CHAPTER 6
CONCLUSION

6.1. CONCLUSION

Based on the results analysis of each hypotheses testing, overall, our conclusions are as follow: For hypothesis 1, liquidity shows the positive but insignificant regression coefficient on long term leverage and total leverage. This shows that the firms which hold more assets in the form of cash or cash equivalent are more likely to use long term debt and total debt as a part of their capital structure than the firms which are having less cash and cash equivalent in their hand. Finally, liquidity shows the negative and significant regression coefficient with the short term leverage. This suggests that the firms holding large amount of cash or cash equivalent are less likely to use short term leverage for financing their investments as compare with the firms having more cash or cash equivalent in their hands. Thus our results prove null hypothesis (H_{0a}) to be true.

Profitability has a positive but insignificant regression coefficient on long-term leverage and total leverage. This suggests that highly profitability firms are more likely to use long-term leverage and total leverage, for financing their investments than the low profitability firms. Finally, profitability has a positive and significant regression coefficient on short term leverage. This suggests that highly profitability firms are more likely to use short term leverage for financing their investments than the low profitability firms. Thus our results prove null hypothesis (H_{0b}) to be true.
Tax has a negative significant regression coefficient on long-term leverage, whereas it also shows the negative but insignificant regression coefficient with total leverage and short term leverage. This suggests that highly taxpaying firms are less likely to use long-term leverage, total leverage and short term leverage for financing their investments than the low tax paying firms. Thus our results prove null hypothesis \((H_{0c})\) to be true.

Size has a negative but not significant regression coefficient on short-term leverage, long term leverage and total leverage. This suggests that high size firms are less likely to use long term leverage, total leverage and short term leverage for financing their investments or in other words as a part of their capital structure than low size firms. Thus our results prove null hypothesis \((H_{0d})\) to be true.

For hypothesis 2, from the above mentioned tables, it can be concluded that the financing deficit has positive but not significant effects on net debt issue and on newly retained earnings. This result suggests that high deficit firms would tend to issue more net debt and use more of newly issued retained earnings to finance the financing deficit. The financing deficit has negative but not significant effects on net equity issue. This result suggests that high deficit firms would not tend to issue net equity issue to finance the financing deficit. From the above results it can also be concluded that the net equity issues are repurchased with the help of net debt issue and newly retained earnings.

From the descriptive table, we see that the amount of net debt issue is more than newly retained earnings and it is consistent with regression results. For the augmented model, our result shows a positive coefficient on the financial deficit and negative on the squared deficit term. However, for the squared deficit term, the coefficient was not significant. It implies that firms which are utilizing the
external sources to finance their financial deficit will use debt only and they have to forget to issue equity. A squared deficit coefficient that is not large in absolute value implies a less reliance on newly retained earnings for values of the financing deficit.

Therefore, we can conclude that our sample of firm prefers both external and internal financing and debt to equity if external financing is used. However, firms are limited by their debt capacity constraints and they have to resort to retained earnings if required. Thus our results prove the hypothesis (H22) to be true.

6.2. TO WHAT EXTENT IS THE STUDY SCIENTIFICALLY RELEVANCE

The pecking order theory of capital structure is one of the most influential theories of corporate leverage. Firms seeking outside finance naturally face an adverse selection, and hence mispricing, problem. In order to avoid mispricing, firms finance investments internally if they can, and if they cannot, they prefer debt to equity since debt is less sensitive to outside investors not knowing the value of firms investment projects (Myers and Majluf, 1984). Shyam-Sunder and Myers (1999) show that the pecking order is a good first order description for the time series of debt finance for large mature firms. But these firms should face little asymmetric information in capital markets.

Frank and Goyal (2003) argue that the support for the standard pecking order in Shyam-Sunder and Myers depends critically on their sample selection. Frank and Goyal argue that the sample selection of Shyam-Sunder and Myers picks large mature firms and that the standard pecking order is not a good description of the capital structure decisions for small, young firms in their larger sample. The
results of Frank and Goyal (2003) study, conclude that the pecking order theory did not explain broad patterns in the data, and they argue that the sample selection of Shyam-Sunder and Myers picks large mature firms and that the standard pecking order is not a good description of the capital structure decisions for small, young firms in their larger sample. The Halov and Heider (2003) argument is that there is no reason to expect the standard pecking order to work well for all firms.

However, our result summarized that the pecking order was a good descriptor of corporate financing behaviour for sample of corporations. Our result shows that firms prefer external as well as internal financing. Result also seems to suggest that firms rely more heavily on debt financing rather than on equity financing and it follow pecking order theory.

On the subject of the determinants of capital structure of multinational firms in the fast moving consumer goods sector in the Indian capital market, the effect of liquidity on leverage, our results showed that liquidity was positively related with long-term leverage and total leverage. It was consistent with the pecking order theory. Our results were in line with what agency costs/trade-off theory that the liquidity was negatively related with short term leverage. For the effect of profitability on leverage, comparing the results with the theory, all of our results are positive and they are in line with the trade off theory but contradicting with the pecking order theory. For the influence of tax on leverage, our results showed that tax was negatively related with all types of leverage and it was in line with trade-off theory.

For the influence of size on leverage, our results showed a negative relation between size and short-term leverage, long term leverage and total leverage were
consistent with the pecking order theory. According to the pecking order theory, there will be a negative relationship between leverage and firm size. From our analysis above, most of our result is consistent with the theories prediction. Therefore, our study is scientifically still relevant.

6.3. RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

Based on the findings and limitations of the research, the following recommendations can be made for further research:

1. It is recommended that the sample period should be increased i.e instead of 10 years it should be 20 years and more firms should be added to the existing sampled firms because we have got low R-squared and adjusted R-squared, and by doing so we can reach higher R-squared and adjusted R-squared.

2. In result of hypotheses testing 2, scatter plot and normal p-p plot indicate that dots are rarely distributed as data we used are limited. Hence, longer sampling period and larger amount of sample firms are recommended to use in further research.

3. In further research, the other sectors or some foreign countries are recommended to use as sample, so that we can compare our result with another result.

4. As the purpose of our research will not be to produce a theory that is generalisable to all populations, but will be simply to try to explain what is
happening with our research setting, the Indian capital market, therefore, it may be suggested to other researchers to test the other research settings in a follow-up study.

6.4. MANAGERIAL IMPLICATION

The issue of capital structure is an important strategic financing decision that firms have to make. Therefore, the results of this study provide some useful information about the capital structures of multinational firms in the fast moving consumer goods sector in India. As a conclusion, it can be stated that the findings show evidence that the pecking order theory and trade-off theory appear to dominate the firms’ capital structure in India.

From the results, we can recognize exactly to what extent the multinational firms operating in the fast moving consumer goods sector in India choose or mix capital structure, based on the following results:
- Determinants or multinational firm’s characteristics in the fast moving consumer goods sector in India.
- How multinational firms in the manufacturing sector in India finance their deficit.

So that the firms can make the financial policy to what extent they choose or mix capital structure based on the following consideration:
- Determinant or firms characteristics
- Hierarchy preference and cost and benefit which need to trade-off