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Does pecking order theory explain leverage behaviour in Pakistan?

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Abstract

This study uses a 34 years' standardized balance sheet data of the manufacturing firms in Pakistan to know the leverage behaviour of these firms over time. The results indicate that leverage has two pervasive and significant relationships: one, negative relationship with current and past profitability; and two, positive relationship with past dividends. This provides empirical evidence to put forward strong support to Pecking Order Theory (POT) in context of profitability and dividends. Moreover, it provides empirical evidence to present a reasonable support to POT regarding growth. However, apropos size POT gets nominal empirical support from Pakistan.

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Notes

[1] Published by the State Bank of Pakistan (SBP).

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