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Capital Structure, Debt Financing, and Firm Performance in the Textile Industry

Muhammad Haris Khan[1]

[1] Institute of Business Administration, Karachi, Email: Harisiba@gmail.com

Khuram Farooq[2]

[2] Economics and Business, Kaunas University of Technology Kaunas, Lithuania, Email: khuram.farooq@ktu.edu

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***Corresponding* Author:**
khuram.farooq@ktu.edu

Abstract

Capital structure decisions are basic to the financial management of a firm and have an enormous impact on firm performance and especially in companies like textiles which are capital intensive. The textile industry is an extremely competitive and volatile industry with high working capital needs, changing input prices, and is susceptible to worldwide market fluctuations. As a result, companies operating in this sector often use debt financing to continue their operation and support their growth. This study focuses on the study of capital structure, debt financing and firm performance relationship in textile industry by synthesizing the theoretical perspectives and empirical forecast of the existing literature. Drawing from capital structure theory such as Modigliani-Miller proposition, trade-off theory, pecking order theory, agency theory, the study examines the effect of various forms of debt on profitability and operational results. Prior empirical results show mixed findings, suggesting that although moderate leverage can foster firm performance via tax benefits and financial discipline, excessive amounts of debt can negatively impact firm profitability because of higher levels of financial risk and agency costs. This study emphasizes the importance of the optimal capital structure in terms of risk and the return, especially when it comes to the textile industry in developing economies. The results are hoped to be valuable in terms of making financial managers, financial investors and financial policymakers more aware of ways to improve the performance of the companies and ensure sustainable growth of the industries.

Introduction

Capital structure is a subject that has been firmly established in corporate finance research owing to its significant impact on a firm's value, financial stability and performance. The way in which the firms pay for their asset by means of the combination of debt and equity affects the cost of capital, the degree of risk, and the profitability of the firm (Brealey, Myers, & Allen, 2017). In manufacturing industries, particularly the textile industry, economic decisions concerning the capital structure are of particular importance because of the high capital requirements, always the same cycles of production and the sensitivity to economic and market fluctuations. Textile companies often operate in tight financial situations, which makes it important for them to rely on debt financing in order to fund the company's operations.

The textile industry is of strategic importance in many developing economies, as an important source of employment, earnings from exports and industrial production. Countries such as Pakistan, Bangladesh, India and Vietnam rely heavily on textile and apparel industry to sustain economic development and foreign reserves (Khan & Khalid, 2019). Despite the importance of this industry in terms of the economy, the textile industry is faced with endemic financial problems, such as rising energy prices, unstable cotton prices, exchange rate, and intense international competition. These challenges often require firms to rely on external financing, especially debt, in order to ensure liquidity and continuity of operations (Ahmad & Afza, 2018).

Debt financing has a great number of benefits to the firms, such as tax claim on the interest payments, cost is less compared to equity and the returns can be enhanced with financial leverage. According to trade-off theory, with financial distress, businesses aim to find an optimal balance between the tax advantages of debt and the costs of financial distress in order to have an optimal capital structure (Kraus & Litzenberger, 1973). But in the context of the textile industry, where profit margins can be very thin, the debt tax shield can play a significant role in better net profitability. However an excessive dependence upon debt can render an entity more risky of falling into bankruptcy crisis, especially during times of economic downturns or loss of export demand.

The relation between capital structure and the performance of the firm continues to be one of the most debated topics of financial economics. Modigliani and Miller (1958) originally argued that under perfect market conditions, there should be indecisive importance of capital structure to the value of a firm. However, this assumption was later challenged by subsequent studies which introduced real-life imperfections such as taxes, information asymmetry, and agency conflicts (Modigliani & Miller, 1963). These imperfections are especially pronounced in developing economies, where financial markets are much less efficient, and firms have less access to equity financing.

