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Application of Financial Decisions, their Determinants, and Financial Performance: A Tabular Summary of Systematic Literature Review

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Application of Financial Decisions, their Determinants, and Financial Performance: A Tabular Summary of Systematic Literature Review

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Abstract

Financial decisions (capital budgeting, capital structure and dividend policy) are the most important components of corporate finance and now a days have received the attention of researchers and practitioners. Financial decisions influence the financial performance of a firm. Uncertainty, corporate social responsibility, and stakeholders interest are the most important determinants of the financial decisions. The purpose of this study is twofold: firstly, this study provides a systematic review of literature summarizing the theoretical and empirical literature of the financial decisions, their determinants and financial performance. Secondly, it provides the empirical evidence based on survey and data was collected from Chief Financial Officers of Telecommunication, Banking, and Insurance companies listed in Karachi Stock Exchange (KSE) of Pakistan. This study used SPSS and AMOS for data analysis. This study finds that the financial decisions and their determinants are critical factors for the financial performance of firms.

Keywords: Financial Decisions, Financial Performance, Uncertainty, CSR, Stakeholders' Interest, Pilot Testing.
JEL Classifications: G30, G31, G32

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1. Introduction

Financial decision making is one of the most important areas in finance research. These financial decisions have an impact on the financial performance of a firm. Capital budgeting, capital structure and dividend policy are assumed as three most important financial decisions. Capital budgeting deals with long-term investment, capital structure determines the financing mix of the company, whereas dividend policy determines how much to pay out from profits to the shareholders. Different researchers have assumed uncertainty, corporate social responsibility (CSR) and stakeholders' interest as determinants of financial decisions. Investment evaluation is one of the imperative areas of practices of financial management (Sangster, 1993). The method of investment evaluation and objectives and restrictions in project selection are some of the major stressing issues in investment evaluation (Morgan & Tang, 1992; Cowton & Pilz, 2006). This could also make the companies to get a comparative advantage in lieu of future forecasting (Galagan, 1997) that is crucial to give the due consideration for coping the financial matters on debt management and restructuring (Ahn, 2001). Value maximization is the concern of financial decision maker which enhances the wealth of the owner. Therefore, good decision criteria for selection of a project involves: there should be time value of money, there should be required rate of return for the adjustment of the risk, and value of the firm should be maximized. Therefore, discounting rate of return approaches (NPV, discounted payback period, IRR, and profitability index) are more effective as compared to the non-discounting rate of return approaches (payback period and accounting rate of return).

Capital structure is a most fertile area of research in corporate finance. Miller and Modigliani (1961) argued that the value of the firm is irrelevant to whatever the financing mix may be. In contrast to the MM irrelevance model, trade-off theory argues that firms have some specific capital structure and they target the optimal structure. When the firms use the debt in their financing mix, they get the benefit of the tax shield while simultaneously they also face the threat of bankruptcy cost. Hence, there is no choice which to choose and which to quit (Kraus & Litzenberger, 1973;

Myers, 1984). Dividend announcement may affect the managerial decision of the firm. When companies pay out high dividends, they get a good reputation for equity-related matters (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). Miller (1986) and Miller and Modigliani (1961) provide another hypothesis which said that for the matter of value creation, dividend policy has no any relevance. The dividend payout policy of firms also emphasizes the international perspective of dividends (La Porta et al., 2000). Investment opportunities, capital adequacy, firm size, ownership structure, dividend history and risk are assumed as determinants of dividend policy (Kwan, 1981; Asquith & Mullins, 1986). Uncertainty, CSR and stakeholders interest are assumed to have an impact on financial decisions i.e. capital budgeting, capital structure and dividend policy. Uncertainty can be in form of different types of risk which can be credit, economic, translation or transaction risk. CSR is defined as the contribution of an enterprise to the improvement of the environment, economic and social as they believe themselves to be responsible for all of them. Stakeholders' interest is grounded in the theory of stakeholders which aims to adopt a balancing approach by taking care of the interests of various stakeholders without stimulating any conflict. These stakeholders include internal stakeholders such as employees and managers, as well as the external stakeholders such as shareholders, and suppliers.

This study aims to synthesize the available literature of determinants of financial decisions and financial performance in a very concise manner so that readers may be able to extract and identify relevant research problems more easily. The second aim of this paper is to present empirical results based on survey data collected from CFOs of the service sector of Pakistan to see how relevant these identified factors are in Pakistani context.

The rest of the paper follows the following pattern: underpinnings are discussed in next section, introduction to the concept and its summary; part 3 deals with the methodology where descriptive statistics are reported next section followed by a conclusion.

2. Literature Review

The process of capital budgeting is designed to maximize the profits and minimize the costs in both private and public sectors of the economy. One of the important financial decisions that a manager faces is the correct estimation of the rate of return on an investment. There are different methods behind the section of favorable projects for future investment. Discounted and non-discounted cash flow techniques are among the earliest methods available for the estimation of profitability of an investment. The non-discounted cash flow methods do not consider the time value of money while determining the uncertainty and risk of the value of a firm. These techniques also do not consider cash flows in investment decisions.

Traditional payback period is the time in which a cash inflow series comes equally to the initial capital investment expressed in years. It is the first and foremost question that must be answered before investing in a new project. It gives a rough estimate for the project consideration. The ratio of profit after tax to book value of the project is the accounting rate of return (Copper, Edgett, & Kleinschmidt, 1999). It examines the projects based upon the estimates of the standard historical cost of accounting that is also known as book rate of return, accounting rate of return uses average income and accounting data as a base to evaluate the project rather than using cash flows as a base. This technique gives the rate of return in percentage, which is used to rank different alternative investments. Cost of capital is the present value of the discounted cash flows minus the initial outlay. In order to evaluate the acceptance status of different projects, one should have a deep understanding of project evaluation techniques. It is a very famous technique for making an investment decision because it takes the time value of money into the account (Peel & Bridge, 1998). The internal rate of return (IRR) checks the feasibility of long-term investments by using discounted cash flows. The project is worth considering if its IRR is greater than the project's cost of capital. IRR is a rate at which the present value of cash flows becomes equal to the outflows (Cooper et al., 1999). Discounted payback period technique considers the time value of money. It represents the time

taken by the present value of future cash flows to equal the investment.

