IMPACT OF FIRM REPUTATION ON FIRM FINANCING DECISION:

EVIDENCE FROM NON- FINANCIAL SECTOR OF PAKISTAN

By

Bilal Haider Subhani

REG NO: PIDE2017-FMSMS15

MASTER OF SCIENCE IN MANAGEMENT SCIENCES

(FINANCE)

DEPARTMENT OF BUSINESS STUDIES

PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS

ISLAMABAD

(2017-19)

IMPACT OF FIRM REPUTATION ON FIRM FINANCING DECISION:

EVIDENCE FROM NON- FINANCIAL SECTOR OF PAKISTAN

By

Bilal Haider Subhani

REG NO: PIDE2017-FMSMS15

MS Scholar

A research thesis submitted to the Department of Management Sciences, Pakistan Institute of Development Economics (PIDE) Islamabad in partial fulfilment of the requirement for the degree of

MASTER OF SCIENCE IN MANAGEMENT SCIENCES

(FINANCE)

DEPARTMENT OF MANAGEMENT SCIENCES

Faculty of Management & Social Sciences

Pakistan Institute of Development Economics, Islamabad

(2017-19)

Pakistan Institute of Development Economics

<u>CERTIFICATE</u>

This is to certify that this thesis entitled: **Impact of Firm Reputation on Firm Financing Decision: Evidence from Non-Financial Sector of Pakistan** submitted by Mr. Bilal Haider Subhani is accepted in its present form by the Department of Business Studies, Pakistan Institute of Development Economics (PIDE), Islamabad as satisfying the requirements for partial fulfillment of the degree of **Master of Science in Management Sciences**.

External Examiner:

                                      Dr. Arshad Hassan
                                                Dean
                                         CUST, Islamabad

Supervisor:

                                      Dr. Jaleel Ahmed
                                      Assistant Professor
                                        CUST, Islamabad

Head, Department of Business Studies:

                                    Dr. Nadeem Ahmed Khan
                                                 Head
                                    Department of Business Studies
                                             PIDE, Islamabad

Dedication

I dedicated this thesis to my beloved parents Mr. & Mrs. Muhammad Akbar and my beloved brothers Izhar Raja and Azhar Ali Raja for financial and ethical support and my respected teacher Dr. Jaleel Ahmed for technical and ethical support and also dedicated to my dear friend Umar Farooq for his guidance. I also dedicated to my friends Naeem Ahmed, Wasim Aslam,and Fahad Ali for their moral support.

ACKNOWLEDGEMENT

All the praises are for the Allah Almighty; the most beneficent and the merciful; who granted man with knowledge. All salutations are upon the Prophet (P.B.U.H) whose teachings enlightens my thought and thrives my ambitions. I sincerely wish to express my profound gratitude and appreciation to my supervisor Dr Jaleel Ahmed Malik for his support in all research activities and without his help my MS thesis was next to impossible. I am extremely grateful to my parents Mr and Mrs Muhammad Akbar. My whole academic career till now would have not been possible without the love and support of my family, who believed in me blindly and they kept me going and were the force behind me. I would also like to thank my friends and class fellows who helped me a lot in academia as well in other discipline of life.

Thanks to all of you!

Contents

LIST OF TABLES AND FIGURES

ABBREVIATIONS

AP	ACCOUNTS PAYABLE
AR	ACCOUNTS RECEIVABLE
CV	CONTROL VARIABLE
DV	DEPENDENT VARIABLE
FL	FINANCIAL LEVERAGE
FS	FINANCIAL STATEMENT
IV	INDEPENDENT VARIABLE
LIQ	LIQUIDITY
LTI	LONG-TERM INVESTMENT
MC	MARKET CAPITALIZATION
PSX	PAKISTAN STOCK EXCHANGE
PER	PRICE EARNINGIS RATION
PROF	PROFITABILITY
SEC	SECURITY EXCHANGE COMISSION OF PAKISTAN
SME	SMALL MEDIUM ENTERPRISES
SBP	STATE BANK OF PAKISTAN
TTA	TANGIBILITY OF TOTAL ASSETS
TC	TRADE-CREDIT

Abstract

The corporate reputation plays a dynamic role in firm financing decisions of business and it helps the manager to choose appropriate way for efficient financing. This study finds that how important is firm reputation for firm financing? The study is using nine years data ranging from the years 2008 to 2016. The size of the research consist of 337 firms of non-financial sector of Pakistan. The fixed effect model (FEM) was used to check the regression among the variables. The outcomes of this study approve the impact of firm reputation on firm financing decision. The price-earnings ratio has positive impact on financial leverage because an increment in P/E ratio increases the financial leverage due to stability. The firm which have high market capitalization shows positive impact on financial leverage. There is positive impact of long-term investment on firm financial leverage because of this investment, a firm can enhance its debt. There is negative relationship between firm age and leverage because older firms reduce the usage of leverage with the passage of time. There is significant and negative impact of firm age on trade-credit because older firms do not prefer to use the trade-credit. There is positive and significant impact of tangibility on trade-credit because tangible assets can be used as loan collateral to get the trade-credit. There is significant and positive impact of firm size on trade-credit because big size firms can do financing easily through short-term financing. The study shows the importance of firm reputation in firm financing decision. There is a financing policy for finance managers, that they can use reputation as an instrument of financing. The reputation helps to secure the financial future of firm and it also helps to give freedom from stringent covenants problem and gives the suggestion of low cost of financing.

Key words: Firm reputation, Firm financing, Trade-credit,

1

Chapter 1

Introduction

1.1 Background

The firm reputation can be defined as an assessment of the stakeholders of a firm, eternal judgement of an organization, social and economic prospects by its customers, suppliers and society. Barney (1991) considered the firm reputation as critical asset in a firm. What is the value of a firm reputation? How important is reputation to a firm financial future? The corporate reputation may increase due to follow the rules and regulations which made by a company at the time of begning. Fombrun (1997) defines corporate reputation, a corporate reputation is an outcome of previous activities that depicts worthiness or weakness of the firm to different stakeholders. The corporate reputation builds the trust of employees and stakeholders of company. Diamond (1991) shows that a firm can make good reputation by using bank debt efficiently and fullfill the demands of stakeholders. The well reputed firms always keep screening and monitirung on their investment and performance because screening and monitoring give indication to the customers which helps the company to improve its reputation. The firms with high reputation face less stringent covenants and are less likely to be the target of Security and Exchange Comission of Pakistan investigations. The well reputabted firms provides quality in financial reporting which leads to a minimum cost or low cost of debt financing.

The Fortune magazine segregates a global annual rating which is called the 'world' most admired companies. The criteria of Fortune manazine uses to give rank to the companies ilude innovation of the company, quality of management of the company, people management of the company, financial soundness of the company, social responsibility of the company, product/services quality of the company and global competitivness of the company.[1]

---

[1] Fortune was founded by The Atlantic Monthly Company co-founder Henry Luce in 1929 as "the Ideal Super-Class Magazine", a "distinguished and deluxe" publication "vividly portraying, interpreting and recording the Industrial Civilization".

www.fortune.com/fortune500/.

www.fortunedatastore.com

The Fortune magazine often uses different criteria and methods and this study uses different proxies to measure the firm reputation. Kaur and Singh (2018) used different proxies (price earnings ratio, market capitalization and firm age) to determine firm reputation. Chandler *et al.,* (2013) showed financial soundness and long-term investment as proxies of firm reputation. Kumari (2013) used Altman Z-Score for measuring financial health. The proir studies used these proxies e.g. price earnings ratio, market capitalization, firm age and long-term investment (Chandler et. al., 2018 ; Sing and Kaur, 2018). The Fortune magazine categorized firms on the basis of these proxies e.g. firm age, market cap, long-term investment and price-to-earnings ratio. The Fortune magazine collects data from top 500 companies all over the world and issues report annually by using these proxies (Magazine, 2019).

The large firms, and especially those firms with high reputation do not need to tell/aware about the quality of their goods/products by giving more trade-credit (Rogerson, 1983). The well reputed firms provide finance to their customers more than non-reputed firms. The firm which has low quality of products (low reputation), gives less trade-credit to customers. The trade-credit is the relationship between suppliers of the goods and buyers of the goods (Cuñat, 2019). The trade-credit is also an opportunity and facility for those companies who are financially weak (Bastos, 2013). Now a day's mostly businesses deal with trade-credit. When two parties (buyer and seller) participate in an agreement to buy and sell the goods on credit basis that agreement is called trade-credit agreement. When a business has shortage of investment then that business moves towards the trade-credit (Afzal, 2018). The trade-credit plays an important role in an investment and corporate finance (Carvalho, 2015). The companies use trade-credit instead of long-term debt in financial crises (Love, 2007). The time span between payments of the products is the main reason of the trade-credit occurrence. In contemporary world, many businesses uses this approach of trade-credit and it is helpful for the enterprises to get the debt easily. Paul (2008) describes that the trade-credit is an important financial instrument but sometime companies ignore this point because too much short-term financing is not good for the companies.

The enterprises and mostly small firms take decision about trade-credit. Ahmed (2016) describes that trade-credit is an opportunity to enhance the capital of the firm and it is a facility for financially fragile firms. The trade-credit is beneficial for the suppliers and buyers because they can extend the business activities and build long term relationship. The supplier of the goods offers capital to the buyers because they want to capture their business. Ahmed (2016) examines that when a company fails to finance their assets through appropriate way then that

company goes for trade-credit to finance their assets. Moreover, they want to improve firm capital to make more output and maintain position in the market. The trade-credit is an external source of financing for small businesses. The trade-credit plays as a mediator role to build the long term relationship (Smith, 1987). In this modern time, nobody can overlook the role of finance for businesses because funds are important like all other resources. Financial analysts believe, money plays as a helping hand for all organizations. All firms need of funds at right time (Hamouri, 2014). According to Beck (2008) and Ge (2007) companies use trade-credit as a financial channel that helps the manager to do work in a smart way. In developing economies such as china, the acquirement of bank loan is not easy due to high interest rate (IMF, 2017).

The trade credit is the single most important source of short-term external finance for the firms. The trade-credit helps to raise the capital of those firms who are unable to raise the capital through more traditional channels. The suppliers may be better than specialized financial institutions in evaluating and controlling the credit risk of their buyers. The trade-credit provides a way to firms with better access in credit markets. Finally trade-credit reduces transaction costs and providing assurances about the quality of the supplier's products. The trade-credit may be a source of future business, and suppliers are more willing to provide credit in an anticipation of better performance of this business. The trade credit is an investment in accounts receivable. The accounts receivable and accounts payable are the proxies of trade credit (Petersen & Rajan, 1997). The accounts receivable and accounts payable is very important especially in financial crisis. Mihajlov, (2013) describes accounts receivable plays very important role as a source of financing in Serbian firms, therefore trade-credit makes a good and strong participation in firm profitability and in an entire economy of a country.

The managers are very concerned with optimal level of capital structure that could maximize the value of their companies. The raising capital through financial leverage could either increase or decrease the share prices of company. The financial leverage is the degree to which a company uses the debt to acquire the assets. A high degree of financial leverage means the usage of high debt financing on which company pay the high interest which negatively affect the company's bottom-line earnings per share. But there is more risk associated with financial leverage and that risk is called financial risk. The financial risk is the risk of the stockholders that is caused by an increment in debt in a company's capital structure. The primary sources of external finance for SMEs is debt (Demirguc-Kunt, 2006). Some companies prefer debt financing because cost of equity financing is high than debt financing. The companies do equity financing through offering the common stock, preferred stock and bonus

share to their stock holders. In debt financing companies issue bonds, commercial papers and notes payable. In equity financing, the companies offer maximum rate of dividend which attract the shareholder to invest more.

The long run survival of an orginization's depends on its competitive advantages and stock market which creates the posibility of compeitive advantage. The companies which are publicly listed which always try to get attractivness in stock market and also do effort for wealth maximization. In this way the researchers, market analysts, fund managers and investors trust on different valuation techniques. However most of them trust on price-earnings ratio for monetoring and evaluating individual stocks (Molodovsky 1953), where P/E ratio is a useful technique for evaluating and monetoring the relative attractiveness of a company's stock price compared to the current earnings of a firm. Previous researchers tried to find out the determinants of P/E ratio that can enhance/influence investor's confidence towards firms for making investment decisions.

The market capitalization is defined as the total rupee market value of company's outstanding shares. The market capitalization is ascertained by multiplying the number of shares outstanding by the current market price of one share. The market capitalization is computed with the number of shares outstanding multiply by market price of the share. The market capitalization is an indicator of current price of the shares of a company. When a company has high market capitalization which shows favourable public opinion about the company and speaks about company ability that this company can face market volatility. The high market capitalization means that this company is less risky which attracts investors. Agarwal and Mohtadi (2004) argues that the development in stock market (represented by the changes in value of market capitalization) creates financial resources to make businesses better. The study of Kunt and Maksimovic (1996) is about the relationship between capital structure and the financial markets development in 30 countries during 11 years from 1980 to 1991. The study showed that there exists a reverse relationship between the stock market development and the rate of debt in the firms' capital structure. More specifically, the increase in capitalization of the stock market show that the stock market helps businesses to raise equity easily by issuing shares.

In today's different and risky environment, investment decision is very important for the companies and this decisoin paves the way for their future growth and long-term success (Kannadhasan & Aramvalarthan, 2011). The corporate sector plays very important role in

economic growth because it brings new opportunities and new avenues for investment opportunities. Due to high global competition, investors have to invest heavily in new technologies, infrastructure, product development, product management and meet development needs. However, investment requires acquiring and utilization of funds from appropriate sources. Therefore, companies either use internal funds or go for external financing by issuing shares or debt. The efficient utilization of funds has an integral role for managing growth and enhancing firm value. In this regard, debt is now considered inevitable for firms for maximizing return especially in developing countries.

