Impact of Financial Resources on the Performance of Manufacturing Sector of Pakistan

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Abstract: The current study was carried on to explore the financial resources employed by manufacturing sector in Pakistan; explore the performance of manufacturing sectors in Pakistan; and find out the impact of financial resources on the performance of manufacturing sectors of Pakistan. The current study was a questionnaire survey based on quantitative data to collect from the finance managers of the selected companies of manufacturing sectors in Pakistan. Finance mangers of 36 Lahore based companies of six industries namely textile; cotton; cement; sugar; food and personal care products; and automobile sector constitute the sample of the current study. Data were collected through a 28-item self-constructed questionnaire based on independent and dependent variables of the current study, was employed. Frequencies, means, standard deviations, and t-values were calculated. One-sample t-test; independent samples t-test and one-way ANOVA were employed to signify and compare the means in terms of independent variables. Correlation was calculated to establish the impact of financial resources on the performance of manufacturing sectors of Pakistan. The study explored that manufacturing concerns in Pakistan rely on capital markets, reallocation of internal resources, commercial financing, venture capital, and public financing sources in order of preference. The study concluded that manufacturing concerns relying on capital markets and reallocation resources are performing better as compared with those relying more on commercial financing and venture capital. The study recommended manufacturing industries to strengthen their efforts to fund their projects more through capital markets as a long-term and less risky source.

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1. Introduction

Firms use different sources of finance like capital markets, commercial financing, public financing sources, reallocation of internal resources, and venture capital. Capital markets rely upon the issuance of shares and bonds (Dai, Jo, & Kassicieh, 2013; Gallagher, 2012).

In commercial financing, firms rely mostly on financial institutions for their funds. Some firms also use public finances in absence of their own funds. Similarly, firms also use reallocation of their own resources and venture capital as funding resources. It is quite obvious that source of funds have a direct bearing on the performance of the firms owing to their cost of capital and magnitude of risk associated with these resources. The current study was conducted to explore what financial resources manufacturing firms are using and what is the impact of this funding on their performance.

2. Literature Review

Governments and companies can raise their funding for asset investments through capital markets by issuing bonds or selling equities as stocks. Equity financing is where a company sells its stocks, and so a share in the ownership. Debt financing is by issuing bonds, so a company can take on a liability and avoid giving up shares of ownership of the company (Dai, Jo, & Kassicieh, 2013; Rosenbusch, Brinckmann, & Müller, 2013).

The return on investment and variability of return are two important parameters for any investor before deciding to buy stocks and bonds. Return on investment is the average financial return. Variability of return is a measure of not earning the expected average return and represents the risk of such an investment (Gallagher, 2012).

Commercial financing for investments includes loans from banks or other financial institutions. Long-term loans in commercial financing are usually asset-based, securing the loans against various assets. Unpaid loans lead to assets taken by the banks. Loans are available based on the record and history of profitability of similar investments. In asset-based lending models, accounts receivable, real estate,

machineries, or equipment can help to secure loans (European Commission, December 2008).

Many non-financial institutions provide commercial financing for their software as well as hardware products. The advantage of borrowing through commercial financing is that the lender does not receive any ownership rights. The borrower is obliged to repay the loan with interests (Dai, Jo, & Kassicieh, 2013; Rehman, et. al., 2011).

Given the uncertainties of the financial return on investments more importantly, the reliance on third party payers for income and payment mechanisms not many private financing organizations may be interested in helping with such investments.

Public financing is a resource that benefits public investments where private financial support is insufficient or not available. However, public financing may not be efficient in leading to the same level of outcomes as investment supported by private parties (Dai, Jo, & Kassicieh, 2013), (Gallagher, 2012).

Internal resources also serve as a big source of financing. The equity financing is the dearest source of financing but the most trust-worthy and least risky source. The build-up of retained earnings and other financial reserves may be allocated to the new projects necessary for organizational growth. The capital budgeting decisions covering equity financing is of special importance for any organization that intends to grow through internal resources as the firm can have sustainable growth level without relying on external funds while maintaining a reasonable debt/equity ratio (Dai, Jo, & Kassicieh, 2013; Gallagher, 2012; Rehman, et. al., 2011; Ross, Westerfield, Jordan, 2009).

Venture capital is a type of private equity capital that provides finance to high potential growth companies that are too risky for standard investment by capital markets or conventional banks. Its purpose is to accelerate the growth of privately and newly established companies to an Initial Public Offering (IPO) or to a sale to publicly traded companies that are already established (Parry, & Song, 2013; Rosenbusch, Brinckmann, & Müller, 2013; Sheng, Chan, & Park, 2013; Gallagher, 2012; European Commission, December 2008).

There are different sectors of economy which include manufacturing sector too. The economic growth of a society is usually measured by the growth of economic sector of that particular society. In Pakistan, the manufacturing sector is facing investment, energy, and other crises that are hampering the performance of this sector in terms of profitability. The above said financial resources have a direct impact on the performance of companies. Keeping in view this relationship, the current study is designed to investigate the impact of financial resources on the performance of manufacturing sector of Pakistan.