Net present value (NPV) and Internal Rate of Return (IRR) being the most common and important aspects of evaluation procedures which review the costs and benefits of a project (Farbey, Land, & Targett, 1995). Ann, Farragher, and Leung (1987) and Kester, Chang, Echanis, Haikal, Isa, and Skully (1999) work on the decision making to select favorable projects. They use different techniques which are having a different rule of thumb for decision making. Table 1 provides the summary of capital budgeting technique.

Table 1: Summary of Capital Budgeting Techniques

Author/s	**Definition/s of Each Concept, Parameter, Determinant & Method**
	Concept
1. General Approach: Capital Budgeting and its process	
Kim (1981)	1. Capital budgeting decision is not as simple; it is a collection of interconnected mechanism which is structured. The level of the hierarchy of capital budgeting setup can be evaluated with respect to the realization of the following important gears: • Preparing a capital budget for long-term • Generation of alternatives through systematic search. • Establishment of a body for screening and reviewing. • Techniques to evaluate projects. • Applying techniques of scientific management. • Analyzing risk. • Appointment of staff for capital budgeting.
Shim and Siegel (1994)	2. The best option and financing decision for long-term investment proposals
Arnold (1998)	3. Refined capital investment opportunities can be used to achieve the effective allocation of recourses. If smaller firms want to grow, they need to use accurate and reliable capital budgeting techniques.

Seitz and Ellison (1999)	4. The process of selecting capital investments
Peterson and Fabozzi (2002)	5. The capital budgeting process includes: • Screening and selection of investment options. • Preparing a proposal for capital budget • Approving budget • Monitoring the project • Post completion audit
Brewer, Garrison, and Noreen (2005)	6. Analysis of the purposed investment project conducted by the managers to ascertain the best option of future return
Agarwal and Taffler (2008)	7. The prominent feature of exchange of funds for future endeavors by the investment of funds in long-lived projects and streamline cash flow advantage over the years is an important pillar for capital budgeting decision.
2. Contingency Theory in the context of capital budgeting	
Pike (1984)	In addition to the adaptation of well-mannered investment techniques, resource allocation efficiency and effectiveness also give consideration to the fit between the organizational context and the capital budgeting structure's operation.
3. Behavioral Perspective of Capital Budgeting	
Northcott (1995) Hamberg (2001)	Sophisticated capital budgeting methods involve decisions as regards expected cash flows and the required rate of return. Even if the individual achieves its goal successfully that may not be profitable for the whole organization.
3.1. Parameters	
Klammer (1972), Kim (1981), Sangster (1993), Peterson and Fabozzi (2002)	• Cash outflow: initial investment • Duration: the time period of the project • Cash inflows: Revenue generated • After-tax income • Rate of interest • Tax rate
3.2. Determinants	
Myers (1984), Shepherd and	• Management: Efficiency and effectiveness of management

Shepherd (2003), Bettis (1981), Kim (1981), Farragher, Kleiman, and Sahu, (2001), Peterson and Fabozzi (2002)	• Company size: Natural log of total assets • Leverage: Total debt to total assets ratio • Dividend payout ratio: Dividend divided by net income • Growth opportunities: P/E ratio • Industry classification: nature of the industry • Capital Intensity: How much automated is the firm? • The degree of Dersification: the number of industries in which the firm operates • Profitability • Liquidity • Company size • Inflation

The pecking order theory throws light on the role of asymmetric information, trade-off theory undermines the impact of taxes while the free cash flow theory forces to think about agency cost associated. In order to prove this phenomenon, these theories are tested in several studies to find the evidence. Other characteristics of the firm also tied to the capital structure like size, country, industry, profitability, growth opportunities, tangibility, macroeconomic issues and other features. However, according to DeAngelo and Marulis (1980) imperfections such as bankruptcy costs, the provision of tax shield benefit are important elements of the market. Corporate structure should rightly be set by the managers as it has important and direct consequences to the economic system (Myer & Majluf, 1984). One of the propositions of MM theory is that the value of the firm is independent of capital structure. Modigliani and Miller (1963) revised their point of view by adjusting the tax-free assumption as proposed. The pecking order theory proposed by Myers (1984) explained the capital structure of the firm. There is a tendency of the firms to give preference to internal as compared to external funding and debt to equity. Criticism faced by the theory due to the non-existence of a perfect market, the static trade-off theory takes birth by lightening the assumptions associated. Myers (1984) hypothesized that static trade-off theory assists the association of the capital structure. The theory idealizes that the firm in the hunch of a more suitable mixture

of capital moves towards a target, where there is the equal benefit of the tax benefit and the associated bankruptcy cost with debt.

The trade-off theory is related to firms' choices of adopting either equity financing or debt financing. The theory states that the firms that are relatively strong in possession of tangible assets and have more income may prefer to go for debt financing. Whereas, firms being weaker in these positions may avert their riskiness by adopting equity financing. This theory further states that companies with higher level of retained income benefit from tax shield through adopting debt financing in their capital structure. Serrasqueiro and Caetano (2015) asserted that trade-off theory and Pecking order theory are not mutually exclusive as empirical evidence from SME sector of Portugal suggests that older and profitable SMEs rely less on debt thus support trade-off theory and younger and emerging SMEs rely more on debt thus supporting Pecking order theory. These SMEs also try to adjust their debt-equity ratio in dynamic situations thus leading to the conclusion that these theories are applied simultaneously in firms as per their requirement. Table 2 provides the summary of capital structure decision.

Table 2: Summary of Capital Structure Decision

Author/s	**Definition/s of Each Theory, Parameter & Determinant**
	Theories
1. Modigliani and Miller (MM) Theory - Irrelevance Theory of Capital Structure	
Modigliani and Miller (1958), Hirshleifer (1966), Stiglitz (1969), Harris and Raviv (1991)	1: With some specific important assumptions, a firm's value remains unchanged with the change in capital structure. The perfect capital market is the assumption which needs to be considered. The MM theory claims that the capital structure of the firm does not affect the value of the firm hence independent of it.
2: Trade-off Theory	
Kraus and Litzenberger (1973), Myers (1984), Jensen and Meckling (1976), Haugen and	2: Firms have some specific capital structure and they target towards the optimal structure. When the firms use debt financing, they get the benefit of the tax shield while simultaneously they also face the threat of bankruptcy cost.

