

The Impact of Firm Interrelated Factors on Profitability of Firm (With Reference to Firm Life Cycle)



**Thesis Submitted to
The Superior College, Lahore**

In Partial fulfillment of the
Requirement for the Degree of

Master of Philosophy In Commerce and Finance

By
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Roll No. MSCF14-014

Session: 2014-2016

Registration No

The Superior College (School of Management Sciences), Lahore

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DEDICATION

I dedicate this thesis to my **parents, teachers and beloved ones**. I owe you a debt of gratitude for all that you have done for me.

Thank you.

ACKNOWLEDGEMENT

In the name of ALLAH Almighty the most beneficent, the most merciful, I am very thankful to ALLAH Almighty who showers his countless blessing upon me all the time and made me able to do work hard and achieve my goals and to do thesis in order to complete my degree is one of them.

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Abstract

The key indicators of financial performance of firm are profitability and liquidity (Ehiedu, 2014). Liquidity ratio depicts that whether firm can pay its short term liabilities. If liquidity ratio is higher it reveals that firm is in a position to pay current responsibilities. When firm is not in a position to earn profit may considered sick but, without liquidity may be go to its downfall and will die. However, the right combination of liquidity position and investment decision is cardinal for a firm to survive in the market. For instance, if they invest some portion of funds than they have to bear opportunity cost and it affect profit. The cardinal aim of this study is to determine the impact of firm size and liquidity on profitability of firm. The population consists of textile companies who have been listed at Pakistan stock exchange of Pakistan. The sample of this study composed of eighty listed textile companies from period 2003 to 2014. The sample is divided in to two parts, one of them encompasses firms which fall between 0-20 years and other is above then 20 years of commencement. According to empirical result of the study influence of liquidity is very with reference to firm life cycle such that impact of liquidity on profit is predominantly positive in the firm who are above 20 years and this impact is vice versa in the firms who fall between 0-20 years of incorporation. However, profit has been positively affected by firm size. Moreover, result infers that liquidity and firm size are crucial variable for business success and that's why management should to understand the cardinal importance of liquidity and firm size and make remarkable policies about the liquidity and firm size.

Keyword; Profitability, firm size, leverage, textile sector

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CHAPTER1

1.1) Introduction

Profitability and liquidity are two important aspects of business life. Liquidity is considered as cardinal instrument to measure the performance of firm (Bardia, 2007). Liquidity is essential for any firm to survive and to make profit (Ehiedu, 2014). Thus, it is necessary for a firm to have adequate level of liquidity to run business smoothly. Liquidity management in an efficient way is still need of business world and essential to run business (Valrshney, 2008). However, excess or inadequate liquidity consider injuries for business (Uwalomwa, 2013). Specifically this controversy creates more interest in liquidity management of firm through how to gain balance between profitability and liquidity. Liquidity crisis is second name of death for a firm (Spinella, 2007).

Organization applied different methods to examine business success and profit is one them (Pervan, 2012). So, it infers that profit is also a tool to measure the performance of a firm (Barthwl, 2000). Indeed profit plays dynamic role to determine the success of firm (Velnampy, 2014). Therefore, firms use different ways to improve the profitability. Yet, the major objective of research in business area is to find and study the factors that affect the profitability of firm (Ahmad *et al.*, 2015). Profit is necessary for a firm to survive in the market therefore it presaged that no profit no future. The objective of management is to maximize shareholder's wealth (Reynaud & Thomas, 2013). That's why management has to produce higher profits to accomplish its objective. It is considerably founded that profitable firms earn higher return as compare to non-profitable firm (Marx, 2013). Profitability is also a key factor for investor and shareholder because they can use it to judge the performance of the company (Reynaud &

Thomas, 2013). They also revealed that profit can be used to predict the firm's financial disaster. However, profit leads to competitive edge in the competitive environment.

On other aspect sometimes, the desire to earn more profit predominantly leads to the loss and makes the firm unattractive, this occurs when by investing the whole funds; the firm will incapable to meet its short term responsibilities. Therefore it is necessary to determine the factors that affect the profit of firm. There are many factors which affect the profitability of a firm like capital structure, liquidity, annual sales, firm growth and firm size (Akinlo & Asaolu, 2012).

The understanding of liquidity is cardinal for all the financial analysis because it is related with routine matter (Bhunia, 2010). Moreover unsatisfied position of liquidity leads to insolvency and loss (Niersh, 2005). That's why it is important for a financial manager to make right decision about the ratio of liquidity and investment. Because when they increase liquidity and decrease investment they have to bear opportunity cost which effect profit.

Ibenta (2005) defined the liquidity as a position of a firm when it is able to pay off its current responsibilities. Liquidity is like a life blood for a company because it addresses financial cost, growth and sales (Zygmunt, 2013). He also presaged that liquidity is one of the key factors that influence the profitability and, the market position of company depends on solid liquidity position. Liquidity management can be defined as a tool to measure performance of the firm (Bardia, 2007). Indeed, liquidity ratio help to judge the ability of the firm whether they can pay their current obligation (Saleem & Reman, 2011). In the competitive environment firm have to compete with many firms and they can gain competitive advantage through reduction in cost which is the result of financial planning. Financial planning is necessary to hedge the loss (Ernst, 2002).

Firm has different aim swho are predominantly can observe from its strategies. The major objectives are growth, profitability and size (Hassan, 2012). Size is a source of development, success and growth (Asimakopoulos, 2009). Moreover, size is organized process which influenced the profit (Vijayakumar & Devi, 2011). The profit of a firm is not only affected by liquidity but also influenced by the firm size (Akinlo & Asaolu, 2012). The size of a firm is the amount and variety of production capacity and ability a firm possesses or the amount and variety of services a firm can provide concurrently to its customers (Niresh, 2014). Firm size can be measured by total assets of firm (Kim, 1997). Firm size influence the profit by producing more items with low per unit cost. Niresh and Velnampy (2014) determine that there is positive relationship between firm size and profitability.

Specifically, Rajan and Zingales (1995) presaged that industries growth depend on firm size growth. However, firm size is a way to influence the stakeholders of firm (Babalola, 2013). Firm size play very important role in economic growth and its progress affect the stakeholder such that shareholder, suppliers, creditors and employee (Madrid *et al.*, 2007). Indeed, large size enables the firm to produce at low cost and offer bargaining powers to management over stakeholders (Hardwick, 1997). Ravenscraft and Scherer (1987) infer that large size of the firm lead to stability, more sale and low cost. But some other researchers find that there is negative relationship between firm size and profitability (Shepherd, 1972).

The impact of liquidity and firm size on profitability of firm can be very with reference to business cycle such that growth, maturity and decline stage (Warusawitharana, 2016). All the previous research has been examined the relationship between liquidity, firm size and profit of firm but they ignore firm life cycle and relationship between these variable with reference to firm

life cycle. Thus, the candid goal of this study is to examine controversy relationship between profitability, liquidity and firm size with reference to firm life cycle.

1.2) Background of Study

Efficient liquidity management is essential for manufacturing sector where large portion of assets consists of current assets and they require extra care (Horn & Wachowitz, 2000). Liquidity is considered life giving effort for business and management of it also one of crucial function of financial management.

Literature presaged that firm makes two type of financial decision one of them is financing decision and other investment decision. They prepaid proposal to finance the resources and decide which sources is economical and best for firm because they have to pay cost of it .If they ignore it than they have pay high cost. They have to get finance to fulfill the short and long term liabilities. The other type of decision is an investment decision, they invest funds to earn return to retain and attract the shareholder. They have to decide which project is the best and suitable for the firm in respect of its term and conditions.

According to Onwumere, (2012) financial manager makes following cardinal decisions

- investment decisions
- Financing decisions
- Dividend decisions
- Liquidity decisions

The firms made two type of policy for working capital (Pandey, 2007)

- Aggressive policy
- Conservative policies

The aspiration to earn more return leads to valley of loss and makes the firm unattractive, this occurs when by investing the whole funds, the firm will be unable to meet its short term responsibilities. When firm fall down in this type of condition then they will lose their market reputation and its customer.

1.3) Research Problem

Liquidity is interlinked with return on assets of firm and when it is not properly taken care by management than profit of the firm will be disturbed and it will lead to loss. But efficient management can enhance profit by controlling liquidity position of firm. Large number of studies tried to reveal the cardinal reasons why some organization earns more profitably as compared to others. Moreover, large number of studies evaluated key factors that can influence performance of organization but this issue is still unsolved and compelled the researcher to find solution of this problem. If the size of firm and profit are not proportionate each other and with external contribution than it creates risk for firm. Profit is necessary for a firm to survive in the market therefore no profit no future. It is well addressed topic in business world to determine crucial factors that contribute to profit.

Indeed, textile sector is the backbone of Pakistan's economy. In Asia, Pakistan is 8th largest exporter of textile. This sector 9.5 percent contributes in the GDP. Further, 15 million employees are working in this sector. But specifically, this sector has been facing some insurmountable problems (Ahmad, 2012). Some problems are controllable by end of firms such that energy crises, political instability and environmental issues. But problem can be solved by effective management such that liquidity and investment decision which affect profit.

The present condition of textile sector of Pakistan is not going well and demanding depth analysis in this sector. The return on assets and export of textile sector has been reduced.

Average of the return on assets in textile sector is 0.3299 which is alarming situation. Inefficient liquidity management may be a crucial factor and first step to this problem. The export of textile sector in Pakistan is declining day by day. According to state bank of Pakistan export of this sector has been reduced to 10 percent and yarn export reduced to 48%. The knit wear export declined to 3%. Many studies suggest different reasons of this decline in profit. Such that high debt ratio, lack of proper use of resources, lack of working capital management (Arshad & Gondal, 2013). It is a problem for a firm whether to use debt or equity and whether to expand size of firm or existing is suitable for present circumstances.

According to Warusawitharana (2016) impact of liquidity and firm size on profitability of firm can be very different with reference to business cycle such that growth, maturity and decline stage. Specifically, Sequeira (2009) presaged that age of firm effect profit negatively.

1.4) Research Question

- What is impact of liquidity on the profit of firm?
- What is influence of firm size on profit of firm?
- What is effect of leverage on profit of firm?

1.5) Objective of Study

Cardinal aim of this research is to determine the crucial factors that affect the profitability of firms. But specifically the candid goals of this study are following

- Examine the relationship between liquidity and profitability.
- Test the association between firm size and profitability
- Determine the relationship between leverage and profitability

1.6) Significance of the study

This study well contributes in a two ways

- Theoretical contribution
- Empirical contribution / practical contribution

Theoretical contribution

Some research has been conducted on manufacturing firm including textile sector in the Pakistan. But it needs further research because it contributes 60 percent in the export of the Pakistan. In previous research, the researcher have been determined the impact of liquidity on profit and some other examined the influence of the firm size on the profit of the firm. Indeed, all previous studies ignore cardinal part such that the life cycle of the firm. Instead of that, the impact of liquidity on profit is very with reference to firm cycle (Warusawitharana, 2016). Therefore this study specifically, evaluates the influence of the liquidity, firm size and leverage on profit with reference to firm life cycle.

