ISLAMIC MICROFINANCE INSTITUTION: THE CAPITAL STRUCTURE, GROWTH, PERFORMANCE AND VALUE OF THE FIRM IN PAKISTAN

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ABSTRACT

The aim of study is to examine the capital structure and growth to profitability and its impact on the value of firm on Islamic microfinance institutions in Pakistan. The Islamic microfinance institutions have to become more strong and play healthy role in the micro economy, they will have to improved their performance ultimately which leads to increasing incomes to make them wealthy and have better living standard and poverty alleviation in economy.

1. INTRODUCTION

Microfinance is a term used to provide financial services to the population of the third word in the form of a personal loan, credit groups, micro-leasing, micro-credit, micro insurance and financial step to expand its high business.

An IMFI association serving the financial wealth of the poor and needy people and coat a large area to cover his legal position, homework, sleep, and stability of the method for all accredited financial resources. Basically IMFIs, NGOs and government organizations are in the process and create a means for the needy, with the assistance of the government. Muhammad ObaidulAllah (2008) at this time we find something surface deficiency, food shortages and demand due to the generosity, boundless abundance, and sleep.

2. LITERATURE REVIEW AND HYPOTHESES

2.1 Islamic Micro Financial Institution

Dusuki (2008) IMFI was considered successful medium micro financing micro due to interest free loan such as Qard Hasan. Qard Hasan works well at the request of a group of loans and the peer pressure theory (Dusuki, 2008; Mokhtar, 2011; Mokhtar et al., 2012).

2.2 Capital structure

Boopen (2014) capital structure has been measured by the used of financial ratio Debt to equity ratio. Sheikh & Wang (2011) confirmed that proportion of company debt and equity showed the leverage of the company. So debt is the basic ingredient of the company capital structure. Kyereboah (2007) argue that capital structure play important role in the productivity performance of the company. On the bases of previous research
researcher developed the following hypotheses: **Hypotheses 1.** The capital structure has positive and significant impact on profitability **Hypotheses 3.** The capital structure has positive and significant impact on value of firm

### 2.3 Growth

Taswan (2003) explain that the growth in total assets in past is approximately growth in total assets and profitability in feature. Saidi (2004) said that percentage change in total assets in previous years is represent the growth. On the bases of previous research researcher developed the following hypotheses: **Hypotheses 2.** The growth has negative and no significant impact on profitability **Hypotheses 4.** The growth has positive and significant impact on Value of firm

### 2.4 Profitability

Sudarmadji et al. (2007) explain that profitability ratio is tool to judge the effectiveness of management towards the return generating from the revenue of the firm and profitability ratio show the success journey of the firm (Nimalathasan & Valeriu, 2010). On the bases of previous research researcher developed the hypotheses **Hypotheses 5.** The value of the firm has positive and significant impact on the profitability.

### 2.5 Value of Firm

Syarif (2007) stated that the market value of the firm’s equity and debt is used for determining the value of firm. Masdar (2008) every firm has an object to maximize his value. So in IMFI by combination of firm’s equity and debt researcher can find the value of the firm.

### 3. METHODOLOGY

#### 3.1 Sample and Data

The sample set is a subset of the target population. Our population sample on the basis of Islamic MFIs Pakistan. As there are many organizations which are providing Islamic Financial Facilities it is for that reason researcher had included followings to compose sample for this study. Akhwat, Naymat Foundation, Helping Hands and Islamic Relief Secondary annual data since 2007-2015 and collected through annual reports.

#### 3.2 Variables

Capital structure, growth and profitability are the independent variable and value of firm is the dependent variable.