The other proxy of firm reputation is firm age which may represents the firm reputatiion (Daimond, 1991). The young and new firms build features that separate them from old and established firms. The young firms have the power and sources to channelize more growth opportunities but at the same time, exhibit high levels of risk as compared to old firms. The firms tend to learn over the years, they gain experience in different fields, and try to build a strong network of relation with their stakeholders to gain legitimacy in front of them. The investors feel more confident in investing their funds in old firms as they are well aware from them due to past dealings. The longevity provides easy access to capital market. Daimond, (1991) argues that the firm age is the proxy of firm reputation in his reputation building argument wherein it is argued that firms in the beginning use private source for financial matters. But when they become known in the market, they try to develop good affiliation with stakeholders, they go for public sources for raising finance. As the firm gets older and with the passage of time, firms builds an image in the mind of public and in this way they can raise money through public domain and they could be successful. Hence, it can be speculated that firms wait to get older because firms want to build a good reputation. If firms are older in a market, they have more chances of making a positive perception about the firm and that will increase reputation.

1.2 Study Plan

The study comprises of five sections. The first section describes an introduction, research questions, problem statements, study objective and the significance of study. The section number 2nd elaborates the detail review of literature, research gap, theories and theorizatiion, definition of variables and hypotheses development. The third section of this study deliberates the data and methodology which further divide into following sections e.g. data, sample size, discussion of methodology and discussion of variables. The four section also describes the outcomes of study in tables' e.g. descriptive statistics, correlation and regression. The section

number 5th contains the conclusion of study and limitations of study. The references which were used in research have been written at the end of study.

1.3 Problem Statement

In this contemporary era, there are number of firms in the market and every firm wants to increase the capital with in low financing cost. They are worried about the financial future of the firm and due to this, they face the problem of high cost financing and the problem of stringent covenent while financing the assets. Because of these problems, it is not easy to take decision about financing of the company. Now a days, the firms are searching for some new and efficient instruments which may help to minimize the cost of financing and mitigate the stringent covenant problem. Moreover, the firms do not include the firm reputation in the form of tangible financial benefit and cannot take rational decision about firm financing that's why they face mostly high cost of financing and the problem of stringent covenants. So, it was necessary to identify

➢ The contribution of firm reputation in firm financial leverage financing decision.
➢ The participation of firm reputation in firm trade-credit financing decision.

1.4 Research Questions

In this study, the following question will be answered:

➢ Is there any impact of price-earnings ratio on firm financing decision?
➢ Does there any impact of market capitalization on firm financing decision?
➢ Is there any relationship between long-term investment and firm financing decision?
➢ Does the firm age helps in firm financing decision?

1.5 Research Objective

A good reputation of the firm may help the firm to arrange the funds with minimum obstacles. In this contemporary world, a good appearance of the firm is very meaningful for the firm because there are number of competitors in the market and if firm make a mistake intentionally or unintentionally, that will create the loss for firm. Reputation helps in different business operations. The firm reputation helps to choose the financing methods and it may help to arrange the eficient financing decision for the firms. So, the objective of this study is

➢ To find the impact of firm reputation on firm financing decision

1.6 Significance of Study

The primary significance of this study is that it highlights the firm reputation contribution in firm financing decision specifically in non-financial firms of Pakistan. The theoretical significance discusses the variables of reputation in existing body of literature. The study takes the proxies of firm reputation and check their impact on firm financing decision. The practical significance of this study is that it helps to find out the impact of firm reputation on firm financing decision and it helps the managers to choose appropriate way of financing. It also helps to managers that they will be able to find out the way that, how does the firm reputation may help to equip its assets with cheap financing? The importance of this study is to highlight the value of firm reputation for firm financing decision. It helps to finance managers that how trade-credit or financial leverage approves as a cheap financing decision by using firm reputation. This study quantifies the reputation by using different proxies of firm reputation such as price earnings ratio, market capitalization, long term investment and firm age. The result of the study gives the strong financing policy in the content of cheap financing decision by utilising the firm reputation.

Chapter 2

Literature Review

This section elaborates the theoretical framework, determinants of firm reputation, determinants of firm financing decision and experiential review of this study

2.1 Study Background

The new technique of observing a business is corporate reputation. The firm reputation is generally defined as an observations, emotions and feelings of multiple stakeholders about an organization (Fombrun, 1997). Diamond (1989) noted that the well reputed firms can accept more debt at lower costs because of their better reputations in the debt market. Kaur and Sing (2018) used firm reputation as independent variable in their study. Some organisations have separate departments or separate reputation managers for firm reputation. The firm reputation of any institution may encourages the financial health of any organisation. The firm reputation may define financial performance for service organizations. The reputation of a firm is a 'soft' notion. The firm reputation is an overall assessment of the stakeholders about organizations that based on their previous actions and prediction of its future performance or behaviour. According to stakeholder's experiences, the organizations might have dissimilar reputation with each stakeholder. The organization thinks while making the reputation that what have they heard about an organization from others. The mostly organizations use the importance of good corporate reputation through building a thought in the minds of stakeholders when they face an emergent situation (Fombrun, 1997). The other side, the mostly organizations think that the greatest asset is the good reputation and good name. The firm reputation represents the firm overall impression on different stakeholder's e.g. stakeholder's interaction and communication they receive from an organization. (Fombrun, 1990). The corporate reputation describes stakeholders' hopes and future actions of an organization that is occurred from past experience and perceptions (Weigelt, 1988). Being a trustworthy, a firm reputation can help to reduce the transaction cost (Davies, 2010). According to Eberl (2005) there are different advantages of an expectation from good reputation with several stakeholders' e.g. high customer retention then high repurchasing and high product price leads to high income. And other side low costs is to be realized through a decrease in capital costs and personnel costs through decreasing fluctuation.

The decline in transaction cost leads the reduction in financing cost. The firm financing decision is an emerging issue in discussion and literature of finance. Rashid, (2014) used firm leverage as an external financing decision as dependent variable and furthermore discussed that the external source of financing is firm financial leverag. Ferrando (2013) examined that the other external source of financing is trade-credit and it is an important secondry source of external financing. The trade-credit is an essential outside source of finance for firms, especially when firms face problem to go for finance through credit institutions. The trade-credit is using in the form of accounts receivable and accounts payable from recent years. In overall, the firm tend to make decision about trade-credit and this source of financing is remained strong source in Euro area companies. But trade-credit has been decreasing since 2005 due to an easy assessment of companies to bank debt. The financing decision of firm is one of the essential functions of firm. The finance managers give preference to other techniques that help to decide how, where and when to get finance to meet investment (Zhao, 2012). The financing through financial leverage leads to a good performance but an excess in financial leverage can cause the failure of a firm. The way to find out the level of financial leverage of particular firm is the total value of debt, equity and the ratio of debt. The financial leverage is commonly defined as the use of borrowed money for making an investment and returning on an investment. This is much risky to have more ratio of debt in capital structure.

2.2 Firm reputation

The reputation of the firm shows very important role in the firm financing decision and it mitigates agency problems between principal and agent. The previous research has described the importance of firm reputation. Theoretical literature in economics describe that the firm which has high reputations enjoy high financing at low cost because they have easily access to capital markets at relatively low cost. A good reputation of the firm gives an indication that this company can take actions consistently with investors interests (Diamond, 1991). A company which takes some actions to increase its reputation is rewarded by investors with a low cost of financing. Cao *et al.,* (2015) documented a negative relationship between firm reputation and the cost of equity. Most of the studies are similar with this study e.g. Cao *et al.* (2015) found nagative relationship between company reputation and cost of equity capital.

The Cao *et al.,* (2012) found the relationship between reputation of the firm and quality of financial reporting and also found negative relationship between reputation of the firm and the likelihood of misstatements. Moreover, the companies which have high reputations and those companies are less likely to error their financial annual statements, agree to pay high

audit fees, evidence consistent with the idea that higher-reputation companies produce higher-quality financial statements. Karpoff *at el.,* (2008) examined that the firm reputational cost of corporate fraud is large and constitute most of the cost incurred by firm accused or convicted of fraud. The firm which has high reputation scores and that firm will avoid from fraudulent behavior and thus have low cost of borrowing. The reputation of the firm is an outcome of concomitant of opinion and perception with reality (Little, 2000). The opinion and perception about a company is shaped on behalf of prior experience with copmany, peer views, media coverage of a company, analyst's comments about company and expert opinions about company. The genuine outcomes of a company in the shape of profits and market shares syndicate with stakeholder observations to create an impression, that is, its reputation.

2.3 Price-earnings ratio

The price-earning ratio is a valuation methhod which prescribes the company's present financial position and tells about the company future growth prospects. Afza and Tahir (2012) found that leverage is positively correlated with price earnings ratio. There is positive effect of financial leverage on P/E ratio (Ramcharran, 2002 ; Arslan *et al*., 2017). The financial leverage trend increases day by day which forecasts about the bankruptcy risk of the firm and the relationship draws negative effect on market multiples. If there is an increment in working capital, it means it increases the price-earnings ratio, if all others factors are fixed in the average. In other words, even if the company has a strong net profit, it may lose its net profit due to investment in working capital and cannot generate cash in the bottom line. Investors seem to take this into account working capital effect in the target P/E ratio formation.

The price-earning ratio indicates how much investors are willing to pay for rupee one of a company earning. However, there are many variants of this ratio. The trailing price-earning ratio uses net income for the immediate previous 12-month period divided by the weighted average number of common share issued during that period. This version of price-earning ratio uses actual or realized earning instead of projected or estimated earnings as used in forward price-earning ratio. A high price-earning ratio is a good indicator of financial health of a firm. It signals company present profit-earning capacity and high value of price-earning ratio is interpreted by investors in the form of bright future prospects. The investors expect growth and safety of their funds in companies because these companies show high price-earning ratio and low level of risk is associated with these companies as compared to others which are having low price-earning ratio (Kaur & Singh, 2018). The price-earnings ratio can helps as an investor guide and it helps to select the stock of those companies which depict a high price-earning

multiple. The ceteris paribus (Other things equal), a company having high price-earning ratio is preferred as compare to those who are having low price-earnings ratio because low price-earnings ratio seems to be less attractive for investors and they do not foresee growth and safety in it (Kaur & Singh, 2018). Price-earnings ratio shows the sentiments of an investor. If the price-earning ratio is high, investors feel optimistic and are willing to invest their funds in such a company.

The Little and Little (2000) concluded corporate reputation (measured by Fortune's reputation ratings) to be a significant factor in explaining variation in price-earning ratio. The two companies are similar in all respects and steps but they show different price-earnings ratio because difference in price-earning ratio was due to the possession of some unique, inimitable, non-substitutable resources by the company and those resources portraying a high price-earning ratio. Hence, it was concluded that the high reputation of the firm rating leads to high price-earning ratio (Little, 2000). There exists evidence to believe that companies having good corporate reputation display high valuation multiples. However, there is a lack of a standard method to measure corporate reputation in literature. There are different techniques and methods for measuring corporate reputation which are used in different market settings i.e. German companies most commonly use media coverage and they published the compnies ranking to capture and attract the corporate reputation. "With the exception of those in Belgium, international CEO's are more likely than those in the United States to use price-earning ratio for measuring corporate reputation. Moreover, benefits accumulating from a high price-earning ratio of the firm are quite similar to the benefits occuring out of a good corporate reputation.

The high price-earnings ratio makes good corporate reputation provide easier access to capital, investor support, high ranking, and opinion from experts, avoiding hostile takeovers. Hence, it can be argued that a company displaying high price-earning ratio has a high corporate reputation as the most significant reason for a high price-earning ratio is the invisible reputation of that company. The theory gives unlimited and sufficiant reasons to use price-earnings ratio as a proxy for corporate reputation. Price-earnings ratio has been used as a measure of corporate reputation in Italy (Catuogno, 2013). When a company has low price-earnings ratio it means company is not using high financial leverage. If the price-earnings ratio is high it means company uses its own resources and when that company goes for financial leverage can get easily from the financial institutions because P/E ratio is an indication of good reputation and due to good reputation a company can get easily financial leverage. The Price-earnings ratio

effects the decisions and opinions of investors. The price-earnings ratio is positively associated with firm earnings growth, firm payout ratio, firm market return, firm variability in market price and firm growth opportunities, whereas, negatively associated with financial leverage and firm size (Afza & Tahir, 2012).

2.4 Market capitalization

The market performance is emerged and influenced by firm financial performance of tangible assets and unreal and unimportant resources possessed by the firm. Tai (2017) showed that the market capitalization has positive relationship with debt rate in capital structure, and the volume of company shares traded has negative effect with firm debt rate in capital structure of the firm. The size of the Vietnamese commercial banking system and credit growth have negative relationship with debt rate in capital structure. Meanwhile, the interest rates of commercial banks is not statistical significance.

The researchers have tried to extract the reasons of difference in market value of two firms which are similar in all respects and this difference has been attributed to the possession of intangible assets like corporate reputation. The high market capitalization or high market value is associated to a good reputation. The focusing only profit earning and ignoring the shareholder wishes and expectations is a restricted and immature approach while the target of shareholder value creation seems to be a more comprehensive way (Kaur & Singh, 2018). The investors prefer the large capitalization companies because those companies are attractive, suitable, having low risk and having more liquidity. These companies are expected to show performance far better in near future as they are temporary to the market risk, pay more dividends to investors, and guarantee safety and liquidity of funds with a good return to investors (Kaur & Singh, 2018). They are backed with long history of solid growth and the stocks of such companies are issued by well-reputed known market players whose performance stability increases investor confidence. There is positive impact of market capitalization on capital strucutre (Tai, 2017).

