ABSTRACT

The research work analyzed as well as investigated the determinants of profitability in the case of the textile industry of Pakistan. This study considered three contemplations in respect of Pakistan's textile industry: (I) Textile Spinning Segment, (II) TextileComposite Segment(III) Textile Weaving Segment.This research work considered the Pecking Order & Trade-Off theoriesto test the hypothesis of this study.The findings of this study are interestingthat elaborate the relationship between profitability and its determinants (Liquidity, Firm Size, Leverage and Cash Holdings), especially introducing the leverageas mediator in these models.The results of this study indicate that when this study included the leverage as mediator the negative value of cash holding, in the textile spinning segment, becomes positive and the value of cash holdings improve in textile composite and weaving. This study founded that liquidity and leverage have positive and negative impact on a firm's profitability. The firm size has significant impact on the profitability of the firm. The results also indicate that the Lag value of the profitability has dominant role in determining the profitability. This studyalso utilized the leverage as mediator to emphasize its role into profitability and founded that if this research includes mediator in the financial model then the overall profitability of the firm become attractive. The inclusion of leverage as mediator in the models, improves the results positively.

Keywords:

Corporate Cash Holdings, Liquidity, Firm Size, Leverage, Profitability and Textile sector of Pakistan.

CHAPTER 1

1.1 Introduction

The ultimate goal of any entity is to maximize the wealth of the investors or shareholders, this is the common factor that cannot be abolish or ignore at all for the success of any business. Though this strategy value of the firm is also increase and the faith of debtors and shareholders boost-upto the capital markets.Similarly, leverage financing increase the firm size, cash holdings capacity to gain the opportunities and liquidity.The collective input of cash holdings, liquidity and firm size along with mediating tool of leverage increase the sale and production volumeof the firm that directly stablethe profitability. According to Pecking-Order theory introduced by Myers and Majluf (1984) rate of return of debts is cheaper as compare with return rateof equity financing. So the leverageis preferable tool for the entities after the internal financing. If any firm reduces the role of leverage from their capital structure then the cash holdings capacity, liquidity and the size of the firm also decline accordingly, in this result the volume of sale and growth capabilities decreaseand the ultimate object of profitability directly suffer.

The leverage plays a mediating role in the capital structure of the firms. Sharma (2006) and Cheng and Tzeng (2011)founded that the value of the firm and financial leverage have direct positive link with each other. As There isalarmingcompetition amongthe entities to boost their profitability margin and dominant position into the markets, this factor increase the trouble of the financial managers andthey become more cautiousregarding the policies thathow to entertainand finance the corporate activities of the firmsalong with the boost upin the volume of sale and achieve the ultimate goal of profitability.Second major hurdle arises in the policy making which is referred as how much financial resources are enoughfor the firm in liquid shapeto settlement of the firm capital structure after studying the supply and demand of finance for longand short run time period. These factors keep the profitability of the firm stable. Most of the managers around the globewant to keephuge financefor the firmsin the shape of liquid assets which can easily be converted in cash. This trend adoptsto reinvest that resources in the profitable opportunities or payment ofdividend and boost the cash reserve (Almeida et al, 2002).

According to the Neeraj Kumar (2016) Cross-Section sorting shows inverse causal link among the size of firms and profitability. Similarly,Time-Series shows the positive status. The factor of firm size might be boost up as dominant variable that can explain the entire output of

profitability within the boundaries of firms. Large scale firms expend their production from their internal resources through the strategy as production cost of the firm ultimately decline. In addition, those firms gain attractive market against their competitors. R.M et al (2016) founded that liquidity of the firms float through to their desire result with moderately impact on profitability of the firm, Moreover the reaction doesn't sententious. Van Horne (1997) concluded that liquidity can affect the profitability by positive or negative means as entity wants to retain its large proportion of working capital in liquid form then status of the liquidity might be remain substantial. Moreover the probability of downfall of the profit margin ratio can be increase in this way that ultimate profit of the firm might be cut down. On the Other grounds of realities the larger liquidity proportion of the firm may attract the investor and creditor to provide the financial flow at optimum level.

The volume of cash holdings in any entity boosts up the profitability of the firm which is ultimate motive of any firm to generate the profit. According to the research conducted around the globe regarding average volume of corporate cash holdings 9.9% in UK (Ozkan and Ozkan 2004), 8% in the Spain (Garci-Turuel & Martinez-Solano, 2007), 17 % into US (Opler, Pinkowitz, Stulz & Williamson 1999), 9.1% into the Turkey (Uyar & Kuzey). Profitability referred as the last resort to validate economic growth which can be attained by any firm against its own investment. This economic development can be measured by over-flow of net profit. The managers became cautious due to heavy competitions between the firms, management of finance for casual business activity. The profitability of the any firm might be accomplished through compensation of capabilities of leverage as fundamental mediating tool along with firm size, liquidity and cash holdings. Weston and Brigham, (1991) suggested that the tool of judgment the effectiveness of the management of any firm is their policies regarding profitable investment. Any surrogate in these factors directly affects the abundance and cost of formulation in the firm which increases the expenditure, and profitability would be suffered. This paper sorted out the profitability of the firm with cash holding, firm size, liquidity and leverage as mediating tool from textile industry of Pakistan listed on Pakistan Stock Exchange for the period 2012-2016.

If any entity increasesits profitability with efficient and effective policies, the professional management of the firmclearly determinestheirgoals and future growth with division of work.Another aspect is that corporate firmsshould make sure their valid intention and keepan

eye on trade-off between theleverage as mediator cum supporting variables cash holdings, liquidity, and firm size.

There are two sources of financing in the capital structure of any entity which are known by debt and equity. However, the fundamentalissue is the management of these two variables with the expectation ofreduces the agency costs as well as maximizes the value of firm which directly affects the profitability.Profitability is life blood for every business entities and it has the unique role into the financial management as profitability provides additional financial opportunities to groom the industry. Firm's profitability can boost up if those entities specifyits leverage at maximum level. McGahan and Porter (2003) suggested that the overview at the profit margin of the entity represents diverge condition that can beconsider dominant factor though rate of return at investment. Schumacher and Boland (2005) suggested that corporate effects are less elasticas compared with the industry effects into the constant profit margin. Any entity which has constant and massive profitability can pay large amount of dividends to their shareholders which refer to the lowest reinvestment opportunities. Profitability conflicts can chalk out in the way that volatility of liquid assets grow accordingly. The variance into the profitability can be sorted out the worth and financial standing of the firm. According to the neoclassical theory that the accumulate profit of the firm might be least or massive at specific level.

If the profits margin over flow from certain level in the relevant market then threat of new entrant and competition among the firm might be arise, that force to cut down the prices of the production and ultimately profit margin will decline and constant profits state might be effect. On the other hand if profits margin is below from the certain level then competition among the rivalry firms will decline for this period cash reserve help the firm to survive in this time period to avoid the insolvency. Frésard (2010) suggested any entity that can increases its financial reserve as compare with their competitors can enjoyed strong financial position it term of profitability, return on investment, growth opportunities and value of the firm. In this way market value of the shares of that specific company grow which also increase the liquid assets of the firm then firm maintain excellent capital structure to avoid the financial distress for long run period.

Rational managers of the firms alwayscreate balance between marginal profit of firm along with marginal cost Tobin (1956) & miller & Orr (1966). Basil Al-Najjar (2012) founded thatstructure of corporate cash holdings is based on these pillars as leverage, dividend payout,

profitability, liquidity, firm size and cash flow. These factors are life blood to retain the desired results for a best decision making policy regarding favorable volume of cash holdings because this is obvious reality which is discussed into the previous studies that explore the alarming facts regarding lossesof excessive cash holdings from their actual requirements. Any entity can be suffer due to these weak strategieswhich increases the opportunity and agency cost, conflicts of interest between management of the firm, so these factors are referred as cash abuse.

The core objective of this paper is to investigate whether and to what extent the leverage has the mediating effect on the profitability of the firm along with the supporting variables as corporate cash holdings, liquidity and firm size in the three separate segments of Pakistan textile sector. These results show that the value of a leveraged firm is greater than that of an unleveraged firm if we don‘t consider bankruptcy probability. If we consider the benefit and cost of debt simultaneously, the leverage is positively related to the firm value before reaching firm‘s optimal capital structure.

This paper contributes to the extant literature in corporate finance in two respects. Firstly, this study has used the panel data range from 2012 to 2016 and employed fixed and random effect model for estimation the results. Second, this study applied the Housman test to know the suitable test for the model. In addition, applied the statistical econometrics and Pearson correlation test to know the statistical issues of the data. In addition, this research work has considered the pecking order and trade-off theory as well as the previous research in the textile and other industries. The rest of the paper is organized as follows. In section2 of this study include the literature review. Section3 of this study has theoretical and conceptual frame work. Section4 of this study has data and methodology. Section 5 of this study has data analysis, results and estimation. The last section is devoted to conclusions.

1.2 Background of the Study

In Pakistan little research has been conducted to sort out the independent determinants which decide whether the leverage, liquidity, cash holdings and firm size are necessary into three segments of textile industry of Pakistan listed on Pakistan stock exchange to groom the profitability of the firm. Detailed investigation has been conducted in the three segments of textile industry in Pakistan, to sort out the core reasons by which leverage has mediating effects to the profitability in this study. The basic purpose of the investigation of this study is to evaluate

the all factors deeply which have vital effect to the profitability though the cash holdings, Liquidity and firm size along with the role of leverage as mediator in the three segments of textile industry as Textile Spinning, Composite and Weaving. After that this research analyzes the overall textile industry of Pakistan as a single entity which includes 153 listed firms at the Pakistan stock exchange market. This study observed the various independent variables which impact on profitability after that this research examined the relationship among those factors. Textile is largest industry and backbone of the Pakistan. It has 8.5% contribution to gross domestic product (Pakistan fact sheet 2015). In addition, this sector employs about 45% of labor force in country.

At present there are 1221 ginning units, 442 spinning units 124 large spinning units and 425 small units (textile industry of Pakistan). Pakistan has 3rd largest spinning capacity after India and China in Asia and 5% global contribution. Moreover Pakistan is 4th largest cotton supplier around the globe. In addition, Textile and Clothing consist upon 46% of its manufacturing sector. Total export was 23667 million U.S dollars in the 2014-15 out of that 13490.19 belonged to textile and clothing sector that is about 57% Pakistan Trade statistic. As Textile industry is playing the dominant role into the economy of Pakistan so this study examined the relationship between leverage as mediator along with cash holdings, liquidity andfirm size to the firm's profitability into the three segments of Textile sector which are Textile Spinning (83 firms), Composite (56 firms), weaving (14 firms). This study is important for financial analyst, managers, CEO, Board members, Auditors, investor right, shareholder protection and institutional shareholder.

Textile weaving is a production method that is completed through interlacing a specific set of larger straight threads along with crossing thread. This work flow with frame or machine is referred as "Lome". Textile spinning consists upon a process that includes the strategy of fibers conversion in a sense by which entire process passing through which specific method at last winding in the yarn and after that yarn wound at the cones. Textile spinning specifically is fundamental part in the process of textile sector, this is the core part of manufacturing process that includes three different ways of fiber conversion into yarn after that yarn converted into fabrics which overflow with the back process for instance singeing, resizing, and equalizing bleaching, and dying, washing, printing and finishing process into the entire textile sector (Textile manufacturing & Textile industry). There are three different types of textile industrial

processes which entire process of textile float accordingly; basic variable in this industry is textile spinning that is rapidly available to spin the yarn with traditional method community of handicraft which is famous for spinning from the hands of labor force now in industrial revolutionary age spinning machines also utilize to increase the output volume and decrease the labor force (Technological evolution in cotton spinning 1878-1933). Textile composite refers to, two or more different materials that jointly are stronger rather than individual materials (Textile research and innovation center). Third factor represents the textile weaving that is essential for the production of the cloth from individual Lome.

So this study has founded the mediating effect of leverage on profitability along with other variables such as cash holdings, liquidity and firm size into the three segments of textile sector which is listed on Pakistan stock exchange, along with these dependent and independent variables that refer as internal and external factors.

1.3 Problem Statement

There are major issues which developed and under-developed countries are suffering regarding the profitability, firm size, leverage, liquidity and cash holdings. These problems are as follow; when the profitability of the firm reaches at low surface of the scale then the liquid assets reserves become useless. This is general phenomena in the industrial revolution that large firms gain higher competitive advantages as compare with small entities. In the light of this theory big entities may create hurdles for new participant into existing competition to gain the ultimate goal of monopoly. In the economic recession the volume of the sales decline and the ultimate purpose of the firm is profitability suffers but the fixed cost remains constant and bankruptcy risk boost up. Credit risk belongs to the fluctuation into the corporate liquidity by any firm if the liquidity of any entity respectively low or weaker, so the risk of debtor might be increase for the payment of their debt back. There are two different forms regarding the cost of corporate cash holdings such as additional cost regarding excessive corporate cash holding which refer as opportunity cost of the firm and second factor, cost of inadequate corporate cash holdings for instance corporate image of the entity and under estimation regarding cash discount.

Maja Pervan and Josipa Višić (2012) founded unique standpoint between firm size and profitability, whether this relationship can be positive, negative or insignificant. Moreover, Studies on the effect of firm size on firm profitability have generated mixed results ranging from

those supporting a positive relationship among these variables to those opposing it. Additionally, under the same sample of the firms, this relationship may be positive over some firm size ranges and negative for others. Beside previously presented theoretical explanations, contradictory empirical results could be a result of different used samples, industry groups, time horizons, indicators and business environment. Due to all stated above, some of the studies will be subsequently presented together with their main empirical results.

Sheel (1994) suggested the inverse bridge between the ratios of debt-to-asset, firm's leverage and its ex-profitability. The utilization of medium term debt use might be maximum capital structure on the other hand small or without debt might be optimal. Titman and Wessels (1988) concluded that over-profitable firms seems as strong position regarding leverage as against with the profitable entities. Eunju Yoon (2005) suggested that the usage of short period debt isn't represented optimal structure as compare with additional small debt can be maximum. Opler et al (1999) concluded that accent of difference among alive inquiry and configuration of liquidity ambition at one side and large apathetic viewpoint on other side. The liquidity theory took as net debt ambitions or pecking order theory into the subject of finance. Kim et al (1998) quoted that "tradeoff between low return on liquid assets and the benefit of minimizing the need for costly external financing". Opler et al (1999) chalk out the differences among regulate and following the liquidity at top priority and implement the entire policy in strong way.

When the entire world is facing the above mentioned problems about these variables in all sectors, so the textile of sector of Pakistan is backbone of the economy so this study point out these problems into textile sector Pakistan and try to know the impact of these conflict to the textile sector and get results to tackle these problem. So the problem statement is that the impact of corporate cash holdings, liquidity and firm size on firm profitability with mediating effects of Leverage into the textile industry of Pakistan.

1.4 The Significance of the Study

Theoretically this study has contributed towards the three segments of textile sector of Pakistan textile spinning, waving and composite listed on Pakistan stock exchange, with respect of profitability under the shade of mediating role of leverage along with corporate cash holdings, liquidity and firm size. This study follows the pecking order model and trade-off theory. All of the previous research undertook around the globe with few variables in scope of their research but in this study, most prominent variables has included which previous profitability researcher

tested into account of their perception in different field other than textile industry study which gave positive or negative result by their best knowledge in the developed countries.

This is unique study about the impact of corporate cash holdings, leverage, liquidity and firm size on profitability with mediating effect of leverage in the textile industry of Pakistan. This study is important for the board of director, CEO, financial managers, equity holders, stakeholders to understand the role of basic variables that effect to the profitability into different segments of textile sector. This study enable the managers and shareholders to resolve the conflicts of interest among different stakeholders and also provide the crystal clear direction to determine the best combination of investment into textile industry that cause the increase the capital of shareholders and reduce the agency cost. This study is useful for the financial institutions which provide the sufficient cash inflow to the textile industry to judge the financial position.

1.5 Objective of the Study

The following are the core goals of the present study:

1. To analyze the Impact of Corporate Cash Holdings, Liquidity and Firm Size on Firm Profitability with mediating effects of Leverage into the whole textile industry of Pakistan listed on Pakistan stock exchange for the period of 2012 to 2016.
2. To analyze the Impact of Corporate Cash Holdings, Liquidity and Firm Size on Firm Profitability with mediating effects of Leverage into spinning segment of textile industry listed on Pakistan stock exchange.
3. To analyze the Impact of Corporate Cash Holdings, Liquidity and Firm Size on Firm Profitability with mediating effects of Leverage into weaving segment of textile listed on Pakistan stock exchange.
4. To analyze the Impact of Corporate Cash Holdings, Liquidity and Firm Size on Firm Profitability with mediating effects of Leverage into composite segment of textile industry listed on Pakistan stock exchange.

1.6 Research Questions

This comparative study guided by the following questions:

1. Does the corporate cash holding affect the profitability of the firm in the three segments of textile sector as textile spinning, composite and weaving listed on Pakistan stock exchange?
2. Does leverage has mediating affect among corporate cash holdings, liquidity, firm size and profitability of the firm in the three segments of textile sector as textile spinning, composite and weaving listed on Pakistan stock exchange?
3. Does liquidity affect the Profitability of the firm in the three segments of textile sector as textile spinning, composite and weaving listed on Pakistan stock exchange?
4. Does the firm size affect the profitability of the firm in the three segments of textile industry as textile spinning, composite and weaving listed on Pakistan stock exchange?

This study founded the mediating role of leverage along with corporate cash holdings, liquidity and firm size which affect the Profitability in the three segments of textile industry listed on Pakistan Stock Exchange as textile spinning, textile composite and textile weaving furthermore this study has discussed the complete textile industry of the of the Pakistan as a whole entity and comparison regarding the result of three segments also has been included in this study.

1.7 Organization of the Study

In the first chapter this study have discussed regarding the purpose and importance of this study. This study has clearly defined the specific problem and research questions regarding this empirical research Gap. In the second chapter this study has elaborated the relevant theories about the studies and this study has considered the previous research as compare with the dependent and independent model. In the third chapter this study included the theoretical and conceptual framework, relevant theory, as well as elaborated the relevant hypothesis.

In the fourth chapter this study briefly elaborated the data and relevant method. This study will elaborate the basic statistics regarding the data this research. In fifth chapter of this study will provide the results of descriptive statistics, correlation, and analysis of panel data,

fixed and random effect. In last but not least about fifth chapter this study will provide the entire conclusion of this research and after that this study will provide the policy suggestions as well.

1.8 Conclusion

This chapter curtails the importance of further investigation of the textile sector of Pakistan regarding firm size, liquidity, and cash holdings to observe the impact of these variables on firm's profitability and most important leverage should take as mediator among these dependent and independent variables to know their mediating role.

CHAPTER 2

LITERATURE REVIEW AND THEORATICAL FRAMEWORK

2.1 Introduction

In this chapter the relevant literature of the dependent and independent variables has been discussed. This study further investigate the impact of each individual independent and dependent variable and compare the previous work in this scenario, as this study observed the previous study of cash holdings & profitability, leverage & profitability, liquidity & profitability and firm size & profitability.