This study also will examine the following two theories and prefer one of them on the bases of result such that

- Traditional theory
- Managerial firm theories

According to Jónsson (2007) following theories presaged that firm size affect profit

- Strategic theories
- Institutional theory (“larger is better than smaller”).
- Principal-agent theory

This study also will determine the truth of above mention theories in specific textile sector of Pakistan.

Empirical contribution / practical contribution

Textile sector is the backbone of Pakistan's economy. This sector 9.5 percent contributes in the GDP. Further, 15 million employees are working in this sector. This sector also play leading role in the export of the Pakistan. But this sector has been facing some insurmountable problems (Ahmad, 2012). Little researches have been done but it required more attention. This study will help to improve the textile sector in Pakistan. Further, this study will lead to the higher profit by determining the impact of liquidity and firm size on the profit. This piece of analysis will provide support in the decision making weather size of firm should be expanded or not. However this research will contribute in solving the problem whether firm should to use debit or avoid from it through indicating the impact of leverage on the profit. The finding will offer guide line to the investor how to invest in right firm and it also provide indicator to management to improve the profit of the firm.

In short, it will contribute by following ways

- This study will examine the effect of firm size, liquidity and leverage on the profit of firm.
- This research will reveal the crucial factor that bring variation in profit
- The findings of study will depict that why certain firms earn more return
- The result will help to decide that which investment policy is appropriate for these firms
 1. Aggressive
 2. Conservative
- Both proxies of profit such that return on assets and return on equity will be used.

1.7) Scope of Study

This study will examine the influence of liquidity, firm size and leverage on the profit of firm. To accomplish this objective the study will use textile sector of Pakistan. Because it is a 2nd largest sector of Pakistan's economy and its return on assets indicate that it should be develop and must be improved. The population of this research will be the companies of textile sector of Pakistan who are registered in the Pakistan stock exchange of Pakistan. This study will collect the data from 2003-2014 for analysis. This study will use panel data technique in the analysis of data to find the result of research and to fulfill the objective of the study. The investors are interesting to invest in the profitable firm because their aim is to earn high return and the management also prefers to improve profit through all factors which can improve it. Specifically, it is necessary for the firm to retain and attract the shareholder. Therefore, this study will cater the need of investor and management.

1.8) Conceptualization of Variables

Profitability

Profitability has been defined as amount earned on the total assets of the organization (Niresh & Velnampy, 2014). Profitability can also be known as the excess amount received from investments in the shape of revenues (Saari, 2011). On other side according to business context, profit is tool to examine the performance of the management and firm. It evaluate whether return amount from investment is more than invested amount or not. It means profit is revenue which owner gets from business. Profit is a tool to measure the performance of a firm (Barthwl, 2000). Therefore the major objective of research in business area is to find and study the factors that affect the profitability of firm (Ahmad *et al.*, 2015). However, the management evaluates the firm performance through profit. Specifically profitability is a keen interesting factor for investor

and shareholder because they can use to judge the performance of the company (Reynaud & Thomas, 2013). They also stated that profit can be used to predict the firm's financial disaster. Therefore, profit leads to competitive edge in the competitive environment.

Liquidity

Ibenta (2005) defined the liquidity as a position of a firm when it is capable to pay off its current responsibilities. Liquidity is necessary for a firm to survive in market (Zygmunt, 2013). Specifically, liquidity leads to state of the confirmation that firm can fulfill their current liabilities. Indeed the understanding of liquidity is necessary for all the financial analysis because it is related with routine matter (Bhunja, 2010). Liquidity is related with current assets and current liabilities. Adequate liquidity means firm have more current assets as compare to the current liabilities of the firm. However, liquidity ratio helps to judge the ability of the firm whether they can pay their current obligation (Saleem & Reman, 2011). Adequate liquidity is very necessary for the firm to prevail in market because when the firms fall down in a position that they could not pay their current liabilities than this directly affect the market repute of the firm.

Moreover, unsatisfied position of liquidity leads to insolvency and loss (Niersh, 2005). That's why it is important for a financial manager to make right decision about the ratio of liquidity and investment. For instance, when they increase liquidity and decrease investment they have to bear opportunity cost which effect profit.

Liquidity address financial cost in such manner that if firm invest low amount and improve liquidity position to the high stage than they will suffer opportunity cost due to unused of fund. Instead of that when they invest whole they are unable to fulfill short term liabilities. Liquidity position of the firm affects all the stakeholder of the firm. It affects in such a way that supplier

observe the liquidity position of the firm and avoid from firm to make transaction on credit with them whose liquidity position is not well. Adequate liquidity leads to the solvency and save from bankruptcy. But according to Ross (2000) and Myers (2003) excess of liquidity inversely affect the profit.

Firm size

The firm size is a production capacity and amount of services that is proved by the firm regularly to its users (Niresh, 2014). Firm size can be measured by total assets of firm (Kim, 1997). In general firm size influence the profit by producing more items with low per unit cost. Because in large size firm, production and sale are high as compare to small size firm. Moreover large size enables the firm to produce at low cost and offer bargaining powers to management over stakeholders (Hardwick, 1997).

Specifically, Rajan and Zingales (1995) also determined that industries growth depend on firm size growth. Firm size is a way to influence the stakeholders (Babalola, 2013). Therefore firm size play very important role in economic growth and its progress affect the stakeholder such that shareholder, suppliers, creditors and employee (Bhayani, 2010; Madrid *et al.*, 2007). Size is a key factor that affects the profit of the firm and many researchers have been done on this variable (Serrasqueiro *et al.*, 2008). Ravenscraft and Scherer (1987) infer that large size of the firm lead to stability, more sale and low cost. However, large size is second name of success and profit (Wu, 2006). But some other researchers found that there is negative relationship between firm size and profitability (Shepherd, 1972).

Leverage

The leverage is an amount of debit that firm used to increase sale earning and production (Hulster, 2009). Firm normally use two cardinal resources of fund, such that debit and equity.

Both resources have advantage and disadvantage. Leverage is representing in the form of debit/equity ratio (Awan, 2014). If the ratio is high it means that firm used more debit. Leverage indicates the proportion of equity and debit. It is a tool to measure whether firm used high debt or equity. If firm used more debit it is called highly leverage firm but when they use only equity than it is unleveraged firm. Leverage can be dividing in two types one of them is operating leverage and other one is financial leverage.

In the modern age and specifically in the competitive market firm cannot depend wholly solely on the equity. The firm use debit to support its operation and to increase profit. Sometime firm prefer debit because cost of debit is low to some extent and procedure of it is short as compare to equity. But they get return before equity holder and it affect the return of equity holder. Firm also used debit to increase profit by providing reduction in tax matters. The cost of debit is interest which is treat as expenses and will deduct before tax calculation. Therefore according to Modigliani and Miller (1963) it is a tax saver. But specifically, when firm used more debits they suffer loss because debit has fixed cost and due to more use of debit the firms lose their position to pay interest.

1.9) Structure of the study

This study is divided in to five chapters which are following.

- Chapter one includes introduction, back ground of study, problem statement, justification of study, objective of the study and scope of the study.
- Chapter two depicts review of literature, overview of population, variable, hypothesis.
- Chapter three encompasses theoretical frame work, sampling techniques. Data collection procedure and methodology
- Chapter four defined analysis of data.

- Chapter five proposed finding of the study, theoretical and empirical contribution of study, implication for manager, discuss limitation of study and conclusion of the data.

1.10) Summary

This study is conducted to determine the impact of liquidity, firm size and leverage on profitability of firm. First of all chapter one defined introduction of the study with its background and then indicate the reason of this research through the presenting the problem statement. Every study has its contribution and this research also reveals its significance by contributing in to theory and practices and by testing theories on textile sector. Objective is a base of any research that's why the objective of study has been mention in this chapter. Every research has its boundary in term of population, years, and implication of it. This chapter also indicates to whom the result of this study is important and other limitation of it. At the end of chapter one variable that has been used in the model of this study and structure of complete thesis has been mentioned.

CHAPTER 2

2.1) Overview of Population

Textile sector is considered as the backbone of Pakistan's economy (Malik, 2008). Because it is 2nd largest sector of Pakistan's economy. The consumption of textile product is more as compare other sector. In fact after food, product of textile sector is basic requirement of humanity. In Asia, Pakistan is 8th largest exporter of textile product. This sector 9.5 percent contributes in the GDP (Ahmad, 2012). Textile sector also contributes 60 percent in total export of Pakistan. (Economic survey of Pakistan, 2009) Further, this sector provides employment opportunity to the society and play cardinal role in the reduction of unemployment. Pakistan is one of the leading countries in the term of unemployment (Muhammad, 2012). But this sector has reduced the burden of unemployment to some extent such that 15 million employees are working in this sector which is 30 percent of total employment (Hanif, 2008).

In Asia, Pakistan is fourth largest producer of cotton but it is 8th largest exporter of textile product. Indeed, Pakistan export is low as compare to its production because it is a third consumer of textile product in the Asia. Pakistan contributes 26 percent in yarn global market. The contribution of Pakistan in international spinning capacity is 5 percent. Saudi Arabia, Turkey, EU, Sweden, Gulf region these are key countries that buy textile product of Pakistan. Textile sector includes these sub units, spinning, weaving and finishing.

Now days this sector is facing some problem such that according to state bank of Pakistan returns on assets has been shrunk. According to economic survey of Pakistan the export of it also effected such that 14.86 million bales was export in last year but now it reduced to 11.7 million bales. Different study suggest different candid reason such that high debt ratio, lack of proper use of resources, lack of working capital management (Arshad & Gondal , 2013).

When a study is conducted about any population than researchers have to complete knowledge about

- Population
- Problems of this population
- Whether this problem occur all time
- Whether this problem effect all the population or in some units

2.2) Technical Definition of Variables

2.2.1) Profitability

According to accounting rule, profit can be obtained by subtracting the amount management spent in production, operation and purchasing something for business from amount earned. On other side according to business context, profit is tool to examine the performance of the management and firm. Profit can be defined as income that firm earn after deduction of expenses from sale. According to Hulten (2000) profit is a change between earning and spending amount.

