

Factors Influencing Capital Structure: Evidence from the Oil and Gas Industry of Pakistan

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Abstract : Capital structure is one of the key decisions taken by the financial managers. This study aims to investigate the factors influencing capital structure decision in Oil and Gas industry of Pakistan using secondary data from published annual reports of listed Oil and Gas Companies of Pakistan. This study covers the time-period from 2008-2014. Capital structure can be affected by profitability, firm size, growth opportunities, dividend payout, liquidity, business risk, and ownership structure. Panel data technique with Ordinary least square (OLS) regression model has been used to find the impact of set of explanatory variables on the capital structure using the Stata. OLS regression results suggest that dividend payout, firm size and government ownership have the most significant impact on financial leverage. Dividend payout and government ownership are found to have significant negative association with financial leverage however firm size indicated positive relationship with financial leverage. Other variables having significant link with financial leverage includes growth opportunities, liquidity and business risk. Results reveal significant positive association between growth opportunities and financial leverage whereas liquidity and business risk are negatively correlated with financial leverage. Profitability and managerial ownership exhibited insignificant relationship with financial leverage. This study contributes to existing Managerial Finance literature with certain managerial implications. Academically, this research study describes the factors affecting capital structure decision of Oil and Gas Companies in Pakistan and adds latest empirical evidence to existing financial literature in Pakistan. Researchers have studies capital structure in Pakistan in general and industry at specific, nevertheless still there is limited literature on this issue. This study will be an attempt to fill this gap in the academic literature. This study has practical implication on both firm level and individual investor/ lenders level. Results of this study can be useful for investors/ lenders in making investment and lending decisions. Further, results of this study can be useful for financial managers to frame optimal capital structure keeping in consideration the factors that can affect capital structure decision as revealed by this study. These results will help financial managers to decide whether to issue stock or issue debt for future investment projects.

Keywords : capital structure, multicollinearity, ordinary least square (OLS), panel data

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