2.2 Corporate Cash Holdings and Profitability

A cash holding is crucial element for entire firms whether that are public or private, large or small, even developed economies are not exempted from this theory. But in the developing countries like Pakistan, it requires some extra precaution and attention at the time of prediction for future cash inflow and outflow to meet the firm specific objectives into the decision making process that directly causes the success or defeat of the entity. Managers have a tendency to hold large proportion of firm assets in the form of cash and cash equivalence for the purpose of reinvest into the physical assets, payment to stockholders and cash reserve (Almeida et al, 2002. Frésard (2010) suggested that any firms which hold excess cash flow as compare with their competitors can bear excellence into the performance and profitability at the time of measuring the factors through return on entire assets. Opler, et al (1999) concluded that when the opportunities of investment by any firm reach at the point where cash holdings over flow at tangent point then financial position of the firm rapidly flow at positive direction which attract the additional investor and undermine the competitor. For instance a famous article was published into Economist (2008) which elaborate as “how time changes; not long ago, companies with cash piles were assailed by corporate activists to return money to shareholders, but currently it is only a slight exaggeration to say that the more cash that investors see in a firm's coffers, the happier they are”. Lyroudi and Lazaridis (2000) concluded that the cycle of entire cash conversion, quick and current ratio has direct negative impact to the profitability of the firms.

Vijayakumar (2011) concluded that the settlement of liquidity into business entity is crucial factor to get desire results. Moreover, cash collection from their resources can boost the

opportunities to payout the short term obligation which abide the risk of insolvency. On the other hand, poor liquidity management result shortage of cash and so that growth opportunities trend become negative and firm ultimately suffer from profitability. Vishnani & Shah, 2007 suggested that entire business transaction into hard cash or liquid assets decline the profits margin of the firm and minimize the investment earnings. Another aspect shows high rate margin with or without liquid assets financing. Pettit, (2011) concluded that any entity which keep liquid assets at the time of crises attain competitive advantages. During crises market face difficulty to attain their break-even point in this way firms cut down their prices and the firms which have strong cash holdings play in the price war to gain ultimate goal of profitability. Nguyen (2005) concluded that cash holdings and risk ratio of the firm have positively interlinked with each other, except negative link with industrial risk. It is also dominant that corporate cash holding decline with obligation of the firm.

Pinkowitz et al (2003) concluded any entity which has low investor protection retain high liquid as 5% to 25% are prospect as compare with entities that are working in developed countries. Ferreira and Vilela (2004) also suggested that any corporation which has higher investor protection requires low cash holdings. As the ultimate goal of the firm is profitability and this objective can achieve when the volume of sale rapidly increases consistently so that maintenance of cash reserve required for entire proportion of time, so that cash is key factor and ingredient that ensure the prosperity of business. Cossin and Hricko (2004) concluded that cash holdings permit to the maximum opportunity of investment which minimizes the low prices deficiencies. Moreover, over cash holding isn't favorable for the business entity. In addition, corporate managers required to observe the factors of corporate cash holdings in the firms. Dahya and Travlos (2000) suggested that Chief Executive Officers should prefer dual-responsibility factor as to save the management benefits on the other hand keep an eye on the cash reserve.

Yermack (1996) and Lipton (1992) elaborated that the decision making capabilities and policies of the small Board are efficient rapid as compare with large board. Opler et al. (1999) describe that any entities which has solid growth strategy and risky financing opportunities may increase cash to liquid assets ratios. The corporations which have direct gain of financial markets required low cash holding ratio against liquid assets. Harford (1999) suggested any corporation which has excessive corporate cash holding that firm can enjoy the acquisitions of other entities.

Sami N.M Abushammala, (2014) concluded that any entity which have strong financial position the growth of that firm refer the maximum outflow of the corporate cash holdings policies and significant positive unique relationship. The liquidity of the firm which is less than actual demand increases the cash shortage and these firms can be lurch into the difficulties to complete the obligations of the outsiders that has negatively impact on profitability of the firm. Profitable entities tend to hold less proportion of cash in hand due to vast overcome opportunities of cash inflow from the internal operations (Kim et al, 1998).

Opler and Pinkowitz (1999) quarreled that when any firm got the positive opportunities of investment with the expectation of highest ratio of return on those investments, then that firms retain large proportion of hard cash which directly affect the financial position of the firm in favorable means. Shin (1998) concluded that financially effective and efficient entities doesn't require heavy outsource financing, these firms lurch to maintain their financial position constant and make positive flow of working capital. If the firm prefers its transactions in the shape of hard cash then the profits margin can be decline against its corporate investments. Because heavy financing into the liquid form of assets doesn't reflect the enough profit margin. In contrary, low financing into the liquid form of assets reflect high margin of return due to minimum unspent amount of money. Kalcheva (2007) suggested that the value of the entity remains downward at the time when that firm holds massive cash reserve on the other hand, the protection of the actual owner of the (shareholders) is weak. Pecking order theory founded the positive linkage about profitability of the firms and corporate cash holdings, because the inflow of liquid assets is the ultimate result of financing and investing activities of business entity (Dittmar et al 2003).

There is inverse correlation between the profitability of the firm and corporate cash holdings strategy because entire profitable entities has sufficient liquid assets to abide the conflicts for investment opportunities (Kim et al 1998, Ozkan & Ozkan 2004, Bates et al 2009).Scott (1995) suggested that institutional factors can be influence to the financial validation of the firms because that is normative, cognitive and regulative. Adetifa (2005) concluded that corporate cash holding has cost into two categories: cost of extra cash holding and lack of the earnings opportunities. Basil Al-Najjar (2012) suggested that cash holdings depend upon leverage, dividend payout, profitability, liquidity, firm size and cash flow.

There are different types of variables that play a dominant and fundamental role regarding decision making policy that shows the specific thirst of liquid assets for basic structure

of the firms to hold cash though that the utility level reach to maximum level on behalf the firms. Baumol (1952) concluded that firm required extra flow of financing during the recession period to increase the hard cash or other liquid source of assets to increase the sales volume. Pinkowitz et al (2012) sorted out the behavior of the entities regarding the dividend distribution strategy and suggested that usually firms avoid the dividend distribution because firms reinvest that profit margin into the company operation and maintain reserves of the liquid assets at higher point.

Jensen (1986) evaluated that this is the rational measures by the firm to increases the reserves of cash holding rather than the distribution of dividend to stakeholders, though this strategy agency problems of firm also decline. In the era of industrial revolution the flow of liquid asset becomes compulsory and dominant factor which provides surety regarding the existence of the firm. The reserves of cash holding represent the financial standing of the entity which captures the investors towards the firms and debtors as well. Cossin and Hricko (2004) quarreled that corporate cash holding allow the rational firms to boost up their investment level at the maximum point to reach at target financial result of the entity. Liquid assets and hard cash give confidence to the entire stakeholders regarding the survival of the business and basic ingredient to boost up the growth opportunities of the business efficiently. The financial resources into developed economies are vast cheap and markets are constant and stable, so corporate cash holdings have less importance. On the other hand developing economies are unstable and outsource financing is costly. These factors urge the managers to hold massive cash reserves. The worry of future financial crises forces the financial assistants to hold maximum liquid assets because this factor provides the corporate liquidity to the firm.

Opler et al (1999) concluded that financial firms hold liquid cash according to the ground realities for instance demand of the management, political circumstance, cost of cash holding and economic environment. Another aspect refers as non-financial entities which are managed according to consumption of cash flow. Any firm that intend to survives into the competitive market should maintain the cash reserve at maximum level for instance investment in new opportunities, payments of the dividend to the shareholders, investing in advertisement, research and development, improvement and innovation in existing products and services, increase the professional standards of the firm and subsidy in prices during high competition to maintain dominant position in market.

Contrary to this, if the firm has monopolistic opportunities than more cash resources required to maintain this state for the maximum period of the time. In various finding's, it is observed that liquid assets reserve provides flow of cash in quick time and cheap cost similarly outsource financing are costly. Kim et al (1998) suggested that any firm that utilized expensive financing and high rate of return on investment, then profitability of that firm can be declined and that firm have to retain massive proportion of cash holdings.

2.3 Leverage and Profitability

Wessels and Titman (1988) concluded that financially strong firms keep keen focus on leverage on the other hand financially week firm avoid the importance of this factor. Because the base line of their policy exists on the intention to consume their self-financing after that they acquire outsource funding. So that these firms raise the capital through equity shares then bond. But this is the sore reality that cost of debt is cheaper than rate return on equity. Wald (1999) suggested that profitability refer as ultimate objective and base line of any entity and final result the input of leverage. Eunju Yoon and Soo Cheong Jang (2005) argued that external debt financing for any business for a short time period don't represent the optimum capital structure. Maximum utility should be provoked for getting the desire result of leverage. Rational decision regarding leverage can groom the profitability of the firm. Effective capital structure sometime didn't provide desire result which include best ratio due to poor investment strategy. Leonard Weiss (1967) concluded that there is negative relationship between equity and assets with financial leverage but there is dominant positive result at equity and assets. So this is natural formula leverage suffer by profitability and profitability suffers by leverage.

Dalber and Upneja (2002) concluded that any entity which has strong opportunities of the growth into financial market, that firms always require debt financing of long run period as they have vast equity financing opportunities and they avoid to increase the fix cost. Any firm that takes debt financing for long run period doesn't attract the investor and market worth may decline. Any large scale entities which have fewer opportunities of growth and massive bankruptcy risk utilize long run debt financing because these firms formulate policies by themselves to take high interest rate and mispricing benefits. Haddad, and Gitman (1992) founded from there study that 11% entities utilize their base capital structure. Moreover, at the time of observation the two key factors founded such as taxes and equity, on same time the result of leverage didn't attract the investor due to minor effect. Sunder and Myers (1999) suggested

that entire profitable entities keep minimal debt financing that is far away from the guideline of the trade-off theory.

Wald (1999) suggested that the profitability of the firm is ultimate specific and dominant pillar of entire corporations and financial leverage. Sheel (1994) concluded the negative understanding between non-debt tax shield and debt-to-asset ratio. Eunju Yoon and Soo Cheong Jang (2005) forecasted that the usage of short period debt doesn't show the maximum capital structure of the firms but on the other hand additional minor debt might be able to optimal. R,M et al 2016 suggested that leverage of the firm has eloquent ramification on the profitability fractionally. The aplenty of leverage endure at condign level according to the requirement of firm, on the account of twain aspect as lack and excessive leverage both is cardinal obstacle which lead to negative corollary to the firm. Over and under leverage provoke the ample of funds beside vigorous habitude. Abreast of that, virtuous leverage boosts up the profitability of the firm at the optimum level due to rational management of resources (Gitosudarmo, 2008). Sometime the soaring leverage isn't profitable due to escalation of loafing financial resources that might be should have been used to infuse in other profitable opportunities (Tunggal, 1995).

Leverage has significant effect on profitability as debt to equity/ratio plunge the profitability (Seleng 2009).The performance of the firm is also measure by the actual prices of stock of the entity. As prices of the stock of any firm is high as compare with the equity represent the strong financial standings of the firm. Sheel (1994) and Wald (1999) concluded that there is inverse relationship among the profitability of the firm and debt to assets ratio. Mandelker (1984) elaborated that a lot of profitable entity into different sector tend minor leverage ratio. The leverage of any firm is also had no linkage with the market valuation.

Gupta (1969) elaborated that if the entity gets the debt financing from the capital market then the positive signal develop to the entire stakeholders of the firm because its increase the trust of investors and creditors. As the principal amount of debt and fix interest rate are contractual responsibility of the entity which decline the cash reserve of the firm. Moreover, excessive flow of debt financing is also representing the confidence of financial managers in to the future inflow of liquid assets. Because the financial managers of the firm have superior facts regarding the operations of the firm as compare with the investor. Amsaveni (2009) sorted out that there is inverse linkage among the future growth and financial leverage of the firm. Because

these relations are negative for those entities that have minor opportunities of the growth and these capabilities not recognized from the financial capital markets. The financial leverage of any entity can't decline the growth opportunities of the entities for the strong and valid profitability ratio.

There is valid link floating among the leverage of the firm and retain earnings of the firm. If the input of the leverage into the capital structure of the firm is over floating the ratio of the return on investment remain higher as compare with the actual cost of debt. In this way the relevant impact of leverage becomes favorable. On the other hand financial leverage of the firm becomes unfavorable when earning capabilities decline according to the relevant expected result from the lender. There is inverse link among the leverage of the firm and earning capacity of the entity at per share. When the return on investment of the firm is excessive then the effects of the leverage remain positive than the fixed cost to be bear in the form of interest. The financial leverage is crucial variable that have direct influence to the profitability of the firm and the wealth of the entire stakeholders. The Firms that have massive growth contingency require minimal long-run debt financing because these firms can attain unrestricted financial opportunities promptly and these business entities avoid the immense fixed expenses in the shape of interest. Long-run debt financing represents the negative impression into the market as the investors unable to sort out as high-quality firm during comparison. The capital structure of the firms became tangent when the business entities attain the maximum level of capital structure which is, the mixture of internal and external financial resources that referred as tax shield relief from debts which increase the financial costs. Sunder and Myers (1999) concluded that highly profitable companies in different industries rarely have minimal debt. Titman and Wessels (1988) suggested that upward trend of profitable entities has low leverage as compare with low profitable entities due to their priority regarding the utilization of their own financial resources before getting external capital. Furthermore corporation trend to utilize equity instead of debt utilization at the time upward trend of stock price, in this regard the level of leverage looks downward than that entities high use debt financing.

Hall and Leonard Weiss (1967) concluded the equity/assets, both are negatively co-related with the leverage, that is separate specific positive roll to the profits of the firm during the structure of market remain constant. If the entity plans to maintain the working capital in extreme form, then the level of liquidity and leverage would be stable with the risk that huge profit might

be fall. So if the firm expects huge profit so it should maintain firm's liquidity and leverage at tangent point. There should be balance between leverage and liquidity according to the requirement of firm otherwise firm might face the crises. John Vickers and George Yarrow (1991) suggested that in public and private sector firm's agency problems can be float because these firms avoid hiring the managers who keep one eye as observer to avoid the agency problems.

Ernst (2002) concluded that the fundamental cause of insolvency of any business entity due to weak financial arrangement. Higgins (1977) concluded that cost of financing directly suffer by leverage, and leverage directly attacks the profitability of the firm, prices of the stock in favorable or unfavorable means. Sheel (1994) sorted out that debt-equity ratio of the firms reflected by the policies and decision of the entities that are referred by the behavior regarding taxation shields, financial prosperity and interest rate. Gu, (1993) concluded that the maximum level of the debt creates tangent between the cost and benefits of the debts and tax relief also have dominate role. Similarly the objective of these policies attain in the shape of highest level of profit margin. If the firm utilizes the maximum debt financing it will enjoy the tax relief accordingly and rate of interest on debt is slight low as compare with the rate of return on equity. Elgonemy (2002) suggested that four basic elements debt-financing: business risk, the need for financial flexibility, the degree of ownerships' risk aversion, and tax considerations. Based on the trade-off theory for capital structure, firms can take advantage of debt to make a better return on equity.

Sheel (1994) concluded that combined worth of the assets might be unique and valid factor which support the debt for long period. Kim (1997) sorted out seven unique factor which have direct impact on the leverage of the firm that are as follow; Profitability of the firm, size of firm, retain earning, opportunities of growth, debt and tax shed, volume of franchise, and expenses of the lease. Dalber and Upneja (2002) concluded that the entities which have wide opportunities of the growth require low long run debt financing because these firms increase the financing reserves from the equity shares and internal resources and these entities don't increase the fixed cost at maximum level. Highest debts financing for long run period arise the questions in the mind of investor regarding worth of the firm and market standings. Investor avoids investments in these firms due to worry of loss and divert their investment to other firms although another firm mispricing. Tax evasion factor is plays a vital proxy role into the financial policies in the capital structure. The entities which have comparative low opportunities of the

growth with higher risk of insolvency require, massive debt financing for long period because these firms can prefer maximum fixed cost and prefer the mispricing policies for investors.

Any entities which strive for the growth in profitability should maintain targeted policies in the capital structure of the firms and sorted out the maximum debt and equity combination to maintain the balance regarding taxation shields and benefits. Pinegar (1989) studied the 500 entities and founded that 31% firms prefer the policy of targeted financing of capital structure. Same study surveyed by the Hittle, Haddad, and Gitman (1992) and founded 11% firms prefer the policy of targeted financing of capital structure. Similarly, tax behavior regarding debtor and shareholders were investigated then the facts regarding leverage founded that leverage didn't play role in the increasing of the profit and attract the investors. Sunder (1999) founded that a large number of profitable entities into different sectors require small debt ratio, this factor is far from the guideline of trade-off theory. On the other hand pecking order model regarding the capital structure of the firms suggested the financing stages. The maximum preference utilize for the internal sourcing as retain earnings of the entity after that outsource financing. Dann (1981) suggested that that maximum profits return for the shareholders are direct linkage with leverage.

Titman (1988) suggested that financially strong entities require minimum leverage levels as compare with the financially weak firms due to their top priority regarding utilization of internal financing rather than outsiders. Similarly, the prices of the stock also reflect the performance of the firm. Wald (1999) founded that profitability of the firm is unique factor of leverage which inversely associated with the ratio of debt & asset. Sheel (1994) suggested the findings that there is inverse link among the debt & asset and leverage & non-debt tax regarding their previous profitability. Gu, (1993) suggested that the utilization of the medium term debt financing isn't the maximum capital structure on the other hand without debt or small debt capital structure might be ultimate, because utilization of debt financing can create highest risk element for the firms regarding financial strength for investors. This is obvious reality that the leverage of the any entity is dominant and first priority factor that directly affect the profitability of the firm in the favorable or unfavorable means and it can hit capital structure of the firm. This is natural reality that financial managers of firms prefer the same proportion of debt financing and other prefers the equity financing.

So that right mixture of debt and equity is crucial factor for strong capital structure of the firm. The companies that oppose the debt financing that firms cent percent rely at the equity flow of financing and avoid the fixed cost of interest on debt. At the other side a lot of entities prefer

debt financing from the lender to boost the volume of the sale which ultimately increase the profitability of the firm. Normally financial leverage of the firm can be weighted from the ratio of the total debt divide by total assets of the firm which that entity own for the particular period of time. So this leverage ratio elaborates the volume of debt financing which that company has borrowed to strengthen the capital structure of that firm. If the firm utilizes excessive debt financing then that entity have to pay extra fixed cost in the shape of interest. On the other side if those firms utilized least debt then that firm has avoided the fixed interest cost. The maximum financial leverage of the firm provides the advantages to the entity but noticeable point is that during the period of the economic recession the entire financial leverage of the entity would inversely impact the profitability of the firm. Because it might be cut off the cash flow of the firm in the recession period and firm face difficulties to meet its fixed cost.

Shell (1944) concludes that leverages of the firm bear the cost of capital and increase the profitability capacity of the firms and prices of the stock. The rational firms utilize more debt into capital structure rather than the equity financing to avoid the excessive tax burden. In this way the financial risk might be increased which discourages the debtor and creditors. Debt enables the entity to make rational strategy and plans for future targets because the interest rates predetermine before the utilization and the financial managers consider that fixed cost of interest into the financial policy. Mandelker and Rhee, (1984) concluded that financial managers study the interest rate on debt and return rate on debts before making the capital structure of the firm. Leverage is the part of the financial strategy because it over-flow the return rate against the debt financing. Larry and Stulz, (1995) concluded that if the return rates of asset remain high before the tax deduction ratio against the debt financing then the ratio of financial leverage become positive. On the other hand if the return of assets of the entity is less from tax rate then the leverage becomes negative.

Copeland (1983) suggested that any firms that keep excess level of leverage into capital structure strategy can minimize the strategy of free cash flow. Free cash flow refers the hard cash that any entity can float from its working assets and this variable also allows the firm to approach the healthy investment which increases the wealth of entire stakeholders. The rational managers of the entity always reach the various benefits and cost of financial leverage and consider best debt financing level. The valid financing strategy exists upon the financing balance that any entity keeps in observation for the future. Some entities keep some inflow and outflow of financial resources into debt or equity financing. The flow of financing can be collect from three

basic means, the basic and natural source refer the internal financing from issue the equity shares that is low expensive, another means of inflow of finance represent the debt that is light expensive and third source represent external equity from financial market that is ever expensive at all. Thus, the leverage is game changer and mediating variable to fluctuate the profitability according the rooted strategy by the firms.