According to Jorgenson *et al*, (2014) it is an objective of the firm to use its fund in a way that leads to profit. Because the firm value depends on the profit which firm earned. According to Demsetz (1973) firms can be characterized on the base of efficiency. Profit can be measured by (ROA) return on assets of firm (Bhunia & Khan, 2011). Different studies used different proxies to measure profit such that Maina and Ishmail (2014) used (ROE) return on equity as a tool to measure profit in their studies. According to (kumar & Devi, 2011) (ROA) return on assets and ROE) return on equity gives complete assessment of firm

2.2.2) Firm size

The size is capacity of production and services that are offered by organization to customer (Niresh, 2014). According to Doğan (2010) firm size can be measured through total assets of

firm, sale and number of employee in the firm. Banchuenvijit (2012) used in his study total sale as measure of firm size. But Saliha and Abdessatar (2011) used total assets as a scale to measure size. However, Bhutta and Hasan (2011) used logarithm of total assets for firm size.

Moreover, Yazdanfar (2013) also measure size of firm through logarithm of sales. Firm size raises profit through more sale and low cost due fixed cost. Because in large size firm, production and sale are high as compare to small size firm. Specifically, economic growth depends on the size growth of firm (Bhayani, 2010).

2.2.3) Liquidity

According to Ibenta (2011) liquidity means ability to fulfill current responsibilities of firm. Liquidity is connected with current ratio because current ratio evaluates the current assets and short term liabilities. For example if firm has adequate current assets as compare to current liabilities it means that liquidity position of is strong and reliable. Liquidity of firm can be measured by dividing current assets to current liabilities of firm. Moreover, Liquidity is like instrument to measure the firm payoff. Further, liquidity revealed condition of firm that whether it can pay its current liabilities or not. Adequate liquidity position means firm have more assets as compare to current liabilities. Different studies suggest different proxy to measured liquidity such that Tsapin and Stephan (2008) measured liquidity through (CR) current ratio. But some other studies indicate more ways to measured liquidity. However, according to Uyar (2009) liquidity is measured by using (CR) current ratio, (QR) quick ratio and (CCC) cash conversion cycle. It is a problem to decide the demand of the liquidity for a firm. Moreover, Zygmunt (2013) used cash conversion cycle to measure the liquidity of firm. The liquidity demand of a firm very according to firm circumstances. According to Pandey (2005) liquidity demand depends on size of business and nature of it.

2.2.4) Leverage

Leverage is portion of total funds that firm obtain in the form of debit to improve business activities (Hulster, 2009). Leverage can be measured through debit/ equity ratio (Awan, 2014). If the firm depends on debit than debit/ equity ratio will be high. Leverage depicts firm preference about financing decision. Therefore, it is a tool to measure whether firm used high debt or equity. If firm used more debit it is called highly leverage firm but when they use only equity than it is unleveraged firm. Leverage can be dividing in two types one of them is operating leverage and other one is financial leverage. Operating leverage is related with fixed cost except interest and tax. Therefore, it is also related with sale and (EBIT) earnings before interest and tax. The operating leverage indicates the impact of operating fixed cost on the (EBIT) earnings before interest and tax. On other hand financial leverage related with the (EBIT) earnings before interest and tax and net profit. It shows the impact of financial fixed cost on (EPS) earnings per share. The total leverage indicates influence of fixed cost on from sale to (EPS) earnings per share. Therefore according to Modigliani and Miller (1963) it is considered a tax saver. But when firm used more debits they suffer loss because debit has fixed cost and due to more use of debit the firms loosed their position to pay interest.

2.3) Dimension and importance of study

Firms in economic era vary generally in size, survival and profitability but this is big issue and still under discussion that whether it influenced profit. This study will determine the impact of liquidity, firm size and leverage on the profit of firm. To achieve this objective the study chose textile sector of Pakistan. Textile is a 2nd largest sector of Pakistan's economy after food and its return on assets shows that it should be developed. The population of this research will be the companies of textile sector of Pakistan who are registered in the Pakistan stock exchange of

Pakistan. This study will collect the data from 2003-2014 for research. The sources of data collection will be official website of State bank of Pakistan and financial reports of firm. This study will examine the impact of liquidity, firm size and leverage on the profitability with reference to firm life cycle. To determine this impact first of all, the study will apply descriptive statistic to know the mean and dispersion about selected variable. This will help to know the variation in the data. Panel data methodology has been applied to evaluate the impact of liquidity firm size and leverage on the profit. Fixed effect and random affect technique can be applied in the Panel data analysis and housman's test will use to decide which model will be appropriate. Specifically, this will contribute in literature and practice. The result of this study will help in deciding how to improve the profit and make firm profitable. It also contributes in deciding whether to expend firm size or not. In short, it will help to understand why there is variation in firms with reference to profit.

2.4) Variable wise potential issue

2.4.1) Return

Profit can be calculated through detecting expenses from amount earn. Profit is scale to measure the performance of the firm. Profit ply very important role in competitive market. Therefore the major objective of research in business area is to find and study the factors that affect the profitability of firm (Ahmad *et al.*, 2015). Specifically, Profit is a necessary element to survive in the market because loss leads to the end of business. But the profit of textile sector is declining day by day. The present condition of textile sector of Pakistan is not going well. According to state bank of Pakistan return on assets of textile sector is low and infers loss. It also presaged that export of textile sector has been reduced such that export of yarn reduced to 48 percent.

Therefore it is necessary to examine the factors that affect the profit, return on assets and export of the textile sector.

2.4.2) Liquidity

Liquidity helps to know whether firm in a position to fulfill its current liabilities or not (Saleem & Reman, 2011). Liquidity play very crucial role to survive in the market (Zygmunt, 2013). But according to Ross (2000) and Myers (2003) excess of liquidity is bad and affect the profit. According to Calvo (1998) liquidity is a reason of sudden stop in the business. Specifically, liquidity affects profit in a way that it affects financial cost. Raheman and Nasr (2007) also indicate negative effect of liquidity on profit. On other hand Lyroudi and Lazaridis (2000) revealed positive relationship between liquidity and profit. Therefore it should be examine in textile sector with reference to firm life cycle.

2.4.3) Debit ratio

Leverage is amount of debit that firm used to enhance production and sale (Hulster, 2009). Leverage show the debit and equity proportion. Leverage is normally called fixed cost which firm bears. Moreover, leverage affects the profit in a manner that it addresses financial cost and operative fixed cost. Many studies indicate the relationship between leverage and profit. Such that leverage affects profit negatively (Melinda and Cristina, 2009). Alam *et al.* (2014) indicated negative relationship between leverage and profit.

2.4.4) Size

Firm size includes total assets of firm, total number of employee the firm and total sale of the firm. Large size of the firm leads to the more sale and bring more profit in the firm. Firm size can be measured by total assets of firm (Kim, 1997). Firm size also affects the cost of production in such a manner that in large size, firm produces more items which leads to low per unit cost.

However, all the fixed cost of the firm is fixed and does not change with reference to production until the optimal stage of the firm. But the small firm produces low quantity of production and does not gain benefit of economy of scale. So, variation in profit emanates through firm size.

2.5) Review of Literature

The literature about liquidity and profitability is very around the tradeoff between profitability and liquidity (Dash & Hanuman, 2008).The correlation between liquidity and profitability occupy large portion of literature (Abiodun, 2013). But previous studies have mixed result because some proposed weak or strong relationship and some deny at all for relation (Ammar *et al.*, 2003). Furthermore, according to Nobanee and AlHajjar (2005) firm should to have adequate level of liquidity to maintain market reputation. Therefore, to survive in the market has to make right decision about the right combination of liquidity position and investment. Because if organization invest more, than business operation can be disturb but when management invest small amount than it will affect the profit and increase opportunity cost (Horne & Wachowicz, 2000). Moreover short term existences depend on liquidity and long term on profit (Niresh, 2012).

According to literature firm have to maintain liquid assets due to four reasons such that (Miller & Orr 1966)

- Transaction motive
- Precautionary motive
- Tax motive
- Agency motive

Liquidity can be defined as realizable cash on the balance sheet to short term liabilities (Morris & Shin, 2010). Ibenta (2005) defined the liquidity as a position of a firm when it is able to pay

off its current responsibilities. Ration analysis can be used to judge financial position of the firm (George & Holmes, 2005). Sometime sudden stop in business is due to cash flow and lead to bankruptcies (Calvo, 1998). It is difficult to find the liquidity requirement but the position of balance sheet told about the requirement of the liquidity for business (Basno & Dardac, 2004). Moreover business size and nature of business also affect the requirement of the liquidity for a firm (Pandy, 2005).

Number of studies proposed that there is relationship between the liquidity and Profit such that (Shin & Seonen, 1998). Velnampy (2006) conducted a research to inspect the relationship between liquidity and profitability of firm. The sample consists of 25 companies who are working in Sri Lanka. His findings show that earning/total assets and sales/total assets are significant ratio to examine the liquidity position of the firm. Vishnani and Shah (2007) determined that current ratio is best way to measure the liquidity of the firm.

Eljelly (2004) studied in Saudi Arabia and the sample consists of joint stock companies. This study used regression analysis technique to find relationship. The result shows that liquidity has negative impact on the profit. Further mover, this study finds the positive relationship between firm size and profitability.

Bardia (2004) conducted research in the aluminum industry and fund that liquidity positively affects the profitability. Sur and Ganguly (2001) also found the positive impact of liquidity on profitability of the firm.

Inversely, some researcher negative relationship between liquidity and profitability such that Uyar (2009) determined the impact of liquidity on profitability .This study finding shows that liquidity negatively affects the profitability of the firm. Shin and Soenen (1998) also examined that liquidity inversely affect the profitability of firm. Moreover, Sen and Oruc (2009) found that

management should to reduce receivable turnover and rise the payable turn over to increase investment opportunity and profit. Moreover, Reheman and Nasr (2007) have done a research on Pakistani and Indian firms and their result revealed that liquidity negatively affects the profitability.

Velnampy and Nimalathan (2010) examined the relationship between firm size and profit. Their empirical finding of this study revealed positive impact of firm size on profitability of the firm. Akhavein (1997) conducted research to find the relationship between firm size and profitability. The finding shows that firm size positively affects the profitability. Mason and Merton (1985) also determined that firm size provide growth opportunity and lead to innovation and progress. Moreover, profit depends on the firm size (Abor, 2005). More recently, according to Nireesh and Velnampy (2014) large size leads to low per unit cost. Velnampy (2013) indicate that market power depends on large size and large firm can easily capture the market. That's why there is no doubt that firm size is road that leads to more profit and success (Surajit & Saxena, 2009).

