Review of Literature from Previous Studies
CHAPTER II

REVIEW FROM PREVIOUS STUDIES

INTRODUCTION

An appropriate capital structure is a critical decision for any business organization. The decision is important not only because of the need to maximize its returns, but also because of the impact such a decision has on an organization's ability to deal with its competitive environment. To take up a right decision, the following reviews were analyzed.

1. **Ronald.F. Wippern** (1966) examined to determine the relationship between risk, leverage, capital cost and variables like growth rate, dividend payout and size, for industrial firms, multiple regression analysis was adopted, 50 firms representing various industries were selected. The years 1956, 58, 61 and 63 were selected for cross sectional reference. There found a linear relationship between leverage and equity yields. The study also revealed that the shareholders gained from the firm's judicious use of debt. The capital markets were not perfect to validate MM arbitrage arguments. Tax effect helped firms to gain by employing debt financing.

2. **Bray** (1967) showed that risky firms were more likely to have lower debt ratio. He observed that there was no simple linear relationship between size and debt ratio. Further he found a negative association between total debt and proportion of fixed assets. Apart from the factors mentioned above, he also concluded negative relationship between return on input and debt ratio, positive association between growth & debt ratios, finally debt ratio being positively related to assets turnover and negatively related to payout.

3. **Baxter & craggy** (1970) analyzed 230 security issues made in 1950 – 65 using logic and profit analysis and the explanatory variables selected were selected partly on prior grounds and partly on trial and error basis. Their final model for example, contained 11 independent variables, but at least 79 others were examined. They found that two variables were important. First companies
raising large sums in relative terms favored debt. Possibly this reflected concern over control. Secondly companies with high ratios of market capitalization to total assets favored equity. This could reflect timing consideration.

4. **Toy et al** (1974) reported that higher operating risk companies showed some tendency towards higher debt ratio. They found that debt ratio was positively relatively to the growth, typically measured as sales growth and return on investment to be negatively correlated with debt. They also concluded that the corporation size, and industry – class did not appear to be the determinants of debt ratio.

5. **Scott and Martin** (1975) have concluded that the industry class was a determinant of financial structure. They also reported that the corporate size was the determinant of firms’ financial leverage ratio.

6. **Schmit** (1976) observed significant industry effects on debt ratio. Secondly he found the return on investment to be negatively associated with debt ratio. Thirdly he looked at the composition of debt and found that large companies had more long term debt and vice versa. Finally schmidt found a negative correlation between total debt and the proportion of fixed assets.

7. **Carleton and silberman** (1977) have concluded that higher the variability in rate of return on invested capital, the lower will be the degree of financial leverage adopted using regression with OLS. Hence, it is the variance not the rate of return, which is the ultimate determinant of leverage. They also found the return on investment to be negatively correlated with debt ratio.

8. **Paul Marsh** (1982) has focused on how UK companies select between financing instruments at a given point in time. They demonstrated that companies were heavily influenced by market conditions. He provided evidence that companies make their choice of financing instrument as if they have target levels of debt in mind. Finally the results were consistent with the target debt levels of company size, bankruptcy risk & asset position.
9. Trevor chamberlain (1986) examined capital structure of a firm whose objective was to maximize the profitability of long run survival beginning with the debt equity ratio suggested by a growth optimal policy, additions factors such as interest coverage ratio were closely associated with the values. The results obtained using historical cost data differ in some details from those utilizing replacement cost measures. However major conclusions are concerned with the contributions of the individual variables and overall effectiveness of the survival model hold regardless of which accounting paradigm was adopted.

10. D.E. Allen & H. Miznno (1989) featured that a cross sectional regression analysis of the determinants of the company debt to value ratio of a sample of 125 Japanese Industrial and commercial companies for the period 1980-83 inclusive. The regression equations include a set of dummy variables designed to capture industry effects, and a number of other variables acting as processes for likely determinants of debt ratios suggested in the empirical literature such as profitability, non-debt tax shields, risk etc., the results are consistent with existence of industry effects, and suggest that paralleling recent American findings, profitability.