2.4 Liquidity and Profitability

Liquidity represents the capability of the corporations to fulfill their responsibility towards their creditors. Ramchandran and Janakiraman (2009) suggested that liquidity considered as financial resources plunge into liquid Assets that can promptly convert into cash and cash equalance within one year without losing its face value. The trends of Long-term liquidity will more coral that develop liquidity ambition intently pursued. Basil Al-Najjar and Belghitar (2011) founded average liquidity of the firms in the UK are 9% against their total assets and 13% into the US (Dittmar and Mahrt-Smith 2007). Liquidity consider as lifeblood for the survival and prosperity of the firms. Liquidity serves as essential element in the survival of corporations that consider as guarantee the availability of cash to fulfill their short-term devoir. Another aspect represents the bankruptcy of the corporation in the sense of deficiency into the liquidity. Furthermore, excessive liquidity might be damaging to the profitability of the corporations. Liquidity refers as tradeoff among small return on current assets that decrease the demand of expensive alien financing Kim et al (1998). Effective Corporation required a balanced liquidity at the optimal point to survive into the competitive and feasible market. So that business entities determine tangent of liquidity to maintain the tremendous profitability.

Van Horne (1997) concluded that liquidity of the firm floating the profitability in positive or negative prospect for instance if entity tend to retain additional liquid assets then the factor of liquidity become dominant, in this way profitability ratio of the firm may decline and profit margin of the firm may also decline. Another aspect massive part of liquidity can urge the investor to provide their additional resources to the firm at tangent point. Strong balance of liquidity in the capital structure of the firm might positive effect on the profitability of the firm. Rana et al (2016) concluded that the growth of the Islamic bank remains far better as compare with conventional commercial banks and profitability of the firm may suffer by corporate

liquidity. The prevention objectives are linkage with the strategy of save income and austerity strategy to fulfill the future needs in the contingent period. Pandey (2008) concluded that current and non-current assets are life blood for any firms, as the profitability is the ultimate result of working assets. Eljelly (2004) founded the inverse linkage though conversion cycle of cash and current ratio among the liquidity and firm profitability.

Scharfstein (1990) evaluated that the success of any business entity regarding the vast market for its product, entirely bases on its internal financing and entire profitability remain within the boundaries of the firm. The multitude of entire losses of the firm always downward the status and value of the shareholders along with the prices of the product under estimate and the role of creditor increase promptly and ultimate objective of profitability direct suffer. The factor of bankruptcy also increases when profitability gradually declines and firm is unable to cover its expenditure from its revenue resources. When the debts of the firm exceed from the value of its assets then the firms profitability curve become negative. There is dominant policy regarding profitability, as the ratio of dividend payout might be replaced with the expectations regarding profitability. It is observed that alarming cash reserve level and liquidation of the firm is major hazard for the development of the firm because if the entity face deficiency of the cash then it is unable to bear its fixed cost and the graph of the production of the business goes down in this way and the sources of the profitability vanish quickly and the firm might be liquidate. Gryglewicz (2011) founded that maximum capital structure directly impact the trade capacity of the firm and the tax shields.

Kolay (1991) sorted out the factors which strengthen the financial standing of the firms along with separation of long and short run policies. Fraser (1998) concluded that the complexity of corporate liquidity into the capital structure begin with minor factors, for instance payments, receipts and liabilities and financing behavior of the firm by which any firm required additional sources at the time when flow of cash is required. Shin and Soenen (1998), Diamond and Dybig (1983) founded the linkage among profitability of the firm, trade cycle and Liquidity, furthermore these variables has strong relationship with the credit risk, debt, default bad-debts and withdrawal. If there is liquidity risk then the trend of downward profit margin may further decline and investor don't show his interest in these types of funding's. In addition, creditors also be aware to prevent or avoid in this regard, it also arise hurdles in the inflow of cash. Raheman and Nasr (2007) suggested the inverse linkage among profitability of the firm, working capital,

utilization of debts and corporate liquidity. Moreover, positive casual linkage has founded among the liquidity and profitability of entity.

Eljelly founded the inverse relation among profitability and corporate liquidity after the application of cash cycle and current ratio. Conversion of cash play dominant role to worth the liquidity as compare with current ratio, both incorporate the profitability of the firm. Agarwal (1988) also force the importance of working capital in the policies making and prefer this factor at first priority to weighting the liquidity with the marginal effect of quick ratio. The profitability of the firm is also retaining by the opportunity cost which overcome the liquidity. The reserves of the cash become worthless when it promptly release of the entire obligation after the payment of dividend to the equity holders. Another important factor refer the value of the firm, which is also important variable in the corporate financing because it directly affect the profitability, this affect might be positive or negative, if this factor consider on first priority then it can increase the volume of profitability.

R.M et al (2016) founded that the corporate liquidity of the firm grow the profitability if the management of this factor is adopt in rational way. Van Horne 1997 concluded that corporate liquidity can change the profitability with positive and negative sources for instance if any entity tend to retain heavy working capital rather than the corporate liquidity, then the infect the probability of the downfall of profit margin eventually grow which cause the loss to the firm. Another aspect of the facts shows the bright side to investors or debtor to provide the resources inflow at tangent point of the firm. Rational settlement of the corporate liquidity can be efficient for any business entity. The profitability of the firm doesn't attract by the current ratio at major constraint level on the other side small affect can occur with the changing in the internal financing. Estiningsih (2005) and Lukman (2007) founded the important factors of corporate liquidity which have direct impact on profitability of the firm and referring the entity that consist upon major quick ratio within financial management policies.

Rational reconciliation of the liquidity can be efficient or effective for the profitability of the firm. The current ratio doesn't prevail the compelling of the profitability, on the other hand, small and large current ratio resulted the minor affect the profitability of the firm due to fluctuation in the internal financial capital. Dani (2003), Estiningsih (2005) and Lukman (2007) suggested the dominant corollary of liquidity on the profitability and quoted any firm which

include the large current ratio in the financial planning will entertain the higher aligned of profitability. Enhancement into the profitability is fundamental objective of entire corporations and these firms contest to accomplish the ultimate affirmative profitability. Vijayakumar, (2011) concluded that the basic objective of the any business organization is management of the liquidity of the firm at the level when it touches to the tangent point. Moreover, cash collection from entire head of account receivable also assists the entity to maintain its existence to repay the debt and other cost of the business to avoid the bankruptcy.

Similarly, if the firms failed to collect cash and these firms have weak corporate liquidity then a lot of conflicts arises within fluent working of the firm due to shortage of liquid assets and responsibilities of the firm will arise gradually. In contrary, the absence of right liquidity management will cause cash shortages and will result in difficulty in paying obligations which effect negatively on the firm's profitability. Fraser (1998)concluded that there may be no more financial discipline that is more important, more misunderstood, and more often overlooked than cash management. Nicholas (1991) concluded as this is the natural phenomena in which entities don't observe the importance of the efficient liquidity management till the increase the threat of bankruptcy and other crises. Aggarwal (1988) suggested that the cycle regarding cash collection and payments must be fall into the constituent boundaries, and the responsible management of any entity must observe the time frame regarding cash conversion cycle to constitute the effective and efficient polices of liquidity. The entire managerial strategies of liquidity boost the importance of efficient working capital at optimum point to weigh the current value of the entity and variance in its performance.

Kamath (1989) suggested the scope of these both ratios that are limited due to inefficient measuring tool regarding expected cash flow into the near future. There is the basic barrier into the fluent working of any entity to be a successful and get dominant role into the specific economy. If the firm face limited cash resources and low liquid assets then that entity consider as ventilator firm which can lost any time the war of its survival. Managers should update and revise cash conversion and cash inflow and outflow cycle. On the other hand, the optimum and ultimate percentage value of the liquidity didn't discover till date which win the coconscious of left and right wings. Kim et al (1998) said "tradeoff between low return on liquid assets and the benefit of minimizing the need for costly external financing". The limitation which is associated with the risk is default of principal amount as well as the due interest against that amount.

Effective and efficient liquidity management reaches at the specific cash requirement by any firm and explores the debt opportunities which can rapidly gain within minor time frame. Eljelly (2004) suggested that a specific portion of entire assets should keep into the liquid form which referred as efficient tool that minimize the financial crises which cause the failure of entity. The maximum requirement of liquidity can be forecast from the tradeoff theory among minimum return gain at liquid assets.

Dybig (1983) concluded that liquidity of the firm and credit risk are closely interlinked with each other, because these have inverse relationship, if the firm default to pay off its short term or long term obligation then the cash inflow might be suffer respectively. The theory of the liquidity preference suggested the investor behavior regarding the return against their securities because of risk factor into the investment as compare with just holding the hard cash in their hands.

2.5 Firm Size and Profitability

The trend of recognizing the impact of firm size on profitability represent positive surface among these variables. This positive relationship between these variables was sorted out by Vijayakumar and Tamizhselvan (2010). Specifically firm size was tested by Lee (2009) in the right perspective of profitability which represents the unique role that can explore the profitability. Ozgulbas (2006) concluded that the trend about the growth of large size firms has dynamic performance of growth, on the other hand small or medium size firms face difficulty to achieve their break-even point. Amaton and Burson (2007) studied linear and cubic trend of firm size and profitability and founded inverse shadow of firm size at the surface of profitability.

Becker et al (2010) suggested the inverse and statistically ultimate link among entire assets, total sales and number of employees in the entity. Velnampy (2006) suggested that the keys to sort out financial strength of the firms are market value of Total Equity to Book Value of Debt Ratio, Earning to Total Assets Ratio and Sales to Total Asset. Banchuenvijit (2012) describe favorable link among total sales and profitability of the companies on the other hand, a inverse relation also founded regarding profitability & total assets.

Ozgulbas et al (2006) suggested the output of higher level firms have remarkable performance as compare with the low level firms in the Istanbul. The correspondence between

the size of the firm and profitability demonstrate the fluctuation in the outcome. Cross-section scrutiny exhibited negative relationship between the firm size and profitability, on the other hand Time-series assay represent the positive relationship (Neeraj Kumar 2016). The size of the Firm has been considered as crucial factor which elaborate the profitability outcome of the firm. The Size of firm severe as necessitous role regarding the profitability of the firms, that increases the excitement of the researcher to find out the scale of economies though anomaly. The Large scale enterprises canister their own production by their own sources which reduce the ultimate cost of the merchandise to relish the competitive advantages among the perfect and imperfect antagonistic markets. Zubairi (2009) founded that the size of the firm undeviatingly sequel the profitability of the firm. Kouser et al (2012) noted the inverse alliance among the size and profitability. Whittington (1980) and Simon (1962) originate the discussion that the size of firm never affects the profitability of the firm and this is sovereign factor.

The size of entities can be suffered by advertisement financial position, technological revolution, entrepreneurship and the policies of government. Any entity which have strong grip at these factors can increase their size vice versa. John and Adebayo (2013) concluded that the size of firm can be considered as compulsory factor for profitability. The firm size is compulsory factor in the age of globalization of world to gain the competitive advantages of scale of economy. The performance of any entity can be calculated though different ways and techniques. The most common useful way to measure the firm size is financial analysis. The firm size represents the ultimate output capacity of services and production to their expected target market. Firm size decides the boundaries of profitability on economic of scale, though this theory there is positive relationship among profitability and firm size because underpricing and underperformance of firms is close associate with the firm size.

Baumol concluded that massive financial capital structure can boost the profitability of the entity and it also grooms the firm size. Furthermore it also grows the profitability against each and every dollar invests in the business entity. As the trend regarding the size of the firm wisely manage then small size firms can sort out the maximum working trend, which provides optimum output in that sector, where only large size firm can survive. The working of the entity can be worth with various techniques and methods, for instance most familiar technique is analysis of financial data is represent the strategy to sort the profitability ratios this is the core measurement tool which is globally accepted. Entity size refers to the volume of production,

output capacity, variety of production or services and capabilities of the financial possession. Entity size sorted out as basic variable that enables the financial managers to forecast the profitability of the corporation at measuring tool which is known as economies of scale. This scale was suggested by Neo Classical Theory regarding the entity. It is the obvious reality that output production might be arrange at cheapest costs by the large scale entities as compare the small size firms. So according to this theory, there is relative positive link among the size of the entity and firm's targeted profitability.

Similarly, substitute models regarding the firm's size suggest that large scale entities remain under the supervision of the mangers which have their own interest and the conflicts of interest can arise at different level, so that the theory of maximization of the managerial element play role of the substitute for the purpose to increase the profitability ratio of the firm. Therefore profitability is the game changer tool for the stability and growth of any business. Profitability refer the specific portion of money that engender from different ways which are rapid available by the firm. The firm size can overcome under or over-pricing conflicts along with maximum volume of the return against the investment in the correspondence of small size firm. Big size firms might have abilities of vast profitability measures during the recession period the ratio of the profitability doesn't promptly exceed. The conjunction of different opinion might be optimistic by the financial experts but slowly mispricing over come to the investor regarding the firm size and financial standings.

Deficiency of the cash flow insists the firm to adopt the profitable project and increase the size of the firm, some time existing firms increase their volume of production by the boosting of the business. Similarly, sometime different firms merge through horizontal, vertical, concentric, or conglomerate mergers due to maturity reasons. In this way the working capacity of the firm rapidly increase which ultimately affect the profitability of the firm and rapidly increase the revenue. Technical reasons represent the distribution of the fix cost at entire production and the prices of the commodity decline and the market value of that product increase and competitive lurch into difficulty of survival. Organizational objectives enable the firms to get highly skills worker and experienced production techniques if firm gets merged with another firm for the purpose of expansion in size. Financial aspects show the trend in which interest rate also dive at entire production and as a large entity firm get the cash discounts, as the cost of production decline due to expansion in size of firm then volume of sales increase vice versa which directly affect the profitability of the business entity.

So there is the relatively positive link among the size of the firm and profitability of the firm as the firm size increase revenue resource. However, if firm size decline then profitability also suffers vice versa. There are some different approaches regarding firm size which have direct relationship with firm size and profitability as follow: Transaction cost suggested the measurement approach in which firm size allocate by the cost of transaction of any product. Conventional microeconomic represent the approach that refer the strategy in which the size of the entity point out with the factor of efficiency and technical grounds. Industrial organization always weighted the size of the firm by its market value of the product. Market value is the ultimate effective and efficient testing tool which overhauls the worth of product without any sympathy. The institution factors elaborate the legal binding regarding efficient working of business and patient rights.

However, frictions didn't observe among these variables and strongly supported the cash holdings strategy for the cent percent profitability. Toft (1996) sorted out the secondary market difficulties of the firm liquidity regarding corporate bonds and the dividend distribution ratio which cause long run period prospects of firm. Murto (2014) suggested that the risk of uncertainty level for the valid profitability of the firm cannot divert the strong trust and belief of its shareholders unless the factor of conflicts of interest isn't established. Well managed profitability can boost the reserves of the liquid assets of the firm at maximum level which increase the payout factor that is surety of well standing in the market. The prosperity of the business entity is interlinked with the cash reserve and profitability both variable have positive effect on each other. This model concluded that when the dividend of the entity increase, then the risk of insolvency decrease due to strong believer of the investor to the firm which cause the increase of the value of firm. This is obvious reality that optimum dividend trend always requires the strategy of profit distribution policies to meet the target cash holding. The Shareholders might raise the equity share against minimum cost because the liquidation is the ultimate worry for them beside the profitability.

Majumdar (1997) founded that big entities have low level of production but these firms have large profitability ratio. Lee (2009) suggested that ultimate size of the entity have significant input to explore the overall profitability of the firm. Similarly, this link between firm size and profitability is nonlinear. Amato (1985) researched the link between entity size and firms profitability with linear and quadratic technique, author founded no relationship among these variables. Later on, Amato (2007) suggested linear relationship between the size of firm

and profitability and suggested that these variables inversely effect to each other and founded cubic link among the size of the entity and ROA. The liquid reserve of the smaller entities positively affects the cash flow of the firm, on the other hand the cash holding of the big entities doesn't fluctuate. Large companies can easily follow the efficient accounting policies to boost the profit margin of the firm and under estimate the taxation and these firms actively take part into the social activity to get the sympathy for their product in the eyes of its consumers. Majumdar (1997) investigated that large entities have huge profitability ratio than small firms. The profitability of the firm and the size of the firm have small variation for each other and profitability refer as independent variable and firm size is independent variable.

Velnampy (2014) suggested that size of the entity and profitability doesn't have any causal link with each other in the manufacturing sector. There is casual expectation of the Investors that a strong entity always earns the optimum level of profitability rate.So the management of the firm always strive for the better earning opportunities to fulfill the profitability demand of these optimist investors for the purpose of getting the highest financing level. Investors believe that only those firms can generate highest level of profitability that has abilities, to achieve these goals to increase the wealth of entire stakeholders. The large business entities normally have a lot of opportunities and direct access to its rational customers and general public as compare with medium size or small entities. The Large size entities have excessive financial or ethical resources to circulate the specific information regarding the product, behavior of the firm, strength of the firm, profitability and capital structure to entire stakeholders of the corporation, in this way the investors and the debtor attract to the large size firms according to their terms and conditions and the negotiation power remained in the hands of these large size firms. These firms spend their heavy financial resources and costly professional human resources abilities at its research and development sector to remain dominant into the primary market.Pastor (2003) the factious profitability of the firm consider to revert the entire resources for them the equity holders of the firm come to know with the passage of time. The maximization of the dividend policy regarding the uncertainty of the profitability of the firm is widely discussed subject worth of the investment determine the rate of return on working capital. Similarly, corporate liquidity and profitability of the firm have nonlinearities regarding value of firm and shareholders of the entity which directly suffer by the management policies.

Myers (1984) concluded that any entity retains excessive profit from its operations then the internal resources of financing of that entity are higher as compare with external financing.

So that this is the traditional fact that any entity have higher profit required low debt due to excessive cash holdings. Because the internal flow of financing is cheap and external financing remains costly. So there is negative link among the leverage and profitability. Profitability can be measured as return on equity or return on assets. Under the light of pecking order model, firms minimize its external financing when the flow of profit floating over at tangent point. This condition also attracts the investors and creditors to provide finance to relevant firm due to least risk of bankruptcy. Other advantage of profitable entities is also noticeable as these corporations can provide the debt with minor interest rate because these firms are considered as low risky firms.

The firm Size can be observed from total assets of the entity. Trade-off model elaborate the behavior of the firms regarding the specific financing figure of debt and equity for the capital structure of the firm. Naturally large size entities have excessive business diversification as compare with the medium or small scale firms in the sense of ratings of the credit opportunities, fluent cash flow and minor bankruptcy risk. Moreover large scale entities can avoid cost of transactions against the long-period debt. In this way large scale firms can raise the flow of financing from the investors and debtors so there is positive relationship between the size of the firm, leverage and profitability.

2.6 Pecking Order Theory

Dittmar et al (2003) concluded that profitability represent as cent percent final output of various investing and financial activity. Pecking order theory considered as financial hierarchy which is represent by Donaldson (1961) in which Firm prioritize their source of financing according to the cost of financing. In the Pecking order model entities set their financial resource according to factor of cost. Because keeping the over and under finance also have its cost for the firm. In this model firm utilize their own financial resources in first priority then that firms get debts. In this model the principal amount always retains within the boundaries of firm and that entity don’t have to return to outsider, in this way flow of fund remain constant along with the limitation if other factors remaining the same. The ratio of return on debt is low as compare with the ratio of return to the shareholders, so that outsource fund remain cheap and firms profitability curve remains upward. This study has described the pecking-order model (Myers et Majluf 1984) as an investing plan with utilization of internal resource in advance as compare with external funding.