Tangen (2003) found the impact of firm size on profitability and his finding shows that large size is a factor that bring profit in the firm due to low per unit cost. Profitability is a result of large size (Majdumdar & Chhibber, 1999). According to Berger and Patti (2006) large size play very important role in firm's performance because in large size firm is divided in two different parts and every part can be managed properly. He also stated that large size firm can bear more risk as compare to small size firm due its capital and capacity.

Capon *et al.* (2011) determined that large size is necessary for good performance because large firm have many resources. Indeed, large firm perform better as compare to small firm. Theoretical literature (Surajit & Saxena, 2009) links large size to better performance due to

ability of large firm to capture market and risk tolerance. Further mover, Vijayakumar and Tamizhselvan (2010) revealed that firm size positively affects the profitability of the firm. But schneider (1991) find inverse relationship.

Ozgulbas *et al.* (2006) conducted a research in Istanbul the sample of this study consists of joint stock companies his finding shows that large firm perform better as compare to small firm. That's why profit of large firms are more as compare to small firm (Jonsson, 2007). Banchuenvijit (2012) has determined that profitability has positive relationship with sale but negative relation with assets. In similar research, Serrasqueiro and Nunes (2008) examined the impact of firm size on the profitability. Their empirical findings of this study shows that firm size positively affect the profit of the firm. Papadognas (2007) done a study and the sample consists of manufacturing firms the finding of this study shows that firm size influences profit positively. Hall and Weiss (1967) pointed study o firm size and profitability. They revealed positive impact of firm size on profitability.

Fiengenbaum and Karnani (1991) determined the relationship between liquidity and profitability and their finding shows positive result. Stierwald (2009) conducted a research in Australia to find the critical factors that influence the profit; he found that firm size is main factors that bring change in profit. In other similar research conducted by Saliha and Abdessatar (2011) in Tunisia and the sample consists of 40 firms. The result of this study depicts positive impact of firm size on profitability. More recently, Akbar and Karaduman (2012) has determined the positive affect of size on profitability.

In other side, Serrasqueiro *et al.* (2008) found inverse relationship between profit and firm size. Shepherd (1972) also proposed similar negative relationship between profit and firm size. Ammar *et al.* (2003) examined the impact of firm size on the profit and found that if sale of firm

increase from the limit of 50 million dollar than at the above of this limit size will affect the profit inversely.

All these study generated mixed finding about the impact of liquidity and firm size on the profitability. According to adizes (1989) everything have life cycle and they have to follow it. Lifecycle of the firm effect the profitability such as Tanataee (2011) determined the relationship between firm life cycle and dividend policy. Positive relationship has been determined by this study. So, the result of all above studies is mixed, and they also ignore key factor such that firm life cycle. Moreover, the crucial aim of this study is to find the impact of liquidity and firm size on profitability with reference to firm life cycle.

2.6) Hypothesis

This study make following hypothesis on the base of literature gape

H_{1(a)}: There is significant relationship between Liquidity and profitability in firms who fall between 0-20 years of incorporation

H_{1(b)}: There is significant relationship between firm size and profitability in firms who fall between 0-20 years of incorporation

H_{1(c)}: There is significant relationship between Leverage and profitability in firms who fall between 0-20 years of incorporation

H_{1(d)}: There is significant relationship between Liquidity and profitability in firms who are above 20 years of incorporation

H_{1(e)}: There is significant relationship between firm size and profitability in firms who are above 20 years of incorporation.

H_{1(f)}: There is significant relationship between leverage and profitability in firms who are above 20 years of incorporation.

CHAPTER 3

3.1) Introduction

Chapter three encompass the research frame work to determine the impact of liquidity, firm size and leverage on the profitability of firm. It depicts research approaches, sample size, population and procedures how to collect data and resources of data. It also indicates the all the ways through which problem will be solved. Research is systematic procedure to find solution of problem or to develop new ideas and theory about any change. Indeed, it is necessary to use scientific and systematic approach to extract actual result of the study because this approach provides basic foundation to grow result. Specifically, research includes all procedure of planning, data collection and solution of problems (Adams & Schvaneveldt, 1985).

3.2) Research Approaches

According to Yin (1994) qualitative and quantitative approaches can be applied to find empirical result. These approaches are used to solve the problem on the base of circumstances and situation of study. Quantitative approach is applied when problem and hypothesis are clear. However, this approach indicates cause and effect correlation and depicts cause of this problem (Burns & Grove, 2011). Quantitative research mostly related with theory testing and examining general theory in specific situation and reveal whether this theory useful and implacable in this specific area.

On other side qualitative approach is applied to explore new ideas, phenomenon and new culture. This approach is used to gain complete knowledge about any phenomenon. This study adopted quantitative approach to evaluate the effect of liquidity on the profitability. Quantitative approach has been applied due such reason that it has to find cause and effect relationship.

Niresh and Velnampy (2014) has been used quantitative approach in their study to determine the result of study.

Moreover, according to objective research can be divide in to three categories such that

- Explanatory research
- Descriptive research
- Exploratory research

According to these divisions this study is fall in to explanatory research because the aim of this study is to find and explain the causal relationship between the liquidity, size and leverage on profitability.

3.3) Research design

According to Yin (1994) research design is method to select methods, measurement, ways of data collection and techniques.

3.3.1) Unit of Analysis

Unit of analysis indicate whether study will conduct on individual or dyads in other word it depict the population of study. It means unit of analysis can divide in to

- Individual
- Dyads
 1. Corporate
 2. Organization
 3. Culture

The unit of analysis of this study is organization on which this research will conduct and solve the problem of this area.

3.3.2) Population

Population is total units in collective form from which sample is selected for research and that sample is sub unit of total population which represents population (Bryman & Bell, 2003). Textile sector of Pakistan is the population of this study and the result of this research will help to make policy about this sector.

3.3.3) Sample

Sample is a unit which epitomize characteristic of whole population (Kouser *et al.*, 2012). It is selected from population to examine the effect. These are reason to select sample

- Time saving
- Resource saving
- Convenience
- Actual result
- Result of some parts help to judge whole population
- Whole population cannot be examined

3.3.4) Sample Size

To determine the effect of liquidity, firm size and leverage on the profitability of firm the data has been collected from eighty companies of textile firm who are registered at Pakistan stock exchange of Pakistan. Textile firms who are registered at Pakistan stock exchange have been selected for research and for accuracy measurement. This study collects the data from 2003-2014 for research.

This study divide firm life cycle in to two stages, 1st is 0-20 and 2nd is more than 20 years of commencement (Warusawitharana, 2016). The firms who are fall in to 0-20 years of

incorporation includes in one group and the firms who are above that 20 years of commencement fall in to second group. This is done for followings reasons

- Convinces
- To compare result of one group to second
- To examine the difference in effect with reference to firm life cycle
- Help in policy making about these two groups

3.3.5) Data collection

Data are a base of any research because results of every research grow on shoulder of data. That's why it should be accurate and in good manner. So, that it can be used for accurate result and for good research. If data of the study is not accurate than how it is possible than the result which drawn on the bases of this data will be accurate and reliable.

The researcher should to putt attention on following points in data collection procedure

- Resources of data
- Way of data collection
- Scale to collect data
- Right form of data
- Time of data collection
- Data should be free from all kinds of biasness.

All above mention should be focused to collect right data for right decision. Data also play very important in decision making because it is a base of result.

3.3.6) Data Source

Many sources of data collection have been available for study. Difference researcher used different resources in their studies to determine the result. As, this research is about of firm of textile sector of Pakistan registered at Pakistan stock exchange of Pakistan. Therefore, financial statement is best way of data collection for companies who are registered at Pakistan stock exchange. Pakistan stock exchange official website provides the financial data of firms who are registered at Pakistan stock exchange. Furthermore, this research has used all the resources to collect the data such that financial report of firm, State Bank of Pakistan and official website of Pakistan stock exchange.

3.3.7) Methodology

According to Esene (2005) research methodology is a procedure that helps to achieve the objective of research. The result base on the correct choice of methodology and it should be accurate according to circumstance (Silverman, 2006). This study is conduct to determine the impact of liquidity and firm size on the profit of firm .The liquidity is measured by using the current ratio liability (Raheman & Nasr, 2007) and firm size is measured through log form of total assets of the firm (Friend & Lang, 1988). The profitability is calculated by earnings available to common shareholders/ Total Assets. Valipour *et al.*(2012) and Ahmad *et al.*(2012) measured profitability through ROA in their search.

3.3.8) Statistical Techniques

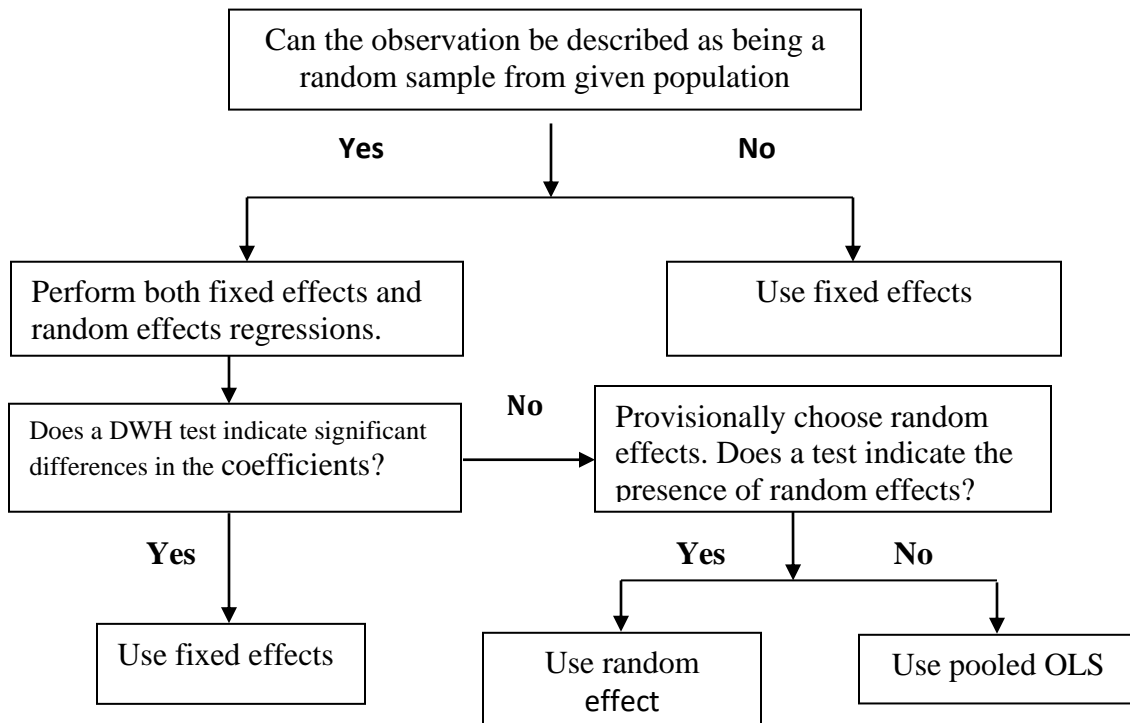
Method for data analysis means techniques used in data collection and through which objective of study is achieved (Esene, 2005). Panel data methodology has been applied to determine the impact of liquidity on the profit. This technique is appropriate because it provides more degree of freedom and panel data play very important role in analyzing the huge observation (Dougherty, 2011). Panel study can control heterogeneity (Baltagi, 2001). According to Gujarati and Porter, (2005) panel data is suitable for research because it has both characteristic of time series and cross section. Odongo *et al.* (2014) used Panel data methodology in his research. In time series data normally panel data technique is used to examine the impact. The data collected from firms are differs in nature but it is same according to essence, so panel data technique is best in this condition. The two techniques can be employed for panel data analysis one of them is fixed effect model and other is random effect model such that Kouser *et al.* (2012) used fixed effect in their study. Fixed effect model can control the high correlation among explanatory variables and captured actual result (Abiodun, 2013). Unobservable heterogeneity play crucial role in panel data model estimation for analysis.