Senbet (1978), Jensen (1986), Goldstein, Ju, and Leland (2001), Strebulaev (2007)	Hence there is no choice which to choose and which to quit.
3: Pecking Order Theory	
Myers and Majluf (1984), Shyam-Sunder and Myers (1999), Fama and French (2000,2002)	3: As per pecking order theory, internal financing is to prioritize choice of firms that external, i.e. they prefer equity, not debt while issuing securities for fundraising. During external fundraising firm moves towards the safest security first and then to another and as a last option to equity.
4: Market Timing Theory	
Graham and Harvey (2001), Baker and Wurgler (2002b)	4: Market timing theory of capital structure proposes that the existing capital structure of a firm is an integral result of the past efforts to time the equity market. Because the issuance of the shares is carried out when the managers considered they are above their value in the market, while the repurchase is pursued, they judge their share market price as undervalued.
5: Signaling Theory	
Ross (1977)	5: The theory of signaling describes the capital structure utilizes the asymmetrical information between the management and the stockholders. This information gap invokes the higher management to disclose the inner secret information to external stockholders in order to give the share price a boost. But yet the managers are not so enthusiastic to spread the good news because of associated suspicion with the decision.
6: Free Cash Flow Theory	
Buus (2015)	6: in optimal financing policy, the cost of Tax shield is dependent upon opportunities of risk and growth.
	Parameters
Jensen (1986), Galagan (1997), Jaggi and Gul (1999)	• Debt = Outsider's resources • Equity = Owner's Resources • Net Profit Margin = Net Income / Revenue • Asset Turnover = Revenue / Assets

	• Equity Multiplier = Assets / Shareholders' Equity • Free cash flows
	Determinants
Jensen and Meckling (1976), Bradley, Jarrell, and Kim (1984), MacKie (1990), Harris and Raviv (1991), Rajan and Zingales (1995), Vogt (1997), Jordan, Lowe, and Taylor (1998), Jaggi and Gul (1999), Booth Aivazian, Demirguc-Kunt, Maksimovic (2001), Titman (1988), Wellalage and Locke (2013)	• Firm Size = natural logarithm of sales • Profitability = returns on assets • Tangibility = Tangible Assets/Total Assets • Growth opportunities = market-to-book ratio Average tax rate = (EBT – E)/EBT • Volatility = SD (ROA) • Industry = Type of industry • Country • Industry • Liquidity • Macroeconomic issues • Tax rate • Firm characteristics • Corporate governance

Dividend announcement may have an adverse effect later on for the management of the firm. When companies paid out high dividends, this led to the growing firms to work on a reputation for equity-related matters later on (La Porta et al., 2000). It also helps the small firms to reduce the cost of asymmetric information (Easterbrook, 1984). If the managers increase retained earnings ratio, they might have a threat of a fall in stock price, fall in compensation, and fall in their career growth opportunities. These all threats lead the management to increase dividend paid out. So in small firms where the owner has no control over the policies, managers are more motivated to pay higher dividends. Another group of financial theorists, Miller and Rock (1985) and Miller and Modigliani (1961) argued against and provide another hypothesis which said that dividend policy is irrelevant to value creation of the firm. They introduced their theory with the assumption that the market is perfect where there are no taxes and other transaction cost exits. They said that market cannot be influenced by a single seller or single buyer and all participants of the market are costless access

to the information and they all are rational, further the prices of securities are determined through discounting back all the future cash flows. They argued that managers perform their actions on behalf of shareholders. Therefore, they are called perfect agent of the shareholders.

The dividend payout policy of firms emphasizes the international perspective of dividends (La Porta et al., 2000; Denis & Osobov, 2008; Abor & Bokpin, 2010). There is a difference between national and international perspective of dividends. This difference is highlighted with respect to different variables such as institutional variables, lack of investor protection, legal requirements, the shareholding of private businesses and state-controlled businesses. The agency model indicates that the only sources to reduce the cost of asymmetry are debt financing and dividend payments when the dividend is paid and debt is issued, it helps to reduce the control of management over cash flows. It ultimately helps to reduce agency problems (Rozeff, 1982; Easterbrook, 1984; Bhaduri, 2002). By this discussion, a negative relationship can be assumed between these two variables. Few researchers have focused the theories individually while some have targeted two or three theories in order to find out how differently, these theories affect the dividend policies of the same industry or country.

In this regard, Tsuji (2010) worked in Japan's electrical appliances industry. The study applied the catering theory of dividend on the firm's dividend policy and found that organizations are ignoring the investors' catering behavior when they are in a continuing or new dividend distribution category. In addition to this, the study found that dividend payments smoothness is affected by the value-weighted dividend yield. As the value-weighted dividend yield raises the firms' tendency to pay dividend fallen (Tsuji, 2010). A recent paper reported that dividend payout positively and significantly relates to firm value (Karpavičius & Yu, 2018).

Table 3 provides the summary of dividend policy.

Table 3: Summary of Dividend Policy

Author/s	Definition/s of Each Theory, Parameter, Determinant & Type
	Theories
1: Dividend Irrelevancy Theory	
Miller and Modigliani (1961)	1: The firms have the independence of investment and dividend policies. As dividend policies are not associated with the firm value assuming perfect capital markets
2: Bird in Hand Theory	
Gordon (1959), Gordon (1963),Walter (1963), Bhatacharya (1979), Rozeff (1982), Gombola and Feng-Ving (1993)	2: Cash in hand is always preferred by the investor as compared to the future promise of capital gain due to risk minimization or lowering.
3: Agency Cost Theory	
Jensen and Meckling (1976)	3: Dividends are the payments that reduce the availability of the cash for managers. This serves as a motivational factor for investors.
4: Signaling Theory	
Ross (1977), Bhattacharya (1979), Asquith and Mullins (1983), John and Williams (1985)	4: When dividends are announced by management, it is assumed that they are communicating the actual position of the firms to shareholders.
5: Clientele Effect	
Miller and Modigliani (1963), Pettit (1977), Litzenberger and Ramaswamy (1979)	5: Investors have tendency to consider financial and operating features of the stocks and categorize the stocks accordingly.
6: Tax Preference Theory	
Brennan (1970), Kwan (1981), Litzenberger and Ramaswamy (1982)	6: Due to higher taxes on dividend, investors prefer those companies who offer lower dividend but pay higher capital gains.