#### 3.3 Method of analyses & Techniques

In this research financial ratio is used for the determination of variables. And in order to test the various hypotheses means in order to check the relationship among the growth, capital structure and profitability and their impact on value of firm multiple regression is used.
4. RESULTS AND DISCUSSION

Table 1
Multiple Regression Results (1)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Structure</td>
<td>3.061</td>
<td>5.986</td>
<td>0.511</td>
<td>0.049</td>
</tr>
<tr>
<td>Growth</td>
<td>-0.009</td>
<td>0.022</td>
<td>-0.408</td>
<td>0.685</td>
</tr>
<tr>
<td>C</td>
<td>21.728</td>
<td>7.175</td>
<td>3.028</td>
<td>0.005</td>
</tr>
</tbody>
</table>

R-squared         | 0.470       |
Adjusted R-squared| 0.382       |
F-statistic       | 5.340       |
Prob(F-statistic) | 0.001       |
Durbin-Watson stat| 1.98        |

Table 1 represents multiple regression results of IMFI’s. Capital structure has a positive coefficient = 3.061 which shows there is positive relationship between Capital structure and Profitability. The relationship between Capital structure and Profitability is significant as p-value= 0.0.049 < α = 0.05. Growth of IMIF’s has a negative coefficient = (0.009) which shows there is negative relationship. The relationship between growth and Profitability is insignificant as p-value = 0.685 > α = 0.05. R-squared of IMFI’s is 0.47 which demonstrates that dependent variable Profitability is explained 47% by these explanatory variables. Above resultant f-statistic = 5.340 > 4, f-statistic (p-value) is = 0.001 < 0.05 which shows the models is significant. Durbin-Watson stat = 2.12 shows that there is no auto-correlation.
Table 2
Multiple regression results (2)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Structure</td>
<td>0.79</td>
<td>0.131</td>
<td>6.065</td>
<td>0.031</td>
</tr>
<tr>
<td>Growth</td>
<td>-0.21</td>
<td>0.000</td>
<td>-0.642</td>
<td>0.525</td>
</tr>
<tr>
<td>Profitability</td>
<td>0.32</td>
<td>0.003</td>
<td>0.944</td>
<td>0.049</td>
</tr>
<tr>
<td>C</td>
<td>17.011</td>
<td>0.178</td>
<td>95.157</td>
<td>9.493</td>
</tr>
</tbody>
</table>

R-squared          | 0.96        |
Adjusted R-squared | 0.92        |
F-statistic        | 6.001       |
Prob(F-statistic)  | 0.001       |
Durbin-Watson stat | 2.101       |

Table 2 represents multiple regression results of IMFI’s. Capital structure has a positive coefficient = 0.79 which shows there is positive relationship between Capital structure and value of firm. The relationship between Capital structure and value of firm is significant as p-value = 0.0.031 < α = 0.05. Growth of IMIF’s has a negative coefficient = (0.21) which shows there is negative relationship between Growth of IMIF’s and value of firm. The relationship between growth and value of firm is insignificant as p-value = 0.525 > α = 0.05. Profitability has a positive coefficient = 0.32 which shows there is positive relationship between Profitability and value of firm. The relationship between Profitability and value of firm is significant as p-value = 0.0.049 < α = 0.05. Second part of the table shows that R-squared of IMFI’s is 0.96 which demonstrates that dependent variable Profitability is explained 96% by these explanatory variables. Above resultant f-statistic = 6.001 > 4, f-statistic (p-value) is = 0.001 < 0.05 which shows the models is significant. Durbin-Watson stat = 2.12 shows that there is no auto-correlation.

5. CONCLUSION AND LIMITATIONS

Based on multiple regression test 1 shows that the capital structure has effective positive relationship and have significant impact on profitability. Capital structure contribute 47% towards the profitability and have significant impact on profitability. Whereas growth on the other hand negative relationship with profitability and insignificant to the profitability.

The multiple regression test 2 shows that all independent variable has effective positive relationship and have significant impact on value of the firm except growth.

In this research there are various limitation such as sample size, time period and number of independent variables. So researcher can find the generalized results and
research is not conducted in depth. Researcher for the next time eliminate the weakness of this research by enhancing number of independent variables and sample size as well as time period of the research.

REFERENCES