On other hand it is very necessary to make decision about sampling technique. Because if used random sampling than there is large chance to use fixed effect model and random affect model. If a study used sampling technique other than random sampling than according to Dougherty (2011) it have one choice of use fixed effect and will not use random effect model.

When research employed random sampling technique than this study have both options whether to used fixed effect model or random effect model in research. To decide which model should to apply, this study pay attention to housman's test. Housman's test is like yard stick to decide

about the use of model. Housman’s test used hypotheses and if the result is significant then we accept alternative hypotheses and will use fixed effect model otherwise we will apply random effect model. Brush pagan language test can be used to examine whether the model selected by the researcher is valid or not.

Choice of Regression Model for Penal data

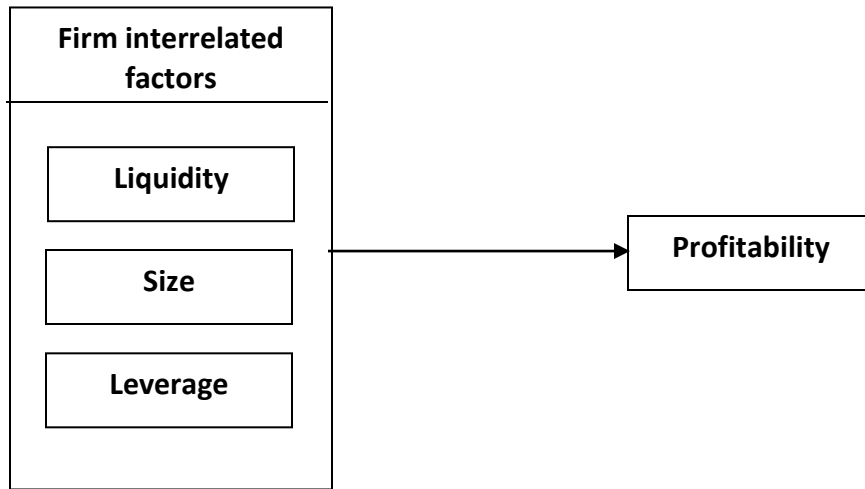


Source: Adapted from Dougherty (2011)

Kouser *et al.* (2012) conducted a study in Pakistan they used fixed effect model in their research. They determined the relationship between the firm size profitability and growth. Their result indicates that positive relationship between these variables

Asif and Rasool (2011) conducted a study and determine the impact of leverage on the dividend policy. The sample consists of 403 companies and they found negative relationship between dividend and leverage.

3.4) Theoretical Framework of study



Variable used in this study

ROA	Return on Assets
QR	Quick Ratio
CR	Current Ratio
LEV	Leverage
SIZE	Size of the firm

3.5) Research Model

Model = 1

$$ROA_{it} = \beta_0 + \beta_{1it}(CR) + \beta_{2it}(QR) + \beta_{3it}(LEV) + \beta_{4it}(FS) + e_{it}$$

Model = 2

$$ROE_{it} = \beta_0 + \beta_{1it}(CR) + \beta_{2it}(QR) + \beta_{3it}(LEV) + \beta_{4it}(FS) + e_{it}$$

This study use ROA return on assets ROE return on equity as a measure of profitability and the liquidity is measured by current ration. The firm size is measured by total assets of firm.

ROA

ROA means return on assets it measure performance of firm. ROA can be measured through

ROA= Net income after tax /total asset (Asimakopolous *et al.*, 2009)

ROE

ROE stand for return on equity and it also one of performance measure tool.

ROE= Net income after tax/ Total equity (Taani, 2012)

CR

CR is used as abbreviation of current ratio and it is calculated by using this formula

CR=Current assets/ Current liability (Eljelly, 2004)

QR

QR mean quick ratio it measures the performance of management to manage quick assets as compare to liabilities.

QR= Quick ratio (Current assets-stock)/current liability

FS

You (1995) used four approaches to measure firm size which are following

- Technological approach
- Institutional approach
- market structure
- Life-cycle approach

Firm size includes total assets of firm, total sale and total employee of firm but different researcher used different ways to calculate firm size. This study used log of total assets to

measure firm size many other researcher also used this formula to calculate firm size such that (Hall & Weiss, 1967; Ammar *et al.*, 2003)

$$\text{Firm size} = \text{Log} [\text{Total assets of firm}] \text{ (Gönenç \& Arslan, 2003)}$$

LV

LV stand for leverage and it is calculated through this process

$$\text{Leverage} = \text{TD} / \text{TA} \text{ (Yoon, 2005)}$$

3.6) Transformation of Data

Data is base of research because result of research is grows on the shoulder of data. Therefore data should be in good manner and in correct form. If management use actual resources and appropriate scale to collect the data but result of this may be false due to some reason such that incorrect form of data. Moreover the data should be in correct form and capable for analysis which can produce actual result. This research has been used the data in following manner. Return on asset, current ratio and quick ratio are measured and present in ration form.

The firm size is measured through total assets of the firm and it is in huge amount and cannot be used directly. So the log form of total assets of firm has been employed in replacement of total assets of firm (Thomas, 2005). Odongo *et al.* (2014) also used the log form of total assets of firm as firm size. The leverage is measured though total debt to total assets. It means that to calculate the leverage have to divide the total debt by total assets of the firm.

Variables of the Study

Following variable are used in this study

- **Independent variable**

Leverage

Liquidity

Firm Size

- **Dependent variable**

Profitability

Dependent variable

Profitability

Profitability is the profit earned on the total assets of the organization. On other side according to business context, profit is tool to examine the performance of the management and firm. It evaluate whether return amount from investment in more than invested amount or not. Profitability can also be known as the excess amount received from investments in the shape of revenues (Saari, 2011).

Independent variable

Liquidity

Ibenta (2005) defined the liquidity as a position of a firm when it is able to pay off its current responsibilities. Liquidity is related with current assets and current liabilities. Liquidity means firm have more current assets as compare to the current liabilities of the firm. Liquidity ratio helps to judge the ability of the firm whether they can pay their current obligation (Saleem & Reman, 2011)

Firm size

The firm size is a production capacity and amount of services that is provided by the firm regularly to its users (Niresh, 2014). Firm size can be measured by total assets of firm (Kim, 1997; Sheel, 1994).

Leverage

The leverage is an amount of debit that firm used to increase sale earning and production (Hulster, 2009). Firm normally use two main resources of fund, such that debit and equity. Both resources have advantage and disadvantage. Leverage is representing in the form of debit/ equity ratio (Awan, 2014)

3.7) Summary

The critical objective of this study is to determine the impact of liquidity and firm size on the profit of firm. Data are essential element of any research because findings are result of data. That's why it should be accurate. However, to determine the impact of liquidity and firm size on the profitability data has been collected from 20 companies of textile sector who are registered at Pakistan stock exchange. This study collected the data from 2009-2014 for research.

This study is conduct to evaluate the impact of liquidity and firm size on the profit of firm .The liquidity has been measured by using the current ratio (Eljelly, 2004) and firm size is measured through total assets of the firm (Friend & Lang, 1988). The profitability has been measured by two proxies such that return on assets and return on equity. Valipour *et al.* (2012) and Ahmad *et al.*(2012) measured profitability through ROA in their search. Panel data methodology will apply to examine the impact of liquidity on the profit.

The two techniques can be used for panel data analysis one of them is fixed effect model and other is random effect model. To decide which model is appropriate this study relay on Hausman's test.

CHAPTER 4

4.1) Introduction

Chapter four include the result of all the analysis which has been done in this study. Different type of analysis has been done to determine the actual impact of liquidity, firm size and leverage on the profitability of the firm. First of all this study focus on the characteristic of data because data are foundation of the research. So, firstly its characteristic has been examined by the descriptive study. Descriptive analysis leads to the reliable information such that return on ratio tells us about profitability of the firm. It also it indicates variation in data of the different firm and show that whether all firms earn same profit or there is huge difference. If there is huge difference in profit and other ratio of different firm than it point out that market is not going well. After descriptive analysis this study moved to the unit root analysis to check whether there is problem of trend in the data or not. Because if there is trend in data than it will not produce actual and accurate result.

Correlation analysis has been used in this study to determine the correlation between liquidity, firm size and leverage and profit (Kohler, 1994).The main purpose of correlation analysis is to determine whether independent variable strongly correlated or not with each other. Correlation analysis helps to examine the problem Multi-collinearity.

Panel data analysis technique has been applied in this research to reveal the impact of liquidity and firm size on the profit. This technique is appropriate because it provides more degree of freedom and panel data play very important role in analyzing the huge observation (Dougherty, 2011). Panel data include both characteristic of cross section and time series that's why it is suitable technique (Gujrati & Porter, 2005).

Fixed effect model and random effect model can be used in panel data methodology to find result and hausman's test will be applied to decide which model is suitable for this study.

4.2) Results & Analysis (0-20years of commencement)

4.2.1) Table # 1 Unit Root Test

Method	ROA.pro	ROE.pro	CR.pro	QR.pro	FS.pro	LEV.pro
Levin, Lin & Chu t*	0.000	0.000	0.000	0.000	.0054	0.000
Im, Pesaran and Shin W-stat	0.000	0.002	0.000	0.000	0.065	0.000
ADF - Fisher Chi-square	0.000	0.000	0.000	0.000	0.0045	0.000
PP - Fisher Chi-square	0.000	0.0054	0.000	0.000	0.0890	0.000

This study used unit root test to judge trend. The data should be use full and free of all kinds of mistake to produce actual result. The trend in the data affects the result of that study and change the actual impact of variable such that when compare marks of student with number of tree that have no impact but it will also produce result than it will spurious result because there is trend in the data which affect the study. The trend should be eliminating from the data otherwise the result of the study will be wrong and lead to spurious result. Mule, (2015) used unit root test to judge trend in data and to make it use full for research.