7: Life Cycle Theory	
Mueller (1972)	7: At different levels of a firm's life cycle, the firm needs to change its dividend policy according to its financial needs.
7.1. Parameters	
Gordon and Shapiro (1956)	1. The market price of the share 2. Earnings per share 3. Retention ratio=1 - payout ratio 4. The rate of return on the firm's investments 5. Dividend yield + Growth 6. The growth rate of the firm 7. Time duration
7.2. Determinant	
Kwan (1981), Asquith and Mullins (1986), Kalay and Loewenstein (1986), Denis, Denis, and Sarin (1994), Brook, Charlton, and Hendershott (1998), Amidu and Abor (2006), Al-Malkawi (2007), Al-Kuwari (2009)	Profitability = Return on Assets Liquidity= current ratio Growth = Annual changes in total assets The firm's size = natural logarithm of total assets Age = Age of firm Investment opportunities, Capital adequacy, Size, Ownership, Dividend history, Risk, Profitability, Liquidity, Cash flow, Tax, Dividend payouts, Age, EPS, Book value per share
Types	
1. Progressive Policy	
Kolb and Rodriguez (1996)	The increment of dividends in monetary terms is caused by inflation.
2. Residual Policy	
Kolb and Rodriguez (1996)	Dividends are paid for the part of earning which is available after investing in positive NPV projects.

3. Alternative Policies to Paying Cash:	
Brealey and Myers (1999)	Sometimes firms have the choice to repurchase their shares from shareholders. This process has an advantage of tax to the shareholders.
4. Constant or Fixed Policy	
Watson and Head (2004)	The companies fix the payout ratio because the dividend is paid after tax deduction from the earnings.
5. Zero Dividend Policy	
Watson and Head (2004)	Newly born firms have to expand their business so that they have more intentions to retain all their earnings in order to invest further in their business.

2.1. Determinants of Financial Decisions:

Uncertainty has a unique importance in the finance literature, the effect of uncertainty is observed in different studies in the literature. Greenwald, Stiglitz, and Stiglitz (1991) stated that the ability of the firm to pay its debt increases as the uncertainty increases. Secondly, this relationship is also observed with combinations of marginal q. The increase in marginal q motivates firms to invest more (Hartman, 1972; Abel, 1983). Dixit and Pindyck (1994) introduced concave models of marginal q, due to these concave models uncertain firms would invest less.

Carrol (1979) defined CSR is the responsibility of a firm based on the economic, legal, ethical, and discretionary perception of the society stakeholders about the organization at a specific time. Castelo and Lima (2006) stated that CSR is all about the ethical issue which a firm perform at workplace or in society located in the surroundings like environmental protection, human resource management, health issues at workplace. Firms involved in CSR activities can receive dual benefits, first shareholder satisfaction and second a good reputation of firms in the society. The literature suggests that the organizations which enjoy a good reputation of being efficient and profitable may enjoy a status of being angel among others and thus may have a competitive advantage over similar firms (Levratto, Tessier, & Fonrouge, 2018). All decisions

related to the CSR should be disclosed to the stakeholders (Orlitzky, Schmidt, & Rynes, 2003).

Firms involved in CSR activities are accountable for its financial and social performance (Gosling & Mintzberg, 2003). This is applied to both the operations of the firm as well as the consequences of those operations (Freeman, 1994). CSR concept is a long-lasting in the social sciences (Freeman, 1994). Freeman (1994) argued that managers should work for the maximization of wealth and growth of the firm. Managers and executives are supposed to be the agents of stakeholders. They should work according to the needs of shareholders and try to make as much money as they can as per the rules of society. CSR is the firm's non-financial obligations towards society and different stakeholders (Gossling & Vocht, 2007). CSR is a growing activity of firms to act ethically, do for economic growth and development levies of the firm's workforce and their families as well (Holme & Watts, 1999). Davis (1960) states that CSR is the decision of business persons taken least beyond the firm's direct interests. Table 4 prodes the summary of CSR.

Table 4: Summary of Uncertainty

Author/s	**Definition/s of Each Concept, Parameter, Determinant & Type**
	Concept
1: Theory of maximization of expected utility	
Bernoulli (1954)	1. The calculated value of game-related issues is not relevant to show the behaviors of game players.
2: Risk and Uncertainty	
Galbraith (1973), Zimmermann (2000)	2. Any difference between required and available information is called uncertainty
3: Monte Carlo Simulation technique (MCS)	
Bukowski, Korn, and Wartenberg (1995)	3. Normally, variables are assigned equal distributions. This effects the tails of the simulation distribution model.

Parameters	
Sharpe (1965), Lintner (1956), Fama (1970), Merton (1973), Roll and Ross (1980)	• Risk likelihood, the probability of risk occurrence • Risk consequence, i.e. impact and severity of risk occurrence • Mean: Average • Variance: Standard deviation • Beta: A measure of the volatility, or systematic risk of a security or a portfolio in comparison to the market as a whole.
Determinant	
Colquitt, Hoyt, and Lee (1999), Froot, Scharfstein, and Stein (1993)	• Segments are crucial because as segments increases, it will lead to increase firm's complexity. • Firm's Industry • Country of domicile for the firms headquarter as and subsidiaries. • Leverage: Financial structure • Stock price volatility: How dispersed are the historical stock prices of the firm • Firm Size • Firm complexity • Industry • Country • Financial leverage • Stock price volatility
Types	
1: Operational Risk	
Jensen and Meckling (1976)	1: Uncertainty about the uniformity of operations
2: Economic Risk	
Clark and Marois (1996)	2: Country's economic risk refers to the instability of macroeconomic predominance that is often measured by real GNP or real GDP.
3: Credit Risk	
Crouhy, Galai, and Mark (2001)	3: Bank's position changes with changes in the quality of contemporary. This is termed as credit risk.
4: Market Risk	
Dowd (2002)	4: The changes in market prices like prices of stocks and securities and changes in market rates like exchange rate and interest rates.