The physical relationship between corporate reputation and market capitalization is seldom documented in literature but catching the interest of researchers and financial analysts. Black EL (2000) discovered that the reputation of the market increases the value of the firm by improving its market value. Earlier, the strong foundation of tangible assets accounted for its value in the market where intangibles had a insufficient role to play. Ballow JJ (2003) observed that the composition of traditional tangible assets accounting for a firm market value has been

reduced significantly from 80 per cent to merely 20 per cent. It clearly indicates the growing relevance of intangibles in explaining firm's market value.

The corporate reputation which forms major part of intangible assets has surpassed the traditional remarkable resources in identifying a firm value in the market. The companies portraying an increment in market capitalization to earn more better firm reputation ratings on the FMAC list, hence large capiatlization of the firms have superior corporate reputation and can finance their assets easily throug financial leverage (Shefrin, 1995). The previous findings showed that the market capitalization is a crucial determinant of corporate reputation (McGuire, 1990). Generally, the higher market capitalization means a more valuable company. There is sufficient empirical and theoretical evidence that links market capitalization to corporate reputation and due to good reputation, the firms finance their assets easily. The well reputed companies influnece its competitors by displaying higher market value as they possess the peculiar quality of distinctiveness which improves its market standing. It can be speculated that a high market capitalization invites a good reputation and it is rational to use market capitalization as a proxy of public opinion and in this way they can finance their assets. A good reputation company takes benefits of better market position than its competitor. Hence, it can be argued that market capitalization can serve as a proxy for corporate reputation (Kaur & Sing, 2018).

2.5 Financial leverage

The financial leverage is a main source of financing. The main reason of using the leverage is cleared to finance the long term operations. Dittmar (2004) have examined that firms use debt as a tools of financing to enhance their assets and increase their profit. A company can increases its capital by using firm financial leverage. Govindasamy (2010) have discussed the relationship between firm financial leverage and profitability of the firm by analysing the firm financial leverage and earning per share. If outputs are low than expenditures, it means that the firm is not using firm financial leverage efficiently. There is significant nagative relationship between firm financial leverage and earning per share. The managers try to select a minimum cost of financing for gaining more profit and in this way the managers can maximize the capital structure by minimizing the cost of financing (Tang *et al.* 2012). Some companies raise the cash inflow by over producing the goods, due to this strategy the price per unit will decrease in the market (Fosu, 2013). Excess of taking financial leverage may increase the ratio of risk because sometime it is very difficult to repay the amount of debt. The firm financial leverage measures by its formula as the ratio of total debt and total assets of a company.

The Petersen (1997) elaborated that the interest of the firm with more profits, increase the sales of the firm and it is primary concern of the firm to enhance the sale volume. Sheel Parsons (2009) examined that it is not difficult for more tangibility firm to gain debt because they can use easily tangible assets as loan collateral. Harris (1991) noted that this relationship is not surprising between tangible assets and debt because mostly tangible assets may use easily as loan collateral. Myers (1977) noted that the loan taking ability of a firm may affect the investment and it minimizes the value of the firm. Moghadam & Jafari (2015) examined that there is significant positive relationship between financial leverage and financial performance of company. In other words, high receiving debt companies having more profit. The efficiency of the firm have positive and significant impact on financial leverage. Ahmad (2012) described that the large companies have positive effect on firm size and performance because large firms have low chances of bankruptcy.

2.6 Long-term investment

The long-term investment works in a business as a backbone. The long-term investment gives the support to the firms and it indicates the longevity of the firms. It helps to take decision about firm financing because if stakeholders have invested their wealth in specific firm then that firm can further finance their assets with debt. And if the firm have already invested their funds in some big projects then the institutions will take the debt easily to finance their assets. The research of Mcconnell (1995) and Singhania (2010) found negative affiliation of financial leverage with investment. Harris & Raiv (1990) found that there is negative association between firm financial leverage and firm long-term investment. Moreover, the capital which are produced from financial leverage could be used for making working capital investment (Amidu, 2007). However, Aivazian *et al*., (2005) found that the financial leverage does not always lead to under investment problem and managers of the firm could make over investment to fulfil their ambitious, their wishes, and their plans and maximize their short-term gains. John & Muthusamy, (2011) found significant and positive association of firm financial leverage with firm investment for high growth firms.

Therefore, we assume either positive or negative association of firm financial leverage with firm long-term investment. Mukhtar *et al.,* (2016) has suggested that financial leverage of the firm could have either negative or positive impact on firm's long-term investment decision because of over investment or under investment hypotheses respectively. Verwijmeren (2010) have showed that the employee well-being is positively associated with high credit ratings. The reputation of the firm includes different dimensions e.g. quality of product of firm, innovation

of firm and financial soundness of firm. Chandler *et al.* (2013) have used the American most admired company's data which was published on annually basis in Fortune magazine. The Fortune data have been produced annually since 1982. There are the eight different measures of the firm reputation e.g. innovation of firm, people management of the firm, use of corporate assets of the firm, social responsibility of the firm, quality of management of the firm, financial soundness of the firm, long-term investment of the firm, and quality of products/services that have been widely used by researchers as an indicator of firm reputation.

2.7 Firm age

There is an imbiguity between theoretically effiliation of firm capital strcture and age of the firm. The age of the firm matters because with the passage of time mostly firms can stable their self. The aged firms can understand the trend of market. There is negatively relation of firm age with short-term firm financing (Hall *et al.,* 2004) There is significat and empirical evedences of firm age and firm financing relations (Dewaelheyns & Hulle, 2010). Sakai *et al.,* (2010) and Ezeoha & Botha (2012) found significant relationship between the age of the firm and financial leverage of the firm. The aged companies have better access to finance their assets and have good relationship with money lenders who always keep eyes of their reputation and financial record. In addition, relatively some short discussion have incorporated that the age of the firms contribute in Malaysian firms financial leverage decision. The size of the firm, tangibility of assets, profitability of the firm and age of the firm factors are positively associated to the total leverage (Ikechukwu & Cyril, 2017). But some time the companies donot go to finance their assets via financial leverage because experienced and aged firms with the passage of time, they become stable and have ability to stand their own pillars.

2.8 Theories and Theorization

The capital structure theories are related with firm reputation and this corporate reputation explain the impact of firm reputation on firm financing decision. The size of the firm associated with firm financing via Agency cost theory because the large size of the firm needs more information and this information minimize the level of information asymmetries in market, and it makes possible to get financial resource from money lender (Marete, 2015). The market capitalization is affiliated with the firm financing via Agency cost theory because in the developing countries, development and an improvement in stock market helps the investors that they can diversify the investment. In this way they can reduce the risk and information asymmetric and transaction cost. Under the shade of minimum risk and information

asymmetric, the investor can invest and the firms can take easily finance their assets (Tai, 2017).

The profitability of the firm is negatively associated with firm financing because the frim profitability of non-financial sector of Pakistan increases then the ratio of debt decreases. The board of directors seeks other sources to fulfil the financing needs e.g. `they can issue stocks instead of bonds or they can use retained earnings as a source of firm financing. Furthermore, the pecking order theory shows the negative relation between financial leverage and firm profitability, which gives high preference to retained earnings. The similar results in Pakistani firms is also found by (Shah, 2007; Rahman, 2016). De Jong (2008) examined that high tangibility firms give preference to debt financing over equity financing. According to agency cost theory, tangible assets can be used as loan collateral and it reduces the information asymmetric and clears the business matter which helps to get the debt easily. Trade-off and agency cost noted positive relationship between leverge and assets tangibility (Olakunle, 2014).

2.9 Trade off Theory

Jensen (1976) described that decision of financing should have a good impact on the overall cost of financing and it should be competitive and it measurement should be minimize the cost of financing. The reduction in income tax is favourable for the companies because when companies do financing through debt then it means companies enhance their capital through debt then these companies save their self from tax. Rajan (1995) expressed that when a company move towards financing through debt then it means that company has a high risk and creditors of company bear high risk. Then they demand more profit so that's why companies do financing through owner equity and debt equity. This combination (debt equity and owner equity) will mitigate the firm average cost of financing and increase market value per share. Trade off theory describes the output of funds and the management of funds. This theory focused on specific part of debt and equity because companies can use the debt and equity for balancing their cost of financing.

2.10 Agency Cost Theory

This theory shows the relationship between agent and principal. According to this theory, the cost of financing increases when there exist a conflict between manager and capital provider. The cost of financing increases when funds provide by the investors and if they do not manage efficiently. It may increases due to wrong selection of funds such as more proportion of costly funds in total capital structure. Sometimes, managers prefer un-appropriate ratio of debt or

equity which violates the economic financing requirements and total cost of financing increases.

2.11 Pecking Order Theory

This theory is about the efficient utilization of the funds. Myers (1984) described that this theory claimed that managers of the firm have better information about their firms than investors. This controversy of information is referred to incorrect information because of this information, the managers do financing through debt when they are cleared about their future goals when they are positive. Otherwise they do financing through owner equity when they are unsure about their future perspectives. Managers are responsible for their companies, that's why they try to gain more information about the firms. According to this theory firm uses internal financing by using retained earnings and then firm go for further financing through debt and in last firm uses equity. Financing for further investment. According to Abdussalm (2010) documented that firms uses debt and equity to finance the assets. The firm debt and equity might be fruitful for further investment. Huyghebart (2006) highlighted that it is not necessary for a firm to have long term debt because firm can finance and bear capital expenditure through internal sources and through issuance of common stocks. Companies take debt because companies want to enhance the common shareholder return.

2.12 Trade Credit Theories

The trade-credit theories describe the existence of trade-credit and use of trade-credit.

2.12.1 Financing advantage theory

The supplier of the goods can get benefits over traditional lenders by investigating the credit soundness and credit worthiness of his customers/clients as well as supplier may have extra ability to monitor his client of force repayment of the credit. These techniques of measuring and monitoring the client may give cost benefit over financial institutions [see Schwartz (1974) for prompt disclosing of the financing advantage theory of trade credit]. There are following three sources of financing advantage theory. The supplier of the goods may judge and visit the buyer place properly without any proper channel than financial institutions. The supplier can guess about the buyer condition through judging the size and order of the buyer. When buyer do not return the loan with in due date to supplier and do not get early payment discount than

supplier judges the creditworthiness of the (Brennan *et al*., 1988). The financial institutions collect the same information but suppliers of the goods get this information faster at low cost.

This theory describes that when buyer have some efficient substitute sources other than the supplier in the nature of goods being supplied than this thing threaten to suppliers and it may be cut off future supply and reduce the chances of the payment. This risky situation maybe happens when buyer sales small part of supplier goods. But financial institution can threat to buyers operations by withdrawing the future finance. The financial institutions forced by bankruptcy law that they have the ability to withdraw their previous finance. The supplier stops the goods, when the buyers have become defaulter. If the goods of supplier are more durables than the buyer provides valuable things for collateral and buyer can get more credit form supplier (Mian & Smith Jr, 1992). The financial institutions can also reclaim the firm assets to pay off the firm's loan. If the supplier have its own network for selling the goods than the repossessing cost and reselling cost will be low. The benefits of suppliers vary cross-section-ally over financial institution and depending upon that what type of goods the supplier sells and how much the customer changes/transforms them. The supplier can get the more advantage over financial institution, when the goods are less transformed by the buyer in looking substitutive buyer (Calomiris *et al*., 1995).

2.13 Price discrimination through trade credit

The trade credit can be taken if the supplier does not take more advantage than financial institution because credit can be used for price discrimination e.g. (Meltzer, 1969; Bicksler, 1979; Brennan *et al*., 1988 ; Mian & Smith Jr, 1992). The credit terms and conditions will be according to the quality of credit of the buyer. The supplier of the goods does not give the favour to risky customer because risky customer does not demand critically and risky customer shows elasticity for short-term credit. But, the supplier of the goods looks for long-term interest for the survival of customer firms. The supplier wants to provide temporary short-term debt to protect the implicit (secret) equity stake of the buyer.

2.14 Transactions costs theory

The trade-credit helps to reduce the transaction cost Ferris (1981). The transaction cost occurs when buyer and supplier make some efficient exchange. When firm offers the commission for collecting the information then transaction cost occurs. The transaction cost occurs when management take some services and advantages and pays commission for them. The transformation of goods and services is the mean reason for occurrence of transaction cost. The

trade-credit participate positively in reducing the transaction cost of the firm. The trade-credit helps to minimize the products and services exchange cost and hence the transaction cost may reduce because of trade-credit motives. The reduction in transaction cost creates strong relationship of receivable with firms.

2.15 Literature Gap

In this competitive era, firm reputation is an essential part of every business. According to our knowledge, there is vast discussion of firm reputation practically but in literature, firm reputation discussed a little bit. Previous literature have conducted on different topics i.e. Kaur and Singh (2018) worked on the topic "measuring the immeasurable corporate reputation". Pfister (2019) worked on the topic "Corporate reputation and the future cost of equity". Anginer (2015) also worked on the topic "Firm reputation and cost of debt capital". Chandler *et al.* (2013) described positive relationship bewteen firm reputation and status on interorganizational network structure. In contrary to common, there are few studies which have taken firm reputation as helping hand of financing. Moreover, limited studies have taken the firm reputation as critical assets and instrument of financing. So to eliminate the gap, this research will find out "The relationship between firm reputation and firm financing decision".

2.16 Hypotheses Development

This study develops hypotheses between dependent variables and independent variables on the basis of relationship. This research makes the opinions and perceptions about relationship of the variables on the basis of prior research. The explained variables have different association with different explanatory variables. This study assumes that the association of the variables and develop hypotheses. The following hypotheses use in this study.

2.16.1 Firm age and firm financing

The age of the firm is the dimension of time through which a firm has existed. The age of the firm is calculated from the number of years of incorporation of the company. Some believes that listing age of the firm, defines the age of the company. Ikechukwu and Cyril (2017) found that firm age has a significant but negative effect on firm financial leverage. There is significant and negative relationship between firm age and SMEs financing (Gracia & Mira, 2008). The age of the firm is significantly negatively related to the firm financial leverage because as firm getting older, the firm is able to manage its all financial resources (Chittenden *et al.,* 1996). HALL et al., (2004) noted that firm age is nagative related with short-term debt.