We check the trend in the data through three ways such that firstly we check them at level if there is trend and P value is not less than significant value 0.05 than we move to first difference and if the trend is still remain than we check at second difference. The result of this table reveals that all variable are stationary at level. Because probability value of all variable is less then significant value 0.05. Specifically, Levin *et al.* (2002) used nit root test in panel data and provide evidence to use it.

4.2.2) Table # 2

Variable	Minimum	Maximum	Mean	SD
ROE	-11.56	17.93	6.97	5.62
ROA	-9.100	28.83	0.37336	8.219
QR	0.0214	3.876	0.326	0.634
CR	0.112	15.000	1.2670	1.9233
Firm Size	6.743	13.952	9.2319	8.02885
LEV	0.0432	3.03	0.7042	0.33278

Table one shows mean and dispersion about selected variable. This table includes five variable and descriptive statics about them. It indicates the total observation, standard deviation and average value of all variable. However data of 12 years has been collected to find result. The firms are divided in to two group .The one group includes those firms who are 0-20 years .These firm are 20 and data is for 12 years.

Descriptive analysis leads to examine the variation in the data of firms. It indicates the market condition of the different firm and whole condition of whole market through data variation such return on investment and equity. Descriptive analysis shows maximum and minimum value of variable which also indicate their boundary. The standard deviation attracts the attention to the variation of data.

The mean value of variable also provides information about the variable. It shows the average value of variable which indicate the position of the variable which is very attractive for the investor and policy makers.

The return on assets measures the management efficiency that how they use firm's assets carefully by producing return (Belak, 1995). The mean of return on assets which is 0.37336

reveal that industrial sector is not going well in these days. The mean of return on assets also indicate average return on the assets of all the firms who are used in this study. It leads to inefficiency of the financial management and shows invest in this sector in not going well. Moreover, the textile sector is a back bone of Pakistan economy and its position is not going well.

The quick ratio is independent variable in this study. Quick ratio can be measured through quick assets divide by current liabilities. It shows the efficiency of the management. The maximum value is 3.876 and minimum value of quick ratio is 0.112. The mean of quick ratio is 0.32 which reveals that there is lack of management to manage quick assets. The mean of quick ratio 0.32 is very low that make it unattractive. The quick ratio shows that firms do not have enough quick assets and these are less than rule of thumb.

The current ratio helps to examine the working capital management performance. Working capital management is necessary part of firm management. Current ratio mean is 1.26 which is not good according to rule of thumb that it should be 2:1.

To examine the effect of firm size on profitability, logarithm of total assets has been used as proxy of firm size. The mean value of firm size is 9.231 and maximum value is 13.952 and minimum value is 6.743. The leverage depict the debit position of the firm if the leverage value is high it means that firm used more debit. Firm use debit to improve profit but when investment opportunity does not prevail in the market than it debit affect profit negatively and lead to loss.

The maximum value of leverage is 3.03 and minimum value is 0.0432. The mean of leverage is 0.7042. The leverage position of firm shows that firms use high debt ratio.

4.2.3) Table#3 Correlation matrix of selected variable

Variable	ROE	ROA	QR	CR	FS	LEV
ROE	1.00					
ROA	0.18**	1.00				
QR	-0.23**	-0.320**	1.00			
CR	-0.26*	-0.524**	0.253**	1.00		
FS	0.32**	0.373**	0.19**	0.240**	1.00	
LEV	0.21*	0.242**	0.212**	0.471**	0.202*	1.00

** . Correlation is significant at the 0.01 level

* . Correlation is significant at the 0.05 level

Correlation analysis has been used to determine the correlation between the selected variable. Table three includes five variables and proposes correlation between them. The main purpose of correlation analysis is to determine whether independent variable strongly correlated or not with each other. Correlation analysis helps to examine the problem of multi-collinearity. The beauty of correlation is that it states us the direction of relationship between two variables as well as the magnitude of relationship. According to these results when management increase quick assets by one than the return on assets is decreased by 0.120. It shows that if increase quick assets than firm profit will decrease and may be lead to loss in form of opportunity cost which they have to bear if management do not invest them. It also indicates that management should to reduce quick assets to increase the profit of the firm because it has negative relationship with profit. The value of current ratio indicates that current assets reduce the profit by 0.224. It also indicate that if management want to improve profit than they have to reduces current assets and invest them properly. It shows that more current assets are the enemy of the profit of firm and firm should to focus on the current assets in a way that increase the profit of the firm. Current ratio calculates internal liquidity of the firm (Raheman, 2007). Current assets should be more than current liability but in limit otherwise it produces loss.

However, according to result firm size is a road which leads to profit and prosperity. So, when management improves the firm size than profit will also improve by 0.373. It indicates the firm that has big size in form of sale, employee, assets and production produces more profit. Because the firm which has large size can avail the benefit of the economy of scale by produces more things with low per unit cost.

The value of leverage presaged that leverage has positive relation with profit. Firm use debit to improve profit but when investment opportunity does not prevail in the market than it debit affect profit negatively and lead to loss. All these results reveal that liquidity has negative correlation with profitability but leverage inversely correlate with profitability. That's why management should to reduces the liquidity and invest more assets in the investment because it will produces more profit for the firm and it will also reduce opportunity cost of the funds.

The firm size correlation value proposes that firm size has positive correlation with profit of the firm and the management can increase profit by expending the size of the firm.

4.2.4) Multicollinearity among Independent Variables:

This test has been applied to determine the problem of the Multicollinearity among independent variables. This test is helpful to identify the Multicollinearity problem. Multicollinearity problem occur when the one independent variable influence other independent variables and through this act they affect the result of the study. In good model there should be no the Multicollinearity problem and independent variable should not influence other independent variable. So, for the reliable and valid result of study it should be free of Multicollinearity problem and all independent variable should to affect the result separately by not influencing other independent variable.

4.2.5) Table# 4 Multicollinearity among independent variables

Variables	VIF	1/VIF
QR	1.14	0.877
CR	2.82	0.355
SIZE	1.32	0.7575
LEV	1.67	0.8568

Table four reveal the result of test used to find Multicollinearity problem between the independent variables. The variance inflation factor (VIF) value should be less than 10 then there will be no problem of Multicollinearity (Gujarati, 1995). The value of VIF of all independent variable are less than 10 such that QR value is 1.14 and CR value is also less than 10 which is 2.282. The value of firm size is 1.32 and 1.67 for leverage. The result of study presaged that there is no Multicollinearity problem between the independent variable. If VIF values are more than 10 than it will indicate that there is problem of Multicollinearity and it will disturb result of the study.

4.2.6) Table# 5 Hausman Test

Test Summary	Chi-Sq Statistic	Prob.
Cross-Section Random	3.8949	0.4204

In panel data methodology two model can be applied to determine the impact and actual result of research which are fixed effect model and random effect model but it is also big issue to which model should to use because random effect model has criticized by researcher on several bases (Baltagi, 2001). Mule (2001) has been applied hausman's test in his study to judge whether to use fixed effect model or random effect model. To decide which model should to use this study look forward to hausman's test. Hausman's test is like yard stick to decide about the use of model. It leads to actual model which researcher should to use in their research to find result. Hausman's

test used hypotheses and if the result is significant and P value is less than 0.05 then we accept alternative hypotheses and will use fixed effect model and if P value is more than significant value 0.05 than we will use random effect model in the research. The P value indicates the difference of different nature between the firms. In cross section data the firms are differ from each other on the base of nature, employee, sale and assets.

However, this difference can affect the result of such study. If there is behavioral difference in different firm than fixed effect model will be used. If individual firm effects are uncorrelated with the other regressors than fixed effect model will be used otherwise random affect model will be appropriate. Hausman test has been used to determine whether use fixed effect or random effect and its chi-square p value is 0.42 which is more than significant value 0.05. So we will use random effect. According to situation random effect is appropriate than fixed effect. If the probity value is less than significant value 0.05 then this study will employed fixed effect to determine the impact of liquidity, leverage and firm size on the profitability of the firm

4.2.7) Table #6 Random Effect

ROA	Coef.	Std. Err.	P
C	-5.016	2.381	0.452
QR	-0.450	0.090	0.000
CR	-0.565	0.275	0.0032
LEV	0.1023	0.0358	0.000
SIZE	3.173	1.009	0.000

F-Statistic	Prob.	Adjusted R ²	Durbin-Watson
3.6462	0.000	0.5731	2.103

To determine the impact of liquidity and firm size on profit, random effect model has been used. Because hausman test prefer the random effect and suggest that it is appropriate model. Table five reveals the result of firms who falls between 0-20 years.

The empirical findings indicate that profit of these firms is inversely affected by liquidity. The Coefficients indicate the relationship between the variables of the study. It also shows the impact of independent variable on the dependent variable. The current ratio value indicates that more liquidity position leads to loss and effect the profit inversely. Current ratio depict that when current ratio is increased by one than profit will be decreased by 0.546

The quick ratio is also is proxy of liquidity and represent effect of liquidity on the profit of the firm. The value of the quick ratio also describe that quick ratio is an enemy of the profit and become the reason of the loss in firm (Eljelly, 2004). The value of quick ratio indicates that if increase one unit in the quick ratio than 0.54 units will decrease in profit of the firm.

According to empirical findings the leverage also is one of the factors that affect the profit of the firm. Sometimes firm use more debit and cannot pay its charges that's why it lead to loss. The findings indicate that profit of these firms is affected by size of the firm positively and it significantly affects the profitability (Ozgulbas *et al.*, 2006). Large size firm produces more items with low cost and gain economy of the sale.

The size of the firm changes the profit by different ways such that low cost, more sale, market reputation. It determined that when management expends firm size than profit will be increased (Banchuenvijit, 2012). It indicates that large size is a sigh of more profit and progress. Moreover, According to Akintoye (2009) the firm who has more tangible assets produces more profit. The value of the firm size shows that one unit change in firm size will bring .418 units change in the profit of the firm.

F-statistics and p value 0.000 reveals that model is good fit and can be used to determine relationship between these variable. Because its P value is less than significant value 0.05 which shows that this model is appropriate and can be applied for this study. Durbin-Watson test is used to examine the problem of the autocorrelation in the data. The autocorrelation problem is occurs due to error term. The error term sometimes is correlated with past error terms and in this way it affects the result of the study.