11. Raj aggarwal (1990) investigated that variations with regard to the country, industry and size of a company are examined for the first time for a sample as large as 474 companies located in 22 Asian countries. The results of the study indicate that while size does not seem to be a significant influence, both country and industry are significant factors influencing capital structure. Multinational and diversified countries therefore must take these differences into account in developing and setting capital structure, financing subsidiary evaluation and management policies for their operations. Bankers, other creditors and investors also must recognize national differences in debt ratios in order to access credit and investment risks accurately.

12. Mathew (1991) has analyzed the relationship between ownership structure and financial structure to know whether the former has any impact on the latter. The author concluded that where the management’s stake was high the leverage would
be low and vice-versa and also found a significant relationship between ownership structure and financial structure of firms.

13. **James A. Millar and Ted Nunthirapakorn** (1991) tested for incremental information content of basic and fully diluted earnings per share and numbers for a sample of firms. He concluded that the higher the degree of association between the changes in the earnings ratio and stock returns, the greater was the usefulness of the ratio. It was tested with the help of multiple regression & correlation to examine stock return.

14. **R.K.Singla and R.k.Mittal** (1993) have presented views of different authors about the determinants of capital structure. It has been found that assets composition, business risk, growth rate, earning rate, industry - class, debt - service capacity & corporate size were the most important determinants of capital structure.

15. **Rajan and Zingales** (1995) suggested that the level of gearing in UK companies were positively related to size and tangibility and negatively correlated with profitability and level of growth opportunities. However, as argued by Harris & Raviv (1991) the interpretation of results must be tempered by an awareness of the difficulties involved in measuring both leverage and the explanatory variables of interest. In this study the focus was on the difficulties of measuring gearing, and the sensitivity of Rajan and Zingales results to variations in gearing measures are tested. Based on the analysis of capital structure by Rajan and Zingales results were found to be highly definitional - dependent. The determinants of gearing appear to vary significantly, depending upon which component of debt was being analyzed. Significant differences were found in the determinants of long and short term forms of debt. Given that trade credit and equivalent, on average, accounts for more than 62% of total debt, the results are particularly sensitive to whether such debt is included in the gearing measure. It is argued therefore that analysis of capital structure is incomplete without a detailed examination of all firms of corporate debt.
16. **Henri Servaes** (1995) investigated the relation between corporate value leverage and equity ownership. It explored empirically the cross-sectional relation between Tobin's Q, debt, and equity ownership for high growth and low growth firms. The analysis was conducted with large samples of US firms for the years 76, 86 & 88. It was assumed that the negative effect of debt would dominate the positive effect for firms with positive net present value projects (i.e., high growth firms) and that the positive effect will dominate the negative effect for firms with few positive net present value projects (i.e., low growth firms). It was found that for high growth firms the relation between corporate value and leverage is negative and that for low growth firms the relation between corporate value and leverage is positive.

17. **Jeffrey Zwiebel** (1996) developed a model in which managers voluntarily choose debt to credibly constrain their own future empire—building. Dynamically consistent capital structure is derived as the optimal response in each period of partially entrenched managers trading off empire—building ambitions with the need to ensure sufficient efficiency to prevent control challenges. A policy of capital structure coordinated with dividends follows naturally, as do implications for the level, frequency and maturity structure of debt as a function of outside investment opportunities. Managerial career was given much importance.

18. **Nikolaos P. Eriotis, Zeo Frangouli, Zeo Ventoura — Neokosmides** (1997) constituted an attempt to investigate the relationship between debt to equity ratio and firm's profitability, taking into consideration the level of firm's investment and the degree of market power. The study used panel data for various industries and concluded that firms which prefer to finance their investment activities through self—finance are more profitable than firms which finance investment through borrowed capital. Then, firms prefer competing with each other than cooperating and firms use their investment in fixed assets as a strategic variable to affect profitability.

19. **Asgharian** (1997) has applied a cross-sectional analysis to a sample of 176 firms. The result showed that growth, size, collateral value of assets & managers'
shareholding positively affect firm leverage, while profitability affects leverage negatively.