H_1: There is significant negative impact of firm age on firm financial leverage.

2.16.2 Market capitalization and firm financing

The market capitalization of the company can be defined as the value of a company that is traded on the stock market, calculated by multiplying the total number of shares by the present share price. The market capitalization is positively associated with debt rate in capital structure because the developed stock market guides the investors that they can spread the investments and in this way they can mitigate the risk and asymmetric information and then cost of lending will be low. This will appeal to firms' owners and they will increase the use of debt in the capital structure (Tai, 2017).

H_2 : There is significant and positive relationship between market capitalization and firm financial leverage.

2.16.3 Price-earnings ratio and firm financing

The price-earnings ratio is about the ratio of a company share price and the company earnings per share. This price-earnings ratio is used for the evaluating of companies and also find out that whether the company is overvalued or undervalued. Yue, (2011) used price-to-earnings ratio (PE) as a proxy of growth opportunities and showed a negative relation between growth opportunities and leverage of firms. These studies have the same results e.g. (Auerbach, 1985 ; Chittenden, 1996 ; Mayers, 1977). A firm with higher growth opportunities have more uncertainty than firms with lower growth opportunities. Therefore, the agency cost for debt holders is higher in lending capital to firms with high growth opportunities than firms with low growth opportunities.There is negative association between price-earnings ratio and firm financial leverage.

H_3: There is significant and negative impact of price-earnings ratio on financial leverage.

2.16.4 Long-term investment and firm financing

A long-term investment can be defined that this is an account which exist on the asset side of a company balance sheet that shows the company investments, including stocks, bonds, real estate and cash. The long-term investment is asset that a company intends to hold for more than a year. García *et al., (*2010) found that the larg firms who have great growth opportunities and great investment in assets, get more finance from their suppliers, where firms have alternative sources of finance they are less likely to resort to vendor financing (substitution effect). The investment is a positive determinant of new debt financing, it means that there is positive relationship between long-term investment and debt financing (McDonald *et al.,* 1975).

H_4: There is significant positive relationship between long-term investment and firm financial leverage.

2.16.5 Market capitalization and trade credit

The Market capitalization, normally called market cap, is the market value of a publicly traded company outstanding shares. The market capitalization is equal to the share price multiplied by the number of shares outstanding. The market cap helps to get short-term finance and long-term finance. The trade credit is a short-term source of financing. There is positive and significant relationship between market value and trade credit (Tai, 2017).

H_5: There is significant and positive relationship between firm value and trade credit…

2.16.6 Frim age and trade credit

The age of firm helps the firm to get trade credit easily because with the passage of time mostly firms win the trust of the people can finance their assets through trade credit. An important factor in the study of SMEs' financing decisions, especially regarding variations and or adjustments of debt. There is significant and negative relationship between age of the firm and SMEs financing (Gracia & Mira, 2008). There is negative and significant relationship between firm age and trade credit because aged firms have enough resources to finance their assets (Al Dohaiman, 2013; Kim, 2016).

H_6: There is significant but negative impact of firm age on trade credit.

2.16.7 Price-earnings ratio and trade credit

The price-earnings ratio gives an indicator to the investors for the investment. If the price-earnings ratio is high than it mean the firm is using own reserve. It enhances the confidence of the investors. It helps the company to get trade credit easily because it shows the stability of the company and it is able to give return/interest on investments or loans. Li *et al*., (2019) noted that account payable and P/E ratio are significantly and positively correlated. Keshtkar (2012) used price-to-earnings ratio (PE) as a proxy of growth opportunities. Furthermore, his study concluded a negative relation between growth opportunities and short-term debt because high growth firms have high uncertainty and firms will not take high short-term debt.

H_7: There is negative and significant impact of P/E ratio on trade credit.

2.16.8 Long-term investment and trade credit

The long-term investment plays as a back bone role in any business. The larger firms, with greater growth opportunities and greater investment in assets, receive more finance from their suppliers (Teruel, 2010). Kaaro (2001) examined that investment decision has positive effect on financing decision in less uncertainty whether the financing is short-term or long-term.

H_8: There is positive and significant relationship between long-term investment and trade-credit.

2.17 Conceptual framework

The association between dependent and independent variables is being shown by the following diagram. This short review of variables is the best snapshot. The left hand side variables are dependent and right hand side variables are independent variables.

Fig 2. 1Conceptual Framework

IV's
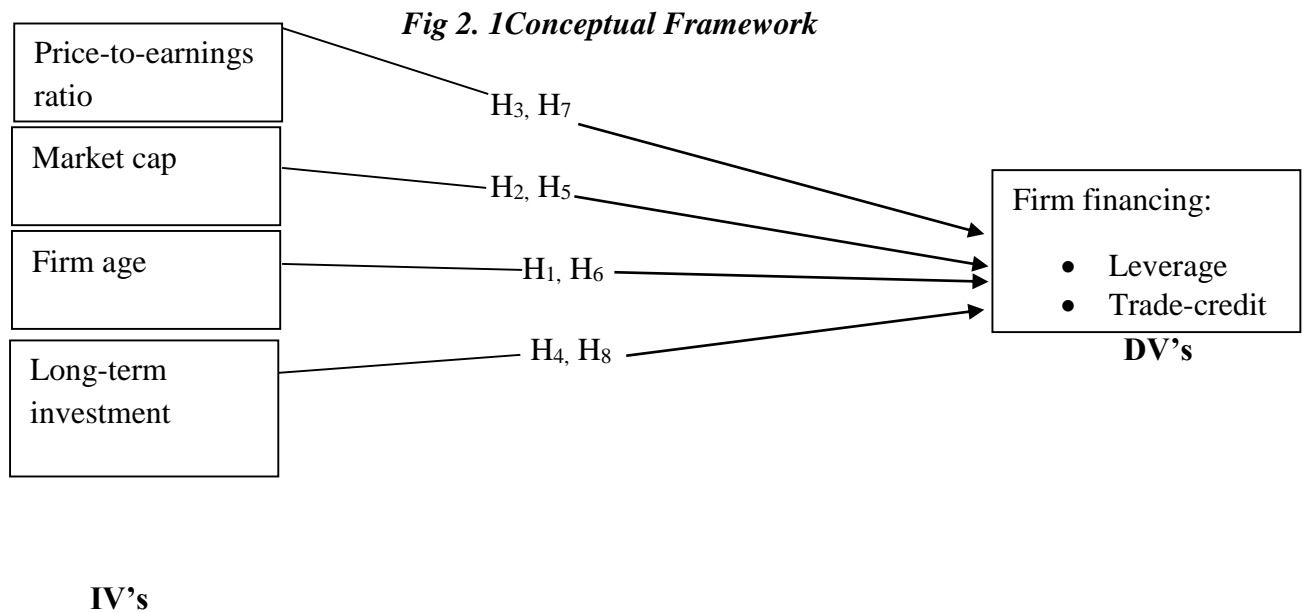
Chapter 3

Data and Methodology

This chapter describes the methodology, which helps in accomplishing the objective of this study. A research methodology is the process of collecting and analysing the information to prove the hypotheses. This chapter includes data, methodology, population and sample, general equation, specific equation, selection of variables, procedures and process for collecting of data.

3.1 Data

Data of different variables (Price earnings ratio, Market capitalization, Long term investment, Firm age, and Firm size, Profitability of the firm, Liquidity, and Tangibility of total assets, Firm financial leverage and Trade credit) collected from balance sheets and income statements of non-financial sector of Pakistan which are published by State Bank of Pakistan. Panel data estimation technique is used when the sample size consist of both time series and cross sectional. The panel data has used in this study because this data have some more benefits instead of cross sectional and time series data. It removes the problem of multi-co-linearity and it also reduces estimation bias. It helps to Identify and discriminate between competing hypotheses (Hsiao, 2007). The panel data helps to give the heterogeneous and informative sample for analysis.

3.2 Methodology

There are three types of panel data regression model. One is pooled least square, 2nd is fixed effect model and third is random effect model. The pooled least square is considered all the cross sections and entities same, but there is serial correlation problem with this model. If we don't find serial correlation between the variables, it means that the POLS is good. But if we find serial correlation then it means we go for further fixed effect model and random effect model. This research uses panel data for the year 2008 to 2016. The panel data were used because it has more detail as compared to cross section and time series data (Hsiao, 2007). The data were analysed by using the fixed effect model (FEM) due to possible problem of multi-co-linearity.

The fixed effect model is more appropriate as compared to random or simple ordinary least square (OLS) model when the objective is to check the relationship between the high

variant variables (Nwakuya, 2017). The random effect model is mostly used in those types of relationship which has series of non-variant variables (Bell & Jones, 2014) which is contrary to the objective of this study. Moreover, as common to previous studies, the fixed effect model is more suitable (Anginer 2015 ; Pfister 2019) in such case. In spite of all, the statistical test i.e. Hausman test which is used to compare that which test is more useful also signifies the implication of fixed effect model. This study used the fixed effect model to resolve the endogeniety problem. When there is a high variance among the variables, then the study goes to use fixed effect model (Wooldridge, 2010). In different studies the fixed effect model was applied to check the regression among the variables. Anginer (2015) used the fixed effect model to check the regression between firm reputation and debt cost. Pfister (2019) also used fixed effect model to find the regression between corporate reputation and equity cost. To hypothetically analyse that which test is more appropriate, two hypotheses developed

H_1: The fixed effect model is more suitable.

H_0: The random effect is more appropriate.

(*Table 2 is about here: see the appendix A-1*)

As the chi-square value is less than 0.05 which nullify the null hypothesis and accept the alternate hypothesis that fixed effect model is more appropriate. So, both literature and empirical findings supports that fixed effect model should be applied.

3.3 Sample and Population

This study took 9 years of data from the years 2008 to 2016. The research size consisted of 337 listed firms of non-financial sector of Pakistan. The sample size for this study includes data of those non-financial firms which provide complete information related to this study is the part of this work. The annual data were collected because firms publish the audited reports annually.

3.4 General equation

This equation shows the general relationship between the variables and represents the general equation.

$$Y_{it} = \beta_\circ + \beta_1 \sum_{j=1}^{n} X_{jit} + \cup_{it} \qquad (1)$$

Where,

$$\beta_1 X_{it} = \text{Vector of IVs.} \qquad Y_{it} = \text{dependent variable}$$

3.4 Specific Equation

These specific equations shows the relationship among dependent variables and independent variables. There are two dependent variable, that is why there are two equations and run in EVIEWS for estimation of regression.

$$FL_{it} = \beta_\circ + \beta_1 PER_{it} + \beta_2 MC_{it} + \beta_3 LTI_{it} + \beta_4 AGE_{it} + \beta_5 SIZE_{it} + \beta_6 TTA_{it}$$
$$+ \varepsilon_{it} \qquad (2)$$

$$TC_{it} = \beta_\circ + \beta_1 PER_{it} + \beta_2 MC_{it} + \beta_3 LTI_{it} + \beta_4 AGE_{it} + \beta_5 PROF_{it} + \beta_6 LIQ_{it}$$
$$+ \varepsilon_{it} \qquad (3)$$

Where

TC = Trade-credit

FL = financial leverage

PER = Price earnings ratio

LTI= Long term investment

MC= Market capitalization

AGE=Firm age

SIZE= Size

PROF= Profitability

LIQ= Liquidity

TTA= Tangibility of total assets

AP= Account payable

AR= Account receivable

3.5 Control Variables

There are some control variables i.e. firm tangibility, firm liquidity, firm profitability and firm size effect the firm financing decision. These variables used as control variables at firm level by (Alkhatib, 2012; Abbas *et al.,* 2016) in determining the firm financing decision. These control variables effects the firm financing decision either negatively or positively. The effects of these control variables can be suggest from literature.

3.5.1 Firm Size

The size of the firm is measured by the natural log of total assets. According to trade-off theory; the firm decide how much debt and equity financing requires by weighing the costs and benefits of such decision. The large size firm generally have more business diversification than small firms in form of credit ratings of firm, constant cash flow of firm, and lower risk of bankruptcy. Furthermore, the large firm is capable of reduction in transaction costs of issuing long-term debt at a favourable low rate of interest. Consequently, since it is easier for large size firm to enhance the funds from creditors, and a positive sign is expected between firm size and firm financial leverage (Qureshi at al., 2012; Akhtar & Oliver, 2009).

3.5.2 Firm Profitability

The firm profitability is calculated as the return on company total assets. According to pecking-order theory that the high profitable company tend to minimize their exterior funding which gives signals to creditors that they have low bankruptcy risk (Sheikh, 2011; Akhtar & Oliver, 2009). In other cases, the profitable firms can issue firm financial leverage at low rates of interest since they are seen as less risky by the creditors, furthermore the profitable firms is able to make large earnings use a low amount of debt capital than low profit firm (Abor, 2005). Additionally, profitable companies helps to reduce the information asymmetry to creditor, investors and interested users through use of profitability (Qureshi at al., 2012). The prior research has also found negative association between firm financial leverage and firm profitbaility (Ahmad, 2015).

3.5.3 Firm Liquidity

The liquidity is calculated by dividing current assets by current liabilities. The liquidity shows the capital amount that is available for use as an investment and or expenditure. It also presents the ability of a firm to meet their current liabilities when they mature (Ross, 1977). The excessive amounts of current assets owned by a firm would perhaps increase the chances of

internal funding resulting in an association between firm financial leverage and liquidity (Qureshi at al., 2012). Furthermore, the sufficient liquidity has an important impact on the financial strength of a firm (Bei & Wijewardana, 2012).