In the pecking order theory, the level of cash represents the financing result. In this way when internal cash flows goes upward, that entity utilize their finance into new projects to gain more profit, to paid debts and dividends. Ogundipeet al (2012) concluded that pecking order model represent the positive impact of return on assets. Myers (1984) concluded that entities invest their own resource first in the shape of retain earnings, after that safe debt then risky debt, at last equity. Moreover, this theory also has some limitations, for instance it don't consider the taxes, financial unrest, security cost, and investment opportunities. In the practical life, it is difficult to elaborate actual condition with few theories. Profitability can be observed as the outcome of different financing and investment decision proposed by the hierarchal pattern of financing (Dittmar et al 2003).

Firms utilize the internal source of fund generating by themselves in the first priority because the companies don't have to return principle and interest to the any stakeholder and all the profit remain within the boundaries of the firm, then companies looks for the debt financing because the rate of return to the debt financing is slightly low as compare with the return rate of equity financing. Pecking-order theory referred as funding decisions using internal funds in advance compare to the external source of funding. Myers (1984) concluded that in the pecking-order theory firms prefer using internal funding source from the profit withhold, compare to publish the debts or issuing stock. Ferreira and Vilela (2004) claimed that cash can be used for financing investment to pay firms debt and in turn stockpile cash.

2.7 Trade-Off Theory

The trade-off theory refers the financial strategy in which financial managers estimate that how much equity and finance is required by the firm to create balance between the cost and benefits of the firm. The core objective of this theory is to elaborate the relevant facts that any entity generally is financed partly with debt and owner equity. There is an advantage of debt financing regarding the tax relief in the general operations of the firm. Tobin (1956) and Miller (1966) concluded that entities fix their maximum level of cash after the comparison of cost and profit margin. If the firm utilizes the outsider resources of funds in first priority then that firm avoids the taxation this is basic advantage of this theory. In this way the value of the firm will increase and after minor return to outsider large portion of profitability will remain within the

boundaries of firms so entity might be stable though this theory. These models of capital structure are most consistent for the empirical regularities. The advantages of cash holdings minimize the financial restrictions, follow the maximum investment policy in every condition whether financial tools are sufficient or deficient and reduce the cost of increasing external resource or converting present assets into cash Ferreira and Vilela, 2004. There are few basic costs linkage with cash holding. The tradeoff theory remains the longest standing theory which falls along with the expended body of empirical work. This theory, maximize the highest value of debt that relate the marginal benefit though tax deduction. This scenario elaborates the fluctuations in leverage of entire firm with the passage of time that might be attributed among the variance in the marginal cost. The tradeoff theory suggested that additional profitable firms always remain the higher level of leverage ratios into the financial operations. Sometimes, debt cost become more expensive as compare with return ratio of equity financing due to excessive increase the level of Leverage. This factor also increases the risk of debtors of the firm. Moreover, the higher level of debt financing is alarming condition for the investors and shareholders of the firm. Rajan & Zingales (1995) suggested that a positive casual correlation lies among the firms Leverage, and profitability of a firm, on the other hand there is positive relationship between the tangibility of assets and the firm size. Mesquita & Lara founded that there is positive relation among the firm's debt and Leverage. In addition, the size of the firm correlated with Leverage positively. Um (2001) concluded that the highest level of the profitability tend the highest level of the debt capacity regarding the firm. Tradeoff theory represents the positive causal link among profitability and financial Leverage of the entity.

These costs base on managers decisions whether they increase shareholders finance or not. The rational financial managers always point out this specific question that why it is most attractive to retain the extra units of assets as compare with drop of cash holding Opler, Pinkowitz, and Stulz, 1999. The trade-off theory has inverse effect on profit as profitable entities keep sufficient cash flows which decrease under-investment conflicts Almeida & Campello, 2005. Firms set their optimum cash level by comparing the marginal benefits against the marginal cost (Tobin 1956) (Miller & Orr 1966). The core advantage of the usage of debt is the tax deduction relief. The values of the firm reach to the optimum level usage the debt financing if further debt is use within an organization that firm cannot afford the liability that can face the financial distress that can lead the bankruptcy Gajurel (2005).

Graham and Harvey (2001) concluded that the vital advantage gain from the trade-off theory is tax deduction relief. The managers have to compare the trade-off between tax saving and the cost financial distress in the determination of capital structure.

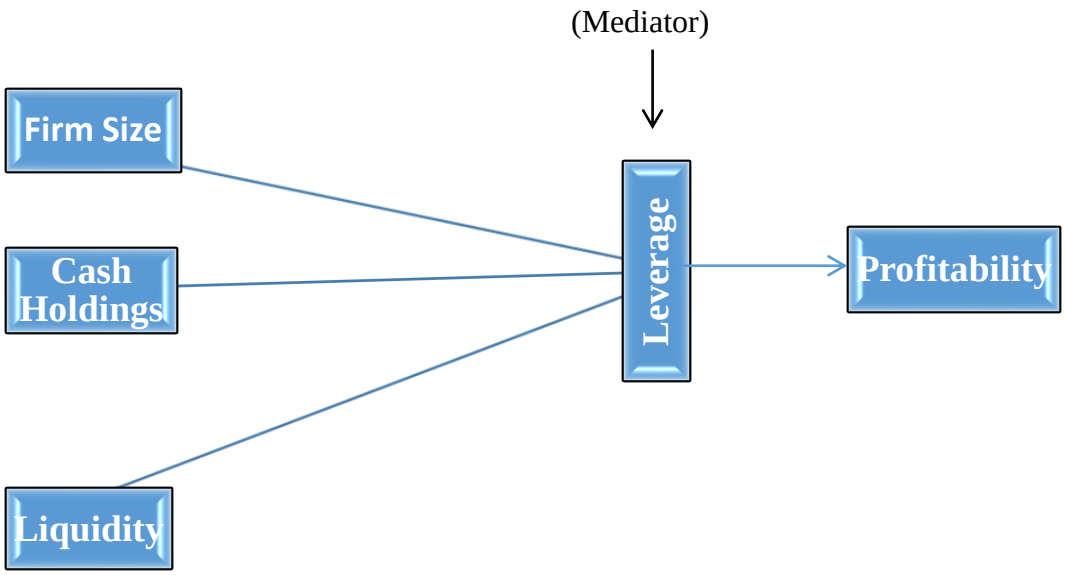
2.8 Research Gap

Many studies have been conducted on leverage, liquidity and profitability in the United Kingdom, United States, Indonesia, Germany, France, Poland and Greece, but in Pakistan no consideration has carried out till date in three segments of Pakistan textile industry listed on Pakistan stock exchange. Most of the studies have been conducted to measure the profitability through the finest tool ROA, ROE and EPS.

The novelty of the study lies on the ground that this research model considered the collective effect of Corporate Cash Holdings, Liquidity and Firm Size on Firm Profitability with mediating effects of Leverage and relationship among these variables, which has not been investigated in case of Pakistan. This study is also novel on another ground that it considers three separate segments spinning, weaving and composite of entire Textile Industry of Pakistan listed on Pakistan Stock Exchange (PSE) formally known as KSE.

The time frame has been updated 2012-2016 so that amend result been sorted out and the combination of these joint variables attract the investor to the Pakistan textile industry. This research model has applied these joint variables to entire textile industry and analyze the three segments separately textile spinning, textile weaving and textile composite, at last comparison study of these three segment has been conducted.

2.9 The Theoretical Framework Model



2.10 Development of Hypothesis

This study intends to develop a number of hypotheses to investigate the impact of corporate cash holdings, firm size, liquidity and mediating effect of leverage on profitability of textile industry. Null and alternative hypothesis has been developed which may be rejected or accepted depending on the critical P values of the results. Hypothesis is a specific statement that is developed on the grounds of theoretical conceptualization for the purpose of analysis for acceptance or rejection (Creswell,1994).

2.10.1 Statement of Hypothesis

H_0: There is no impact of Corporate Cash Holdings on firm Profitability in the three segments of textile sector of Pakistan.

H_1: There is impact of Corporate Cash Holdings on firm Profitability in the three segments of textile sector of Pakistan.

H_0: There is no mediating impact of Leverage, along with Corporate Cash Holdings, Firm Size and liquidity, on firm Profitability in the three segments of textile sector of Pakistan.

H_1: There is mediating impact of Leverage, along with Corporate Cash Holdings, Firm Size and liquidity, on firm Profitability in the three segments of textile sector of Pakistan.

H_0: There is no impact of Liquidity on firm Profitability in the three segments of textile sector of Pakistan.

$H_{1:}$ There is impact of Liquidity on firm Profitability in the three segments of textile sector of Pakistan.

$H_{0:}$ There is no impact of Firm Size on firm Profitability in the three segments of textile sector of Pakistan.

H_1: There is impact of Firm Size on firm Profitability in the three segments of textile sector of Pakistan.

2.11 Sample Size

The sample size consists upon the entire non-financial textile industry sector of the Pakistan listed at PSX for the period 2012-2016. The preference of this period of the sample is influence from availability of relevant data at PSX that are updating the financial facts fluently. Moreover, the relevant data has been collected manually that is mentioned into their annual financial statements for the specific period of 2012-2016. The final size of sample consists upon 155 non-financial textile firms registered at PSX.

2.12 Conclusion

This study has reached at the point that the pecking order and trade of theory are preferable for the model of this research. On the other hand to resolve the issue of correlation strategy, Lag of dependent variable as well as the log of the result of that dependent variable,along with the log of one suitable independent variable is preferable. This study has founded that these dependent and independent variable are interlinked with each other and these variables have positive and negative effect upon one another.

CHAPTER 3
DATA AND METHODOLOGY

3.1 Introduction:

A credible and valid data source play dynamic role for empirical studies and increase the validity strength of research paper. There are a lot of studies has been conducted regarding causal relationship among the profitability and firm size, leverage, liquidity, dividend payout cash holdings, market opportunities, working capital, growth opportunities, opportunity cost, Firm value and Investor protection etc. All of these variables has dominant and core impact on profitability but this study selected the most ever prominent factor which is leverage as mediator along with supporting variables as firm size, liquidity and cash holdings, because leverage link with the survival of the business and this study test this core variable into entire textile sector of Pakistan to analyze the casual linkage among them. Swamy and Arora estimator of component variances and Auto Regressive Distributed Lags Model (ARDL) model have been applied in the studies.

Furthermore, the secondary time series source of data has been applied. This chapter consists upon the data and its methodology to measure the subscribed effects of corporate cash holdings, liquidity and firm size on firm profitability with mediating effects of leverage into three segments of entire textile industry of Pakistan: Section 3.2 to 3.3 elaborate the source of the data, definitions, description of variables and descriptive statistics of the data. Section 3.4 to 3.12 suggested the econometric issues and relevant test that can be apply to the data. At last but not least, section 3.13 is about conclusion of this chapter.

3.2 Data and Description of Variable

The secondary time series of the data utilized in this empirical analysis, this data have been collected from the official websites of entire textile firms which are listed at Pakistan stock exchange. This study is based on the period of 2012-2016. The brief descriptions of relevant variables are as follow:

3.2.1 Definitions of the variables

The relevant variables that are included in research paper to sort out the impact of corporate cash holdings, liquidity and firm size on firm profitability with mediating effects of leverage into three segments of entire textile industry of Pakistan are being elaborate as under;

3.2.1-A Profitability

Profitability represents the specific degree though that any concern or business activities conduct for the financial benefits or gains during the specific period of time. Profitability also represents the firm's ability to retain excessive resources after entire expenses from its lump sum revenues.

3.2.1-B Corporate Cash Holdings

Any tangible or intangible assets retain by the firm for specific time frame into the liquid form represent cash holdings capabilities of the entity. This is the specific portion of money which is retained in the form of cash, bank balance and bonds instead the investment of that portion into the financial operations.

3.2.1-C Leverage

The financial leverage represents the borrowed money and resources utilize by the firm to increase the output capacity of production and increase the sales volume and ultimate profit of the firm. If the amount of the debt financing is increased then the level of the leverage will also increase vice versa.

3.2.1-D Liquidity

The financial liquidity elaborates the degree though that any assets can easily convert into the hard cash. It's also determined the capabilities of the firm entire current assets fulfill the current liabilities.

3.2.1-E Firm Size

The firm size of the company referred as firm's total assets. This figure of total asset elaborate the optimum output capacity of the entity, number of employees, volume of sale, revenues resources of the firm.

3.3 Mediation Analysis; Beyond Barron and Kenney (1986)

Mediation model is one that seeks to identify and explain the mechanism or process that underlies an observed relationship between a simple statistical mediation models. Independent variable and a dependent variable via the inclusion of a third hypothetical variable, known as a mediator variable. Rather than a direct causal relationship between the independent variable and

the dependent variable, a mediation model proposes that the independent variable influences the (non-observable) mediator variable, which in turn influences the dependent variable. Thus, the mediator variable serves to clarify the nature of the relationship between the independent and dependent variables. Mediation analyses are employed to understand a known relationship by exploring the underlying mechanism or process by which one variable influences another variable through a mediator variable. Mediation analysis facilitates a better understanding of the relationship between the independent and dependent variables when the variables appear to not have a definite connection. They are studied by means of operational definitions and have no existence apart.

This study has applied the econometric model to panel data in this research. This study have specified the model by taking profitability of firm (pro) as dependent variable, whereas cash holdings (CH), liquidity (liq) and firm size (FS) are taken as explanatory variables.
Baron and Kenny (1986) laid out several requirements that must be met to form a true mediation relationship. They are outlined below using a real-world example.

Three Steps for Mediation Analysis by Baron and Kenney (1986)

3.3.1 Step 1:

This step regress the dependent variable on the independent variable to confirm that the independent variable is a significant predictor of the dependent variable.

By following Baron and Kenney (1986) in step 1 we will take profitability as dependent variable and firm size, liquidity, corporate cash holdings as independent variable. This step will not include leverage as mediator so that the direct impact of independent variable will be analyze on profitability. The theoretical model is given as under;

The econometric equation is as follow: (without leverage)

$$PROit = \beta0 + \beta1CHit + \beta2LIQit + \beta3FSit + eit$$

Whereas:

PRO: Profitability

CH: Corporate Cash Holdings

LEV: Leverage

LIQ: Liquidity

FS: Firm Size

3.3.2 Step 2:

The step 2 regress the mediator on the independent variable to confirm that the independent variable is a significant predictor of the mediator. If the mediator is not associated with the independent variable, then it couldn't possibly mediate anything.

By following Baron and Kenney (1986)in step 2 we will take leverage as dependent variable and firm size, liquidity, corporate cash holdings as independent variable. This step will include leverage as mediator so that the indirect impact of independent variable will be analyze on profitability. The theoretical model is given as under;

The econometric equation is as follow:(Mediator as dependent variable)

$$LEVit = \beta0 + \beta1CHit + \beta2LIQit + \beta3FSit + eit$$

3.3.3 Step 3:

This step regress the dependent variable on both the mediator and independent variable to confirm that the mediator is a significant predictor of the dependent variable, and the previously significant independent variable in Step #1 is now greatly reduced, if not non-significant. Independent variable should be smaller in absolute value than the original mediation effect.

By following Baron and Kenney (1986) in step 3 we will take profitability as dependent variable and firm size, liquidity, corporate cash holdings, leverage as independent variable. This step will include leverage as mediator, along with other explanatory variables, so that the direct impact of independent variables and leverage (as mediator) will be analyze on profitability. The theoretical model is given as under;

The econometric equation is as follow: (with leverage)

$$PROit = \beta0 + \beta1CHit + \beta2LEVit + \beta3LIQit + \beta4FSit + eit$$

In the following this study have specify the present model by including leverage as a mediator variable that will provide us insights that how the leverage of the firm is an important

variable which determines the impact of cash holdings (CH), liquidity (liq) and firm size (FS) on firms profitability.

Profitability: Measured by the following formulas;

Return on assets = Net income/assets * 100

Return on equity = Net income/shareholder investment * 100

Corporate Cash Holdings: Measured by the following formulas;

Cash to total assets ratio.

Leverage: Measured by the following formulas;

Debt-to-equity ratio = Total debt/Total equity

Liquidity: Measured by the following formulas;

Quick Ratio = Cash &equivalence + short-term investment +

Account receivable/current liabilities

Firm Size: Measured by the following formulas;

Total assets of the firm

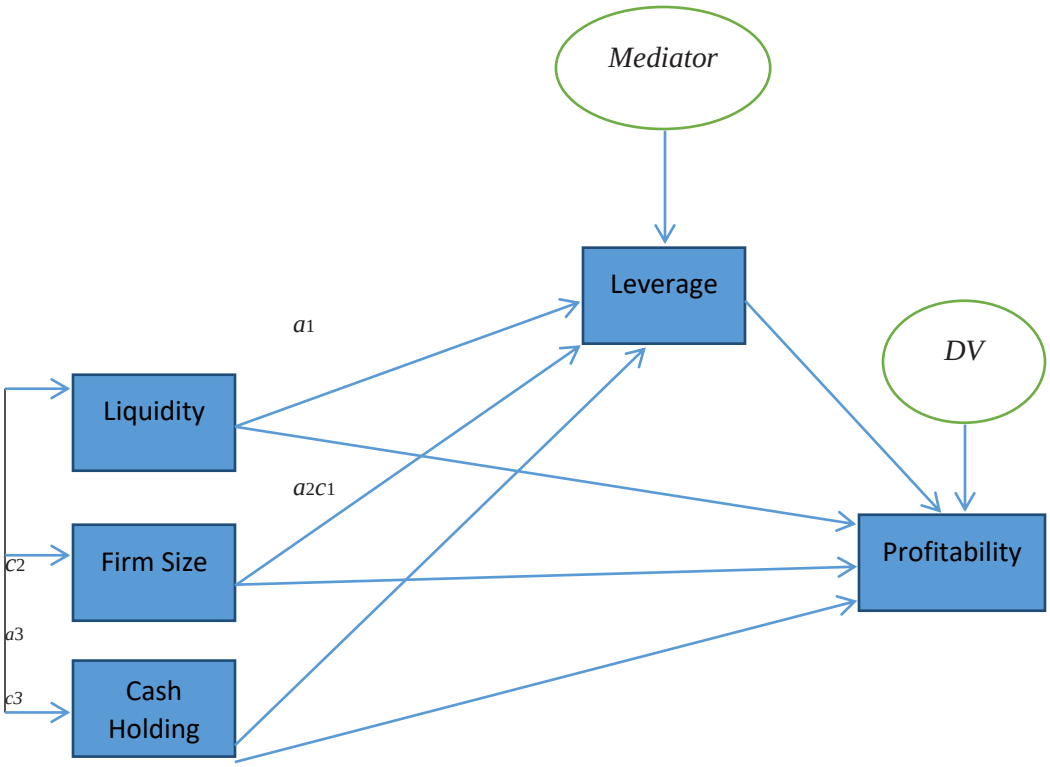


Figure 2 Barren & Kenney (1986) mediation model in path diagram form corresponding to a model with a multicategorical independent variable with k categories.

3.4 The Model

The core objective of this investigation is represent the conclusion of the impact of corporate cash holdings, liquidity and firm size on firm profitability with mediating effects of leverage into the entire textile industry sector of the Pakistan listed at PSX.

Ming-Chang et al (2011) founded the value of the entities that prefer the leverage remain greater as compare with unleveraged firm with the limitation of bankruptcy probability. However, there is significant positive relationship between the firm value and leverage if firms consider the cost benefit of debt financing.