Durbin-Watson value also depicts that whether there is problem of autocorrelation or not. The Durbin-Watson value is 2.10 which lead to surety that autocorrelation is not prevails in this study. According to Kalayci (2009) the value of the Durbin-Watson should be between 1.5 and 2.5 then there will be no problem of autocorrelation. If the value of Durbin-Watson is more than two or near to one than it will indicate that there is problem of autocorrelation. The result of this study is same as result of Raheman and Nasr (2007).

4.2.8) Table #7 Random Effect

ROE	Coef.	Std. Err.	Prob.
C	-0.802	0.381	0.785
QR	-0.214	0.090	0.000
CR	-2.623	1.275	0.003
LEV	0.1027	0.0458	0.065
SIZE	3.173	1.480	0.000

F-Statistic	Prob.	Durbin-Watson
5.542	0.002	1.92

Random effect model has been applied to examine the effect of liquidity, firm size and leverage on the profitability of firm. Table six depicts the result of regression in which return on equity

(ROE) has been used as dependent variable. The result of study presaged that liquidity is negatively affects the profit. It means that when liquidity increases than the profit of the firm will decrease. The current ratio shows that firm should to invest more and have low liquidity because there is inverse relationship between liquidity and profitability.

The quick ratio also indicates the liquidity position of firm and its result leads to more investment and attract the attention of the management to the liquidity because it affect the profit inversely. The result of the study proposes that when management of firm increase one unit in quick ratio than the profit will be reduced by 0.214.

The findings of this research depicts that firm size is a factor which brings change in the profit. According to literature size affects the profit whether positive or negative. The findings of this study also show that firm size has high degree of effect on the profit. When increase one unit in size then it will bring 3.173 units changes in profit.

Specifically, the probity value of F-statistic indicates that model is good fit and can be applied for research because since its P value is 0.002 which is less than significant value 0.05. It is used to determine the whether these variable have reasonable impact on the dependent variable or not and whether this model will produce reliable and valid result.

This study used Durbin-Watson value as scale to determine the autocorrelation problem whether exist or not. This problems exist when error term is correlated with past error term. However, the reason of this problem is error term. Durbin-Watson value in this study is 1.92 which indicates that there is no problem of autocorrelation. Kalaycı (2009) defined that If Durbin-Watson value is fall in 1.5 to 2.5 limit than it shows that autocorrelation problem is not prevail and result of this study will be reliable and valid.

Result & Analysis (Above 20 year of commencement)

Table #1 Unit Root Test

Method	ROA.pro	ROE	CR.pro	QR.pro	FS.pro	LEV.pro
Levin, Lin & Chu t*	0.000	0.000	0.000	0.000	.0054	0.000
Im, Pesaran and Shin W-stat	0.000	0.0032	0.000	0.000	0.065	0.000
ADF - Fisher Chi-square	0.000	0.002	0.000	0.000	0.0045	0.000
PP - Fisher Chi-square	0.000	0.000	0.000	0.000	0.0890	0.000

Table two depicts the result of unit root test. The trend should be eliminating from the data otherwise the result of data of the study will be wrong and lead to spurious result. We check them at level, first difference and second difference. The result of this table shows that all variable are stationary at level. Because probability value of all variable is less than significant value 0.05. If the P value variable under different test is not significant than we move to second difference and check the P value if it is less than significant value 0.05 than it is accepted otherwise move to third difference and if is not stationary at third difference than we will change variable.

The data should be accurate and free from all the type of error to show actual impact of independent variable on the dependent variable. If there is trend in the data than the result which is calculated through this data will not be accurate and reliable because its base is not accurate and correct. How it is possible that incorrect data produce correct and valid result of study that's why it should be accurate.

Table # 2Descriptive Statistic

Variable	Minimum	Maximum	Mean	SD
ROA	-6.100	26.9478	0.5634	8.219
ROE	-8.83	17.92	0.6321	5.032
QR	0.010	1.076	0.2126	0.163
CR	0.1629	11.000	1.3632	1.523
Firm Size	10.36	17.90	14.1994	1.316
LEV	0.0417	4.932	0.7934	0.453

To examine the mean and dispersion about selected variable descriptive Statistic has been applied. Table one provide descriptive statistics of the variable. This table includes five variable and description about the data of them. The table one indicates the result of the firms who are above than 20year of incorporation. The Return on assets is used as proxy of profitability. Return on assets is a dependent variable. The maximum value of return on assets is 26.94 and minimum value is -6.100. The standard deviation of return on assets is 8.219. The mean of return on assets which is 0.56336 shows that firm above 20 years of incorporation is going well as compare to less than 20 years firm.

The mean of quick ratio is 0.2126 which depicted that there is lack of management to manage quick assets and management should to focus on this area to improve the profit. The maximum value of quick ratio is 1.076 and minimum value is 0.01. The standard deviation indicates the variation in the value of a variable. The standard deviation of quick ratio is 0.1637.

Current ratio depicts the management ability to control current assets and current liability in a way that improve firm repute and profit. Current ratio mean is 1.36343 which is not good according to rule of thumb that it should be 2:1.The maximum value of current ratio is 11.00and minimum value is 0.163.The standard deviation of current ratio is 1.52.

The firm size is used in this study as independent variable. The mean value of firm size is 14.1994 and maximum value is 17.90 and minimum value is 10.36. The standard deviation of firm size is 1.36. The values of the firm size presaged that firm size play very critical role in the profit of the firm.

The leverage is an amount of debit that firm used to increase sale earning and production (Hulster, 2009). It indicates the debit portion of the firm and firm preference resources which it wants to use to full fill their financial need. If firm used more debit than it called highly leverage firm and it also shows that firm prefer debit and avoid from the equity. The mean value of leverage is 0.79 and maximum value is 4.93 and minimum value is 0.0417. The standard deviation of leverage is 1.36. The leverage position of firm shows that firms use high debt ratio and avoid from equity.

The descriptive statistic provides the basic information of all the variable which used in the study such that minimum value, maximum value, mean and standard deviation. All these statistics leads to information which is use full in the research. So, this is help full in getting initial information about variable.

Table# 3 Correlation matrix of selected variable

Variable	ROA	ROE	QR	CR	FS	LEV
ROA	1.00					
ROE	0.163**	1.00				
QR	0.2091*	0.259**	1.00			
CR	0.3402**	0.361**	0.1835**	1.00		
FS	0.5928**	0.656**	0.2315**	0.3088*	1.00	
LEV	0.2025**	0.137*	0.2659**	0.2360**	0.1542**	1.00

** . Correlation is significant at the 0.01 level

* . Correlation is significant at the 0.05 level

Correlation analysis indicates the correlation between variables. Table three proposes correlation between these variable. The correlation analysis is applied to examine whether one independent variable influence other independent variable during the analysis. However, Multi-colinearity problem also can be examined by correlation analysis.

All these results indicate that liquidity has positive correlation with profitability through both ways of profitability such that return on assets and return in equity. The return on assets shows positive relationship with all the variable of the firm who fall in more than 20 years of commencement. The current ratio indicates that it has positive correlation with return on assets with 0.3402 values. It means when increase one unit in currents than return assets will increase by 0.3402 units.

The current ratio also has positive relation with other proxy of profitability such that returns on equity. It value depict that current ratio has positive relation with 0.361 value. The quick ratio proposed positive and significant relationship with return on asset. Its value shows that if quick ratio is changed than there will change of 0.2091 in return on assets.

The quick ratio also have positive relation with return on equity which depict that quick ratio affect shareholder profit by bringing remarkable change in return on equity. Its value depict that it has significant relation return on equity.

Positive and significant relationship has observed between firm size and profitability. The firm size correlate with return on assets having 0.292 values. On other hand firm size also has significant correlation return on equity and it leads to change in policy that management should to expend the size of firm to increase profit. The correlation between leverage and return on asset depict that there is positive relationship between leverage and profitability. The leverage also change profit by 0.2025 through change in return on asset of firm. According to the study result

the leverage has positive and significant correlation with return on assets. So, the management should to focus on the leverage policy and change it according to result of the study.

Multicollinearity among independent variables:

This test has been used to examine whether there is Multicollinearity problem or not. This problem exist when independent variables effect each other in the time of analysis then this influence will change the actual output of the study and at the end it will affect the policy of firm and may be destroy is market value through wrong result. In fact, should be avoiding from Multicollinearity problem to produce actual output of this research. However, every independent should have its single effect with producing combine result by influencing other variable. So, actual result can gain only when study is free from Multicollinearity problem.

Table# 4Multicollinearity among independent variables

Variables	VIF	1/VIF
QR	1.17	0.855
CR	1.73	0.578
SIZE	2.32	0.431
LEV	1.27	0.787

Table four indicates whether Multicollinearity problem prevail or not. The main aim of this test is to find the problem of Multicollinearit. The value of variance inflation factors is less than 10 which indicate that there no problem of Multicollinearity and it can be used for further study. Because according to Gujarati(1995) to avoid from Multicollinearity the value of variance inflation must be less than 10 such that value of quick ratio is less low than this limit which is 1.17 and value of current ratio is 1.73. Other hand firm size value also depict that there is no Multicollinearity problem because its value is 2.32. Moreover, leverage variance inflation factor value is 1.27 which less than limit 10. However the VIF value of independent variables indicates

that these variables can be used in this model. Moreover, tolerance value below than 0.1 also depicts serious issue for that study.

Table# 5 Hausman Test

Test-Summary	Chi-Sq. Statistic	Prob.
Cross-Section Random	26.8949	0.4357

Table five depicts the findings of hausman test and decision about the appropriate model according to situation. Panel data methodology applied random effect and fixed effect model to examine the impact. But it is great problem to decide which test ha to apply. According to Mule (2001) hausman can be used to choose best test for regression from fixed and random effect. However, hausman test has been used to determine whether use fixed effect or random effect to find output of this research. Hausman test is like a tool which helped to choose right model for study. Hausman test work on the base of hypothesis and its result indicate suitable model by accepting or rejecting the hypothesis. If probity value of this test less than 0.05 significant values than it depict that fixed model is appropriate for this condition. It means that probity value is a scale to accept or reject hypothesis. The result of Hausman test in this research propose that random effect is best and use full for this study because its probity value is 0.435 which is more than significant value 0.05 which revealed that random effect will be applied. If the p value of chi-square is less than 0.05 significant values then fixed effect will be appropriate.

