

**Understanding sensitivity of investment to internal funds and their subsequent  
effect impact on firm performance in Pakistan**

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**Understanding Sensitivity of Investment to Internal Funds and Their Subsequent  
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*Research Work is dedicated to My  
Parents & Teachers*

## DECLARATION OF ORIGINALITY

I hereby affirm that this thesis is totally my own work and that all supplementary sources of information have been duly cited.

I affirm that any online sources, unpublished or published work from which I have quoted, their references have been mentioned in this document. I completely understand that not complying by this act will result in failure of completion of this thesis due to plagiarism.

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## **ABSTRACT**

This study intends to find the suitable model for financial constraint which suits Pakistani environment best. Through empirical evidence it is proved that SA Index works best in developing economy. On the basis of SA Index, 98 firms are financially constrained and 125 are unconstrained. the study includes KSE listed non financial firms. The time frame for the study is 10 years (2005-2014). The second aim of the study is to find the sensitivity of investment to internal funds and asset sales and the impact of financial constraints on it. Focusing on capital expenditure and income from asset sales, the study finds a negative relation between growth opportunities and asset sales. Income from asset sales is significant determinant of capital expenditure (investment) and firms invest more when funds are generated from internal sources. Lastly the study investigates that financially constrained firms perform poorly when income is generated from asset selling unlike unconstrained firms. Unconstrained firms have a positive and significant relation with performance and asset sales.

**Key Words:** financial constraints, capital expenditure, asset sales, growth opportunities

# Chapter 1

## 1. INTRODUCTION

Firms often face financial constraints which hamper their investment abilities. Financial constraints refer to obstacles that limit firms from pursuing their desired investment opportunities. These constraints may take many forms like difficulties in arranging external funds, issue new equity, lack of managerial knowledge, and hurdles in liquidity of assets etc. By financial constraints we do not refer to risk of bankruptcy, financial distress or economic distress. These phenomena have different reasons and affect managerial decisions in different manner.