

Dynamism in financing decision patterns:
A life cycle approach

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Research Completion Certificate

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DEDICATION

I dedicate my dissertation work to my Husband. His encouraging support and thrust instils persistence into me. I have exceptional emotions of gratitude for my beloved Prince, Abd-ul-Muizz and princess, Ukasha Noor, who was ignored a little during all this time but tolerate it uncomplainingly. I also dedicate this dissertation to my all teachers and friends who have supported me throughout the process. I will always appreciate them what all they have supported.

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Abstract

This empirical study is conducted to analyse the dynamics of financing decisions for Pakistani non-financial firms. The approach to investigate the problem is life cycle approach incorporating dynamic panel data methodology. Three life cycle stages; growth, maturity and decline are selected for analysis. The basic criteria for samples are information about IPOs. Five hypotheses are postulated for the study which is about life cycle impact, reverse of life cycle impact, reputational effect, in search for reputational effect and pecking order theory. Hypotheses H1a & H1b state that in the beginning firms use more equity finance and then gradually rebalance this with debt. In hypotheses H2a & H2b reverse of H1a & H1b are analysed. In hypothesis H3, as pecking order theory predicts, importance of profitability is considered and utilization of internal finance against debt and equity is studied. Results illustrate that the impact of life cycle theory, reputational effect and pecking order theory are present for Pakistani firms. In the growth stage firms mostly rely upon equity finance and after getting maturity they augment use of debt financing. Pecking order theory is confirmed too.

Keywords: Life cycle stages; Financing decision patterns; Pecking order theory; Cash flows

JEL classification: G30; G32; G35

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Chapter: 1

INTRODUCTION

Capital markets and available resources vary with respect to difference in economies. Developed and emerging economies provide different restrictions and flexibilities to their investors. Moreover emerging economies are carrying inefficient capital markets and less available resources as well investment opportunities. So, this study is an endeavour to empirically analyse the financing patterns throughout life cycle of firms in Pakistan in the context of all above mentioned conditions. Again this study has taken pecking order theory as a contextual background to analyse financing choices in Pakistani non-financial sector. As financing decisions are ever changing in the life cycle of firm, every firm has dynamic changes in its financing patterns. So, to capture all the changes the incorporated model used is dynamic. For this study the beginning of life cycle is taken from firm's IPO as (Acharya, Myers, & Rajan, 2009) took for their study for dividend payments.

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