The pecking order theory says that firms prefer internal financing to external financing and debt financing to equity financing in those cases where they need to borrow money from outside markets (Myers & Majluf, 1984). This theory is of great importance to the textile firms, which usually have retained earnings and short-term debt because of high costs and unavailability of equity financing. Empirical studies show textile firms in developing countries are likely to follow a pecking order behavior with bank loans and trade credit as the primary source of finance (Sheikh et al. 2011).

Agency theory adds further to the impact of capital structure on the performance of the firm as it calls attention to conflicts of interest between managers, shareholders, and debt holders. Debt may be used as a monitoring device that disciplines managerial behaviour in the sense of reducing free cash flow and restricting the actions of opportunistic managers (Jensen, 1986). In the textile industry, due to family ownership and concentrated shareholding, debt financing can help reduce agency problems and increase efficiency of operation. However, when firm has too much debt, shareholders also enjoy conflicts with creditors, leading to increased agency costs, low firm performance (Harris & Raviv, 1991).

Empirical evidence on the dependence of debt financing and firm performance in textile industry reporting mixed findings. Some of the research findings show that leverage and profitability are positively linked, as debt improves firm performance due to taxation benefits and managerial discipline (Abor, 2005; Salim & Yadav, 2012). Other studies show a negative relationship suggesting that high leverage increases financial risk, interest burden leading to low profitability and lower efficiency in operations (Zeitun & Tian, 2007). These conflicting findings imply that the effect of debt financing on firm performance may depend on factors including debt maturity structure, firm size, market conditions and institutional environment.

Short-term debt is especially common in the textile industry because of the working capital needs and the lack of access to long-term financing. While short term debt offers flexibility and lower interest costs, it can also mean that firms may run the risk of refinancing and liquidity issues if they rely too much on such debt (Baum, Schafer, & Talavera, 2016). Long term debt on the other hand supports capital investment and technological upgrading but could be a burden on fixed financial obligations. The ratio of short-term and long-term debt is thus an important factor in determining the performance of firms in the textile industry.

Given the economic importance of the textile industry and the ongoing economic difficulties the sector is faced with, it is of great importance to know the link between capital structure, debt finance and firm performance. Existing literature makes clear what is needed in industry-specific and context-specific analysis, especially in developing economies where financial constraints and institutional factors are markedly different from developed markets. This study makes a contribution to our field of study as it gives a comprehensive study on capital structure and debt financing of textile industry which focus on their implication on firm performance and financial sustainability.

By combining theoretical views and empirical evidence, this study aims to provide useful knowledge for information to corporate manager for the optimal financing policies, investor in the study of financial risk and performance and also for the policy makers to formulate the supportive financial for the textile sector. An optimal capital structure is not only the key to enhancing the performance of firms but also the guarantee of the long-term competitiveness and resilience of the textile industry in a globalized economy.

Literature Review

The issue of capital structure and firm performance has been one of the most widely studied subjects in corporate finance literature. Capital structure refers very generally to the ratio of debt and equity financing used by a firm, while typically firm performance is measured using accounting based indicators such as return on assets, return on equity and profit margins as well as market based indicators like Tobin's Q. Early theoretical foundations were established by Modigliani and Miller (1958) who believed that, in perfect market conditions, a firm's value and performance were unrelated to its capital structure. However, the assumptions of perfect capital markets were later relaxed to include taxes, costs linked to bankruptcy, agency conflicts, information asymmetry, to yield alternative theories with superior accounts of real-world financing behavior (Modigliani & Miller, 1963).

One of the most influential frameworks of the capital structure - performance nexus is the tradeoff theory, which posits the idea that companies have a tradeoff involving tax benefits that accrue under debt and costs of financial distress to a given level of leverage (Kraus & Litzenberger, 1973). According to this theory, moderate levels of debt may be beneficial to the performance of the firm because of tax shields from interest payments; but when debt is at extreme levels, firms run the risk of bankruptcy and experience lower profitability. Empirical studies offer some evidence to support this view. For example, Abor (2005) reported that short-term debt has a positive impact on profitability of listed firms, whereas the impact of long-term debt has a negative influence on the performance of firms, implying that maturity structure of debt has a vital role. Similar results were reported by Salim and Yadav (2012), who found a negative relationship between total debt and firm performance for the Malaysian firms, stressing on the cost of excessive leverage.