5: Currency Risk	
Brooks, Faff, Hillier, and Hillier (2004)	5: Currency risk refers to instability of exchange rates.
6: Political Risk	
Czinkota, Knight, Liesch, and Steen (2005)	6: Change in political conditions
7: Liquidity Risk	
	7: The risk that affects transaction at a market price due to either relative position size or a temporary drying up of markets. This is termed as asset liquidity risk. Further liquidity risk has another type called funding liquidity risk when any firm or institution fails to meet its cash needs is termed as liquidity risk.

Table 5: Summary of Corporate Social Responsibility

Author/s Theory	Definition/s of Each Theory & Determinant
1. Corporate Social Responsibility Theory	
Friedman (1970)	The main objective of the business is to earn a profit. So management performs profit-making activities.
Carrol (1979)	CSR is any legal, ethical, economic, and discretionary expectations of the society from the organization at a given time.
Holme and Watts (1999)	This is a deliberate act of a firm to act in boundaries of ethics and act for the development of the economy, also related to the improvement and development of its workforce and their families.
Goll and Rasheed (2004)	A deliberate managerial choice caused by internal decision process, act in social and ethical manners; this is termed as CSR.
Gossling and Vocht (2007)	The firms' non-financial obligations towards society and different other stakeholders.
1.1. Determinants	
Parket and Eilbirt (1975),	• Liquidity: Current Ratio • Risk: Debt to Equity Ratio • Efficiency: Asset Turnover Ratio

Waddock and Graves (1997), Preston and O'Bannon (1997), Sturdivant and Ginter (1977), McWilliams and Siegel (2001), Ruf, Muralidhar, Brown, Janney, and Paul (2001), Tsoutsoura (2004), Aupperle, Carroll, and Hatfield (2017)	• ROA = Return on Assets • EPS = Earnings Per Share • P/E Ratio = Price per share / Earning per share • Innovation = Research & Development Expenditure • Operating Profit Margin • Return on Net Worth

Stakeholder theory guides the managers or stakeholders, how they should work for their own interests. The objective of the organization is profit maximization and value creation. If managers manage organization according to the concept of stakeholders it might have long-lasting effects. Fifty years ago, the stakeholder theory could have been occasionally traced in the literature on strategy but now it has become a prominent part of management theories. This theory emanates from the work of Abrams (1954) in his seminal work on educational management in which he identifies the people who have valid and durable interest in the wellbeing of the organization. He used word stakeholder for them. Abrams (1954) stressed the need to incorporate various interests of different stakeholders and maintaining the balance among these conflicting interests. Ansoff (1965) further termed it as 'corporate strategy'.

Ansoff (1965) presented the theory as "balancing the conflicting claims of the various 'stakeholders' in the firm: managers, workers, stockholders, suppliers and vendors". Ansoff (1965) argued that it is the responsibility of the corporation to take care of the interest of each stakeholder of the firm.

In the academic point of view stakeholder's theory has been studied in different fields such as health care, law and public policy (Freeman, Harrison, & Wicks, 2010). Every organization has some stakeholder and it should pay attention to these stakeholders (Freeman, 1984), stakeholders theory is important for firms because it exists along with shareholder's theory (Friedman, 1970), stakeholder's theory acts as a bridge between ethics and strategies (Phillips, 2003), the firms which align the concern of stakeholders with organizational objectives are found more successful in long run (Campbell, 1997; Freeman, 1984; Freeman, Harrison, Wicks, Parmar, & de Colle, 2010). Stakeholders concept is related to value creation which is important at the manager's ends. Managers focused on operations that lead to increase the performance of the firm (Kaplan & Norton, 1992; Sachs & Ruhli, 2011). Stakeholder's interest performance measure has more importance as compared to economic measures of performance and also became more challenging for the management of firms. Following Table 6 provides summary of stakeholder interest.

Table 6: Summary of Stakeholder Interest

Author/s	**Definition/s of Each Theory, Parameter & Determinant**
Theories	
1. Stakeholder theory	
Friedman and Miles (2006)	A firm should put itself in place of stakeholder and therefore it should focus on acting according to the viewpoint, need, and interests of stakeholders.
Freeman, Wicks, and Parmar (2004)	Stakeholders are the persons or groups that are important to firms in existence.
Mitchell, Agle, and Wood (1997)	Stakeholders are different groups that have concerns with the organizations

Rowley (1997)	Stakeholder theory describes how organizations respond to stakeholders' preferences.
Greenley and Foxall (1997)	Stakeholder orientation that refers to the Development of a corporation's' mindset to take care of diverse interests of stakeholder in each decision-making process.
Clarkson (1995), Goodpaster (1991)	The normative stakeholder theory refers to the way how firms ought to handle stakeholder interest. Proponents of this theory consider stakeholder management as an "ends" rather than a "means"
Jones (1995), Jawahar and McLaughlin (2001)	The instrumental theory is concerned with the outcome of stakeholder management. The basic aim of a firm is to maintain success in the competitive market, therefore, stakeholder management is considered as "means" to an end rather than an "end" itself.
Brenner and Cochran (1991)	Type 3, the descriptive/empirical type of stakeholder theory deals with the actual behavior of managers toward stakeholders.
1.1. Parameter	
Abrams (1954), Donaldson and Preston (1995), Harry, DeAngelo, and Skinner (2009)	• Social Responsibility of the Firm • Customers as stakeholders • Shareholders as stakeholders • Environment as stakeholders • Employees as stakeholders • Creditors as stakeholders • Government as stakeholder