3.5.4 Firm Tangibility of Total Assets

The tangibility of the total assets is calculated by dividing fixed assets over total assets. It is a fundamental element of determining the firm financial leverage. The firms with low tangible assets generally have low financial leverage ratio and therefore they face difficulty to collateralize such assets to increase additional funds accompanied with the risk of bankruptcy. On the contrary, the firms with large volume of tangible assets are more likely to collateralize their assets to enhance additional funds with little risk due to the investments diversifications which reduces the risk of bankruptcy (Qureshi at al., 2012). Therefore, a positive sign is expected between leverage and tangibility of assets (Akhtar & Oliver, 2009 ; Qureshi at al., 2012).

3.6 Selection of variables

This study consists of one dependant variable which determine with two proxies. The one is long-term financing (Firm Financial Leverage) and second is (Short-term financing (Trade-credit). The trade-credit is measured by accounts payable over total assets because this study focuses only receiving the financing. Nazir (2012) used market capitalization and size at the same time in the paper. There is one independent variable which is determine with four proxies. Table 3.1 shows the name of variables, usage of variables, and measurement of variables and source of variables. Description of proxies developed to measure corporate reputation and firm financing.

Table 3. 1 Overview of Variables

Variables name	Used as	Measurement	References
Price earnings ratio	Independent variable	Market price per share/ earnings per share	(Kaur & Singh, 2018)
Market capitalization	Independent variable	Market price * total number of shares outstanding	(Kaur & Singh, 2018)
Long term investment	Independent	Log of LTI	(Chandler *et al.* 2013)
Firm age	Independent variable	Current year – incorporation year	(Kaur, 2018)
Firm size	Control variable	Log of total assets	(Alkhatib, 2012; Abbas *et al.,* 2016)
Profitability	Control variable	Net profit after tax/total assets	(Alkhatib, 2012)
Liquidity	Control variable	Current assets/current liabilities	(Alkhatib, 2012; Abbas *et al.,* 2016)
Financial leverage	Dependent variable	Total debt / total assets	(Demirguc, 2006; Gill, 2012)
Trade credit	Dependent variable	Account payable/total assets	(Danielso, 2004; Shi, 2016)
Tangibility of total assets	Control variable	Fixed assets/total assets	(Alkhatib, 2012)

Chapter 4

4.1 Results and Discussion

The data of this study obtained from balance sheets and income statements of non-financial sector of Pakistan. The data have analysed through statistical software named EVIEWS and fixed effect model used to check the regression between independent variables and dependent variables.

4.1.1 Descriptive Statistics

The descriptive statistics portrays the overall image of responses of firm. These responses are in the form of mean, median, and standard deviation which have discussed in Table 2 which is given below.

Table 4. 1 Descriptive Statistics

Variables	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Pro.
FL	0.465	0.475	0.692	0.011	0.107	0.014	2.146	0.002
TC	0.336	0.230	0.599	0.010	0.207	0.830	0.410	0.000
LTI	7.384	7.602	10.18	4.000	1.475	-0.206	2.514	0.035
MC	5.433	5.257	8.777	2.755	1.111	0.332	2.739	0.015
AGE	35.66	30.00	138.0	3.000	18.80	1.640	4.704	0.000
PER	2.816	2.524	7.389	0.108	0.082	0.548	2.429	0.000
SIZE	6.512	6.454	8.743	4.715	0.196	0.291	3.228	0.039
TTA	0.540	0.567	0.684	0.051	0.161	0.871	3.593	0.000
LIQ	0.226	0.242	0.517	0.089	0.106	1.116	4.550	0.000
PROF	0.035	0.035	0.824	-0.407	0.108	0.741	3.343	0.000

Abbreviations and Formulas FL= Financial leverage (total debt/total assets), TC= Trade-credit (accounts payable/total assets), LTI= Long-term investment (log of LTI), MC= Market cap (market price*no. of shares outstanding), PER= Price-earnings ratio (market price per share/earnings per share), TTA= Tangibility of total assets (fixed assets/total assets), LIQ= Liquidity (current assets/current liabilities), PROF= Profitability (NPAT/total assets)

4.1.2 Explanation

The descriptive statistics put the light on the overall direction of the firms. This Table 4.1 presents the trend in the shape of mean, median and standard deviation etc. which is regularly called descriptive stats. The descriptive stats of the variables have been shown in the Table 4.1. The mean value of financial leverage is 46.5 which tells about the average replies of the respondent firms. It also means that the average firms uses 46.5 percent financial leverage to finance their assets. The digit 47.5 value is the median value of FL which shows that mostly firms finance 47.5 percent their assets through financial leverage. According to under analysis firms, mostly firms use 47.5 percent debt to finance their assets and it's below then 50 percent. This is good for the firms that they use less debts and they don't have the much burden of debt. The maximum value of FL is 69.2 percent which means that there is a firm except all which uses 69.2 percent financial leverage to finance its assets and which is not good because bankruptcy chances increase due to high usage of debt. The minimum value of FL is 1.1 percent which shows that there is a firm which uses 1.1 percent financial leverage to finance its assets and this is good because using of minimum leverage shows that the company is standing its own pillars. The standard deviation value is 10.7 percent which shows the degree of variation from mean value which also means that financial leverage can be low 10.7 percent from mean value or can be high 10.7 percent from mean value. The value of skew ness and kurtosis is 0.014 and 2.14 which shows that the data are in normal shape. The value of probability is 0.002 which is less than 0.05 and that is significant.

The mean value of TC is 33.6 percent which shows that average firms use 33.6 percent trade credit to finance their assets and it's good for the firms because it's below than 50 percent. The median value of TC is 23 percent which means that mostly firms uses 33.6 percent of trade credit to finance their assets which is less than 50 percent and its good because high short term financing is not good for firms. The maximum value is 59.9 percent which means that one firm uses 59.9 percent trade credit. The minimum value of FL is 1 percent which means that one firm uses 1 percent trade credit. The value of standard deviation is 20.7 percent which means that the usage of trade credit can be increased 20.7 percent from mean value or 20.7 percent can be decreased from mean value. The value of skew ness and kurtosis is 0.83 and 0.41 which shows that the shape of the data is normal. And probability value is 0.000 which is less than 0.05 which shows the significance. The mean value of LTI is 7.38 which means that the LTI is nearer to 7 digit. The median value of LTI is 7.6 which shows that most of the firms are in the range of 7.6 digit. The maximum value of long-term investment is 10.1 which means that there

is a firm whose LTI is 10.1 digit. The minimum value of LTI is 4 which means one firm has LTI value near to 4 digit. The value of standard deviation is 1.47 which means that 1.47 digit can increase or decrease from mean value. The value of skew ness is -0.20 and kurtosis 2.5 which means that the data has normal shape. The probability value is 0.035 which is less than 0.05 and which is significant.

The mean value of MC is near about to 5.43 digit. The value of median is 5.25 which means that mostly firms are near to 5.43 digit. The maximum value is 8.7 which means one firm has 8.7 value and minimum value is 2.7 which means that one firm has the value round about 2.7 digit. The value of standard deviation is 1.11 which shows that the value can increase or decrease 1.11 from the mean value. The value of skew ness is 0.332 and the value of kurtosis is 2.73 which means that the data is normal. The probability value is 0.015 which is less that 0.05 and which is significant. The mean value of age is 35.6 which shows that average firms are in the range of 35 years age. The median value of the age is 30 which depicts that mostly firms are in the range of 30 years age. The maximum value is 138 which means that one firm has 138 years age and minimum value of is 3 which describes that one firm has 3 years of age. The standard deviation of age is 18.8 which shows the variation form mean value. The skew ness value is 1.64 and the value of kurtosis is 4.704 which show that the data is normal. The probability value is 0.0000 which is significant. The mean value of price-earnings ratio is 2.81 which means that someone is ready to pay 2 times more against annual earnings of a company. The average PER is 2.81 digit. The median value of price-earnings ratio is 2.52 which shows that mostly firms have 2.52 price-earnings ratio. The maximum value of PER is 7.38 which shows that one firm has 7.3 price-earnings ratio and the minimum value is 0.10 which tells that one firm has 0.10 price-earnings ratio. The value of standard deviation is 0.080 which means that 0.10 digit a firm can increase or decrease form mean value. The value of skew ness is 0.54 and kurtosis is 2.4 which shows that the data is normal. The probability value is 0.000 which is significant.

The mean value of size is 6.5 which describes that average firms are in the range of 6.6 digit. The median value of size is 6.4 which means that mostly firms are in the range of 6.4 digit. The maximum value is 8.7 and the minimum value is 4.7 which shows that one firm has 8.7 value and one of them has 4.7 value. The value of standard deviation is 0.196 and the value of skew ness is 0.29 and the kurtosis value is3.22 which shows that there exist normality in data. The probability value is 0.039 which is less than 0.05 which also shows the significance of the variable. The mean value of TTA is 0.54 which tells that a firm has 54 percent tangible

assets and it's good for a company because it's stable. The median value of TTA is 0.56 which means that mostly firms have 56 percent tangible assets. The maximum value of TTA is 0.684 and minimum value is 0.051 digit. The value of standard deviation is 0.161 which shows the variation from mean value. The skew ness value is 0.871 and kurtosis value is 3.593 which shows the normality of the data. The probability value is 0.0001 which is less than 0.05 and it's significant.

The mean value of LIQ is 0.226 which means that a firms has 22.6percent liquid assets to cover the current liabilities. The median value of LIQ is 0.242 which means that mostly firms have 24.2percent liquid assets to cover the current liabilities. The maximum value is 0.517 which shows that one firm has 0.517 maximum value and minimum value is 0.098 which mean a one firm has 0.098 minimum value. The value of standard deviation is 0.106 which shows the variation from the mean value of liquidity. The skew ness value is 1.116 and the value of kurtosis is 4.550 which tells that the shape of data is normal. The probability value is 0.000 which is less than 0.05 and it's significant. The mean value of PROF is 0.035 which shows that the firm have ability to earn 3percent profit by utilizing its assets. The median value of PROF is 0.035 which means that mostly firms can earn 3percent profit by utilizing their assets. The maximum value is 0.82 which means a firm has 0.82 maximum value and minimum value is -0.40 which shows that one firm has -0.40 minimum value. The value of standard deviation is 0.108 which shows the variation from the mean value. The value of skew ness is 0.741 which shows that the data is in normal shape. The probability is 0.000 which shows the significance of the variable.

4.1.3 Correlation Analysis

This correlation Table 4.2 describes the correlation among the variables. If a variable has high correlation with other variables which means that there is high strength of association. The values of variables show the correlation in given below Table.

Table 4. 2 Correlation Analysis

Variables	FL	TC	LTI	MC	AGE	PER	SIZE	TTA	LIQ	PROF
FL	1.000									
TC	-0.310	1.000								
LTI	0.410	-0.217	1.000							
MC	0.450	-0.375	-0.161	1.000						
AGE	-0.410	-0.454	0.542	0.207	1.000					
PER	-0.640	0.515	-0.464	0.113	0.478	1.000				
SIZE	0.590	-0.102	-0.344	0.222	0.377	0.219	1.000			
TTA	-0.511	0.231	0.247	-0.348	-0.207	0.328	-0.312	1.000		
LIQ	0.355	0.303	0.169	0.441	0.140	0.169	0.267	-0.238	1.000	
PROF	-0.367	-0.406	-0.265	-0.278	0.193	0.440	0.140	-0.170	0.105	1.000

4.1.4 Explanation

In the Table 4.2 the correlation value of TC is -0.310 which means that there is weak association of TC with FL but TC has inverse relationship which means that when trade-credit will increase then the financial leverage will decrease and vice-versa. The LTI has correlation value 0.410 which means that there is moderate association of long-term investment with financial leverage. The correlation value of MC is 0.450 which shows that there is moderate correlation with financial leverage. The correlation value of age is -0.410 which describes that there is moderate degree of association of AGE with FL and its inverse relationship. Moreover, the older firms prefer the low leverage due to offensive behaviour towards debt financing. The correlation value of PER is -0.640 which means that PER associate strongly with FL. Their relationship is negative. The correlation value of size is 0.590 which depicts that there is moderate association of size with FL. The firms which have higher size prefer more debt financing due to low transaction cost in case of debt financing and this association is moderate. The correlation value of TTA is -0.511 which means that there is moderate correlation between tangibility of total assets and financial leverage. The correlation value of LIQ is 0.355 which describes that the LIQ correlate with FL is weak. The firm which prefer the more debt than their liquidity also increases. There is high and negative correlation between PROF and FL which means that when PROF will increase than the FL will decreases due to high capital reserve or retained earnings. The firms which are more profitable prefer the low debt financing

because these firms reserve the high portion of their profits as retained earnings and thus their funding needs fulfil from this reserve.

In Table 4.2, the correlation value of LTI is -0.217 which clears about the association that LTI is weak association with TC. This relationship is negative which means that when LTI will increase the TC will decrease. The MC has -0.375 correlation value which describes weak association of MC with the TC. Moreover, there is negative association between market capitalization and trade credit which also means that when MC will increase, the company will not too much finance their assets through trade credit financing. The correlation value of AGE is -0.454 which depicts that there is moderate correlation between AGE and TC. There is negative relationship between AGE and TC which means that when the firms are getting older, they don't finance their assets through trade credit. The PER has 0.515 correlation value which describes that PER moderate association with trade-credit. The correlation value of size is -0.102 which associate very weak with TC. There is negative association between size and trade credit which means that with the passage of time when size will increase the trade credit will decrease. Because big size firms are stable and they rely their own resources. The correlation value of TTA is 0.231 which means that the TTA is associated is weak with trade-credit. The correlation of LIQ is 0.303 which depicts that weak association of LIQ with trade-credit. The PROF has moderate correlation value which tells that there is negative relationship between PROF and TC and the degree of association of PROF is moderate with trade-credit.