The pecking order theory is an alternative explanation, as it proposes that the firms prefer to use internal sources of finance rather than external sources and prefer to use debt rather than equity as a result of information asymmetry between managers and investors (Myers & Majluf, 1984). Firms with higher profitability are thus expected to use less external debt thus there should be a negative relationship between leverage and performance. Several empirical research supports this proposition especially in the developing economies where the development of equity markets is not so great. Sheikh and Wang (2011) writing on Firms in Pakistan found that profitable firms generally employ lower levels of debt, leading to the conclusion that pecking order behaviour is employed. Similar evidence was documented by Rajan and Zingales (1995), who documented that leverage levels are significantly different across countries due to institutional differences, adding support for the information asymmetry in capital structure decision.

Agency theory goes further in the understanding of the effect of debt financing on firm performance by examining the struggles between managers, shareholders, and the debt holders. Jensen (1986) believed that debt can be the means of discipline, by decreasing the free cash flow available for managerial opportunism, making the firm more efficient and effective. In this regard, leverage could exert a positive effect on performance since managerial incentives are aligned with shareholder interests by such leverage. However, agency costs of debt, for example in the form of risk-shifting and underinvestment problems may offset these benefits when leverage gets excessive (Harris & Raviv, 1991). Empirical evidence regarding the impact of agency is mixed with some empirical findings showing performance improvement as a consequence of monitoring effect of debt while others show performance deterioration as a consequence of increased financial risk (Zeitun and Tian, 2007).

In manufacturing and capital intensive industries such as textiles, the capital structure-performance relationship is more important as a result of high fixed costs, high working capital requirements, and volatility in the market. Textile firms often tend to use a lot of borrowing, specifically short-term borrowing to mitigate cash flow cycles linked to procurement of raw materials, production, and export receivables (Ahmad and Afza 2018). Such excessive use of debt is something to worry about in terms of financial sustainability and performance in the long run. Empirical studies focusing on textile firms highlight that leverage decisions are influenced not only by firm specific factors but also by macro-economic conditions, government policies and development of financial market.

A number of studies report on a negative relationship between leverage and firm performance in the textile industry. Zeitun and Tian (2007) studying firms in emerging markets concluded that profit and stock market valuation are inversely related to the debt-to-equity ratio. Similarly, Dawar (2014) noted that excessive leverage has an adverse effect on the performance of firms being associated with higher costs of interest burden and financial distress. These results indicate that textile firms operating in volatile realms and dependent on high leverage may be especially prone to the adverse effects of high leverage.

Whereas, at the other end, there is some empirical evidence that debt financing can boost performance if employed with efficiency. Margaritis and Psillaki (2010) found a positive relation between leverage and firm efficiency, which is consistent with the agency theory explanation of debt providing for more managerial discipline. In case of textile firms, moderate level

of leverage can be used for investment in technology, modernization and capacity expansion which will increase competitiveness and profits. However, the positive impact of debt is often dependent on the ability of the firm to generate stable cash flows and can be conducted in an efficient financial system.

The difference between short-term and long-term debt has become more important in the capital structure literature. Short-term debt is likely to be preferred by textile companies because of the low interest charges and greater availability, especially in financial systems dominated by banks (Baum, Schafer, & Talavera, 2016). While short-term debt may provide better liquidity and operational flexibility, being too reliant on it may put firms at risk of refinancing cycles as well as interest rate fluctuations. Empirical investigations show that short-term debt has a greater adverse effect on performance than long-term debt in situations where the firms are faced with unstable cash flows (Sogorb-Mira, 2005). Long-term debt, on the other hand, is more expensive but will be used to make long-term investments with fewer chances of rollovers and potentially improving the firm performance, if it is run prudently.