Corporate cash holdings is strong crucial variable for the entire entities which are lurch for profit and these firms may be public sector or private sector, these firms might be large scale or small scale, even working in developed countries or developing economies so all of these aren't exempted from this theory. Gill and Shah (2012) concluded that corporate cash holdings referred the strategy of cash in hands or ready-made liquid assets promptly available for the core purpose

of investment in tangible or intangible assets. Sami N.M. Abushammala quoted that "Good financial performance of the firm is an outcome of vast corporate cash holdings". Jean-Paul Decamps & Stephane Villeneuve (2015) forecasted that "Cash target level ratios are increasing in profitability prospects".

Lee (2009) suggested that the size of any entity have significant role against the profitability. Ozgulbas et al (2006) concluded that output of strong entities have dominant performance, as compare with week firms. The intellectual among profitability and firm size tend the variations in the shape of output. Kouser et al (2012) concluded the negative relationship between the size of firm and profitability. Simon (1962) and Whittington (1980) quoted the pioneer debate as firm size doesn't affect the profitability because these are independent variables. Lee (2009) concluded that firm size plays dynamic role into the profitability after testing the 7000 US- Firms through fixed effect dynamic model.

Fraser (1998) concluded that basic function of corporate liquidity management initiate with modest and core working of receipt and payments of cash, management of bills by the financial experts and managers. The corporate liquidity has direct effect onto the profitability of the firms and cash reserves which insist the strategy of forming the capital structure of the firm in positive manners. Mauer and Sherman 1998 suggested the average ratio of the corporate liquidity is 8% into the entire industrial entities during the period of 1975-1994.

Hawawini and Viallet, (1999) concluded that the trend of leverage attract the management intention of financial manager and assistants in order to minimize the equity cost and control of entity. The price of the stock also shows the performance, strategy and worth of the entity. When the prices of the stock grew upward then the policies of the entity can mold toward equity financing rather than the debt financing, to avoid fixed cost of interest rate. Wald (1999) concluded that leverage of the firm inversely attack the ratio of debt and asset. Sheel (1994) suggested inverse causal link among debt and asset and previous profitability. Leverage known as margin into the retain earnings from common and preferred stock of any entity in the sense of fix cost of return. So that large scale leverage shows the high ratio of debt financing which increase the fix cost of the firm and boost the risk factor as well. The conditions of the specific industry also have the key factor to forecast the ratio of leverage because this factor is interlinked with the risk management. Titman and Wessels (1988) suggested that any entities that

have strong return on investment represent second-fiddle flush regarding leverage as compare with low profitable firms.

Thus, the leverage is the life blood for the survival of any business entity because the other entire variables are interlink with the leverage. If the role of leverage fluctuate with any degree then entire variables including profitability change accordingly.

This study has used the dominant methods- fixed and random effect models - to find out the impact of corporate cash holding, liquidity, firm size and mediating effect of leverage on firm's profitability, by employed panel data of the firms. By applying these panel techniques for the estimation, we have tackled the problem of correlation (endogeneity) among the independent variables and unobservable effects of the firms. Furthermore this study applies these three estimation methods by following the mediation technique of Baron and Kenney (1986)which are as follows.

Pro = F (FS, CH, LIQ)	Without Mediator
Lev = F (FS, CH, LIQ)	Mediator as DV
Pro = F (FS, CH, LIQ LEV)	With Mediator

To avoid the issue of auto correlation lagged model of dependent variable will be used as follow;

3.4.1 Lag of profitability Pro(-1)

The lagged of the dependent variable should take as control the problem of autocorrelation, and then it fluently correlated along with the error terminology. As this study know that the coefficient value of any variable consist the fraction of the specific change which are under observations.

3.4.2 Log of Pro(-1)

LPRO= log(PRO)

3.4.3 Log of firm Size *Log(FS)*

LFS= log(FS)

3.4.4 Statistical Formula for E-view

LPRO C LEV LIQ LFS CH PRO(-1)

3.5 T test Statistics

The *t*-test statistic refers the hypothesis test that follow the Student's t-distribution though the null hypothesis. This t-test is generally used by the researchers at the time when normal distribution of the data follow the value of the scaling term into the test statistic. On the other hand scaling term of the data is unknown that can be replaced from the estimate based of data. In this situations t test statistics utilize the Student's t-distribution. This t-test statistics also might be utilize to determine two relevant sets of the data that is significantly differ and unique with each other.

During the testing of relevant null hypothesis for which the population mean of the data remain equal to the specific number (μ0), then following statistics might be considerable;

$$t = \frac{\bar{x} - \mu_0}{s/\sqrt{n}}$$

Whereas

$\bar{x}$ Refers as the sample mean.

s represent the sample of standard deviation regarding entire sample.

n shows the entire sample size.

3.5.1 *T-test* of the two independent sample

If the relevant data have two different independent sample then following formula will be apply;

$$t = \frac{\bar{X}_1 - \bar{X}_2}{S_p\sqrt{\frac{2}{n}}}$$

Whereas

$$S_p = \sqrt{\frac{s_{X_1}^2 + s_{X_2}^2}{2}}$$

S_pReferred as pooled standard deviation for the value of n which is equal to$n_1$and $n_2$on the otherhand$s_{X_1}^2$and$s_{X_2}^2$represent the unbiased estimators of the variance of two unique samples.

Denominator value of the*t* represents the standard error of the specific differences among the value of the mean.

3.6 The Wald Test (F-statistics)

This test can be applied to the lagged level of different variable that might be two or more. F-test statistic represents the F-distribution of the entire data through the null hypothesis. This model utilize during the comparison of entire fitted data set, for the purpose of the identification of the model that is compatible with the population. "F-tests" looks attractive when the model of the data is best fitted using from the least squares.

3.6.1 One-way analysis of the *F*-test

ANOVA *F*-test might be preferable to observe the treatments as whether the results are superior, inferior or average versus entire null hypothesis. Following formula utilize in this regard;

$$\mathrm{F} = \frac{explained\ variance}{unexplained\ variance}$$

or

$$\mathrm{F} = \frac{between-group\ variability}{within-group\ variability}$$

Whereas

The factors of “explained variance” or “between-group variability” represent as

$$\sum_{i=1}^{K} n_i\ (\bar{\mathrm{Y}}_i - \bar{\mathrm{Y}})^2 / (\mathrm{K}-1)$$

Whereas

$\bar{\mathrm{Y}}_{\mathrm{i}}$Refer as sample mean into i-th group of the data.

n_{i} Refer as the relevant number of the observations of i-th group.

$\bar{\mathrm{Y}}$Consider as ultimate mean of the data.

K undertook as numbers of groups.

The relevant “unexplained variance” or “within-group variability” consider as;

$$\sum_{i=1}^{K}\sum_{j=1}^{n_i} n_i\ (\mathrm{Y}_{ij}\ -\ \mathrm{Y}_i)^2/\ (N-K)$$

Wheras

Y_{ij}Denotes the j^{th} number of total observation into i^{th} number of observation out of K groups. Furthermore N represents the entire sample size.

3.7 Durbin-Watson Statistics

This theory utilized for to trace the presence of the autocorrelation factor at the lag 1 to avoid the errors from the entire regression analysis test. This theory applied through the least square regression along with the arrangements of the bound tests for the entire null hypothesis. This theory also suggested entire errors into the regression models adopt a specific process along with the unit root versus the alternative hypothesis which shows that entire errors follow the policy of stationary of the first order of auto regression.

When the value of the $\mathrm{e_t}$ remain residual associated along with the relevant observations at the time t, in this state the test statistics will be as follow;

$$d = \frac{\sum_{t=2}^{T}(e_t\ -\ e_{t-1})^2}{\sum_{t=2}^{T} e_t^2}$$

Whereas

T is as the entire number of observations.

d is near about the value of 2(1-r).

r represent as sample of autocorrelation of the residual.

d=2 show that there is no autocorrelation.

The value of the d must be fall between the number of 0 and 4. If the DW statistical number is less than 2, this result turned into the evidence that elaborate the facts regarding positive correlation. Any result figure of DW statistics is less than 1, this trend shows the alarming situation, because these small values indicate the serious errors terms.

There are two significance level regarding the autocorrelation of the data that are as follow;

3.7.1 Positive autocorrelation to significance level

- If there is d $< \boldsymbol{d_{L,a,}}$ then this is statistical evidence that error terms of the data are positive auto-correlated.
- If there is d $> \boldsymbol{d_{u,a,}}$ then this isn't statistical evidence regarding the error terms of the data are positive auto-correlated.
- If there is $\boldsymbol{d_{L,a,}}$ < d < $\boldsymbol{d_{u,a,}}$ then the statistical test is inconclusive at all.

3.7.2 Negative autocorrelation to significance level

- If there is (4-d)< $\boldsymbol{d_{L,a,}}$ then this is statistical evidence that error terms of the data are negative auto-correlated.
- If there is (4-d)> $\boldsymbol{d_{u,a,}}$ then this isn't statistical evidence regarding the error terms of the data are negative auto-correlated.
- If there is $\boldsymbol{d_{L,a,}}$ <(4-d)< $\boldsymbol{d_{u,a,}}$ then the statistical test is inconclusive at all.

3.8 R-Squared Statistics

The statistical technique which explores the entire proportion of variance regarding the dependent variable might be elaborate by the one or more independent variable. Required R-squared normally took as the movements of the specific percentage regarding the funds and securities which elaborate by the elasticity into the benchmark index.

The value of the R-squared remains into the range of 0 to 1 and this statistics technique is normally interpreted into the percentages value within the range of 0% to 100%. 100% R-squared represent that entire movement's dependent variable properly and completely elaborate from the movements into relevant index of the independent variable. The value of the R-squared, among the 85% and 100%, shows movements within the line of relevant index of the funds and firms stock. Low or minor R-squared represent the value fall within 70% or less, which mean security of the firm doesn't apply the elasticity of the relevant index. If the value of R-squared relatively high this factor indicate that the figure of the beta is attractive.

The R-squared can be calculate through under mentioned formula;

R-Squared = 1- (Explained Variation / Total Variation)

3.9 Fixed Effect Statistical Model

This is the specific statistical technique that includes entire fixed parameters of the specific model. This is mixture of random effects & mixed models that shows the some random variables. Fixed effects statistical model represent towards a specific regression model that consist upon the group mean as fixed factor which opposed to the model of random effects.

Normally, relevant data divide into different groups under the shade of different observed factors. The mean of the each group might be categorized upon the relevancy of data towards fixed effect or random effects. In this model mean value of the each groups have its own group-specific model of fixed quantity. Fixed effect statistics represent the mean of the data according the subject specific longitudinal observations. The analysis of panel data represent the fixed effects estimator terminology which is utilize as a specific estimator into the entire regression model as a coefficients.

This type of the variable utilizes to overcome the unobserved heterogeneity when it may constant with the passing of the time. This type of heterogeneity might be chalk out from the entire relevant data with the strategy of differencing.

The Liner unobserved effect model is under mention for the N observation along with T time frame;

$$y_{it} = X_{it}\beta + \alpha_i + u_{it} + for\ t = 1,,,,,T\ and\ i = 1,,,,N$$

Whereas

y_{it} represent the dependent variable which is took for the single i for the time of t.

X_{it} represent the time variation as T x k of the regression matrix.

β represent Kx1 parameters of the matrix.

u_{it} represent the error terminology rom the data

α_i represent the effect of the unobserved time-invariant and it isn't observable and it can calculate through

$$y_{it} - \bar{y}_{it} = (X_{it} - \bar{X}_i)\,\beta + (a_{it} - \bar{a}_i)$$

$$\bar{X}_i = \frac{1}{T}\sum_{t=1}^{T} X_{it}$$

$$u_{it} = \frac{1}{T}\sum_{t=1}^{T} u_{it}$$

3.10 Random Effect Statistical Model

This model also known as variance components model, this model refer as hierarchical linear model, that assume the situation that entire set of the data has been analysis through the specific hierarchy of various populations. This model utilizes to critical examination of panel and the hierarchical data at the time when any entity consider that there is not any fixed effects. Furthermore, this model urges researchers to apply the individual effects to the relevant source of data. A lot of Bio-statisticians utilize the "fixed" and "random" effects statistical model respectively for the purpose to assume the latent variable as well as unknown variable by the population average on the other side from the subject-specific effects. This model provides its guideline into the controlling of the heterogeneity which hasn't observed, at the time when the heterogeneity refer as constant variable and didn't correlate along with its independent variables. This constant factor might be eliminating out-of entire data with the strategy of differencing.

Random Effect Statistical Model might be elaborate as;

$$Y_{ij} = \mu + U_i + W_{ij}$$

Same model can be expended as for mixed model;

$$Y_{ij} = \mu + B_1 SEX_{ij} + B_2 RACE_{ij} + B_3 PA$$

Whereas

μ Refer as average test of entire population.

U_i Consider as specific random effect.

W_{ij} Represent as individual specific random effect.

SEX_{ij}, $RACE_{ij}$&PA took as dummy variable.

3.11 Conclusion

This chapter provides the entire crystal clear picture regarding the presentation of relevant data. Descriptive statistic measures and tool has been chosen to overall analysis of the data. ADF test model utilize to sort out the stationary of data. If entire relevant variables of the data aren't properly integrated with same degree for instance some variables of the data might integrated at I (1), other through I (0) or might be both. In this special case, Autoregressive distributed Lag Model (ARDL) can be used to chalk out errors. In addition, Bound testing statistics method has been utilized to sort out the long run linkage among variables. Moreover error correction statistical model also has been considered to satisfy the spurious regression.

CHAPTER 4

DATA ANALYSIS, RESULTS AND ESTIMATION

4.1 Introduction

The previous chapter provided complete discussion regarding the methodological importance, implementation and conflict of the relevant data. Now this chapter will elaborate the complete analysis about the impact of corporate cash holdings, liquidity and firm size on firm profitability with mediating effects of leverage into the three segments of entire textile industry of Pakistan. As entire firm lurch to expend their profitability strength and take different measures sometime these measures works or some time these measure might be fail. There are a lot of variable affect the profitability of the firm but if business entities provide extra intention toward cash holdings, liquidity, firm size and most important leverage then that firm can increase the wealth of the shareholders with double speed. Because leverage works as mediator between the dependent and independent variables. Without leverage it is impossible to groom the profitability and firm size, liquidity, and cash holdings. This chapter would explore valid conclusion along with the facts of empirical results of this research, furthermore this chapter prove that leverage works as mediator and these independent variable direct effect the profitability of the firm.

This chapter represents the arrangements in this way as: Section 4.1 to 4.2 this study have discussed about the theoretical issues and results of the coefficients, P-value, R-squared, Adjusted R-squared and Durbin Watson. Section 4.3 is about the stationarity judgment and correlation between the variables. Section 4.3 to 4.5 is about the Hausman test which tells us to use random effect tests instead of fixed effect tests. Section 4.7 to 4.8 elaborates regarding the collection of data and its brief analysis. At last but not least, section 4.9 is about conclusion of this chapter.

4.2 Descriptive Statistics

Table 4.1 represent the descriptive statistics of textile spinning consist upon step 1 of Barron and Kenney (1986) mediation techniques as without the role of leverage (mediator), table 4.2 shows the descriptive statistics of textile spinning (step 2)in which mediator has been taken as dependent variable according with the barren and Kenney mediation technique (1986). In addition, table 4.3 shows the descriptive statistics of textile spinning along with the role of leverage (mediator). Moreover, table 4.4 explain the descriptive statistics of textile Composite without the role of leverage (mediator) and table 4.5 focus on the descriptive statistics of textile

composite in which mediator has been taken as dependent variable according to the barren and Kenney mediation technique (1986). However, table 4.6 elaborated the descriptive statistics of textile Composite in which mediator include in the model. At last but not least, table 4.7 curtail the descriptive statistics of textile weaving without the role of leverage (mediator), along with the table 4.8 that consist upon the descriptive statistics of textile weaving leverage replaced with profitability as a dependent variable. Finally, table 4.9 represent the descriptive statistics of textile weaving in which mediator include in the model.

Three Steps for mediation beyond Barron and Kenney 1986

4.2.1 Textile Spinning Statistical Variables Analysis (Step 1)

Mean shows the average figure as the sum of entire numbers which is oblivious from given variable. The mean value of profitability (PRO) remain same as 1.320364,

Table 4.1 Descriptive Analysis

	PRO	CH	LIQ	FS
Mean	1.320364	0.022171	0.500738	2.04E+09
Median	1.016900	0.007373	0.439950	1.61E+09
Maximum	77.74000	1.715400	1.950000	1.02E+10
Minimum	-73.24300	7.23E-05	0.002100	3680639.
Std. Dev.	14.61563	0.108219	0.382477	1.84E+09
Skewness	0.234575	1.22732	1.374698	1.776837
Kurtosis	6.98075	4.98743	5.057079	3.767674
Jarque-Bera	595.3304	593305.9	125.7681	330.8904
Probability	0.000000	0.000000	0.000000	0.000000
Sum	368.3816	5.631533	128.1891	5.56E+11
Sum Sq. Dev.	59385.44	2.962978	37.30358	9.24E+20
Observations	279	254	256	273

Source: Author‘s calculations Textile Spinning- descriptive statistic Step 1Baron & Kenney (1986)

Leverage not affects the mean value of profitability, firm size, liquidity and cash holdings. As mean value of the CH represent the 0.022171, LIQ shows 0.500738 and FS represent 2.04E+09. On the other hand the mediator mean value of 1.092678 doesn’t affect the mean value of above mentioned variables. Mean value has been calculate though under mentioned formula;

$$\bar{X}=\frac{\sum xi}{n}$$

The above mentioned variance is utilized to weight the distribution of that specific values of the variable that are exists around the entire mean value. Standard deviation is defined as a positive square root of the variance. The Standard deviation of PRO, CH, LIQ, FS are 14.61563, 0.108219, 0.382477, 1.84E+09respectively remain same into entire three steps.

Table 4.2 Descriptive Analysis

	LEV	LIQ	FS	CH
Mean	1.092678	0.500738	2.04E+09	0.022171
Median	1.297495	0.439950	1.61E+09	0.007373
Maximum	20.95100	1.950000	1.02E+10	1.715400
Minimum	-24.65000	0.002100	3680639.	7.23E-05
Std. Dev.	4.332937	0.382477	1.84E+09	0.108219
Skewness	0.485786	1.374698	1.776837	1.22732
Kurtosis	4.87326	5.057079	3.767674	4.98743
Jarque-Bera	1030.510	125.7681	330.8904	593305.9
Probability	0.000000	0.000000	0.000000	0.000000
Sum	295.0231	128.1891	5.56E+11	5.631533
Sum Sq. Dev.	5050.298	37.30358	9.24E+20	2.962978
Observations	270	256	273	254

Source: Author‘s calculations Textile Spinning- descriptive statistic Step 2Baron & Kenney (1986)

The Standard deviation of leverage (mediator) 4.332937 doesn’t affect any figure of the above mentioned variables. The Standard deviation figures have been generated though under mentioned formula;

$$\sigma^2 = \frac{\sum(\mathrm{X}-\mu)^2}{\mathrm{n}}$$

$$S^2 = \frac{\sum_{i=1}^{n}(\mathrm{X}i-\overline{\mathrm{X}})^2}{\mathrm{n}-1}$$

Various other factor of distribution which are consider into the distribution of probability for instance skewness and kurtosis. The skewness represents the measure of the symmetric or asymmetric distribution of the relevant data. During the comparison of the values of skewness PRO, LEV (mediator), CH, LIQ and FS and are as 0.234575, 0.485786, 1.22732, 1.374698 and 1.776837 respectively. Mediator didn’t affect skewness and kurtosis of dependent and independent variable.