The Table 4.2 examines that, the correlation value of MC is -0.161 which shows very weak association of MC with LTI and there is negative relationship between market capitalization and long-term investment. The AGE has 0.542 correlation value which means that the association between AGE and LTI is moderate. According to the correlation value of PER, the degree of association is moderate between AGE and LTI. The size has -0.344 correlation value which depicts that there is weak degree of association between SIZE and LTI. The correlation value of TTA is 0.247 which tells the relationship or association between TTA and LTI. The LIQ has very weak correlation which describes the degree of association between LIQ and LTI. There is very weak degree of association between LIQ and LTI. The correlation value of PROF is -0.265 which shows the association between PROF and LTI. There is weak association between PROF and LTI.

The Table 4.2 discusses that the correlation value of AGE is 0.207 which shows that there is weak degree of association of AGE with MC. The PER has 0.113 correlation value

which depicts that the association is very weak between PER and MC. The correlation value of SIZE is 0.222 which shows that weak degree of association with MC. The tangible assets have the moderate degree of association with MC. The liquidity of assets have 41 degree of association with MC and PROF has weak degree of association with MC. According to Table 4.2 the correlation value of AGE is 0.478 which describes that the degree of association with AGE and that is moderate. The correlation value of SIZE is 0.377 which depicts that the association with AGE and that is weak. The correlation value of TTA is -0.207 which tells about the association of TTA with AGE and that is weak. The correlation value of LIQ is 0.140 which shows the association with AGE and that is very weak. And the correlation of PROF is -0.193 which describes the association with AGE and that is very weak.

The Table 4.2 tells that the correlation value of size is 0.219 which shows that the degree of association with PER is weak. The TTA has 0.328 correlation value which shows that the degree of association between TTA and PER and that is weak. The correlation value of LIQ is 0.169 which depicts very weak association between LIQ and PER. The value of correlation of PROF is 0.440 which describes that the degree of relationship between PROF and PER is moderate. According to column 7 of the Table 4.2, the correlation value of TTA is -0.312 which depicts the degree of association between TTA and SIZE and that is weak. The correlation of LIQ is 0.267 which tells about the association with SIZE and the correlation of PROF is very weak which describes the degree of relation with SIZE. The column 8 of the Table 4.2 describes that, the correlation of LIQ is -0.238 which depicts weak association with TTA and the correlation value of PROF is -0.170 which shows the degree of association between PROF and TTA. According to column 9 of the Table 4.2, the correlation value of PROF is 0.105 which describes the degree of association with LIQ and that is very weak.

4.1.5 Regression Analysis

The regression shows that the relationship between independent variables and dependent variables. It also briefs the nature of relationship between the explained and explanatory variables and it also discuss the relationship between them.

Table 4. 3 Regression between Firm Reputation and Firm Financing Decision

Models	Model 1	Model 2
	FL	TC
C	-0.662	0.158
	[-2.165]	[0.313]
	(0.0311***)	(0.754)
LTI	0.017	0.013
	[2.439]	[1.223]
	(0.015***)	(0.221)
MC	0.031	-0.022
	[3.261]	[-1.373]
	(0.001***)	(0.170)
AGE	-0.009	-0.028
	[-3.370]	[-5.572]
	(0.000***)	(0.000***)
PER	0.008	0.001
	[1.913]	[0.138]
	(0.056**)	(0.889)
SIZE	0.179	0.173
	[3.468]	[2.084]
	(0.000***)	(0.037***)
TTA	-0.007	0.101
	[-0.176]	[2.270]
	(0.859)	(0.023***)
LIQ	0.007	0.041
	[0.368]	[1.400]
	(0.712)	(0.162)
PROF	-0.333	0.209
	[-4.770]	[1.534]
	(0.000***)	(0.125)
R-square	0.840	0.625

Adj. R-square	0.714	0.398
D.W statistics	1.806	1.587
Prob. F-stat	0.000	0.000

**Note: ***Significance at 0.01 level;   **Significance level at 0.05;   *Significance at 0.10 level

4.1.6 Explanation

The results of model 1 show in Table 4.3 in which FL used as dependent variable and other variables like LTI, MC, AGE, PER, SIZE, PROF, LIQ and TTA used as independent variables. In this model some variables are significant and some are insignificant. The values of LTI, MC, AGE, PER, SIZE and PROF show significance of variables and the values of TTA and LIQ show insignificance of variables. The t-value of size is 3.46 which means that the firm size have positive and significant impact on financial leverage. As a result smaller firms often less rely on outside sources of financing than firms with big size which have lower information asymmetries, in turn increasing their access to the debt market as the associated cost of debt financing is low in such cases. Moreover, larger firms may have lower variations in earnings which make financial leverage a good option of financing (Baloch, 2015). Gonenc (2005) found this relationship. The large firm needs more information which minimize the information asymmetries in the market which indicates the possibility of obtaining resources from lenders (Marete, 2015). The large firms are more likely to use debt financing as compared to small firms. The financial stability guarantees as the firm size enlarged due to the regular cash flows and low risk. On the other hand, big firms can get easily acess to the financial market than the smaller firms. Furthermore, credit worthiness of the big firms are more stronger and these firms can easily get loans from several sources. The positive relationship of debt and size is the arguments of Trade-off predication. The result of present study is congruent with the results of prior study such as (Antoniou, 2008).

The t-value of long-term investment is 2.439 which depicts significant positive relationship between long-term investment and financial leverage (McDonald *et al.,* 1975). The investment of the firm helps to increase firm financing because some institutions observe the companies worth through their investments before giving the loan. The investment decisions influence financing decisions. Meanwhile, the investment opportunities may have different effects on firms' financial decisions in different economic conditions. Low uncertainty condition reduces investment risk. Thus, the balancing theory suggests that using more debt financing. Thus, the effect of the set of investment opportunities will be positive on financial decisions (Khanqah, 2013). The t-value of liquidity is 0.368 which describes that there is

insignificant relation between liquidity and leverage (Khalil & Obaid, 2014). Because the company has studied fairly high average level of liquidity or above 100% each year, so that the companies tend to use internal funding or issue shares in advance rather than in debt financing. Another reason that causes the liquidity does not impact the capital structure is the companies studied in this research tend to have a good liquidity ratio, so the financial managers are more concerned with the need for investment and do not consider liquidity in determining their capital structure (Rizki *et al*., 2018). The t-value of tangibility of total assets is -0.176 which shows insignificant relationship with financial leverage (Ahmad *et al*., 2017). Because this study might determine that structure of assets does not matter in determination of capital structure of Pakistani firms. It was also noted that tangibility is negatively correlated with the leverage (Baloch *et al*., 2015).

The t-value of market capitalization is 3.261 which means that there is significant and positive relationship between market capitalization and financial leverage because the countries with economies in transformation (developing countries), the development of the stock market helps investors can diversify investment, reduce risk and asymmetric information, thus costs of lending will be lower. This will appeal to firms' owners and they will increase the use of debt in the capital structure (Tai, 2017). The t-value of price earnings ratio is 1.913 which describes significant and positive association between price earnings ratio and financial leverage (Tahir *et al*., 2017). This study hypothesized negative relationship between P/E ratio and leverage but according to results, there is positive relationship between them. The reason behind this is that, some managers are risk taker and they believe on the agenda "High risk and high return". High P/E ratio creates high uncertainty and due to this the agency cost will rise but inspitof all this, the managers will take risk for high return because they are risk taker. An other reason is that, when price earnings ratio is high, it means that company is standing our own reserve which also means that the company is stable and do not use more loan. When that company will demend for leverage, the banks or other institutions will give loan easily. The t-value of age is -3.379 which shows that there is negative and significant relationship between age and leverage. It also found that age is significant and negative association with financial leverage (Gracia & Mira, 2008). Negative relation means that when age will increase then FL will decrease because with the passage of time firm is able to manage its all financial resources. The t-value of profitability is -4.770 which means that there is significant and negative relationship between profitability and financial leverage (Hussain *et al*., 2016).

As the profitability of the non-financial firms of Pakistan is increasing then the percentage of debt is decreasing. Moreover, the board of directors finds other sources for financing need like they issue stocks in place of bonds or using retained earnings as a source of financings. In addition, pecking ordered theory also supports negative association of debt and profitability, which give high priority to retained earnings and then issuing of external instruments. The same result in Pakistani firms is also founded by (Shah, 2007; Rahman, 2016) and (Rahman, 2017). The value of Adj. R^2 is 71.40 which means that the dependent variables are 71.40 percent associated with independent variables. The value of Durbin-Watson Stat is 1.80 which is greater than 1.7, it means that there is no serial correlation between the error terms and independent variables of this model. The value of F-statistic is 0.000000 which tells about the overall significance of the model. This model 1 is significant. If the value of F-statistic is greater than 0.05 then it means this model 1 is not significant.

The outputs of model 2 are depicted in Table 4.3 in which TC is dependent variable and LTI, MC, AGE, PER, SIZE, PROF, LIQ and TTA are independent variables. In this model LTI, PER, MC, LIQ and PROF are insignificant, AGE, TTA and SIZE are significant. The t-value of age is -5.572 which depicts that age is negatively associated with trade credit which means when age will increase then trade credit will decrease (Al Dohaiman, 2013). Firm age has a significantly negative effect on accounts payable (Kim, 2016). This means that older companies rely less on trade credit financing. Bearing in mind that the Pakistani financial market is characterized as a bank-dominated system, this result suggests that older firms have stronger reputations and more-established financial histories; thus, these firms have greater access to bank loans. This finding is consistent with the finding of Niskanen (2006) in the Finnish market. The t-value of firm size is 2.084 which is significantly positively related with trade-credit (Kim, 2016; Al Dohaiman, 2013). Because large companies are more able to receive trade credit financing from their suppliers. Consistent with a previous finding of (Bougheas 2009; Petersen & Rajan, 1997).

These results may reflect the fact that larger companies have stronger reputations because they are perceived to have lower risk of default. The t-value of tangibility of total assets is 2.270 which examines that tangible assets are positively and significantly related with trade credit financing (J.O & Olowoniyi, 2014). Because tangible assets have physical existence and monetary value, due to this reason a firm can do financing through trade-credit in shape of accounts payable. The t-value of profitability is 1.534 which means that there is insignificant relationship between profitability and trade-credit (Khan, 2017). The liquidity has

1.400 its t-value which shows that there is insignificant relationship between liquidity and trade credit (Khan, 2018). The value of adjusted R-squared is 39.81 which explains that there is 39.81 percent affiliation among independent variables and dependent variable. The value of Durbin-Watson stat is 1.58 which shows that there is no serial correlation between the error terms. The value of F-statistic is 0.000 which shows the overall significance of the model.

Chapter 5

Conclusion and Future Recommendation

5.1 Conclusion

The study finds that how firm reputation helps in firm financing decision and how firm reputation influences the firm financing decision. This study has checked the relationship of firm reputation with firm financing decision which plays very important role in the success of the company. The study consist of 337 firms of non-financial sector of Pakistan. In this study, the nine years data ranging from 2008 to 2016 were taken to make the analysis. In this study, fixed effect model was applied to measure the regression among the variables. The study contained size of the firm, profitability, tangibility of total assets and liquidity used as control variables and the proxies of firm reputation e.g. price-earnings ratio, long-term investment, firm age and market capitalization used as independent variables and firm financing decision used as dependent variables.

The findings of this study suggest the determinants of firm financing decision at firm level. In model 1 of regression Table 4.3 the financial leverage used as dependent variable suggest that long-term investment, market capitalization, and size have positive and significant relationship but age and profitability and price-earnings ratio have negative and significant relationship with financial leverage. The tangibility of total assets and liquidity have insignificant relationship with financial leverage. In model 2 of regression Table 4.3 the trade credit used as dependent variable which shows that tangibility of total assets and size have positive and significant relationship with trade credit but age has negative and significant relationship with trade credit. The profitability and liquidity have insignificant relationship with trade credit. The t-value of long-term investment and price-earnings ratio shows insignificant relationship with trade credit. The t-value of market capitalization shows insignificant but negative relationship with trade credit.

The outputs of the study shows that the first alternate hypothesis (H_1) which supposed the significant and negative relationship between firm age and financial leverage was accepted. The 2nd alternate hypothesis (H_2) which showed that significant and positive association between market capitalization and financial leverage was accepted. The alternate hypothesis(H_3) was significant and negative relationship between price-earnings ratio and

financial leverage was rejected. There is significant and positive relationship between long-term investment and financial leverage(H_4) alternate hypothesis was accepted. There is no significant relationship between market capitalization and trade credit which accepted (H_5) null hypothesis. The hypothesis (H_6)was accepted that there is significant and negative relationship between firm age and trade credit. The (H_7) hypothesis was rejected that there is no significant relationship between P/E ratio and trade credit. The results of (H_8) showed that the null hypothesis was accepted that there is no significant relationship between long-term investment and trade credit.

5.2 Recommendation Policy

The final discussion of this study is that firm reputation plays very important role to determine firm financing decision. It means that the firm reputation is very important determinant of firm financing decision. The results of this study recommend the strong policy for finance managers that when they take a decision about firm financing then they should keep the concept of firm reputation in mind while taking financing decision. This study will help to finance managers to minimize the financing cost. This study will also highlight the usage of firm reputation in actual meanings and it will help to use the firm reputation in monetary terms.

5.3 Limitations and Future Directions

The data were very short due to time limits. During the collection of data some information of variables in financial statements were missed. The limitation of this research is only 9 years of data were used due to time restraints. This study has targeted only non-financial sector of Pakistan due to shortage of time.

The future research will be that we can take the all proxies of firm reputation of FMAC list and can check the impact on national and international firms.