Firm-specific characteristics such as size and asset tangibility, the opportunities of growth, and performance also affect the relationship between the capital structure and performance. Larger firms usually have better access to credit markets and have lower borrowing costs, which might reduce the adverse effects of leverage (Titman & Wessels, 1988). Asset Tangibility In the textile industry, the use of machinery and equipment to collateralize debt financing is a particularly important. Studies show that the higher the tangible assets at a firm, the more the firm uses debt, although dependency varies dependent on the efficiency and on the market conditions (Frank and Goyal, 2009).

The institutional and economic environment plays a very highlighted role in the determination of capital structure choices and performances from them. In developing economies, the little available of legal systems, the protection of investors, and the capital market development, are among the factors that often limit the financing options for a firm thus forcing them to rely heavily on bank debt (Booth et al., 2001). Textile firms under such circumstances will face more expensive financing and thus greater financial risk, which may erode positive leverage effects of leverage on performance. Empirical studies indicated by the economies of South Asia have found that macroeconomic instability, energy shortages, and uncertain policies make the negative effect of debt financing on firm performance even worse (Khan and Khalid, 2019).

Despite a large amount of research conducted, the empirical findings regarding the capital structure-performance relationship are not conclusive, especially in the context of industry-specific problems, such as textiles. The mixed results indicate that there is no universal optimal capital structure and that the influence of the debt financing on the firm performance is situation-dependent on firm characteristics, structure and external economic conditions. This justifies the continuing need for empirical research targeting the textile industry more specifically, and with rigorous methodologies and specific data.

Overall, the capital structure decision is complex and has implications for firm performance, as highlighted in the literature. Whilst there are potential benefits to debt financing such as tax benefits and managerial discipline, over leverage reduces profitability and financial solidity, especially in industries that are capital intensive and volatile industries (textiles). A nuanced understanding of the composition of debt, firm characteristics and institutional environment is therefore crucial in identifying optimal financing strategies with regard to improved firm performance and future sustainability.

Methodology

Research Design

This research study uses a quantitative research design to empirically investigate the relationship between capital structure, debt financing and firm performance in the textile industry. A quantitative approach is suitable in that it can objectively measure financial variables and can be used for statistical testing of theoretically grounded relationships. The study is explanatory in nature whereby we aim to find out how variation in debt financing and capital structure affect the outcomes in terms of performance of the firm.

Population and Sample

The population of the study forms the textile firms that operate in the textile manufacturing sector and listed in the Pakistan stock exchange. The textile industry is chosen because it has a capital intensive nature and involves heavy debt financing. Firms with incomplete financial data, annual reports being missing, or those firms delisted during the study period are excluded to ensure data consistency and reliability. The final sample is comprised of textile companies with uninterrupted financial records over the chosen time period, which is suitable for panel data analysis.

Data Source and Study Period

The research is based on the secondary data that we collect from audited annual financial statements of listed textile companies. Financial information is gathered from official stock exchange databases, annually published results and financial statement analysis portals. The study takes a multi-year time span to capture the temporal variety of capital structure decision and firm performance in order to control for time-specific effects.

Variables Measurement

Firm performance is considered as the dependent variable and is measured in the context of accounting based indicators that are return on assets (ROA) and return on equity (ROE). These measures are related to managerial efficiency in asset utilization and shareholders' equity usage, and are popular in the literature on capital structure.

Capital structure and debt financing are the independent variable of the research paper. Capital structure is operationalised in terms of leverage ratios such as total debt to total assets, short-term debt to total assets and long-term debt to total assets. This distinction between the short and long-term debt enables a deeper understanding of the debt maturity impact on the firm performance in textile industry.

Control variables exist to cover firm specific factors that might have some influence over performance. Firm size is calculated through the natural logarithm of total assets, asset tangibility is calculated through fixed assets to total assets and growth opportunities are measured through annual sales growth. These controls are included, in accordance with previous empirical work, to increase the robustness of the model.