1.2. Determinants	
Quality of Environmental Disclosure	
Watts and Zimmerman (1978), Freeman (1984), Ullmann (1985), Clarkson (1995), Mckinnon and Dalimunthe (1993), Cormier and Magnan (1997), Jurkštiene, Darškuviene, and Dūda (2008).	Quality of Environmental Disclosure: Total score for quality of environmental disclosure The quantity of Environmental Disclosure: Total quantity of environmental disclosure (number of sentences) Percentage of ownership of the firm held by shareholders holding 5% or more Creditor Power: Average debt to equity ratio Average Return on Assets of firm Log Size: Natural log of average sales revenues Age: Number of years since the incorporation of the firm Government Power: 1 for firms in an environmentally sensitive industry; 0 otherwise Making environmental concern as a basic component of a company's mission and vision Management control systems provide useful information to satisfy different perspectives of stakeholders Certification: 1 for firms with ISO certification; 0 otherwise

2.2. Financial Performance

Deshpande, Farley, and Webster (1993) say that organizational performance has different aspects, such as relationship building performance, short-term and long-term performance, financial and non-financial performance. Different financial parameters such as market share, sales growth and profitability are used to gauge out the performance of the organization. Singh, Garg, and Deshmukh (2008) explore that financial indicators can only gauge the past performance but cannot tell anything about the present and also cannot predict future performance. Performance of a firm or an industry is very important as it shows the results achieved over a period. Performance plays a vital role in determining the position of the industry. Performance indicates the profitability, solvency and returns to investors, therefore, financial experts, corporate managers, investors, and regulators are interested in financial

performance. An organizational preference has significant repercussions on the market value. The notion of performance is debatable to a great extent, mostly because of its multi-dimensional meaning in finance. The performance evaluation may be financial or organizational. Financial performance of assets and maximization of the shareholder wealth are the core advantages of the efficiency of a company (Chakravarthy, 1986). The measures of performance are sales growth and market share growth (Hoffer & Sandberg, 1987).

Table 7: Summary of Financial Performance

Authors	**Definition/s of Each Concept & Determinant**
Concept	
1. Organizational Performance Management	
Patel and Holtzman (1994)	1. Performance Management is a way of managing that connects the actions of individual workers and managers towards the strategic goals of an organization. It consists of outputs and goals that are required to achieve.
De Bruijn (2002)	2. Performance measurement is to foresee the performance goals and defining the performance indicator to measure the performance. After doing best, the outcomes should be compared with the envisaged goal along with its cost on achievement.
Keyes (2005)	3. It is the use of information regarding the performance measurement in order to cultivate the positive and progressive changes in an organizational culture. It also aims to cause a change in the organizational systems and procedures by setting goals, resource prioritization and by providing the information regarding the change in the current program directions or policy to the managers and eventually sharing the achievement due to pursuing those goals.
1.1. Determinants	
Peters and Waterman (1982),	1 Efficiency: Return on: a. Investment, b. Equity c. Assets d. Net Worth e. Gross revenue per employee

Chakravarthy (1986), Venkatraman and Ramanujam (1987), Murphy, Trailer, and Hills. (1996).	2. Growth Change in: a. Sales, b. Employees, c. Market share d. Net Income Margin, e. CEO compensation, f. labor expense to revenue
	3. Profit a. Return on sales, b. Net profit margin, c. Gross profit margin d. Net profit level, e. Net profit from operations f. Pretax profit, g. Clients' estimate of incremental profits
	4. Size a. Sales level
	5. Liquidity a. Cash flow level, b. The ability to fund growth c. Current ratio, d. Quick ratio e. Total asset turnover, f. Cash flow to investment
	6. Market Share a. Respondent assessment, b. Firm to industry product sales
	7. Leverage a. Debt to equity, b. Times interest earned

3. Research Methodology

Saunders, Lewis, and Thornhill (2007) presented research 'onion' model which helps researchers to find out appropriate philosophy, methods and approaches for their research. The basic research question is answered through how knowledge should be promoted which is considered as the research philosophy. After deciding the research philosophy, various methodological elements are considered subsequently. Research onion of Saunders et al. (2007) explained and showed that why and how each element is selected and assisted to answer the research question. The research instrument used is the questionnaire. One of the sections of the questionnaire includes the demographic details including gender,

age, experience and sales for the period of 2012-13. The other section of the questionnaire contains nine questions on organizational performance and three dimensions of financial decision, i.e. nine questions of capital structure decision, fourteen questions about dividend policy and twelve questions of investment appraisal techniques. In the first and second section of the questionnaire nominal scale and 5-point Likert scale are used respectively. Statistical Package of Social Sciences (SPSS) is used to analyze the data. McCaffery, Hutchinson, and Jackson (1997) study helped to adapt the questionnaire on the financial decision, whereas Jimenez and Navarro (2006) and Schulz, Wu, and Chow (2010) studies help to finalize the scale on organizational performance. The instrument of the determinants of the financial decision, i.e. uncertainty (thirteen items) are adapted from Verbeeten (2006) study, CSR (twenty items) scale are taken from the study of Tyagi (2012) and stakeholder interest (ten items) instrument is adapted from the study of Elijido-Ten, Kloot, and Clarkson (2010).

The instrument is used for final data collection after the refinement of the instrument through confirmatory factor analysis (CFA). The results of CFA are not incorporated in this study. Once the questionnaire is finalized, the procedure of data collection starts. For this purpose, the survey method is adopted. According to Bloch, Ridgway, and Dawson (1994) survey method is best as it handles and deals in large data involved in a multiplicity of behaviors, and it deals with the relationship of a large variety of variables. There are 84 companies of the service sector (Telecommunication, Banking and Insurance) are listed with KSE. These companies are working in Rawalpindi, Islamabad, Lahore, Karachi, and some other cities, where the data are collected through the questionnaires and 61 properly filled questionnaires are incorporated for analysis. Telephone, reference, and company profiles are used for financial personnel identification. Relevant responses are ensured from the respondents and entered to SPSS sheet.