Reference

Abbas, A., Luo, X. g., & Ahmed, J. (2016). DETERMINANTS OF TRADE CREDIT SUPPLY: THE CASE OF TEXTILE SECTOR OF PAKISTAN. *CIE46 Proceedings, 29-31 October 2016, Tianjin / China* . Tianjin China: Heilongjiang nature science fund (G201302).

Abdussalm, M. A. (2010). An Empirical study of firm structure and profitability relationship: The Case of Jordan. *Journal of Economics and Administrative Science, 22*(11), 41-59.

Abor, J. (2005). The effect of capital structure on profitability: an empirical analysis of listed firms in Ghana. *The journal of risk finance, 6*(5), 438-445.

Afza , T., & Tahir, S. (2012). Determinants of Price-Earnings Ratio: The Case of Chemical Sector of Pakistan. *International Journal of Academic Research in Business and Social Sciences, 2*(8), 331-343.

Afza, T., & Tahir, S. (2012). Determinants of Price-Earnings Ratio: The Case of Chemical Sector of Pakistan. *International Journal of Academic Research in Business and Social Sciences, 2*(8), 331-343.

Afzal, S. (2018). Causal Relationship Between Trade Credit and Bank Credit. *Causal Relationship Between Trade Credit and Bank Credit : An Investigation Of Non-financial Pakistani Firms*. Islamabad, Federal , Pakistan: CAPITAL UNIVERSITY OF SCIENCE & TECHNOLOGY ISLAMABAD.

Agarwal , S., & Mohtadi, H. (2004). Financial markets and the financing choice of firms: Evidence from developing countries. *Global Finance Journal, 15*(1), 57-70.

Ahmad Nawaz, S. A. (2015). Impact of Financial Leverage on Firms' Profitability: An Investigation from Cement Sector of Pakistan. *Research Journal of Finance and Accounting, 6*(7), 75-80.

AHMAD, S., Khan, M. N., Ilyas, M., & Khan, M. T. (2017). Capital Structure and its Determinants: A Case of Non-Financial Firms Listed on Pakistan Stock Exchange. *Journal of Business and Tourism, 3*(2), 11-22.

Ahmad, Z. A. (2012). Capital Structure Effect on Firms Performance: Focusing on Consumers and Industrials Sectors on Malaysian Firms. . *International Review of Business Research Papers, 5*, 137-155.

Ahmed, J. &. (2016). Determinants of Bank Loan Availability: Evidence from Pakistani Non-Financial Firms. *Romanian Economic Journal,, 59*, 61-72.

Aivazian, V., Ge, Y., & Qiuc, J. (2005). The impact of leverage on firm Investment :Canadian evidenceJournal of Corporate Finance. *Journal of Corporate Finance, 11*(1), 277-291.

Akhtar, S., & Oliver, O. (2009). Determinants of capital structure for Japanese multinational and domestic corporations. *International review of finance, 9*((1-2)), 1-26.

Al Dohaiman, M. S. (2013). Explaining the Determinants of Trade Credit: An Empirical Study in the Case of Saudi Arabian's unlisted Firms. *Research Journal of Finance and Accounting, 4*(17), 204-212.

Alkhatib, K. (2012). The Determinants of Leverage of Listed Companies. *International Journal of Business and Social Science, 3*(24), 78-83.

Amidu, M. (2007). Determinants of capital structure of banks in Ghana:. *Journal of Management, 2*(1), 67-79.

Anginer, D. S. (2015, june 12). Firm reputation and cost of debt capital. *Presented at Virginia Tech University*, pp. 1-43.

Antoniou, A. G. (2008). The determinants of capital structure: capital marketoriented versus bank-oriented institutions. *Journal of financial and quantitative analysis, 43*(01), 59-92.

Arslan, H., ILTAS, Y., & KAYHAN , T. (2017). Target P/E ratio determinants in the Turkish Stock Market: Earning volatility effect. *Theoretical and Applied Economics, 4*(613), 65-74.

Auerbach, A. J. (1985). Real determinants of corporate leverage. *University of Chicago Press* (pp. 301-324). Chicago: In Corporate capital structures in the United States.

Ballow JJ, B. R. (2003). Managing for shareholder value: Intangibles, future value and investment decisions. *Journal of Business Strategy, 25*(3), 26-34.

Baloch, Q. B. (2015). Impact of Firm Size, Asset Tangibility and Retained Earnings on Financial Leverage: Evidence from Auto Sector, Pakistan. *Abasyn University Journal of Social Sciences, 8*(1), 143-155.

Baloch, Q. B., Ihsan, A., Kakakhel, S. J., & Sethi, S. (2015). Impact of Firm Size, Asset Tangibility and Retained Earnings on Financial Leverage: Evidence from Auto Sector, Pakistan. *Abasyn Journal of Social Sciences, 8*(1), 143-155.

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of management, 17*(1), 99-120.

Bastos, R. &. (2013). Trade credit during a financial crisis: A panel data analysis. *Journal of Business Research, 66*(5), 614-620.

Beck, T. D.-K. (2008). Financing patterns around the world: Are small firms different. *Journal of Financial Economics,, 89*(3), 467-487.

Bei , Z., & Wijewardana, W. (2012). Financial leverage, firm growth and financial strength in the listed companies in Sri Lanka. *Procedia - Social and Behavioral Sciences, 40*, 709-715.

Bell , A., & Jones, K. (2014). Explaining Fixed Effects: Random Effects Modeling of Time-Series Cross-Sectional and Panel Data. *Political Science Research and Methods, 3*(1), 133-153.

Bicksler, J. (1979). *Handbook of financial Economics.* New York: Amsterdam; New York: North-Holland Publishing Company.

Black EL, C. T. (2000). The market valuation of corporate reputation. *Corporate Reputation Review, 3*(1), 31-42.

Bougheas S., M. S. (2009). ‚Corporate trade credit and inventories: New evidence of a trade-off from accounts payable and receivable‚. *Journal of Banking and Finance, 33*, 300-307.

BRENNAN , M., MAKSIMOVIC, V., & ZECHNER, J. (1988). Vendor financing. *The journal of finance,, 43*(5), 1127-1141.

Calomiris, C., Himmelberg, C., & Wachtel, P. (1995). Commercial paper, corporate finance, and the business cycle: a microeconomic perspective. *In Carnegie-Rochester Conference Series on Public Policy*, (pp. 203-250). North-Holland.

Cao, M. a. (2012). Does company reputation matter for financial reporting wquality? Evidence from restatements. *Contemporary Accounting Research, 29*, 956-990.

Cao, Y., Myers, J., Myers, L., & Omer, T. (2015). Company reputation and the cost of equity capital. *Review of Accounting Studies, 20*(1), 42-81.

Carvalho, C. J. (2015). Determinants of supply and demand for trade credit by micro, small and medium-sized enterprises. *Revista Contabilidade & Finanas,, 26*(68), 208-222.

Catuogno, S. (2013). Accounting comparability and firm's reputation. An exploration of the Italian experience for joint controlled entities. *Global Virtual Conference. 1*, pp. 30101-92. EDIS - Publishing Institution of the University of Zilina.

Chandler, D., Haunschild, P. R., Rhee, M., & Beckman, C. M. (2013). The effects of firm reputation and status on interorganizational network structure. *Strategic Organization, 11*(3), 217 –244.

Charalambakis, E. C. (2012). What do we know about capital structure?: revisiting the impact of debt ratios on some firm-specific factors. *Applied Financial Economics, 22*(19/21), 1727-1742.

Chatterjee, S. (2010). The Impact of Working Capital Management on the Profitability of the Listed Companies on the London Stock Exchange. *Working Paper Series, SSRN.*

Chittenden, F. H. (1996). Small firm growth, access to capital markets and financial structure: Review of issues and an empirical investigation. *Small business economics, 8*(1), 59-67.

Chittenden, F., Hall, G., & Hutchinson, P. (1996). Small Firm Growth, Access to Capital Markets and Financial Structure: Review of Issues and An Empirical Investigation. *Small business economics,, 8*(1), 59-67.

Cooper, D. R. (2008). *Business research methods.* Boston, mass: u.a. McGraw- Hill.

Cuñat, V. (2019). Trade Credit: Suppliers as Debt Collectors and Insurance Providers. *Oxford Journals, 20*(2), 491-527.

Daimond. (1991). Monitoring and reputation: The choice between bank loans and directly placed debt. *J Pol Economics, 99*(4), 689–721.

Danielso, M., & Scott, J. (2004). Bank Loan Availability and Trade Credit Demand. *The Financial Review, 39*(4), 579-600.

Davies, G. C. (2010). Reputation gaps and the performance of service organizations. *Strategic Management Journal, 32*(5), 530-546.

De Jong, A. K. (2008). Capital Structure aroud the World: The Roles of Firm and Country specific determinants. *Journal of Banking & Finance, 32*(9), 1954-1969.

Demirguc-Kunt, A. M. (2006). The determinant of financing obstacles. *International Journal of Money and Finance, 25*, 932-952.

Denicolai, S., Ramusino, E. C., & Sotti, F. (2014). The impact of intangibles on firm growth. *Technology Analysis & Strategic Managemen*, 219-236.

Dewaelheyns, N., & Hulle, C. V. (2010). Internal capital markets and capital structure: bank versus internal debt. *European Financial Management, 16*(3), 345-373.

Diamond. (1991). Monitoring and reputation: the choice between bank loans and directly placed debt. *Journal of Political Economy, 99*, 689–721.

Diamond, D. W. (1989). Reputation acquisition in debt markets. *Journal of political Economy, 97*(4), 828-862.

Dittmar, A. (2004). Capital structure in corporate spin-offs,. *Journal of Business, 77* (1), 9-43.

Eberl, M. &. (2005). Corporate reputation: disentangling the effects on financial performance. *European Journal of Marketing, 39*(7/8), 838-854.

Emery, D. F. (2004). *Corporate Financial Management, .* New Jersey : Pearson, Prentice Hall.

Emery, G. (1987). An optimal financial response to variable demand. *Journal of Financial and Quantitative Analysis, 22*(2), 209-225.

Ezeoha, A., & Botha, F. (2012). Firm age, collateral value, and access to debt financing in an emerging economy: evidence from South Africa. *South African Journal of Economic and Management Sciences, 15*(1), 55-71.

Ferrando, A. &. (2013). Do firms use the trade credit channel to manage growth? *Journal of Banking & Finance, 37*(8), 3035-3046.

Ferris, J. (1981). A transactions theory of trade credit use. *The Quarterly Journal of Economics, 96*(2), 243-270.

Fombrun, C. .. (1997). ' The reputational landscape. *Corporate Reputation Review,, 1* ((1/2)), 5-13.

Fombrun, C. a. (1990). What's in a name? Reputation building and corporate strategy. *Academy of Management Journal, 33*(2), 233-258.

Fosu, S. (2013). Capital structure, product market competition and firm performance: Evidence from South Africa. *The Quarterly Review of Economics and Finance, 53*(2), 140-151.

García-Terue, P. J., & Pedro Martínez-Solano, P. (2010). Determinants of trade credit: A comparative study of European SMEs. *nternational Small Business Journal, 28*(3), 215-233.

García-Teruel, P. J.-S. (2010). Determinants of trade credit: A comparative study of European SMEs. *International Small Business Journal, 28*(3), 215-233.

Ge, Y. &. (2007). Financial development, bank discrimination and trade. *Journal of Banking & Finance,, 31*(2), 513-530.

Gill,, A., & Obradovich, J. (2012). The Impact of Corporate Governance and Financial Leverage on the Value of American Firms. *International Research Journal of Finance and Economics*(91).

Gonenc, H. (2005). Comparison of debt financing between international and domestic firms,. *International Journal of Managerial Finance, 1*(1), 49-68.

Govindasamy, S. C. (2010). Leverage: an analysis and its impact on profitability with reference to selected cement companies in India. *Journal of Economics, Finance and Administrative Science,, 27*, 50-75.

Gracia , J. L., & Mira, F. S. (2008). Testing trade-off and pecking order theories financing SMEs. *Small Business Economics, 31*(2), 117-136.

HALL, G., HUTCHINSON, P., & MICHAELAS, N. (2004). Determinants of the Capital Structures of European SMEs. *Journal of Business Finance & Accounting, 31*((5-6)), 711-728.

Hamouri, B. M. (2014). The Impact of Islamic financing and conventional financing on Companies' Performance (A Compar. *International Journal of Business and Social Science, 5*(7).

Harris, M. R. (1991). The theory of capital structure. *Journal of Finance, 56*, 297-355.

HARRIS, M., & RAVIV, A. (1990). Capital Structure and the Informational Role of Debt. *Journal of Finance, 45*(2), 321-349.

Hsiao, C. (2007). Benefits and limitations of panel data. *Econometric Reviews, 4*(1), 121-174.

Hsiao, C. (2007). Panel data analysis—advantages and challenges. *Test, 16*(1), 1-22.

Hussain, M., Shahid, H., & Akmal, M. (2016). Effect of Profitability and Financial Leverage on Capita Structure in Pakistan Textile Firms. *Arabian Journal of Business and Management Review, 6*(4), 2-4.

Huyghebaert, N. (2006). The determinants and dynamics of trade credit use: empirical evidence from business start-ups,. *Journal of Business Finance & Accounting, 33*(1/2), 305-28.

Hyz, A., & Ganas, I. (2015). Inventory Management during the Financial Crisis. Case study of SME Sector in Greece. *ResearchGate*.

Ikechukwu, I. O., & Cyril, U. M. (2017). Effect of Listing Age on Corporate Financial Leverage of Oil and Gas Firms in Nigeria. *International Journal of Economics, Finance and Management Sciences, 5*(2), 92-97.

IMF. (2017). *IMF country report- Pakistan slected issues.* Washington,D.c: International monetory fund- Publication services.

J.O, O., & Olowoniyi, O. (2014). The Determinants of Trade Credit: Evidence from Nigeria. *Journal of Finance and Investment Analysis,, 3*(4), 21-29.