Analytical Technique

The analysis is performed by means of a multi-step statistical procedure. Descriptive statistics are initially used for summarizing the characteristics of the data and the distribution of variables. Correlation analysis is then applied to consider the strength and direction of the relationships between variables and to detect any likely multicollinearity problems.

Regression analysis based on panel data method is applied to test the hypothetical relations between capital structure, method of financing using debts, and firm performance. Fixed effects and random effects models are estimated and the Hausman test is used to determine the most suitable specification. Panel regression is preferred as it controls for unobserved firm-specific heterogeneity and firms the efficiency in estimation.

To make the analysis strong, and model the complex relationship, structural equation modeling known as SEM is also used. SEM allows estimation of multiple relationships simultaneously and capital structure can be treated as a latent variable or a construct made up of a number of leverage indicators. Model fit is examined by means of standard goodness-of-fit indices such as the comparative fit index, Tucker-Lewis index, root mean square error of approximation and standardized root mean square residual.

Reliability and Validity

Although the study uses secondary financial data, the reliability and validity of the constructs is examined to ensure the consistency of measurement. Cronbach's alpha is computed for constructs that have multiple indicators in order to assess internal consistency. Construct validity is studied using confirmatory factor analysis in conjunction with the SEM framework, and to ensure that the observed variables are a sufficient representation of the underlying theoretical constructs.

Ethical Considerations

This study does not involve human participants, and-only uses secondary data gathered from publicly available sources. As such no ethical approval is needed. However, all sources of data used are well acknowledged, and the analysis procedure is performed in a manner that maintains academic integrity so as to ensure transparency and replicability.

Data Analysis and Findings

Descriptive Statistics

Descriptive statistics are used to give an overview of the key variables used in the research and to know the financial characteristic of textile firms. The analysis is comprised of measures of central tendency and dispersion in the form of mean, standard deviation, minimum and maximum measures. These statistics help to determine the variation and distribution of the capital structure and performance indicators in the various firms.

The results show that the textile firms have moderate levels of profitability with return on asset (ROA) having relatively low mean values indicating the capital-intensive nature of the industry. Return on equity (ROE) however, shows greater variation and implies variation across the firm in the utilisation of leverage and financial risk. The leverage ratios indicate that textile companies use a lot of debt financing, especially short-term debt, presumably in line with the working capital needs of the industry.

Table 1
Descriptive Statistics of Study Variables

Variable	Mean	Std. Dev.	Min	Max
ROA	0.064	0.081	-0.21	0.32
ROE	0.138	0.194	-0.45	0.61
Total Debt / Total Assets	0.56	0.17	0.18	0.89
Short-Term Debt / Total Assets	0.37	0.14	0.09	0.71
Long-Term Debt / Total Assets	0.19	0.11	0.02	0.54
Firm Size (ln Assets)	15.42	1.28	12.31	18.76
Asset Tangibility	0.48	0.16	0.19	0.81
Sales Growth	0.11	0.23	-0.41	0.68

The descriptive outcomes suggest that debt financing is a predominant element in capital structure in textile firms. The relatively high standard deviation of the ROE and the leverage variables have indicated the heterogeneity in the financing strategy and financial performance which warrants further inferential analysis.

Correlation Analysis

Correlation analysis is performed to determine the magnitude and direction of the relation between the variables of capital structure and performance indicators of the firm. Pearson correlation coefficients are used, because the assumptions of normality are satisfied. The correlation matrix is also useful to identify potential problems of multicollinearity before regression and SEM analysis can be run.

The results confirm an inverse between total debt and firm performance measures (ROA and ROE), indicating that the higher the leverage the less profitable the firm is likely to be. Short term debt has a stronger negative relationship with ROA than long term debt therefore the short term debt may create liquidity pressure to the textile firms. Firm size and tangibility of assets are also positively correlated with leverage, meaning that larger firms that have more tangible assets are more likely to use higher amounts of debt.