The kurtosis value of PRO, LEV (mediator),CH, LIQ and FS are as 6.98075, 4.87326, 4.98743, 5.057079 and 3.767674 respectively.

Table 4.3 Descriptive Analysis

	PRO	LEV	CH	LIQ	FS
Mean	1.320364	1.092678	0.022171	0.500738	2.04E+09
Median	1.016900	1.297495	0.007373	0.439950	1.61E+09
Maximum	77.74000	20.95100	1.715400	1.950000	1.02E+10
Minimum	-73.24300	-24.65000	7.23E-05	0.002100	3680639.
Std. Dev.	14.61563	4.332937	0.108219	0.382477	1.84E+09
Skewness	0.234575	0.485786	1.22732	1.374698	1.776837
Kurtosis	6.98075	4.87326	4.98743	5.057079	3.767674
Jarque-Bera	595.3304	1030.510	593305.9	125.7681	330.8904
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	368.3816	295.0231	5.631533	128.1891	5.56E+11
Sum Sq. Dev.	59385.44	5050.298	2.962978	37.30358	9.24E+20
Observations	279	270	254	256	273

Source: Author‘s calculations Textile Spinning- descriptive statistic Step 3Baron & Kenney (1986)

$$\text{Sum Sq. Dev} = (\mathrm{X}i - \overline{\mathrm{X}})^2$$

Jarque Bera test is typically use to test the normality of residual to running the regression and is often use for large sample sizes. JB test represent the goodness-of-fit test of whether sample data have the skewness and kurtosis matching a normal distribution. The assumption of the normality isn’t regret when statistic value of the relevant data would fall close to zero value on the other hand the p-value remain high.

4.2.2 Textile Composite Statistical Variables Analysis

Mean shows the average figure as the sum of entire numbers which is oblivious from given variable. The mean value of profitability (PRO) remain same as 3.291523, Leverage (mediator) did not affect the mean value of profitability, firm size, liquidity and cash holdings into the textile composite as well. As mean value of the CH represent the 0.012357, LIQ shows 1.982324 and FS represent 7.68E+09. On the other hand the mediator mean value of 0.904746 doesn’t affect the mean value of above mentioned variables.

Table 4.4 Descriptive Analysis

	PRO	CH	LIQ	FS
Mean	3.291523	0.012357	1.982324	7.68E+09
Median	3.120000	0.005723	0.537069	2.18E+09
Maximum	127.4500	0.111098	193.7300	6.62E+10
Minimum	-78.21000	8.80E-05	0.008352	11983000
Std. Dev.	15.72082	0.017136	14.34000	1.22E+10
Skewness	1.037466	0.897056	1.986642	2.041941
Kurtosis	3.892452	4.287645	5.087364	3.894765
Jarque-Bera	5107.869	790.4872	230080.5	509.9216
Probability	0.000000	0.000000	0.000000	0.000000
Sum	622.0979	2.310719	370.6946	1.45E+12
Sum Sq. Dev.	46463.13	0.054615	38248.25	2.80E+22
Observations	189	187	187	189

Source: Author‘s calculations Textile Composite- descriptive statistic Step 1Baron & Kenney (1986)

The above mentioned variance is utilized to weight the distribution of that specific values of the variable that are exists around the entire mean value. Standard deviation is defined as a positive square root of the variance. The Standard deviation of PRO, CH, LIQ, FS are 15.72082, 0.017136, 14.34000, 1.22E+10 respectively. The Standard deviation of leverage (mediator) is 2.719854 that don’t affect any figure of the above mentioned variables.

Table 4.5 Descriptive Analysis

	LEV	LIQ	FS	CH
Mean	0.904746	1.982324	7.68E+09	0.012357
Median	1.043000	0.537069	2.18E+09	0.005723
Maximum	13.94000	193.7300	6.62E+10	0.111098
Minimum	-9.980000	0.008352	11983000	8.80E-05
Std. Dev.	2.719854	14.34000	1.22E+10	0.017136
Skewness	1.3544O3	1.986642	2.041941	0.897056
Kurtosis	5.094375	5.087364	3.894765	4.287645
Jarque-Bera	211.8583	230080.5	509.9216	790.4872
Probability	0.000000	0.000000	0.000000	0.000000
Sum	169.1874	370.6946	1.45E+12	2.310719
Sum Sq. Dev.	1375.954	38248.25	2.80E+22	0.054615
Observations	187	187	189	187

Source: Author‘s calculations Textile Composite- descriptive statistic Step 2Baron & Kenney (1986)

Various other factor of distribution which are consider into the distribution of probability for instance skewness & kurtosis. The skewness represents the measure of the symmetric or asymmetric distribution of the relevant data. During the comparison of the values of skewness PRO, LEV (mediator), CH, LIQ and FS are as 1.037466, 1.3544O3, 0.897056, 1.986642 and

2.041941 respectively. Mediator didn't affect skewness and kurtosis of dependent and independent variable.

The kurtosis value of PRO, LEV (mediator), CH, LIQ and FS are as 3.892452, 5.094375, 4.287645, 5.087364 and 3.894765 respectively.

Table 4.6 Descriptive Analysis

	PRO	LEV	CH	LIQ	FS
Mean	3.291523	0.904746	0.012357	1.982324	7.68E+09
Median	3.120000	1.043000	0.005723	0.537069	2.18E+09
Maximum	127.4500	13.94000	0.111098	193.7300	6.62E+10
Minimum	-78.21000	-9.980000	8.80E-05	0.008352	11983000
Std. Dev.	15.72082	2.719854	0.017136	14.34000	1.22E+10
Skewness	1.037466	1.3544O3	0.897056	1.986642	2.041941
Kurtosis	3.892452	5.094375	4.287645	5.087364	3.894765
Jarque-Bera	5107.869	211.8583	790.4872	230080.5	509.9216
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	622.0979	169.1874	2.310719	370.6946	1.45E+12
Sum Sq. Dev.	46463.13	1375.954	0.054615	38248.25	2.80E+22
Observations	189	187	187	187	189

Source: Author's calculations Textile Composite- descriptive statistic Step 3Baron & Kenney (1986)

Jarque Bera test is typically use to test the normality of residual to running the regression and is often use for large sample sizes. JB test represent the goodness-of-fit test of whether sample data have the skewness and kurtosis matching a normal distribution. The assumption of the normality isn't regret when statistic value of the relevant data would fall close to zero value on the other hand the p-value remain high.

4.2.3 Textile Weaving Statistical Variables Analysis

Mean shows the average figure as the sum of entire numbers which is oblivious from given variable. The mean value of profitability (PRO) remain same as 2357.760 Leverage not affects the mean value of profitability, firm size, liquidity and cash holdings.

As mean value of the CH represent the 0.117997, LIQ shows 1.158120 and FS represent 2.83E+09. On the other hand the mediator (LEV) mean value of 1.916637 doesn't affect the mean value of above mentioned variables.

Table 4.7 Descriptive Analysis

	PRO	CH	LIQ	FS
Mean	2357.760	0.117997	1.158120	2.83E+09
Median	0.532235	0.012088	0.766950	1.65E+09
Maximum	94375.00	1.000000	8.960000	1.55E+10
Minimum	-265.0100	0.000741	2.41E-06	102000.0
Std. Dev.	14922.37	0.298728	1.858636	3.85E+09
Skewness	1.092768	2.387254	1.049249	1.812743
Kurtosis	4.904835	5.476377	3.984365	2.097423
Jarque-Bera	2291.355	88.10236	218.8103	51.08932
Probability	0.000000	0.000000	0.000000	0.000000
Sum	94310.42	4.719864	46.32478	1.13E+11
Sum Sq. Dev.	8.68E+09	3.480302	134.7266	5.78E+20
Observations	40	40	40	40

Source: Author‘s calculations Textile Weaving- descriptive statistic Step 1Baron & Kenney (1986)

The above mentioned variance is utilized to weight the distribution of that specific values of the variable that are exists around the entire mean value. Standard deviation is defined as a positive square root of the variance. The Standard deviation of PRO, CH, LIQ, FS are 14922.37, 0.298728, 1.858636, 3.85E+09 respectively.

Table 4.8 Descriptive Analysis

	LEV	LIQ	FS	CH
Mean	1.916637	1.158120	2.83E+09	0.117997
Median	1.066513	0.766950	1.65E+09	0.012088
Maximum	13.56132	8.960000	1.55E+10	1.000000
Minimum	-1.090000	2.41E-06	102000.0	0.000741
Std. Dev.	3.274687	1.858636	3.85E+09	0.298728
Skewness	1.974758	1.049249	1.812743	2.387254
Kurtosis	3.932854	3.984365	2.097423	5.476377
Jarque-Bera	73.34186	218.8103	51.08932	88.10236
Probability	0.000000	0.000000	0.000000	0.000000
Sum	76.66550	46.32478	1.13E+11	4.719864
Sum Sq. Dev.	418.2194	134.7266	5.78E+20	3.480302
Observations	40	40	40	40

Source: Author‘s calculations Textile Weaving- descriptive statistic Step 2Baron & Kenney (1986)

The Standard deviation of leverage (mediator) 3.274687 doesn’t affect any figure of the above mentioned variables.

Various other factor of distribution which are consider into the distribution of probability for instance skewness & kurtosis. The skewness represents the measure of the symmetric or

asymmetric distribution of the relevant data. During the comparison of the values of skewness PRO, LEV (mediator), CH, LIQ and FS are as1.092768, 1.974758, 2.387254,1.049249, and 1.812743 respectively. Mediator didn't affect skewness and kurtosis of dependent and independent variable.

Table 4.9 Descriptive Analysis

	PRO	LEV	CH	LIQ	FS
Mean	2357.760	1.916637	0.117997	1.158120	2.83E+09
Median	0.532235	1.066513	0.012088	0.766950	1.65E+09
Maximum	94375.00	13.56132	1.000000	8.960000	1.55E+10
Minimum	-265.0100	-1.090000	0.000741	2.41E-06	102000.0
Std. Dev.	14922.37	3.274687	0.298728	1.858636	3.85E+09
Skewness	1.092768	1.974758	2.387254	1.049249	1.812743
Kurtosis	4.904835	3.932854	5.476377	3.984365	2.097423
Jarque-Bera	2291.355	73.34186	88.10236	218.8103	51.08932
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	94310.42	76.66550	4.719864	46.32478	1.13E+11
Sum Sq. Dev.	8.68E+09	418.2194	3.480302	134.7266	5.78E+20
Observations	40	40	40	40	40

Source: Author's calculations Textile Weaving- descriptive statistic Step 3Baron & Kenney (1986)

The kurtosis value of PRO, LEV (mediator), CH, LIQ and FS are as 4.904835, 3.932854, 5.476377, 3.984365 and 2.097423760398 respectively

Jarque Bera test is typically use to test the normality of residual to running the regression and is often use for large sample sizes. JB test represent the goodness-of-fit test of whether sample data have the skewness and kurtosis matching a normal distribution. The assumption of the normality isn't regret when statistic value of the relevant data would fall close to zero value on the other hand the p-value remain high.

4.3 Theoretical issues

This section keep focus on, the relevant theoretical issues compromises about the impact of corporate cash holdings, liquidity and firm size on firm profitability with mediating effects of leverage into the three segments of entire textile industry of Pakistan. The corporate cash holdings, liquidity, firm size and leverage (mediator) has both impacts positive and negative at the profitability of the firm.

4.3.1 Cross-Sections results of Textile Spinning Baron & Kenny 1986 Step 1

From this table no 4.10 this study have observed that intercept turn c has its value of 3.555 which is significant at 10% level. Its indicate that there are some other factors that are affecting the profitability of the firm except the explanatory variables cash holdings, liquidity and control variable as firm size. Because the ultimate project of the firm is profitability and core object cannot without the capital, human resource, market, raw material, size of the firm, leverage, shareholders protection etc.

Table 4.10 Cross-section random effects

Method: Panel EGLS (Cross-section random effects)				
Swamy and Arora estimator of component variances				
Dependent variable is LPRO				
93 observations used for estimation from 2012 to 2016				
Variable	Coefficient	Std. Error	t-Statistic	P Value
C	3.553445	2.131057	1.667456	0.0990
CH	-0.531690	6.675448	-0.079649	0.9367
LIQ	0.223478	0.327872	0.681601	0.4973
LFS	-0.162393	0.100214	-1.620460	0.1087
LPRO(-1)	0.756066	0.070747	10.68686	0.0000

	SD	RHO
Cross-section random	0.196921	0.0424
Idiosyncratic random	0.935911	0.9576

R-squared	0.568859	Mean dependent var	1.461484
Adjusted R-squared	0.549262	S.D. dependent var	1.433491
S.E. of regression	0.963254	Sum squared resid	81.65160
F-statistic	29.02738	Durbin-Watson stat	1.983820
Prob(F-statistic)	0.000000		

Author's Calculations-Textile SpinningStep 1 (e-view) level of significance 0.01, 0.05 and 0.1

Basil Al-Najjar (2012) founded that structure of corporate cash holdings base on these pillars leverage, dividend payout, profitability, liquidity, firm size and cash flow. However these

variables are interlink with each other. The value of the regression coefficient of the cash holdings is -0.531690 that means one unit increase into the cash holdings can decrease the profitability of the firm by-0.531690 and this effect is statistically insignificant. In the case of textile spinning this study founded inverse relationship among the cash holdings and profitability as this study increase the cash holdings without mediator then profitability of the firm decline instead of grooming. This result strengthen the one part of the findings of Adetifa (2005) who concluded that corporate cash holding has cost into two categories: cost of extra cash holding and lack of the earnings opportunities.

On the other hand Kim et al 1998 suggested that any firm utilize expensive financing and high rate of return on investment, then profitability of firm will be decline and firm also have to retain massive proportion of cash holdings.

The value of the regression coefficient of liquidity is 0.223478, this figure illustrate that one unit increase into the liquidity by 0.223478, represent the insignificant relationship between the liquidity and profitability of the firm along with the significance level of 0.1. This is the weak positive relationship because the probability of this variable is insignificant. When this study utilize this model without the mediator this variable can increase the profitability of the firm but the chances to increase the profitability are low. As some authors suggested this variable have negative impact and some authors suggest this has positive impact. For instance Van Horne, 1997 suggested that liquidity can flow profitability in positive or negative prospect.

The value of the regression coefficient of control variable (firm size) is -0.162393 and this figure illustrate that one unit increase into the Firm size can decrease the profitability by -0.162393, represent the significant relationship between the firm size and profitability of the firm with the significance level of 0.1.The model of this research illustrate that there is the negative relationship between the firm size and profitability of the firm but this relationship is significant. It's mean when this study use the model without the mediator the probability of this inverse relationship is weak due to significant linkage. Amaton and Burson (2007) founded negative trend regarding the firm size and profitability.

The value of the regression coefficient of profitability is 0.756066 and this figure illustrate that one unit increase into the profitability can increase the profitability of the firm by 0.756066, represent the significant relationship between the past profitability and current

profitability of the firm with the significance level of 0.05.Finally, this study found positive strong relationship when this study not use the mediator between the past year profitability and current period profitability because this variable has significant relationship.

The value of the R-squared is 56% which is indicate that there is enough explanatory power of independent variable.

There is no problem of auto correlation in the model this research consider that the value of Durbin Watson should be equal to 2.

4.3.2 Cross-Sections results of Textile Spinning Baron & Kenny 1986 Step 2

From this table no 4.11 this study have observed that intercept turn c has its value of 2.137077 that is insignificant at 10% level. This causal link indicates that mediator (leverage) was missing in the model. In addition, leverage should take as a mediator along with other explanatory variables such as cash holdings, liquidity and firm size (control variable).

The value of the regression coefficient of the liquidity is 1.466232 that means one unit increase into the liquidity can also increase the profitability of the firm by 1.466232 and this effect is statistically significant.

The value of the regression coefficient of Firm size (control variable) is -0.100472 and this figure illustrate that one unit increase into the firm size would also decrease the firm size by -0.100472, and there is insignificant relationship between the firm size and profitability of the firm along with the significance level of 0.1.

The value of the regression coefficient of cash holdings is -24.28495 and this figure illustrate that one unit increase into the cash holdings can decrease the profitability by -24.28495. There is significant relationship between the cash holdings and profitability of the firm with the significance level of 0.1.

Table 4.11 Cross-section random effects

Method: Panel EGLS (Cross-section random effects)				
Swamy and Arora estimator of component variances				
Dependent variable is LEV				
195 observations used for estimation from 2012 to 2016				
Variable	Coefficient	Std. Error	t-Statistic	P Value
C	2.137077	4.603626	0.464216	0.6430
LIQ	1.466232	0.862615	1.699752	0.0908
LFS	-0.100472	0.218769	-0.459259	0.6466
CH	-24.28495	17.55901	-1.383048	0.1083
LEV(-1)	0.379480	0.080983	4.685952	0.0000

SD	RHO
Cross-section random	0.821276 0.0432
Idiosyncratic random	3.865461 0.9568

R-squared	0.610067	Mean dependent var	0.795196
Adjusted R-squared	0.091331	S.D. dependent var	4.278498
S.E. of regression	4.079983	Sum squared resid	3162.789
F-statistic	5.874778	Durbin-Watson stat	2.048455
Prob(F-statistic)	0.000177		

Author's Calculations-Textile Spinning Step 2 (e-view) level of significance 0.01, 0.05 and 0.1

The value of the regression coefficient of Leverage (mediator) is 0.379480 and this figure illustrate that one unit increase into the leverage can also increase the profitability of the firm by 0.379480. The leverage has significant value in this model which justifies the theory that there is mediation among the profitability and explanatory cum control variables.

The value of the R-squared is 61% which is indicate that there is enough explanatory power of independent variable.

There is no problem of auto correlation in the model this research consider that the value of Durbin Watson should be equal to 2.

4.3.3 Cross-Sections results of Textile Spinning Baron & Kenny 1986 Step 3

If this study includes the mediator into the textile spinning then the results would be as follow;

From the table 4.12 this study has observed that intercept turn c has its value of 4.584663 which is insignificant at 0.1 levels. This result shows the missing variable was the mediator that was indirectly affecting the profitability of the firm except the explanatory and control variables.

The value of the regression coefficient of the mediator (leverage) is 0.094803 that means one unit increase into the mediator (leverage) directly increase the profitability of the firm by 0.094803 represent the significant relationships among the mediator (leverage) and profitability of the firm at the significant level of 0.1.

So this study found strong positive relationship between the leverage and profitability of the firm. As Eunju Yoon and SooCheong Jang (2005) concluded that there is positive relationship between the leverage and profitability of the firm.

Table 4.12 Cross-section random effects

Method: Panel EGLS (Cross-section random effects)				
Swamy and Arora estimator of component variances				
Dependent variable is LPRO				
93 observations used for estimation from 2012 to 2016				
Variable	Coefficient	Std. Error	t-Statistic	P Value
C	4.584663	2.172337	2.110475	0.1377
LEV	0.094803	0.057082	1.660813	0.1004
CH	0.566630	6.564853	0.086313	0.9314
LIQ	0.258629	0.322023	0.803137	0.4241
LFS	-0.219709	0.103749	-2.117700	0.0371
LPRO(-1)	0.775792	0.069946	11.09136	0.0000

	SD	RHO
Cross-section random	0.166322	0.0313
Idiosyncratic random	0.924853	0.9687

R-squared	0.585844	Mean dependent var	1.484472
Adjusted R-squared	0.562042	S.D. dependent var	1.447734
S.E. of regression	0.958797	Sum squared resid	79.97836
F-statistic	24.61314	Durbin-Watson stat	2.042569
Prob(F-statistic)	0.000000		

Authors calculations -Textile spinning Step 3 (e-view) level of significance 0.01, 0.05 and 0.1

The value of the regression coefficient of the cash holdings is 0.566630 that means one unit increase into the cash holdings by 0.566630 represent the insignificant relationships among the cash holdings and profitability of the firm at the insignificant level of 0.1. This study found that when the mediator (Leverage) include in the model this research then the relationship become positive between the cash holding and profitability of the firm but this linkage is insignificant its mean this is weak positive relationship. As Sami N.M Abushammala, (2014) suggested the positive and unique relationship regarding the cash holdings.