Jensen, M. &. (1976). Theory of the firm: managerial behavior, agency costs and ownership structure,. *Journal of Financial Economics, 3*, 350-360.

John, F., & Muthusamy. (2011). Impact of Leverage on Firms Investment Decision. *International Journal of Scientific & Engineering Research, 2*(4), 1-16.

Kaaro, H. (2001). The Association Between Financing Decision and Investment Decision. *Journal of Economics and Business, 7*(2), 151-164.

Kannadhasan, M., & Aramvalarthan, S. (2011). Relationships among business strategy, environmental uncertainty and performance of firms operating in Transport equipment industry in India. *Journal of Emerging Financial Market, 2*(2), 39-50.

Karpoff , J., Lee , S., & Martin , G. (2008). The consequences to managers of financial misrepresentation. *Journal of Financial Economics, 88*, 193-215.

Kaur, A., & Singh, B. (2018). Measuring the Immeasurable Corporate Reputation. *Metamorphosis, 17*(1), 53–64.

Keshtkar, R. V. (2012). Determinants of Corporate Capital Structure Under Different Debt Maturities: Empirical Evidence from Iran. *International Research Journal of Finance and Economics, 90*, 46-53.

Khalil, F., & Obaid, S. (2014). DETERMINANTS OF CAPITAL STRUCTURE IN NON-FINANCIAL SECTOR OF PAKISTAN: A CASE OF LISTED COMPANIES IN KSE. *Journal of Business Administration and Management Sciences, 1*(1), 83-92.

Khan, N. (2018). CAPITAL STRUCTURE DECISION: WHICH FIRM LEVELAND COUNTRY LEVEL FACTORS ARE RELIABLY IMPORTANT IN NON FINANCIAL FIRMS IN PAKISTAN. *City University Research Journal, 8*(1), 79-89.

Khanqah, V. T. (2013). The Relationship between Investment Decisions and Financing Decisions: Iran Evidence. *Journal of Basic and Applied Scientific Research, 3*(3), 144-150.

Kim, W. S. (2016). Determinants of Corporate Trade Credit: An Empirical Study on Korean Firms. *International Journal of Economics and Financial Issues, 6*(2), 414-419.

Kothari, C. R. (2005). *Research Methodology: methods and techniques.* New Delhi: New Age International (P) Ltd.

Kumari , N. (2013). EVALUATION OF FINANCIAL HEALTH OF MMTC OF INDIA:. *European Journal of Accounting Auditing and Finance Research, 1*(1), 36-43.

Kunt , A. D., & Maksimovic , V. (1996). Stock Market Development and Firm Financing Choices. *World Bank Economic Review, 10*(2), 341-369.

Li, Z., Wang, B., Xulin, T., Fu, Y., & Liu, S. (2019). Should Energy Corporations Participate in Fulfilling Social Responsibility? *Current Analysis on Economics & Finance, 1*(1), 1-10.

Love, I. P.-A. (2007). Trade credit and bank credit:Evidence from recent financial crises. *Journal of Financial Economics,, 83*(2), 453-469.

Magazine, F. (2019). *Analysis of top 500 companies from all over the world.* United States (New York): Fortune Magzine.

Marete, D. (2015, October). *THE RELATIONSHIP BETWEEN FIRM SIZE AND FINANCIAL LEVERAGE OF FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE.* Nairobi: A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI.

Mathuva, D. (2010). The Influence of Working Capital Management Components on Corporate Profitability: A Survey on Kenyan Listed Firms,. *Research Journal of Business Management,, 4*, 1-11.

McConnell, J., & Henri , S. (1995). Equity ownership and the two faces of debt. *Journal of Financial Economics, 39*(1), 131-157.

McDonald , J., Jacquillat , B., & Nussenbaum, M. (1975). Dividend, Investment and Financing Decisions: Empirical Evidence on French Firms. *Journal of Financial and Quantitative Analysis, 10*(5), 741-755.

McGuire JB, S. A. (1988). Corporate social responsibility and firm financial performance. *Academy of Management Journal, 31*(4), 854–872.

McGuire JB, S. T. (1990). Perceptions of firm quality: A cause or result of firm performance. *Journal of Management Quality, 16*(1), 167–180.

Meltzer, A. (1969). Mercantile credit, monetary policy, and size of firms. *The Review of Economics and Statistics, 42*(4), 429-437.

MIAN , S., & SMITH JR., C. (1992). Accounts receivable management policy: theory and evidence. *The Journal of Finance, 47*(1), 169-200.

Moghadam, M. D., & Jafari, M. (2015). The Role of Financial Leverage in the Performance of Companies Listed in the Stock Exchange . *Indian Journal Of Natural Sciences*.

Molodovsky, N. (1953). A Theory of Price-Earnings Ratios. *Financial Analysts Journal, 51*(1), 29-43.

MUKHTAR, Z., HASHMI, S. H., & ASAD, M. (2016). ARE INVESTMENT AND FINANCING DECISIONS REALLY INDEPENDENT? EVIDENCE FROM CHEMICAL SECTOR OF PAKISTAN. *Jinnah Business Review, 4*(1), 31-37.

Myers, S. (1977). The determinants of corporate borrowing. *Journal of Financial Economic, 5*, 147-175.

Nazir, M. S. (2012). Corporate payout policy and market capitalization: Evidence from Pakistan. *Journal of Economics and Behavioral Studies, 4*(6), 331-343.

Nderitu, R. (2016). The effect of growth on profitability of commercial banks in Kenya. *Unpublished journal, University of Nairobi*.

Niskanen, J. a. (2006). "The Determinants of Corporate Trade Credit Polices in a Bankdominated Financial Environment: the Case of Finnish Small Firms. *European Financial Management, 12*, 81-102.

Nwakuya, M. T. (2017). Fixed Effect Versus Random Effects Modeling In a Panel Data Analysis: a Consideration of Economic and Political Indicators in Six African Countries. *International Journal of Statistics and Applications, 7*(6), 275-279.

Olakunle, A. O. (2014). Assessing the impact of asset tangibility on capital structure: choice for listed firms in Nigeria. *Journal of Applied Economics and Business, 2*(3), 5-20.

Onofrei, M., & Tudose, M. B. (2016). Determinant factors of firm leverage: An empirical analysis at Iasi county level . *7th International Conference on Globalization and Higher Education in Economics and Business Administration,* (pp. 460 – 466). , Iasi, România : Elsevier B.

P L Little, B. L. (2000). Do perceptions of corporate social responsibility contribute to explaining differences in corporate price-earnings ratios? *A Research Note, 3*(2), 137– 142.

Parsons, C. T. (2009). Empirical capital structure: A review. *Foundations and Trends in Finance, 3*, 1-39.

Paul, S. Y. (2008). *Trade Credit as Short-Term Finance in the UK.* Bristol: Centre for Global Finance.

Petersen , M., & Rajan, R. (1997). Trade Credit: Theories and Evidence. *Oxford Journal, 10*(3), 661-691.

Petersen, M. A. (1997). ,Trade credit: theories and evidence,. *Review of Financial Studies,, 10*, 661-692.

Petersen, M. A. (1997). Trade Credit: Theories and Evidence,. *The Review of Financial Studies,, 10*(3), 661-691.

Pfister, B. S. (2019). Corporate reputation and the future cost of equity. *Business Research*, 1-42. doi:https://doi.org/10.1007/s40685-019-0092-8

Qureshi, M. A., Imdadullah, M., & Ahsan, T. (2012). What determines leverage in Pakistan? A panel data analysis. *African Journal of Business Management, 6*(3), 978-985.

Rafique, M. (2011). EFFECT OF PROFITABILITY & FINANCIAL LEVERAGE ON CAPITAL STRUCTURE: A CASE OF PAKISTAN'S AUTOMOBILE INDUSTRY. *Economics and Finance, 1*(4), 50 – 58.

Rahman, S. U. (2016). Determinants of Capital Structure Decision of Pakistani Insurance Industry. *Abasyn Journal of Social Sciences, 9*(1), 221-232.

Rahman, S. U. (2017). Macro Economy and Capital Structure Decision in Pakistani Insurance sector. *City University Research Journal, 2*(2), 242-253.

Rajan, G. &. (1995). What do we know about capital structure? Some evidence from international data,. *The Journal of Finance, 50*, 1421 60.

Ramcharran, H. (2002). An empirical analysis of the determinants of the P/E ratio in emerging markets. *Emerging Markets Review, 3*(2), 165-178.

Rashid, A. (2014). Firm external financing decisions:explaining the role of risks. *Managerial Finance, 40*(1), 97-116.

Rizki, Z. W., Mochammad, D., & Mangesti , S. S. (2018). THE EFFECT OF PROFITABILITY, LIQUIDITY ON CAPITAL STRUCTURE AND FIRM VALUE: A STUDY OF PROPERTY AND REAL ESTATE COMPANIES LISTED ON INDONESIA STOCK EXCHANGE IN 2013-2015. *Eurasia: Economics & Business, 2*(8), 34-41.

Rogerson, W. (1983). Reputation and Product Quality. *The Bell Journal of Economics, 14*(2), 508-516.

Ross, S. (1977). The determination of financial structure: the incentive-signalling approach. *The bell journal of economics, 8*(1), 23-40.

Sajid, M., Mahmood, A., & Sabir, H. M. (2016). DOES FINANCIAL LEVERAGE INFLUENCE INVESTMENT DECISIONS? EMPIRICAL EVIDENCE FROM KSE-30 INDEX OF PAKISTAN. *Asian Journal of Economic Modelling, 4*(2), 82-89.

Sakai, K., Uesugi, I., & Watanabe, T. (2010). Firm age and the evolution of borrowing costs: Evidence from Japanese small firms. *Journal of Banking & Finance, 34*(8), 1970-1981.

Schwartz, R. (1974). .AnEconomicModelofTradeCredit. *Journal of Financial and Quantitative Analysis* , 643–657.

Shah, A. &. (2007). Determinants of capital structure: Evidence from Pakistani panel data. *International Review of business research papers, 3*(7), 265-282.

Sharma, A. a. (2011). ,Effect of Working Capital Management on Firm Profitability: Empirical Evidence from India,. *Global Business Review, 12*(1), 159-173.

Shefrin H, S. M. (1995). Making sense of beta, size and bookto-market. *Journal of Portfolio Management, 21*(2), 26-34.

Sheikh, N. A. (2011). Determinants of capital structure: An empirical study of firms in manufacturing industry of Pakistan. *Managerial Finance, 37*(2), 117-133.

Shi Yanping, Z. C. (2016). Determinants of Accounts Receivable: Evidence from Equipment Manufacturing Industry in China. *Proceedings of the Third European Academic Research Conference on Global Business, Economics, Finance and Banking (EAR16Paris Conference.* Paris, France.

Shi, Y., Zhu, C., & Yang, T. (2016). Determinants of Accounts Receivable: Evidence from Equipment Manufacturing Industry in Chin. *Third European Academic Research Conference on Global Business, Economics, Finance and Banking* , (p. 664). EAR16Paris Conference.

Sibilkov, V. (2009). Asset Liquidity and Capital Structure. *Journal of Financial and Quantitative Analysis, 44*(5), 1173-1196.

Singhania. (2010). Financial leverage and investment opportunities in India: An empirical study. An empirical study. *International Research Journal of Finance and Economics, 40*(2), 215-226.

Smith, J. K. (1987). . Trade credit and informational asymmetry. *The journal of finance, 45*(4), 863-872.

TAHIR, S. H., ULLAH, M. R., & SHAH, S. (2017). What Determines Price-to-Earnings Ratios: An Empirical Evidence from Banking Sector of Pakistan. *Journal of Business and Tourism, 3*(1), 13-22.

Tai, L. M. (2017). Impact of the Financial Markets Development on Capital Structure of Firms Listed on Ho Chi Minh Stock Exchange. *International Journal of Economics and Financial Issues, 7*(3), 510-515.

Tang, C. J. (2012). Revisit to the determinants of capital strucutre:A comparison between lodging firms and software firms. *Hospitality Management, 26*, 175-187.

Teruel, P. J. (2010). *Trade credit policy and firm value.* Spain: Instituto Valenciano de Investigaciones Económicas, S.A.

Verwijmeren, P. a. (2010). Employee well-being, firm leverage, and bankruptcy risk. *Journal of Banking & Financ, 34*, 956-964.

Weigelt, K. a. (1988). Reputation and corporate strategy: a review of recent theory and applications,. *Strategic Management Journal, 9*(5), 443-454.

Wooldridge, J. M. (2010). *Econometrics Analysis of Cross Section and Panel Data.* MIT Press.

Yue, H. Y. (2011). Determinants of Corporate Capital Structure Under Different Debt Maturities. *International Research Journal of Finance and Economics*(66), 99-106.

Zhao, B. &. (2012). Financial Leverage, Firm Growth and Financial Strength in the Listed Companies in Sri Lanka. *Procedia - Social and Behavioral Sciences, 40*, `709-715.

Appendices

Appendix 1
Table A. 1 Haussmann Test

Test summary	Chi-sq. Statics	Chi-sq. D.F	Prob.
Cross-section Chi-square **(Model 1)**	671.382078	189	0.0000
Cross-section Chi-square **(Model 2**	690.874286	265	0.000

Appendix

Table A. 2 Supporting Theories

Sr. No.	Dimension	Supporting theory	Sign	Reference
1	Firm size and financial leverage	Agency cost theory	Positive	(Marete, 2015).
2	Market cap and financial leverage	Agency cost theory	Positive	(Tai, 2017).
3	Firm profitability and financial leverage	Pecking order theory	Negative	(Shah, 2007; Rahman, 2016).
4	Tangibility and financial leverage	Pecking order theory	Positive	(Olakunle, 2014).