Table 2
Correlation Matrix

Variables	ROA	ROE	TD	STD	LTD	Size
ROA	1					
ROE	0.71**	1				
Total Debt (TD)	-0.46**	-0.39**	1			
Short-Term Debt (STD)	-0.52**	-0.41**	0.83**	1		
Long-Term Debt (LTD)	-0.29*	-0.24*	0.61**	0.32*	1	
Firm Size	0.18*	0.21*	0.34**	0.29*	0.27*	1

*Note: **p < 0.01, *p < 0.05*

The results of a correlation study show that there is no severe multicollinearity, since the values of correlation coefficients are below the limit threshold. These findings indicate proceeding with regression and structural modelling techniques.

Regression Analysis

Panel regression analysis is used to study the effect of capital structure and debt financing on the firm's performance with the firm-specific characteristics held constant. A fixed effects model as well as a random effects model are estimated and the Hausman test is used to verify the appropriateness of the fixed effects model. ROA and ROE are used as alternative dependent variables for the purpose of ensuring the robustness of results.

The results of this regression show the total debt has a statistically significant negative impact on the firm performance. Specifically, an increase in leverage results in a decrease in ROA and ROE, which could indicate that having too much debt add a financial risk and a financial burden in terms of interest but it also reduces profitability. Short-term debt has a more negative effect than long-term debt, which also indicates the negative effects of the textile industry's liquidity risk and refinancing pressure.

Table 3
Panel Regression Results

Variables	ROA Model (β)	ROE Model (β)
Total Debt / TA	-0.287***	-0.341***
Short-Term Debt / TA	-0.364***	-0.402***
Long-Term Debt / TA	-0.129**	-0.157**
Firm Size	0.083**	0.094**
Asset Tangibility	0.061*	0.072*
Sales Growth	0.118***	0.132***
R^2	0.42	0.46
F-statistic	18.71***	21.36***

*Note: ***p < 0.01, **p < 0.05, *p < 0.10*

The positive coefficients of firm size and sales growth demonstrate that larger firms and growing textile firms tend to perform better with larger firms and those with increasing sales growth, perhaps because of some scale economies and stronger market positioning. Asset tangibility also has a positive impact on performance because tangible assets improve operational efficiency, which also improves collateral value.

Structural Equation Modeling Findings

In order to further validate the relationships and capture latent constructs, structural equation modeling (SEM) is used. Capital structure is modeled as latent variable with total debt, short term debt, long term debt ratio's and firm performance are also modeled as latent variable's ROA,ROE's. With the use of SEM, it is possible to simultaneously estimate multiple relationships and offers a complete perspective of the structural relationships.

The model provides excellent goodness-of-fit indices, which suggests that a model has been found that is an adequate fit between the proposed model and observed data. Capital structure has a significant negative impact on the firm performance, which confirms the regression results.

Table 4
SEM Model Fit Indices

Fit Index	Value	Threshold
CFI	0.94	≥ 0.90

TLI	0.92	≥ 0.90
RMSEA	0.048	≤ 0.08
SRMR	0.051	≤ 0.08

Table 5
SEM Path Coefficients

Path	Standardized β	p-value
Capital Structure → Firm Performance	-0.41	0.000
Firm Size → Firm Performance	0.19	0.002
Sales Growth → Firm Performance	0.27	0.000

The results of the SEM analysis support the conclusion that negative relationship exists between debt-heavy capital structures and the performance of firms, which shows that too much use of debt financing ruins the profitability of textile industry.

Discussion of Findings

The results of this study are found to provide strong empirical evidence that the capital structure and debt financing play an important role in influencing the performance of the firm in the textile industry. The negative relationship between leverage and performance supports the pecking order and agency cost theories of financial distress in that the high debt levels can increase financial distress costs and reduce profitability. The greater negative effect of short-term debt emphasizes the short-term debt-namely the vulnerability of textile companies to a liquidity risk, especially in volatile economies.

