sapphire Fabrics Mill 8. Sapphire Finishing Mill 9. Reliance Textile Mill 10. Reliance Cotton Spinning Mill 11. Sapphire Power Generations 12. Diamond Fabrics Ltd

		13. Sapphire Textile Unit- 1 14. Sapphire Textile Unit- 2 15. Sapphire Textile Unit- 3 16. Sapphire Textile Unit- 4 17. Sapphire Textile Unit- 5 18. Sapphire Textile Unit- 6 19. Sapphire Textile Unit- 7 20. Sapphire Electric Company 21. Sapphire Yarns 22. Sapphire Renewable Solutions Pvt Ltd 23. Paramount textile 24. Gulshan textile mills 25. Gulistan weaving mills
The Servis Group: This group has investments in the areas that is shoes, cotton yarn ,tyres, syringes, leather, retailing etc.	Shahid Hussain	1. Service Industries Limited (SIL) 2. Service Sales Corporation Private Limited (SSC)
Tabani Group: This group in business since last 40 years and gained reputation in real estate business also owns industrial and aviation companies. This group includes investments in Cement, Fertilizers, Oil and Gas Handling Equipment, Rice Exporters, Chemicals, Export Support Services,		1. General leather company 2. Textile city unlimited: 3. Counter trade company: 4. Fashion garments: 5. The electronic cigarette store

Power Transmission Equipment, Textile sector, Metal, Energy, Wind power etc.		
Younis Group of Industries: The Company is in the Export Business and Reprocessing of Basmati Rice**.** This group equipped its factories with advanced technology. This group is involved import & exports of cotton Ginning, Rice processing, Pesticides & Fertilizers Bulk etc.	Ch. Muhammad Younas	1. Younis Cotton Ginning 2. K.K.S Cotton Ginning 3. Khurram Cotton Ginners 4. Khurram Rice Mills 5. Worth Fertilizers 6. Khubaib Chemicals 7. Younis Brothers Seed Corporation 8. Younis Brothers Petroleums 9. Solvent edible oil extraction plant (in different models & capacity) 10. Ghee mills (in different models & capacity) 11. Cooking oil mills & de-waxing plants (in different models & capacity) 12. Seed cleaners, seed graders (in different models & capacity) 13. Disk mills (wheat grander) (in different models & capacity) 14. Rice huller (in different models & capacity)
Crescent Group: This group's business history starts from 1910. Since 1947, they shifted their business in Pakistan and	Mr. Shamsuddin	1. Crescent textile Mills 2. Crescent Jute 3. Jubilee Spinning and Weaving Mills 4. Crescent Sugar Mills

started cotton import-export business.		5. Premier Insurance
Monnoo Group: The Monnoo Group: Since Partition times (1947) this group is contributing in Pakistan industrial growth through investments in textile sector, sugar, and agricultural products. This group has shown tremendous growth in business.	Mr. Shahzad Alam Monnoo, Mr. Qaiser Mannoo, Mr.Jahangir Mannoo	1. Tribel Textile Mills Ltd. 2. Rawal Textiles Mills Ltd. 3. Qureshi Textile Mills Ltd. 4. Olympia Blended Fiber Mills Ltd.I 5. Olympia Blended Fiber Mills Ltd.II 6. Monnoowal Textile Mills Ltd. 7. Monnoo Industries Ltd. 8. Marghalla Textile Mills Ltd.I 9. Marghalla Textile Mills Ltd.II 10. Jamhoor Textile Mills Ltd. 11. Lahore Textile & General Mills Ltd.I 12. Lahore Textile & General Mills Ltd.II Sugar: 1. Gojra Samundri Sugar Mills Limited (GSSML), 2. Monnoo seeds Pvt. Ltd. (MSPL)- Biotechnology Sugarcane Seed Development
Dawood Group: This group has roots in business centuries back but started business in Pakistan since 1951. This business in Pakistan started is Dawood cotton mills and then diversified	Saith Dawood	1. Dawood Cotton mills 2. Bhoorawala textile mills 3. Lawrancpur woolen mills 4. Dawood Hercules 5. Aysha Cotton Financial Services: 1. D.G. Mubaraba Management Ltd.

indifferent fields.		
Bawany Group: This group has roots in business, preposition times, in Burma and India. Since independence, this group started transferring business to Pakistan. The first Textile Mill started in 1949 by the group in Karachi was Bawany Violin Textile Mills Ltd. This group also earned his name in provision of community services.	Mr. Muhammad Amin Bawany	1. Faran Sugar Mills Limited 2. Sind Particle Board Mills Limited 3. Bawany sugar mills ltd. 4. Al-Noor textile mills ltd. 5. Al-Noor Sugar Mills ltd 6. Al-Asif sugar Mills ltd 7. Shamurad sugar Mills ltd 8. UNICOL Limited (JV Company) 9. Reliance Insurance Company Limited (JV Company) Financial services: 1. B.F. Modaraba 2. Al-Noor Modaraba
Alam Group: The Alam Group ranks among Uganda's major Industrial, Construction and Trading Corporations. The multiple business activities are arranged into specialised business houses.	Mr Abid Alam	1. Casements (A) Ltd 2. Steel Rolling Mills Ltd 3. Alam Properties Ltd 4. Roofclad Ltd 5. Ekono Homes Ltd 6. Alam Construction Ltd 7. SAIMMCO Ltd 8. Rhino Footwear Ltd 9. Crocodile Tool Company 10. Geo Lodges 11. Aerostar 12. Kusco
Ejaz GROUP: This group is in operation since 1950 in Pakistan.	Mian Nazir Sons	1. Ejaz Spinning Unit – I 2. Ejaz Spinning Unit – II 3. Ejaz Spinning Unit – III