4. Data Analysis

Table 8: Descriptive Statistics of Uncertainty

Items	UI	SUI	N	SI	I	Mean	St. Dev.
UN1	04	05	07	32	13	3.7541	1.09019
UN2	06	03	07	26	19	3.8033	1.22229
UN3	02	05	06	29	19	3.9508	1.02349
UN4	05	05	03	29	19	3.8525	1.19493
UN5	02	04	05	30	20	4.0164	0.99149
UN6	01	03	06	30	21	4.0984	0.88891
UN7	02	02	05	32	20	4.0820	0.91824
UN8	04	05	05	23	24	3.9508	1.18920
UN10	02	04	08	23	24	4.0328	1.04829
UN12	03	05	09	23	21	3.8852	1.12692
UN13	04	05	07	27	18	3.8197	1.14758

(UI Unimportant; SUI= Somewhat Unimportant; N= Neutral; SI= Somewhat Important; I= Important)

The Table 8 represents the frequency distribution, mean and standard deviation of all the uncertainties present in all the departments of the company. UN9 and UN11 are dropped based on CFA results in the final survey because these items are not valid in Pakistani scenario. The most important perceived uncertainties according to the data are policy related and economic environment uncertainty. Most of the mean values are near to 4 showing that financial officers are more conscious about uncertainty and they consider it important or somewhat important. So, the above table concludes that strategic financial decision-makers consider the uncertainty as an important factor while making decisions in financial terms.

Table 9: Descriptive Statistics of CSR

Items	SD	D	N	A	SA	Mean	St. Dev.
CSR - Risk and Market Opportunities							
CSRR6	04	08	09	28	12	3.592	1.1457
CSRR7	08	08	05	29	11	3.446	1.2975
CSRR8	07	03	06	26	13	3.775	1.2708
CSR-Financial Growth	**SD**	**D**	**N**	**A**	**SA**	**Mean**	**St. Dev.**
CSRFG1	01	04	11	32	13	3.855	0.8917
CSRFG2	01	05	10	40	05	3.709	0.8030
CSRFG3	01	06	13	27	14	3.775	.09726
CSRFG4	-	03	17	36	05	3.709	0.6918
CSRFG5	07	05	11	28	10	3.474	1.2053
CSRFG6	05	06	07	31	12	3.623	1.1852
CSRFG8	07	02	02	26	10	3.709	1.1305
CSRFG9	08	08	09	28	08	3.367	1.2785
CSRFG10	07	09	10	25	10	3.367	1.2520

(SD=Strongly Disagree; D= Disagree; N= Neutral; A=Agree; SA=Strongly Agree)

Table 9 represents the frequency distribution, mean and standard deviation of the items of the variable corporate social responsibility. CSRR1 to CSRR5 and CSRFG7 are dropped in the final survey because these items are not valid in Pakistani scenario. The mean values of all the items demonstrate that most of the financial officers consider CSR important as a part of the business.

Table 10: Descriptive Statistics of Stakeholder Interest

Items	UI	SUI	N	SI	I	Mean	St. Dev.
SI1	06	05	06	38	06	3.541	1.10414
SI2	04	06	07	37	07	3.657	1.03094
SI4	03	02	08	33	15	3.906	0.97818
SI5	03	07	13	28	10	3.578	1.05608
SI6	03	06	05	36	11	3.751	1.02723
SI7	-	11	11	27	12	3.655	0.99809
SI8	04	07	08	32	10	3.606	1.09968
SI9	02	09	08	33	09	3.620	1.01921
SI10	03	05	02	28	23	4.038	1.09495

(UI= Unimportant; SUI= Somewhat Unimportant; N= Neutral; SI= Somewhat Important; I= Important)

The Table 10 represents the frequency distribution, mean and standard deviation of the items of the variable stakeholder interest. SI3 is dropped in the final survey because these items are not valid in Pakistani scenario. The mean values of all the items reveal that stakeholder interest is considered important by the CFOs to run the business successfully.

Table 11: Descriptive Statistics of Financial Performance

Items	UI	SUI	N	SI	I	Mean	St. Dev.
FP1	05	05	06	23	22	3.8525	1.23607
FP2	04	06	05	27	19	3.8361	1.17161
FP3	05	04	02	32	18	3.8852	1.15612
FP4	-	03	06	39	13	4.0164	0.71861

(UI= Unimportant; SUI= Somewhat Unimportant; N= Neutral; SI= Somewhat Important; I= Important)

The Table 11 represents the frequency distribution, the mean and standard deviation with respect to the variable financial performance. FP5 to FP9 are dropped in the final survey because these items are not valid in Pakistani scenario. The growth rate of sales and revenues is the most important factor in financial performance. The mean values of all the items conclude that financial performance is one of the important factors considered by the CFOs of the companies in determining the success of the businesses.

Table 12: Descriptive Statistics of Capital Budgeting

Items	SD	D	N	A	SA	Mean	St. Dev.
Criteria for Investment Selection Techniques							
CBIS1	05	05	06	27	18	3.789	1.1982
CBIS3	02	03	05	30	21	4.183	0.8668
CBIS4	06	04	03	36	13	3.831	1.2807
The contribution of Investment Projects to Aspects of Performance	**UI**	**SUI**	**N**	**SI**	**I**	**Mean**	**St. Dev.**
CBCI1	03	05	04	35	14	3.836	1.0198
CBCI2	02	05	06	30	18	3.934	1.0148
CBCI3	03	02	03	30	23	4.148	1.0014
CBCI4	02	05	06	25	23	4.147	1.0460
CBCI5	03	02	01	30	25	4.183	0.9917

Constraints on capital investment	UI	SUI	N	SI	I	Mean	St. Dev.
CBCC1	04	04	03	24	26	4.098	1.1355
CBCC2	03	05	01	25	27	4.169	1.0829
CBCC3	06	04	03	19	29	4.000	1.3034

(UN= Unimportant; SUI= Somewhat Unimportant; N= Neutral; SI= Somewhat Important; I= Important), (SD= Strongly Disagree; D= Disagree; N= Neutral; A=Agree; SA=Strongly Agree)

The Table 12 represents the frequency distribution with respect to the variable capital budgeting. CBIS2 is dropped in the final survey because these items are not valid in Pakistani scenario. Long-term growth in shareholder wealth is the most important factor towards the contribution of investment projects to aspects of performance while 29 respondents thought that the attitude of senior management is most crucial towards constraints on capital investment. The mean values for capital budgeting techniques show that CFOs considered it as an important factor whereas some are neutral on it.