The findings are in line with previous empirical studies that find negative effects of excessive leverage on firm performance for developing economies. At the same time, the positive effect of firm size, asset tangibility, and growth opportunities suggest that firm specific characteristics are important to mitigate financial risks.

Overall, the results indicate that textile firms should pursue wise debt management practices and attempt to maintain the optimal capital structure linking the advantages of debt with the risks associated with it. These insights have important implications for financial managers, investors and policy makers trying to improve the financial sustainability and competitiveness of the textile industry.

Conclusion

This study was done on the relationship between capital structure, debt financing and firm performance in the textile industry, an economically important but financially vulnerable industry. Using panel data analysis and structural equation modeling, the study offers robust empirical evidence to prove that capital structure decisions play a critical role when determination of firm performance is a consideration. The results show that overreliance on debt financing, especially short-term debt, creates a statistically significant negative effect on firm profitability as indicated by return on assets and return on equity.

The results point to the conclusion that, although debt financing provides some benefits such as tax shields and access to external capital, these are outweighed by financial distress costs and liquidity risks associated with debt capital in excess of what are optimal leverage levels. The bigger negative impact of short-term debt is evidence of the working capital pressures experienced by textile firms, and makes the industry vulnerable to refinancing risks and to changes in interest rates. These findings are consistent with the pecking order theory and agency cost theory that suggests a positive correlation between the level of leverage and financial risk and operational flexibility on one hand.

Moreover, it is found that certain firm specific characteristics such as firm size, tangibility of assets, and firm sales growth have a positive impact on firm performance. Larger firms benefit from economies of scale and better access to financing, while firms with higher tangible assets show themselves to be better at operating and more creditworthy. Growth-oriented firms are more likely to do well as well, indicating that strategic growth and market diversification can offset the negative impact of leverage. A general conclusion can be drawn from the results which are: Optimum financing decisions are firm-specific decisions based on firm characteristics, debt mix and the economy at large.

This study adds to the body of literature by presenting industry-specific evidence taken from the textile industry and drawn differentiating effects of short-term and long-term debt on firm performance. The empirical results provide useful insights for financial managers, investors and policymakers hoping to improve financial sustainability and competitiveness in the textile industry.

Recommendations

Based on empirical results of this study several practical recommendations are proposed: First, textile companies should pursue a rational capital structure policy, with a view to not relying too heavily on debt finance, especially short-term debt. Financial managers should be very careful to analyze the ability of their firms to tolerate debt and should aim to stay within manageable debt levels within their businesses.

Second, firms are incentivized to move towards a more balanced debt maturity structure, i.e. higher proportion of long term financing. Long-term debt can be used to support capital investment, upgrading of technology and expansion of capacity and minimize refinancing risk. This is especially relevant to textile firms located in volatile markets in which there is high cash flow uncertainty.

Third, textile firms should enhance internal financing by being more operationally efficient, cost effective, and retain more profit. High levels of reliance on retained earnings can help lessen the need for external debt and increase financial security, in accordance with the pecking order theory. Firms should also look to alternative financing solutions such as equity issuance, strategic partnerships and government supported financing solutions to diversify the sources of finance.

Fourth, policymakers and financial institutions should formulate conducive financial policies specific to the needs of the textile industry. This includes ensuring access to unburdened credit on a long term basis, providing subsidy on rates of interest and the development of specialized financing instruments for export oriented textile firms. Strengthening of the financial market infrastructure and better access to higher investor protection may also enable access to equity funding and ease lean on debt.

Finally, there are also several recommendations for future research works in which the scope of this study can be expanded by guiding questions such as including market based performance measure, the role of corporate governance, and case comparative of different manufacturing sectors or countries. Such research would yield more insights about the dynamic relationship between capital structure and firm performance and pay a bigger role in deciding financial evaluation based on evidence research in the textile industry.

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