The value of the regression coefficient of the liquidity is 0.258629 that means one unit increase into the liquidity by0.258629represent the insignificant relationships among the liquidity and profitability of the firm at the significant level of 0.1. This study has observed that there is positive relationship among the liquidity and profitability of the firm but this relationship has low probability of effect on dependent variable. This study also has notice that when this study includes the mediator this result remains constant. As Eljelly found the inverse relationship between the profitability of the firm and corporate liquidity.

The value of the regression coefficient of the firm size is -0.219709 that means one unit increase into the firm size can decrease the profitability of the firm by -0.219709 that represent the significant relationships among the firm size and profitability of the firm at the significant level of 0.05. Thus this study founded that when this study include the mediator into the model of this research then the result remain same as there is the negative relationship between the firm size and profitability of the firm due to significant relationship. So this study can say that this is weak inverse relationship. As Whittington (1980) and Simon (1962) quarreled that firm size of firm never affects the profitability of the firm and this is sovereign factor.

The value of the regression coefficient of profitability is 0.775792 and this figure illustrate that one unit increase into the profitability boost the current profitability capacity of the firm by 0.775792, represent the significant relationship between the past profitability and current profitability of the firm with the significance level of 0.01. This study concludes that there is strong positive relationship between the previous year profitability and current profitability of the firm. This study has also notice that as this research include the mediator into this study then the result didn’t affect by the leverage.

The value of the R-squared is 58% which is indicate that there is enough explanatory power of independent variable.

There is no problem of auto correlation in the model as this study which considers that the value of Durbin Watson should be equal to 2.

4.3.4 Cross-Sections results of Textile Composite Baron & Kenny 1986 Step 1

From this table no 4.13 this study have observed that intercept turn c has its value of 1.453230 which is significant at 0.1 levels. These results show that there are some other dominant factors that are directly affecting the profitability capacity of the firm except the under mentioned independent and control variables. The profitability of the firm refers as the ultimate single result of various input factors. Penrose (1959) suggested that any entity should be explore its existence though various groups of tangible and intangible means. The divergence regarding the ultimate performance of different business institution, collaborate due to variance in the charity with that resources.

The value of the regression coefficient of the cash holdings is 10.48086 that means one unit increase into the cash holdings can boost the profitability of the firm by 10.48086 represent the significant relationships among the cash holdings and profitability of the firm at the significant level of 0.1. This study observed that there positive relationship between the cash holdings and profitability of the firm. If the firm holds more cash then it may increase its profitability capacity. As Drobetz & Grüninger (2007) suggested that there is inverse relationship among the cash holdings and asset tangibility as well as firm size. On the other hand there is positive link between Dividend payout strategy and operating cash flows with cash reserves. Furthermore, Drobetz & Grüninger suggested positive link among CEO duality & cash holdings.

The value of the regression coefficient of the liquidity is 0.007214 that means one unit increase into the liquidity can also increase the profitability of the firm by 0.007214 that represent the significant relationships among the liquidity and profitability of the firm at the significant level of 0.05.Thusthis study founded strong positive relationship between the corporate liquidity and the profitability of the firm. If the firms maintain of keep its assets into the liquid form that can be sale any time without losing its face value then that firm may boost its profitability. On the other hand, Mohammad Alfurqan Dabiri1 (2017) concluded that no casual

linkage founded among the profitability and liquidity of the firm regarding Islamic banks in the UK.

Table 4.13 Cross-section random effects

Method: Panel EGLS (Cross-section random effects)				
Swamy and Arora estimator of component variances				
Dependent variable is LPRO				
93 observations used for estimation from 2012 to 2016				
Variable	Coefficient	Std. Error	t-Statistic	P Value
C	1.453230	0.775803	1.873195	0.0644
CH	10.48086	3.691839	2.838928	0.0056
LIQ	0.007214	0.003539	2.038366	0.0446
LFS	-0.057567	0.035855	-1.605555	0.1120
LPRO(-1)	0.677308	0.059368	11.40870	0.0000

	SD	RHO
Cross-section random	0.204878	0.0916
Idiosyncratic random	0.645342	0.9084

R-squared	0.470845	Mean dependent var	1.288346
Adjusted R-squared	0.446233	S.D. dependent var	1.159707
S.E. of regression	0.870174	Sum squared resid	65.11949
F-statistic	19.13083	Durbin-Watson stat	2.233029
Prob(F-statistic)	0.000000		

Author's Calculations -Textile Composite Step 1 (e-view) level of significance 0.01, 0.05 and 0.1

The value of the regression coefficient of the firm size is -0.057567 that means one unit increase into the firm size can decrease the profitability of the firm by -0.057567 that represent the significant relationships among the firm size and profitability of the firm at the significant level of 0.1. Thus this study reaches at the point that there is weak inverse relationship between the size of the firm and profitability. As this research increase the size of the firm it might be cut off the profitability which is alarming. Amaton and Burson (2007)suggested that there is inverse interlink among firm size and profitability.

The value of the regression coefficient of profitability is 0.677308 and this figure illustrate that one unit increase into the profitability by 0.677308, represent the significant relationship between the past profitability and current profitability of the firm with the significance level of 0.01. This study suggested that there is strong positive relationship between the past, present and future profitability of the entity. This research can say that for the current profitability of the firm the previous profitability matter a lot. As Bain (1951) founded that the rates of the profitability remains maximum into different industries along with additional dominant focusing ratios.

The value of the R-squared is 47% which is indicate that there is enough explanatory power of independent variable.

There is no problem of auto correlation in the model as this research which considers that the value of Durbin Watson should be equal to 2.

4.3.5 Cross-Sections results of Textile Composite Baron & Kenny 1986 Step 2

From this table no 4.14 this study have observed that intercept turn c has its value of -2.064135, that is insignificant at 10% level. This causal link indicates that mediator (leverage) was missing in the model. In addition, leverage should take as a mediator along with other explanatory variables such as cash holdings, liquidity and firm size (control variable).

The value of the regression coefficient of the liquidity is -0.000694 that means one unit increase into the liquidity can decrease the profitability of the firm by -0.000694 and this effect is statistically insignificant.

The value of the regression coefficient of Firm size (control variable) is 0.106764 and this figure illustrate that one unit increase into the firm size would also increase the firm size by -0.106764, and there is significant relationship between the firm size and profitability of the firm along with the significance level of 0.1.

The value of the regression coefficient of cash holdings is 3.358357 and this figure illustrate that one unit increase into the cash holdings can increase the profitability by 3.358357. There is significant relationship between the cash holdings and profitability of the firm with the significance level of 0.1.

Table 4.14 Cross-section random effects

Method: Panel EGLS (Cross-section random effects)				
Swamy and Arora estimator of component variances				
Dependent variable is LEV				
147 observations used for estimation from 2012 to 2016				
Variable	Coefficient	Std. Error	t-Statistic	P Value
C	-2.064135	1.398084	-1.476403	0.1421
LIQ	-0.000694	0.008418	-0.082473	0.9344
LFS	0.106764	0.065559	1.628533	0.1056
CH	3.358357	7.749879	0.433343	0.0654
LEV(-1)	0.793807	0.051762	15.33562	0.0000

SD	RHO
Cross-section random	0.000000 0.0000
Idiosyncratic random	1.623530 1.0000

R-squared	0.661138	Mean dependent var	0.888043
Adjusted R-squared	0.651592	S.D. dependent var	2.712304
S.E. of regression	1.600966	Sum squared resid	363.9592
F-statistic	69.26235	Durbin-Watson stat	2.175845
Prob(F-statistic)	0.000000		

Author's Calculations -Textile Composite Step 2 (e-view) level of significance 0.01, 0.05 and 0.1

The value of the regression coefficient of Leverage (mediator) is 0.793807 and this figure illustrate that one unit increase into the leverage can also increase the profitability of the firm by 0.793807. The leverage has significant value in this model which justifies the theory that there is mediation among the profitability and explanatory cum control variables.

The value of the R-squared is 66% which is indicate that there is enough explanatory power of independent variable.

There is no problem of auto correlation in the model this research consider that the value of Durbin Watson should be equal to 2.

4.3.6 Cross-Sections results of Textile Composite Baron & Kenny 1986 Step 3

If this study includes the mediator into the textile composite then the results would be as follow;

From the table 4.15 this study has observed that intercept turn c has its value of 1.101055 which is insignificant at 0.1 levels. This result shows the missing variable was the mediator that was indirectly affecting the profitability of the firm except the explanatory and control variables.

Table 4.15 Cross-section random effects

Method: Panel EGLS (Cross-section random effects)				
Swamy and Arora estimator of component variances				
Dependent variable is LPRO				
93 observations used for estimation from 2012 to 2016				
Variable	Coefficient	Std. Error	t-Statistic	P Value
C	1.101055	0.700808	1.571123	0.1199
LEV	-0.211002	0.050645	-4.166310	0.0001
CH	11.21367	3.502824	3.201324	0.0019
LIQ	0.005846	0.003361	1.739255	0.0856
LFS	-0.027046	0.032846	-0.823415	0.4126
LPRO(-1)	0.654463	0.056367	11.61075	0.0000

SD	RHO
Cross-section random	0.127931 0.0398
Idiosyncratic random	0.628338 0.9602

R-squared	0.554066	Mean dependent var	1.399150
Adjusted R-squared	0.527834	S.D. dependent var	1.224285
S.E. of regression	0.845108	Sum squared resid	60.70769
F-statistic	21.12220	Durbin-Watson stat	2.329818
Prob(F-statistic)	0.000000		

Author's calculations -Textile Composite Step 3 (e-view) level of significance 0.01, 0.05 and 0.1

The value of the regression coefficient of the mediator (leverage) is -0.211002 that means one unit increase into the mediator (leverage) decrease the profitability by -0.211002 represent the significant relationships among the mediator (leverage) and profitability of the firm at the significant level of 0.05. Thus this research suggested that there is negative relationship between the leverage and profitability of the firm. But the probability of negative relation is weak. If firms increase the debt financing into their capital structure then it cut off the profitability of the firm.

Sheel 1994 concluded that there is negative relationship between the debt financing and the volume of asset on the other hand leverage and non-debt tax about their past profitability.

The value of the regression coefficient of the cash holdings is 11.21367 that means one unit increase into the cash holdings increase the profitability of the firm by 11.21367 represent the significant relationships among the cash holdings and profitability of the firm at the significant level of 0.05.

This research investigated that if this research include mediator in its model then the results remain constant and there is positive relationship between the cash holdings and profitability of the firms. If this study increases the cash holdings capacity of the firms then the profitability level increases vice versa. As Ferreira & Vilela (2004) founded that cash flows and investment opportunities have positive relationship with cash holdings. On the other hand there is inverse linkage between cash holdings and leverage & size of the firm and leverage.

The value of the regression coefficient of the liquidity is 0.005846 that means one unit increase into the liquidity boost the profitability of the entity by 0.005846 represent the significant relationships among the liquidity and profitability of the firm at the significant level of 0.1. This study investigated that there is positive relationship between the liquidity and firm's profitability. And it is noticeable that if this research include mediator into its model then result do not change. As Islam, Kaium & Masud (2013) suggested that Islamic banks remained under-liquid and under-profitable as compare with the conventional Banks between.

The value of the regression coefficient of the firm size is -0.027046 that means one unit increase into the firm size can decrease the profitability of the firm by -0.027046 that represent the insignificant relationships among the firm size and profitability of the firm at the significant level of 0.1. Thus this study suggested that there is inverse relationship between firm size and the profitability of the firm. If the firms increase their size then the profitability of the firms might be decline. On the other hand Ozgulbas et al (2006) concluded that large size entities firms remain dominant into their fantastic performance rather than small size entities.

The value of the regression coefficient of profitability is 0.654463 and this figure illustrate that one unit increase into the profitability by 0.654463, this result represent the significant relationship between the past profitability and current profitability of the firm with the significance level of 0.01. This study found that there is positive linkage between the past and future profitability and this research reach at the point that profitability increase the profitability.

If the firm earn a lot of profit last year after that that entity have more investment than previous year in this way firm will earn more profit in future as compare with last year. Penrose (1960) concluded that the growth of the entity increase with the result of innovative and unique comparison among the resources of the relevant firm and current conditions of the market.

The value of the R-squared is 55% which is indicate that there is enough explanatory power of independent variable.

There is no problem of auto correlation in the model as this study which considers that the value of Durbin Watson should be equal to 2.

4.3.7Cross-Sections results of Textile Weaving Baron & Kenny 1986 Step 1

From this table no 4.16 this study have observed that intercept turn c has its value of 17.42844 which is significant at 0.05 levels.

Table 4.16 Cross-section random effects

Method: Panel EGLS (Cross-section random effects)				
Swamy and Arora estimator of component variances				
Dependent variable is LPRO				
19 observations used for estimation from 2012 to 2016				
Variable	Coefficient	Std. Error	t-Statistic	P Value
C	17.42844	7.656992	2.276147	0.0391
CH	-1.650488	1.651364	-0.999470	0.3345
LIQ	-0.254499	0.080103	-3.177139	0.0067
LFS	-0.774226	0.348991	-2.218472	0.0436
LPRO(-1)	0.285476	0.147278	1.938349	0.0730

	SD	RHO
Cross-section random	0.571333	0.5341
Idiosyncratic random	0.533611	0.4659

R-squared	0.748554	Mean dependent var	0.355535
Adjusted R-squared	0.676712	S.D. dependent var	1.250140
S.E. of regression	0.693133	Sum squared resid	6.726067
F-statistic	10.41947	Durbin-Watson stat	1.981513
Prob(F-statistic)	0.000397		

Author's Calculations -Textile Weaving Step 1 (e-view) level of significance 0.01, 0.05 and 0.1

These results show that there are some other dominant factors that are directly affecting the profitability of the firm except the explanatory and control variables. As Adelina Gschwandtner & Stefan Hirsch researched on the pillars of firm's profitability and concluded that Basic pillars of profitability of the firms are growth opportunities, financial risk and firm size. In addition, constant flow of the profitability into the food processing industry is comparatively low as compare with manufacturing sectors.

The value of the regression coefficient of the cash holdings is -1.650488 that means one unit increase into the cash holdings decrease the profitability of the firm by -1.650488 that represent the insignificant relationships among the cash holdings and profitability of the firm at the significant level of 0.1. This research found negative relationship between the cash holdings and the firms profitability. For instance if any firm increase their cash reserve then it might be cut off the profitability of that entity. As Ferreira & Vilela suggested that there is inverse link among cash reserves and development of the capital markets. Nguyen concluded that cash holdings & risk level has positive link. On the other side cash holding decline ratio of debt and size, as well as increases the profitability level, growth opportunities, and ratio of dividend payments.

The value of the regression coefficient of the liquidity is -0.254499 that means one unit increase into the liquidity decrease the profitability of the firm by -0.254499 that represent the significant relationships among the liquidity and profitability of the firm at the significant level of 0.01.

This study has founded that there is negative link between the liquidity and firm's profitability. If the firms keep its assets into liquid form there is probability that profitability of that firm might be decline. Olarenwaju and Adeyemi 2015 advised that there is no link among corporate liquidity and firm's profitability.

The value of the regression coefficient of the firm size is -0.774226 that means one unit increase into the firm size can decrease the profitability of the firm by -0.774226 that represent the significant relationships among the firm size and profitability of the firm at the significant level of 0.05.This research has founded that there is negative relationship between the size of the firm and profitability. If the firm increase its size then profitability might be suffer. As Lee (2009) suggested that the size of the firm plays dominant role to elaborate the firm's profitability.

The value of the regression coefficient of profitability is 0.285476 and this figure illustrate that one unit increase into the profitability by 0.285476, represent the significant relationship between the past profitability and current profitability of the firm with the significance level of 0.1. This is observed by findings this research that there is strong positive relation between past and future profitability.

The value of the R-squared is 74% which is indicate that there is enough explanatory power of independent variable.

There is no problem of auto correlation in the model as this study which considers that the value of Durbin Watson should be equal to 2.

4.3.8 Cross-Sections results of Textile Weaving Baron & Kenny 1986 Step 2

From this table no 4.17 this study have observed that intercept turn c has its value of -1.388441, that is insignificant at 10% level. This causal link indicates that mediator (leverage) was missing in the model. In addition, leverage should take as a mediator along with other explanatory variables such as cash holdings, liquidity and firm size (control variable).

The value of the regression coefficient of the liquidity is -0.026521 that means one unit increase into the liquidity can decrease the profitability of the firm by -0.026521 and this effect is statistically significant.

The value of the regression coefficient of Firm size (control variable) is 0.075340 and this figure illustrate that one unit increase into the firm size would also increase the firm size by 0.075340, and there is insignificant relationship between the firm size and profitability of the firm along with the significance level of 0.1.

The value of the regression coefficient of cash holdings is -0.033775 and this figure illustrate that one unit increase into the cash holdings can decrease the profitability by -0.033775. There is significant relationship between the cash holdings and profitability of the firm with the significance level of 0.1.

The value of the regression coefficient of Leverage (mediator) is 0.766532 and this figure illustrate that one unit increase into the leverage can also increase the profitability of the firm by 0.766532. The leverage has significant value in this model which justifies the theory that there is mediation among the profitability and explanatory cum control variables.

The value of the R-squared is 70% which is indicate that there is enough explanatory power of independent variable.

Table 4.17 Cross-section random effects

Method: Panel EGLS (Cross-section random effects)				
Swamy and Arora estimator of component variances				
Dependent variable is LEV				
32 observations used for estimation from 2012 to 2016				
Variable	Coefficient	Std. Error	t-Statistic	P Value
C	-1.388441	2.489043	-0.557821	0.5816
LIQ	-0.026521	0.087722	-0.302328	0.0647
LFS	0.075340	0.116011	0.649419	0.5216
CH	-0.033775	0.920649	-0.036686	0.1010
LEV(-1)	0.766532	0.051803	14.79711	0.0000

SD	RHO
Cross-section random	0.066086	0.0048
Idiosyncratic random	0.946966	0.9952

R-squared	0.700296	Mean dependent var	1.746420
Adjusted R-squared	0.885525	S.D. dependent var	2.926205
S.E. of regression	0.990058	Sum squared resid	26.46581
F-statistic	60.95019	Durbin-Watson stat	2.055472
Prob(F-statistic)	0.000000		

Author's Calculations -Textile Weaving Step 2 (e-view) level of significance 0.01, 0.05 and 0.1

There is no problem of auto correlation in the model this research consider that the value of Durbin Watson should be equal to 2.

4.3.9 Cross-Sections results of Textile Weaving Baron & Kenny 1986 Step 3

If this study includes the mediator into the textile weaving then the results would be as follow; From the table 4.18 this study has observed that intercept turn c has its value of 15.59211which is insignificant at 0.1 levels. This result shows the missing variable was the mediator that was indirectly affecting the profitability of the firm except the explanatory and control variables.

Imran Umer Chhapra & Nousheen Abbas Naqvi (2010) suggested the important linkage among the Cost of Production, Fixed Assets, debt ratio, Working Capital and Profitability of the firm into the entire textile sector of Pakistan.