Table #6 Random Effect

ROA	Coff.	Std. Err.	P
C	-0.311	0.368	0.074
QR	0.449	0.104	0.004
CR	0.613	0.234	0.000
LEV	3.583.	1.358	0.001
SIZE	2.592	1.225	0.006

Adj-R ²	F-Statistic	Prob.
0.547	5.3287	0.007

Table six reveals the result of regression which is applied under random effect model. This shows the effect of firm size, liquidity and leverage on the profitability in individual and collective form such that when it present result variable wise than it shows individual output but when it indicate total in form of R² than it shows collective effect of all independent variable of model on the profitability.

According to result of this study current ratio has positive relation with profitability such that its coefficient 0.613 value indicate that when increase one unit in current ratio than profit will increased by 0.623 units. This result attracts the management attention that they should to improve liquidity position of firm to increase profit of firm. The finding of this research is same as result of (Smith, 1980).

The quick ratio value also leads to conformation that there is some change in the profit due to quick ratio effect. According to result when improve quick ratio by one unit than 0.449 units will increase in profit. It depicts that quick ratio effects changing with reference to life cycle of firm. The result of quick ratio is like of result (Niresh, 2005).

The effect of firm size is same in both time period such that under and above 20 years of commencement. The impact of firm size shows that one unit in firm size bring 0.55 units change in profitability. It means firm size should to expend to increase profit of the firm. It may be due economy of scale which is gain through low per unit cost because of more production and fixed cost.

In above discussion only individual impact of independent has been revealed. But adjusted R² indicate the total impact of independent variable on profitability. Its value 0.547 presaged that

total impact of liquidity, firm size and leverage is only 55 percent and there is some other factors which bring remaining 46 percent change in the profitability. Furthermore, F-Statistic proposed the good fitness of the model that whether this model is appropriate for this research and variable used in this model has some relation with each other and independent variables can bring remarkable variation in dependent variable. The probity value of F-Statistic is 0.007 which is sign that model is good fit and suitable.

Table #7 Random Effect

ROE	Coff.	Std. Err.	P
C	0.563	0.048	0.362
QR	0.342	0.034	0.000
CR	0.518	0.234	0.007
LEV	0.383.	0.1452	0.009
SIZE	0.592	0.2761	0.000

Adj-R ²	F-Statistic	Prob.
0.563	7.932	0.001

Table seven indicates the findings of regression and in this model return on equity has been used for profit proxy. If we compare results of both test in which one test used return on equity as dependent variable and other used return on assets the result indicate that return on equity is effective proxy of profitability and has more relation with other variable of model.

The coefficient values of current ratio depict the impact of current ratio on profit such that 0.518 value and this value indicate that when current ratio increased by one unit than profit will increase by 0.518 units. It is like a road which leads to success and profit and the firms who are falls more than 20 years of incorporation should to increase current ratio to improve profit.

The quick ratio also brings change in the profit by increase return on equity and its value 0.34 shows that 0.34 changes in profit will come by increase one unit in quick ratio and has direct relation with profit. The probity value of quick ratio indicates that the impact of quick ratio on the profit is significant because its value is less than 0.05. The leverage also changes the profit through increasing return on the equity. The coefficient value of leverage 0.38 remember that if management increase one in leverage that profit will change with direct proportion with 0.38 values and according to probity value it has significant effect on the profit.

The coefficient of firm size depict that one unit in size will raise profit with 0.552 units and according to result of this study firm size has positive and significant impact on profit through effect on the return on equity. To determine actual and collective impact of liquidity, firm size and leverage on the profitability adjusted R^2 has been used which help to fulfill this objective. Adjusted R^2 indicates that all the independent variable brings 56 percent change in profit and captured 56 percent variation in profitability due to proxies of this model. The remaining 44 percent change is due to some other unobserved variables and it also proposes a gape for future study. Furthermore, Adjusted R^2 reveals that liquidity and firm size are good predictors of success .F-statistic also indicates that model which is applied in this study is appropriate and will produce reliable result because their probity value is 0.001 which is less than 0.05. The result of this study is same as findings of (Mohamad & Saad, 2010).

CHAPTER 5

5.1) Discussion

The working capital management is a special part of financial management decision. There should be adequate level of capital to fulfill financial need of firm and it can vary with reference to business nature. But sometimes firm invest all funds and loss its position to fulfill short term liabilities. On other hand if firm invest low portion of funds than they have to bear opportunity cost and return also will be low. However, it is necessary to determine actual impact of liquidity and firm size on the profit of firm so that it can be used in financial decision.

This study is conduct to analyze the impact of liquidity and firm size on profit of the firm with reference to firm life cycle. Whether liquidity affects the profit significantly in the firm who fall between 0-20 years or who are above than 20 years of commencement has been determined. To fulfill this aim a research is done. This research is conducted on the textile sector that is a back bone of Pakistan's economy. The sample consists of eighty textile companies who are registered at Pakistan stock exchange of Pakistan. To evaluate impact of liquidity and firm size different type of test has been used such that descriptive statics hausman test, fixed and random effect model. The empirical findings of study depict that liquidity and firm size has positive and significant impact on the profit of firms who are above than 20 years of incorporation.

The result of this study is the same as result of that study which is conducted by Akhavein (1997) in which he reported that liquidity has positive impact on the profit. This study also in a same line with study done by Reheman & Nasir (2007) in which they stated that liquidity and profitability has direct proportion. Furthermore, the output of this study is in same direction as study conducted by Eljelly (2004) in which his empirical finding reported that to improve profitability liquidity should to be improved.

On other side Lyroudi and Lazaridis (2000) determined the relationship between liquidity and profitability and sample consist of 82 food firm. The found positive relationship between profitability and liquidity and this result is tandem with our study.

Bhutta and Hasan (2013) conducted a research to examine the impact of profitability, tangibility, firm size debt to equity ratio, and growth on the profitability. The population of this research was food sector and time spin was 2002-2006. Their result posits the positive and significant effect of liquidity and firm size on the profitability and their result is in same vein as in this study result. Hassan *et al.* (2012) examined the impact of growth on the profit they revealed positive relation between them. Moreover, Pervana and Višić (212) pointed study to find the firm size impact on the profit of firm which aims to help in decision making about the expansion of firm size. The output of that study is on same road on which the result of this study exists. Doğan (2012) also investigated the effect of liquidity and profit. Their empirical finding presaged same impact as our study, that profitability and liquidity has positive relation with each other.

Large size firms earned higher profit due to following cardinal reason

- Market power
- Economies of scale
- Market experience
- Research and development

5.2) Implication for Manger

The result of this study indicates that liquidity and size are both like a road that leads to profit.

This study also presaged that management should to improve and expand the size of the firm because firm size positively affects the profitability of the firm. Indeed, the liquidity affects the profit of firm through both proxy such that current ratio and quick ratio. But effect of this very

with reference to firm life cycle such that impact of liquidity on profit is negative in the firm who fall 0-20 years and this impact is vice versa in the firm who are above 20 years. Therefore the manager of the firm who are working in firm above 20 years of commencement should to improve current and quick assets to increase profit. But the management of firms who falls 0-20 years of commencement should to be very serious to make decision about the liquidity position because it negatively affects the profit. This research recommends that manager of firms of both categories should to expand the size of firm because of its positive effect and through it they can gain economy of scale.

Following are implication for manger on the base of empirical findings

- Improve liquidity position to improve profit because it positively affect the profit of firm
- Insufficient liquidity will lead to crises and manger should to save firm from this situation.
- The manger should to create balance between profitability and liquidity (Padachi, 2006)
- The manger should to develop techniques for efficient working capital management.(Pandey, 2007)
- They should to avoid from aggressive investment policy (Onwumerel, 2012)
- The mange should to make policy that minimize risk and improve shareholder value
- Avoid from more use of debt due to its cost and investor feel uncomfortable to invest in highly leveraged firm.
- Firm size should to expand to increase profit of firm and to achieve economy of scale.

5.3) Limitations and Future guideline

This study is conducted on textile sector and the sample was taken from 2003-2014 years. The result of this study can be specifically applied in textile sector due some cardinal reason such that sample is a base of research was taken from textile sector but according to generalize rule the findings of this study may be useful in any other sector. This study determined the impact of liquidity and firm size on profitability of firm but the profit of the firm is not only affected by liquidity and firm size, there are many variable that can affect it but not analyzed in this research model such that return on stock, working capital management, capital structure and other micro and macro factors. In future, research can be conduct with these new variables and with large size sample. This study has been conduct on textile sectors and in future other sector of economy can be used for research.

In short, for future study following are candid recommendation which will help in future research

- This study had taken data for just 12 years future study can take data for more than 12 years for research.
- Only textile sector is used as population in future other sectors of economy can be used such that automobile, cement and food sector.
- The sample of this study consists of eighty firms but sample size can be enhanced for further study
- Independent variable can be increased by adding other crucial variables such that growth, intellectual capital and working capital.
- This study is done in Pakistan on textile sector and in future same model can be applied in other country and other sector.

- Future study also can examine whether the liquidity influence the return directly or there is another crucial factor that perform mediating role in their relationship.

5.4) Conclusion and Recommendations

In fact, the financial performance of firm directly influences the economic system of country and in competition environment the factors which affect the performance of firm deserve extra attention. The empirical result of analysis has been provided the basic information that why some organization earn more and show more profit as compare to other organization. Indeed the aim of this study is to analysis the impact of liquidity, firm size and leverage on the profitability and to provide reasonable back ground to make a remarkable policy to increase profit of the firm. This study achieved its objective by providing empirical finding and depicting their effect on profit. According to result of the study impact of liquidity is positive and significant on return of firm. But the direction of relationship between liquidity and profit very with time frame such that impact of liquidity on profit is negative in the firms who fall in to 0-20 years of categories and this impact is vice versa in the firm who are above 20 years of incorporation. However, management should to pay attention to the current assets and quick assets of firm. To improve the profit the management should to improve the liquidity position of the firms who falls in above then 20 years of commencement. Because liquidity positively change profit in only firms who are falls more than 20 years category. The firms who falls between 0-20 years of incorporation should to find moderate level of liquidity that did not affect profit due to negative impact of liquidity on profit in these firms.

The output of this research presaged that firm size also is a key factor which influences the profit of firm. According to the empirical findings firm size contributes positively in profit. The direction of this change is same in both time period such that under and above 20 years of

commencement. So, the management of both categories firms should to expand firm size to produce more items with low cost. It will also increase its market reputation because the investors like to invest in the firm who is going to open new project or expanding its existing size. Specifically cardinality of firm size cannot be ignored in any organization.

In short, Overall findings of study presaged that liquidity and firm size are crucial factors of profitability. It revealed aptitudes in liquidity management and their care about current assets. It is also a lesson for the firms of both categories that how to enhance profit and survive in market successfully.

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