3. Theoretical Framework of the Study

The study was based on the following theoretical framework:

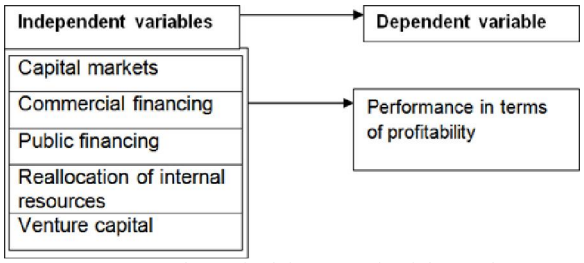

Figure 1. Theoretical framework of the study

More specifically, the study provided the answers to the following question:

- What financial resources are employed by manufacturing sectors of Pakistan?
- What is the performance of corporate sectors of Pakistan?
- What is the impact of financial resources on the performance of manufacturing sectors of Pakistan?
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4. Methodology

The current study was a questionnaire survey based on quantitative data to be collected from the finance managers of the selected companies of manufacturing sector in Pakistan.

There are eighteen manufacturing sectors having listed companies with Lahore Stock Exchange. The finance managers of these sectors are the population of this study. Among the eighteen sectors six Lahore based manufacturing sectors namely textile with eighteen companies, cotton and spinning with fifteen companies; cement with nine companies; sugar with eight companies; food and personal care products with five companies; and automobile sector with three companies were selected at the first stage. At the second stage 36 companies were selected proportionately selected as textile with fifteen companies, cotton and spinning with eight companies; cement with five companies; sugar with three companies; food and personal care products with three companies; and automobile sector with two companies. Therefore, the finance mangers of 36 companies of these sectors constituted the sample of the current study. A 5-point Likert type self-

constructed questionnaire based on independent and dependent variables of the current study as given in the Figure 1 above as explored from the related literature was employed after validation and pilot testing. There were total 28-item in the scale divided as Capital markets, 9 items; commercial financing, 7 items; public financing sources, 5 items; reallocation of internal resources, 4 items, and venture capital, 3 items.

In order to enhance the creditability of the findings of the study the researcher himself collected the data personally. The responses of the questionnaire were quantified as 5, strongly agree; 4, agree; 3, partially agree; 2, disagree, and 1, strongly disagree. Frequencies, means, standard deviations, and t-values would be calculated. One-sample t-test; independent samples t-test and one-way ANOVA were employed to signify and compare the means in terms of independent variables. Correlation was calculated to establish the impact of financial resources on the performance of manufacturing sectors in Pakistan. The performance of companies was taken as their profit percentage for the most recent period as depicted in the annual reports.

5. Results

The Table 1 below indicates that capital market got the highest mean followed by reallocation of internal resources, commercial financing, venture capital, and public financing with the lowest count.

Table 1. One-sample statistics for financial resources

Factors	df	Mean	SD	*t*-value	*Performance*
Capital markets	35	4.373	0.982	35.462*	18%
Reallocation of internal resources	35	3.981	0.921	29.865*	16%
Commercial financing	35	3.564	0.814	31.435*	12%
Venture capital	35	3.426	0.936	33.212*	11%
Public financing	35	3.163	0.862	20.125*	5%

*$p<0.05$

The correlation analysis points out that there is a high correlation between capital markets funding and performance of the manufacturing industries as indicated in table 2 below. Reallocation of internal resources is found very near with capital market correlation.

Table 2. Correlations of financial resources with company resources

Financial resources	Correlations				
	Commercial financing	Public financing	Reallocation of internal resources	Venture capital	Performance
Capital markets	.634**	.437**	.772**	.498**	.832**
Commercial financing		.653**	.532**	.571**	.687**
Public financing			.492**	.641**	.498**
Reallocation of internal resources				.584**	.801**
Venture capital					.582**

***Correlation is significant at the 0.01 level (2-tailed).*

6. Discussion

The basic purpose of the study was to explore the financial resources employed by manufacturing concern in Pakistan. For this purpose, the study pursued three basic questions. The first research question was

1. What financial resources are employed by manufacturing sectors of Pakistan?

The findings of the study explored that Capital markets (4.373); Reallocation of internal resources (3.981); Commercial financing (3.564); Venture capital (3.426); Public financing (3.163) are being used by manufacturing concerns in the order of their preference.

The second research question of the study was

2. What is the performance of corporate sectors of Pakistan?

The findings of the study revealed, that Capital markets (18%); Reallocation of internal resources (16%); commercial financing (12%); Venture capital

(11%); Public financing (5%) are associated with the performance of manufacturing concerns in terms of the percentage of their profits in the order of their preference.

The third research question of the current study was

3. What is the impact of financial resources on the performance of manufacturing sectors of Pakistan?

The correlation analysis points out that there is a high correlation (.832) between capital markets funding and performance of the manufacturing industries as indicated in table 2. Reallocation of internal resources is found very near (.801) with capital market correlation. The public funding (.498) is found having the lowest correlation with the company performance.

In this way the study provided answers to all research questions achieving the objectives of the study.

7. Conclusion and Recommendations

The study concluded that Pakistani manufacturing concerns relying on capital markets and reallocation of internal resources are performing better as compared with those relying more on commercial financing and venture capital. The basic cause of this tendency seems to be the low degree of risk associated with funds raised through the capital market operations against those from other resources. Similarly, reallocation of internal resources cost nothing more than opportunity cost which may not be material in manufacturing corporate sector.

The study recommended manufacturing concerns of Pakistan to strengthen their efforts to fund their projects more through capital markets as a long-term and less risky source as compared with other resources which may cost low, but impose higher degree of potential dangers.

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