Table 13: Descriptive Statistics of Capital Structure

Items	SD	D	N	A	SA	Mean	St. Dev.
CS1	04	03	05	29	20	4.000	1.03280
CS2	03	02	04	30	22	4.080	1.00491
CS3	04	06	07	32	12	3.685	1.10365
Use of alternative sources of financing	**UI**	**SUI**	**N**	**SI**	**I**	**Mean**	**St. Dev.**
CSASF1	01	03	08	27	22	4.082	0.91824
CSASF2	03	04	07	35	12	3.803	0.99699
CSASF3	-	06	06	29	20	4.032	0.91227
CSASF4	01	02	08	30	20	4.082	0.86207
CSASF5	05	05	04	26	21	3.967	1.13970

(UI= Unimportant; SUI= Somewhat Unimportant; N= Neutral; SI= Somewhat Important; I= Important), (SD= Strongly Disagree; D= Disagree; N= Neutral; A=Agree; SA=Strongly Agree)

Table 13 represents the frequency distribution, the mean and standard deviation with respect to the variable capital structure. CS4 is dropped in the final survey because these items are not valid in Pakistani scenario. CFOs state short-term bank borrowings as most

favored alternative sources of financing. The mean values of capital structure items illustrate that most of the CFOs consider the capital structure important to run business operations.

Table 14: Descriptive Statistics of Dividend Policy

Items	SD	D	N	A	SA	Mean	St. Dev.
Target pay-out ratio							
DPTP1	03	04	04	31	19	3.967	1.0489
DPTP2	04	06	05	16	30	4.008	1.2723
Major determinants of corporate dividend policy (Internal)	**UI**	**SUI**	**N**	**SI**	**I**	**Mean**	**St. Dev.**
DPI1	02	09	02	31	17	3.852	1.0929
DPI2	05	04	03	34	15	3.819	1.1329
DPI3	02	04	05	30	20	4.016	0.9914
DPI4	04	03	07	23	24	4.000	1.1401
Major determinants of corporate dividend policy (External)	**UI**	**SUI**	**N**	**SI**	**I**	**Mean**	**St. Dev.**
DPE1	03	01	08	31	18	3.983	0.9745
DPE2	01	02	06	28	24	4.183	0.8668
DPE3	03	05	05	22	26	4.032	1.1397
DPE4	03	09	04	25	20	3.967	1.0792
Dividend policy as a means of information signaling	**UI**	**SUI**	**N**	**SI**	**I**	**Mean**	**St. Dev.**
DPIS1	02	05	03	33	18	3.986	0.9919
DPIS2	03	06	05	32	15	3.819	1.0721
DPIS3	04	05	07	35	10	3.688	1.0573

(UI= Unimportant; SUI= Somewhat Unimportant; N= Neutral; SI= Somewhat Important; I= Important), (SD= Strongly Disagree; D= Disagree; N= Neutral; A=Agree; SA=Strongly Agree)

The Table 14 represents the frequency distribution, the mean and standard deviation with respect to the dividend policy. DPIS4 is dropped in the final survey because these items are not valid in Pakistani scenario. Most of the CFOs thought that 'availability of cash' is a major determinant of corporate dividend policy (Internal), according to 26 it is 'access to capital markets' which is a major determinant of corporate dividend policy (External), while 18 thought 'management' uses dividend policy to signal information on

future earnings performance. The mean values for the dividend policy variable show that most of the CFOs consider dividend policy as an important element in the success of the business as seen by the mean values.

The results of our study are aligned with literature which highlights that uncertainties can be specific that affect the adoption of financial decisions rather being general (Dixit & Pindyck, 1994). According to game theory, optimal investment criterion can be altered by specific uncertainties (Smit, 2003). Therefore, specific uncertainties need to be analyzed properly before making financial decisions. CSR plays an important role in firm performance since its inception, which is intended to increase competitive advantages and reduce the chance of having stakeholders claim for their compensation. However, a positive association between CSR and firms' performance is expected. Firms which are engaged in CSR activities are a less risky investment in the future as compared to firms that are not involved in CSR activities at all. CSR activities are considered as similar to risk management at long-term basis (Brine, Brown, & Hackett, 2007). Literature shows that a positive association exists between financial performance and CSR (Tsoutsoura, 2004; Shiu & Yand, 2012).

Stakeholder's interest plays a vital role in corporate decision making related to capital structure (Titman & Wessels, 1988; Kale & Shahrur, 2007; Banerjee, Dasgupta, & Kim, 2008). Social corporate responsibility hypothesis showed that when a firm fulfills the needs of its all stakeholders it expects favorable firm's output in financial terms in the coming future (Freeman, 1984). Capital budgeting is an important tool for managers to choose the most optimally profitable option for the investment. Financial managers decide to invest in the project if they are satisfied with the adjustment of costs and risk associated with future cash flows. Empirical evidence supports the notion that capital budgeting techniques are relate to better financial decisions (Kim, 1981; Pike, 1986). It is stated that dividend policy leads to a firm's performance (Sharma, 2001; Nishat & Irfan, 2004).

5. Conclusion

The purpose of this study is to summarize the concepts of financial decisions which affect the financial performance and the determinants of the financial decisions. It is stated based on the analysis that finance managers are well aware of the importance of financial decisions and their determinants. Uncertainty, CSR and stakeholder interest are considered important determinants while making financial decisions. If financial decisions are rationally applied, then organizational financial performance will be more which ultimately enhances the value of the industry and industry contributes more in tax which strengthens the overall economy. The present endeavor opens new horizons for the research on this particular subject. The present study can be expanded over various sectors to have knowledge regarding the critical nature of the issue. Industry-wise analysis of this issue can be a good future study. The study could be done among behavioral factors and financial management practices. The future study may include both primary and secondary data for capturing the in-depth of the perception of financial decision makers. The policymakers may also take benefit from this study. Financial managers may improve the quality of their decisions by paying more attention to identified factors. Finance managers may emphasize CSR activities which may retain the trust of investors and society as a whole and thus may benefit in terms of higher financial performance.

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