Up till 1980s this group remained involved in trading activities in the field of chemicals, oil, textile etc. Late 1980s they started to work in textile manufacturing.		4. Compact Yarn Unit 5. Ejaz Textile Mills Limited 6. Ejaz Dyeing and Finishing Mills Limited 7. Ejaz Power Limited
Abid Group: This group earned its repute in construction and real estate.	Mr Sheikh Abid Hussain	Construction Projects:
Adamjee Group: This group has history in business since 1922. In 1927 the first muslin"Adamjee Jute Mill Ltd"was established. After creation of Pakistan, they had investments both in East and West Pakistan.	Sir Adamjee Haji Dawood	1. Adamjee engineering private limited 2. Adamjee paper mills 3. Adamjee jute mills 4. Orient airways 5. K.S.B Ltd. Financial services: 1. Adamjee insurance company limited
Adil Group: This group is mainly in the textile and textile sector related product.	Adil Mehmood	2. Nazim polysack (Pvt) limited: 3. Adil polypropylene products limited: 3. Adil industries (pvt) limited: 4.Adil textile mills limited.
Sitara Group: This group started its operations since 1956. The group's activities begin with textile weaving but later	Haji Abdul Ghafoor (Late) and Haji Bashir Ahmed.	Sitara Chemical Industries Ltd. Sitara Chemical Industries (Textile Division) Sitara Textile Industries Ltd. Sitara Energy Ltd

incorporated chemical and energy in its portfolio.		Sitara Developers Ltd. Sitara Peroxide Ltd.
Din group: The group established in 1987. They have investments in Textile, leather,		1. DIN Textile Mills Ltd. 2. DIN Leather (pvt) Ltd.
Packages Group: Since 1947, this group is in business and number of diversified businesses established. This group has key role in the establishment of LUMS (Lahore university of Management sciences).	Syed Maratab Ali	Packages Ltd Mitchells Wazir Ali Industries Financial Services I.G.I Inter Bank
Chakwal group: This group started business since 1942 by establishing Chakwal textile mills in chakwal and then diversified their business in cement, and financial services.	Khawaja Muhammad Javed	Amin spinning Mills Kohinoor Spinning mills Chakwal spinning Chakwal cement Financial Services: Platinum Bank Ltd.
Fecto Group: This group history back 1947. This group has major investments in sugar and cement sectors.	Mr. Ghulam Muhammad	Baba Frid Sugar mills Fecto sugar mills Fecto cement ltd.
United Group: This group has major	Mr. Muhammad Saleem	Ahmed Spinning mills ltd Sajjad textile mills

investments in sugar and textile sectors.		Sana fabrics Sugar United sugar Mills Ltd. Pasroor Sugar Mills
Kohistan Group: This group has major investments in textile sector.	Mr. Masood	Masood textile ltd Mahmood textile ltd Asim textile ltd
Fateh group: This group has major investments in textile sector.		Fateh Textile mills Ltd. Fateh sports wear ltd. Feteh industries ltd.
Sargogha Group: This group has major investments in textile and sugar sector.	Mian Muhammad Aslam	Textile: Shadab Textile mills Shadman Textile mills Sargodha spinning mills Sugar: 1. Hussain sugar mill Ltd.
Ibraheem Group: This group has major investments in textile , engineering and modarada businesses	Mr. Ibrahim	Textile: A.A. textile mills Zeenat textile mills Financing Services: Ibrahim Mudaraba Ibrahim Leasing
Shahnawaz Group: This group has history back in 1900. This group has investments in Textile, sugar and beverages.	Mr. Munir Nawaz	Sugar: Shahtaj sugar Textile: Shahnawaz textile mills Shahtaj textile mills Beverages: 1. Sheezan International
Fatima Group: This	Sheikh Shukat	Mubarak Textile mills Ltd

group has major investments in textile sector	Masood	Fatima enterprises Fazal textile mills
Ghulam Farooq Group: This group has major investments in sugar and cement sectors	Mr.Ghulam Farooq	Cement: Cherat Cement Ltd Sugar: 1. Mirpurkhas sugar mills Ltd.
Dadabhai Group: This group has major investments in non-registered companies. The owner is considered as one of most influential persons in Pakistani stock market.	Mr. Muhammad Hussain dadaby	Dadaby cement industries Ltd. Dadaby housing private ltd Dadaby engineering private ltd.
Jahangir Elahi Group: This group has major investments in textile sector.	Mr. Jahangir Ehahi	Taj Textile Ltd. Elahi Cotton Ltd Elahi spinning and weaving Ltd.
Premier Group: This group has major investments in sugar sector.		Premier sugar Chashma sugar Frontier Sugar
Umer Group: This group has major investments in textile sector.		Blessed textile ltd. Bhanero textile ltd. Faisal spinning mills ltd.
Waleeka Group: This group has major investments in textile, cement and insurance sectors	Wali Bhai	1.Waleeka textile mills ltd 2. Waleeka woolen mill ltd 3. Waleeka cement mills Financial Services: 1. United Insurance.

Source: Companies Annual Reports and web sites of individual companies.