Table 4.18 Cross-section random effects

Method: Panel EGLS (Cross-section random effects)				
Swamy and Arora estimator of component variances				
Dependent variable is LPRO				
19 observations used for estimation from 2012 to 2016				
Variable	Coefficient	Std. Error	t-Statistic	P Value
C	15.59211	5.506296	2.831687	0.1141
LEV	-0.122831	0.044784	-2.742772	0.0168
CH	-3.058425	1.127989	-2.711396	0.0178
LIQ	-0.329411	0.075478	-4.364337	0.0008
LFS	-0.669151	0.245516	-2.725490	0.0173
LPRO(-1)	0.393140	0.140194	2.804258	0.0149
SD RHO				
Cross-section random		0.000000	0.0000	
Idiosyncratic random		0.564038	1.0000	
R-squared	0.891668	0.585844	Mean dependent var	0.655833
Adjusted R-squared	0.850001	0.562042	S.D. dependent var	1.819306
S.E. of regression	0.704611	0.958797	Sum squared resid	6.454199
F-statistic	21.40021	24.61314	Durbin-Watson stat	2.500015
Prob(F-statistic)	0.000007	0.000000		

Author's calculations -Textile Weaving Step 3 (e-view) level of significance 0.01, 0.05 and 0.1

The value of the regression coefficient of the mediator (leverage) is -0.122831 that means one unit increase into the mediator (leverage) decrease the profitability by -0.122831 that represent the significant relationships among the mediator (leverage) and profitability of the firm at the significant level of 0.01. Thus this study found that debt financing and profitability has inverse relationship. If the firm utilizes the debt into their capital structure then the profitability of the firm might be decline. Hall & Leonard Weiss (1967) suggested there is inverse link between the equity/assets and leverage.

The value of the regression coefficient of the cash holdings is -3.058425 that means one unit increase into the cash holdings decrease the profitability of the firm by -3.058425 that represent the significant relationships among the cash holdings and profitability of the firm at the significant level of 0.01. This study have founded that there is negative link between the cash holdings and profitability of the firm. If this study includes the mediator in the model of this study then the result remain same which shows that if firm increase cash holding then profitability can be suffer by that firm.

The value of the regression coefficient of the liquidity is -0.329411 that means one unit increase into the liquidity decrease the profitability of the firm by -0.329411 represent the significant relationships among the liquidity and profitability of the firm at the significant level of 0.1. This study has observed that there is inverse relation between liquidity and firm's profitability and the mediator didn't affect the results. Firm can bear the loss if that firm maintains its assets into liquid form. Mwizarubi, Singh and Prusty (2015) concluded that there is no causal link among the liquidity profitability of the firm.

The value of the regression coefficient of the firm size is -0.66915 that means one unit increase into the firm size can decrease the profitability of the firm by -0.66915 that represent the significant relationships among the firm size and profitability of the firm at the significant level of 0.01.This study has concluded that there is inverse link between firm size and firm's profitability. Large size of the firm may decrease the firm's profitability. J. Aloy Niresh & T. Velnampy (2014) suggested that there is no impact of firm size on the firm's profitability.

The value of the regression coefficient of profitability is 0.393140 and this figure illustrate that one unit increase into the profitability by 0.393140, represent the significant relationship between the past profitability and current profitability of the firm with the significance level of 0.01. This research has founded there is positive constant and strong link between the previous and future profitability of the firms. Weston and Brigham, 1991 founded the key regarding the judgment the efficiency of firm's management and that is planning and policies about the profitable opportunities of their investment.

The value of the R-squared is 89% which is indicate that there is enough explanatory power of independent variable.

There is no problem of auto correlation in the model of this study which consider that the value of Durbin Watson should be equal to 2.

4.4 Pearson Correlation Matrix of Textile Sector

This model represents the covariance among the dependent and independent variables and its normal range is fall between 1 and -1. Under mentioned matrix table elaborate the results of correlation among variables with and without mediator

Table 5.19 Shows that correlation normally used to test and investigate the issues and problems of the multi-Collinearity in time series of the data because increase regarding the highly collinearize variables turn into the regression results that is biased as the variance of the standard errors of estimation or coefficient turn larger.

4.4.1 Interpretation the results of Correlation matrix

4.4.1-A Textile Spinning

Table 4.19 Textile Spinning- correlation

Textile Spinning

Step 1

	PRO	CH	LIQ	FS
PRO	1			
CH	0.00218890467030007	1		
LIQ	0.1372574139484668	0.2443955555459007	1	
FS	0.2707400431313139	0.08286352810241409	0.07124885658668534	1

Step 2

	Lev	LIQ	FS	CH
LEV	1			
LIQ	0.05031039793729621	1		
FS	0.005888413276287301	0.07082074513072764	1	
CH	0.206976267988128	0.2466365032427027	0.08279233418192448	1

Step 3

	PRO	LEV	CH	LIQ	FS
PRO	1				
LEV	0.1093783074229344	1			
CH	0.00218890467030007	0.2072177874984599	1		
LIQ	0.1372574139484668	0.050534462888268	0.2443955555459007	1	
FS	0.2707400431313139	0.005431162137388117	0.08286352810241404	0.07124885658668534	1

Pearson correlation coefficient of Textile Spinning in cross tabulation form.

There isn't any remarkable multicollinearity issue founded among dependent and independent variables of the three mediation steps of the Barren and Kenny (1986) into entire Textile Spinning Segment.

4.4.1-B Textile Composite

There isn't any remarkable multicollinearity issue founded among dependent and independent variables of the three mediation steps of the Barren and Kenny (1986) into entire Textile Composite Segment.

Table 4.20 Textile Composite- correlation

Textile Composite

Step 1

	PRO	CH	LIQ	FS
PRO	1			
CH	0.054393559855904	1		
LIQ	0.07613746666967493	0.0188980855962036	1	
FS	0.1194876115897164	0.0402437927778672	0.05367432829824842	1

Step 2

	Lev	LIQ	FS	CH
LEV	1			
LIQ	0.03155048672718716	1		
FS	0.2991530235337428	0.0543097411154409	1	
CH	0.02179873768222759	0.01853686972270925	0.03494900243550555	1

Step 3

	PRO	LEV	CH	LIQ	FS
PRO	1				
LEV	0.1557394705210602	1			
CH	0.054393559855904	0.02068873662612729	1		
LIQ	0.07613746666967493	0.03132582793358192	0.0188980855962036	1	
FS	0.1194876115897164	0.2980835981818606	0.04024379277786719	0.05367432829824842	1

Pearson correlation coefficient of Textile Composite in cross tabulation form.

4.4.1-C Textile Weaving

There isn't any remarkable multicollinearity issue founded among dependent and independent variables of the three mediation steps of the Barren and Kenny (1986) into entire Textile Weaving Segment.

Table 4.21 Textile Weaving- correlation

Textile Weaving

Step 1

	LIQ	FS	PRO	CH
LIQ	1			
FS	0.06762692259963199	1		
PRO	0.1009000965646349	0.117635403151782	1	
CH	0.1952158692840994	0.2413039686662587	0.4787834209111088	1

Step 2

	Lev	LIQ	FS	CH
LEV	1			
LIQ	0.1635280614103966	1		
FS	0.0974507083966804	0.06762692259963201	1	
CH	0.3148208028155492	0.1952158692840994	0.2413039686662587	1

Step 3

	PRO	LEV	CH	LIQ	FS
PRO	1				
LEV	0.1444847145305065	1			
CH	0.4787834209111089	0.3148208028155492	1		
LIQ	0.100900096564635	0.1635280614103966	0.1952158692840994	1	
FS	0.117635403151782	0.0974507083966804	0.2413039686662587	0.06762692259963201	1

Pearson correlation coefficient of Textile Weaving in cross tabulation form.

4.5 Hausman Test for Selecting Fixed/Random Effect

The purpose of the of this test in this study is to investigate that which prominent and technical fixed and random effect is useful for this data regarding the impact of cash holdings, firm size, liquidity with mediating effects of leverage with firm profitability into three segments of textile sector of Pakistan. In order to choose which theory is preferable this study choose Hausman test. This study has taken level of significance level as 0.01, 0.05 and 0.1. The results of the Hausman test are as follow;

4.5.1 Hausman Test-Textile Spinning

Table 4.22- Hausman Test

Hausman Test Textile Spinning

Step 1

Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.417594	4	**0.077**4

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
CH	-3.379041	-0.531690	123.940554	0.7981
LIQ	0.156792	0.223478	0.236808	0.8910
LFS	-0.144504	-0.162393	0.118624	0.9586
LPRO(-1)	0.329044	0.756066	0.022226	0.0042

Step 2

Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	23.7246336	4	**0.00001**

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
LIQ	2.394794	1.466232	2.003046	0.5118
LFS	-0.306867	-0.100472	1.208622	0.8511
CH	23.069361	-24.284949	393.599267	0.0170
LEV(-1)	-0.017443	0.379480	0.007424	0.0000

Step 3

Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.992807	5	**0.0515**

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
LEV	0.481138	0.094803	0.101830	0.2260
CH	-1.315559	0.566630	123.379343	0.8654
LIQ	0.722451	0.258629	0.377773	0.4505
LFS	-0.154480	-0.219709	0.114925	0.8474
LPRO(-1)	0.299813	0.775792	0.022087	0.0014

Author's calculations -Textile Spinning Baren & Kenney Mediation Step 1 (e-view)

From the table 4.22 this study has observed that this test is use to select random or fixed effect model. The null hypothesis for the test is that random is preferable where alternative hypothesis is random isn't preferable. In other words random is preferable, so if the calculated value is significant at 0.01, 0.05 & 0.1 level then this research can reject the null hypothesis.

Null hypothesis always rejected when it is significant for instance p value of textile spinning into the three steps Barren and Kenny mediation theory (1986)are as 0.077, 0.00001 and 0.0515 respectively, and then entire null hypothesis would be rejected because these are significant in nature. Similarly, alternative hypothesis are acceptable.

4.5.2 Hausman Test-Textile Composite

From the table 4.23 this study has observed that this test is use to select random or fixed effect model. The null hypothesis for the test is that random is preferable where alternative hypothesis is random that isn't preferable. In other words random is preferable, so if the calculated value is significant at 0.01, 0.05 & 0.1 level then this research can reject the null hypothesis.

Null hypothesis always rejected when it is significant for instance p value of textile composite into the three steps Barren and Kenny mediation theory (1986) are as 0.000, 0.0081 and 0.000 respectively, and then entire null hypothesis would be rejected because these are significant in nature. Similarly, alternative hypothesis are acceptable.

Table 4.23 - Hausman Test

Hausman Test Textile Composite

Step 1

Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	72.031029	4	**0.0000**

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
CH	4.485095	10.480864	16.130372	0.1355
LIQ	0.002964	0.007214	0.000006	0.0838
LFS	-0.464213	-0.057567	0.023797	0.0084
LPRO(-1)	-0.078744	0.677308	0.013848	0.0000

Step 2

Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	13.749074	4	**0.0081**

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
LIQ	0.000157	-0.000694	0.000051	0.9048
LFS	0.379511	0.106764	0.111431	0.4139
CH	-6.257574	3.358357	62.299572	0.2231
LEV(-1)	0.447378	0.793807	0.010732	0.0008

Step 3

Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	72.867735	5	**0.00001**

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
LEV	-0.482292	-0.211002	0.056141	0.2522
CH	3.325667	11.213674	16.281928	0.0506
LIQ	0.002894	0.005846	0.000006	0.2397
LFS	-0.432992	-0.027046	0.022946	0.0074
LPRO(-1)	-0.088616	0.654463	0.013316	0.0000

Author's calculations -Textile Composite Baren & Kenney Mediation Step 2 (e-view)

4.5.3 Hausman Test-Textile Weaving

Table 4.24 - Hausman Test

Hausman Test Textile Weaving

Step 1

Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	13.621693	4	**0.0086**

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
CH	17.392600	-1.650488	82.200596	0.0357
LIQ	-0.142548	-0.254499	0.003195	0.0476
LFS	-4.494803	-0.774226	1.309935	0.0012
LPRO(-1)	0.380549	0.285476	0.004422	0.1528

Step 2

Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.171078	4	**0.1271**

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
LIQ	-0.073363	-0.051797	0.017310	0.8698
LFS	0.124689	0.054190	0.026238	0.6634
CH	-0.443540	-0.407115	0.429820	0.9557
LEV(-1)	1.225321	0.759801	0.031389	0.0086

Step 3

Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	12.287351	5	**0.0311**

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
LEV	0.095372	-0.122831	0.162811	0.5887
CH	19.036530	-3.058425	142.586087	0.0643
LIQ	-0.131146	-0.329411	0.007398	0.0212
LFS	-4.806362	-0.669151	3.298274	0.0227
LPRO(-1)	0.380008	0.393140	0.009526	0.8930

Author's calculations -Textile Weaving Baren & Kenney Mediation Step 3 (e-view)

From the table 5.24 this study has observed that this test is use to select random or fixed effect model. The null hypothesis for the test is that random is preferable where alternative hypothesis is random that isn't preferable. In other words random is preferable, so if the calculated value is significant at 0.01, 0.05 & 0.1 level then this research can reject the null hypothesis. Similarly Null hypothesis always rejected when it is significant for instance p value of textile weaving into the three steps Barren and Kenny mediation theory (1986) are as 0.0086, 0.1271 and 0.0311 respectively, and then entire null hypothesis would be rejected because these are significant in nature. Similarly, alternative hypothesis are acceptable.

4.6 Summary of hypothesis results

H_0: There is no impact of Corporate Cash Holdings on firm Profitability in the three segments of textile sector of Pakistan.

The results of the study, against the above null hypothesis, indicate that there is impact of Corporate Cash Holdings on firm Profitability in the three segments of textile sector of Pakistan.

H_0: There is no mediating impact of Leverage, along with Corporate Cash Holdings, Firm Size and liquidity, on firm Profitability in the three segments of textile sector of Pakistan.

The results of the study, against the above null hypothesis, indicate that there is mediating impact of Leverage, along with Corporate Cash Holdings, Firm Size and liquidity, on firm Profitability in the three segments of textile sector of Pakistan.

H_0: There is no impact of Liquidity on firm Profitability in the three segments of textile sector of Pakistan.

The results of the study, against the above null hypothesis, indicate that there is impact of Liquidity on firm Profitability in the three segments of textile sector of Pakistan.

$H_{0:}$ There is no impact of Firm Size on firm Profitability in the three segments of textile sector of Pakistan.

The results of the study, against the above null hypothesis, indicate that there is impact of Firm Size on firm Profitability in the three segments of textile sector of Pakistan.

4.7 Conclusion

This chapter had examined and interprets the brief results of this study, and founded the very interesting results regarding the profitability along and without the role of the mediator (leverage) after the estimation of textile spinning, weaving and composite. This study suggested that if any entity include mediator into their business model then the financial standings of the entity become stable.

CHAPTER 5
CONCLUSION AND SUGGESTIONS

5.1 Conclusion

This study consists upon the data of three segments of textile industry listed on Pakistan stock exchange such as Textile Spinning, Composite and Weaving. In addition, five years of data has been taken in this study, the data range is 2012 to 2016. This research founded the results into three segments separately, These results indicates that when this study include the mediator into the business model to improve the profitability then the P value become improve but remain significant. Which represents the facts that less factor required for the effecting the profitability of the firm. This is interesting findings that when this research include the mediator in the spinning segment then negative effect of the cash holdings become positive but remain insignificant and its value also improve. In addition, the value of cash holdings into textile weaving become significant after the including the mediator into the model. Moreover, value of cash holdings improve with the usage of mediator into the textile composite.

The value of corporate liquidity improve with the usage of the mediator into the model of the textile spinning and textile weaving on the other hand the value of liquidity minor suffer with the mediator in the textile composite. This research also founded that the value of the firm size become insignificant in the textile composite with the usage of mediator. Furthermore, mediator improves the value of the firm size in the textile spinning and textile weaving. The value of the profitability remained constant and significant with the role of mediator into textile composite and textile spinning but the mediator improves the value of the profitability into the textile weaving.

This research also founded that leverage has the positive impact on the profitability into the textile spinning; the results are matching with the findings of Eunju Yoon and Soo Cheong Jang (2005).In addition, leverage has the negative effect into the textile composite and textile weaving; the results are matching with the findings of Samuel H. Baker (1973).

The corporate cash holding has negative impact into the textile spinning, but when this research include mediator the impact become positive. Similarly, the positive impact of corporate cash holding has founded into the textile composite. However, this study founded negative impact of corporate cash holdings into the textile weaving.

The liquidity has positive impact on profitability into the textile spinning and composite; results are matching with the findings of Rudin M (2016). In addition, liquidity has negative impact into the textile weaving; results are matching with the findings of M. Shoukat Malik (2016).

This research has founded that the firm size has significant role to boost the profitability capacity of the firm. This study founded that firm size playing as control variable. The firm size has negative/positive effect with profitability of the firms into entire textile sector of Pakistan; results are matching with the findings of John R. Becker-Blease (2010). In addition, Maja Pervan (2012) and J. Aloy Niresh (2014) founded weak positive relationship between firm size and profitability.

This study has also found that the profitability of the previous year positively impact the present and future strength of profitability of the firm into the entire textile sector of Pakistan. This study also concluded that there are some other variables exist which are directly affect the profitability of the firm when this study includes mediator then this values become decline that represent the dominant role of mediator into the financial planning.

The major part of this research is devoted to investigate the role of leverage as mediator for this reason, this studied following Barren and Kenny (1986) theory. However, this research has followed different step of mediation process. Three steps has been carried out in the mediation process, the second step specially emphasize on establishing the relationship among leverage (mediator) and the explanatory and control variables. The results indicate significant relationship between leverage and explanatory variables. This study establishes that leverage is important variable being analyze as mediator.

In case of textile spinning, composite and weaving the relationship of leverage with explanatory variables is significant and positive. Which indicate that leverage playing its role as mediator in case of analyzing the impact of cash holdings, liquidity, and firm size on profitability. Similarly, in case of textile spinning and weaving cash holdings have significant impact on profitability although this impact is inverse but cash holdings improve the profitability. In case of textile composite cash holdings has positive and significant impact on firm's profitability.

In the textile spinning and weaving the role of liquidity is significant, and the impact remains positive/negative, but in the textile composite it's become insignificant inversely. In the case of textile spinning and weaving control variable (firm size) become insignificant and the

impact remains positive/negative. However, in the case of textile composite role of firm size become positively and significant.

5.2 Suggestions

The financial managers and stake holder's do not increase the firm size without improving the volume of sales it might be hit the current profitability and this research observed that there is the direct link between past, present and future profitability of the firm, if the current period profitability suffers it might hit the future profitability as well. Entire firms should keep focus on their profitability capacity; it may strengthen the firm's performance for long run period. This study founded that if this study use debt financing in the capital structure then it may improve the performance of the business. Although the probability is high for its negative impact on profitability but it may improve the overall performance of the firms, so the leverage should consider rationally. This research suggest that entities should hold the cash in liquid form it may positively impact the performance of the firms. Thus This research also suggested the firms that cash holdings, firm size, liquidity and leverage are major tools of the profitability if the financial managers mange these dominant variable rationally under the guideline of this article then that firms may stable their financial standings in better way.

5.3 Limitations

There are some natural limitations of this study for instance this research faced the data limitation problems as there are 155 textile firms listed on Pakistan stock exchange but 75 percent of the firms provided the data for the period of five years 2012 to 2016. Because rest of these 25 percent companies didn't disclose their financial information for general public. In addition, this research also have notice that some companies started two or three years ago that's way these firms were unable to provide the 5 year data so this research consist upon entire available data.

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