20. **Kalpataru Bandopadhy** (1997) has focused on how to design optimum capital structure. He concluded that the capital structure of Reliance Industries limited is conservative the policy of the Reliance Industries limited to have low Debt and Equity ratio. He revealed that Debt and Equity ratio of Reliance industries Ltd. is inconsistent with its target growth rate.

21. **Suresh Babu & Jain** (1998) have revealed that growth rate, financial risk, corporate control and stability of sales & profit were the financial factors affecting capital structure of the private corporate sector firms in India and also non-financial factors prevailing capital market situations. SEBI regulations, Chief executives Values, and Philosophy also influenced capital structure of the private corporate sector firms in India.

22. **John K. Waid** (1999) in his empirical study examined the factors correlated with capital structure in international companies. Although mean leverage and many firm factors appear to be similar across countries, some significant differences remain. Specifically, differences appear in the correlation between long term debt / Asset ratios and the firms risk, profitability size and growth. These correlations may be due to tax policies and agency problems including differences in bankruptcy costs, information asymmetries and shareholder / Creditors conflicts. The findings of this study suggested links between varying choices in capital structure across countries and legal and institutional differences.

23. **Ramkumar kakani** (1999) studied the pre and post liberalization determinants of capitalist of Indian companies. A sample of 100 firms were chosen for the study between (85 – 89) and (92 – 95) from BSE. A correlation matrix was drawn for factors like collateral value of assets, capital intensity, Non-debt tax shields, growth rate, uniqueness, size, earning volatility net exports and regulations. Linear multiple regression of ranks was done. It was reported that liberalization of the Indian Economy appears to have affected the determinants of capital
structure profitability, capital intensity and non-debt tax shields were found to be important determinants of capital structure.

24. **Saugata Banerjee** (1999) analyzed the determinants of optimal leverage by studying the association between observed leverage and a set of explanatory variables, which had two major shortcomings such that the observed leverage need not necessarily be the optimal leverage and the empirical analysis, being effectively non-dynamic are unable to shed any light on the nature of dynamic capital structure adjustment by firms. They used dynamic adjustment model to establish the determinants of a time-varying optimal capital structure and also attempted to identify factors determining the speed of adjustment. They concluded that firms typically have capital structure that are not at the target and that they adjust very slowly towards the target.

25. **Daljit Kavur and Dinakshi Malhotra** (2000) tested the hypothesis of debt being cheaper than equity and analyzed the trends in financing mix in case of TATA iron & steel Co. Ltd over a period of 19 years from 1980 – 98. Ratio analysis and trend analysis were sued. It was found that the Indian Corporate sector enjoyed equity as a cheap source of finance. Equity was cheaper than debt so use of debt in such a scenario would be disadvantageous. In sum, 77500, has been enjoying cheap equity and has been very conservative in formulating its capital structure. Debt and Equity has been much lower than the norm of 2:1.

26. **Gleason et.al.** (2000) have proposed that the capital structure decision may be influenced by culture. They have found that some of cultural characteristics such as power, distance, masculinity, individualism and uncertainty avoidance influenced the amount of debt in a firm’s capital structure.

27. **Graham Hall, Patrick Hutchinson and Nicos Michalas** (2000) examined that a study of 3500 unquoted, UK small and medium size enterprises. The objectives were to test various hypotheses concerning the determinants of SME Capital structure and to establish whether and how the relationship of these determinants to long and short term debt varied between industries. Long term debt was found to be related positively to asset structure and company size and negatively to age,
short term debt was related negatively to profitability, asset structure, size and age and positively to growth significant variation across industries was found in most of the explanatory variable. The effect of growth on short term debt however was consistent across industries while profitability had no effect on long term borrowing in any industry.

28. Philip R. Lane, Gian maia Milesi – Ferretti (2000) witnessed a change in the composition of Capital flows to developing countries and FDI and equity flows have been playing an increasing role. They examined the challenges for international macro economics that these developments pose and characterize stylized facts associated with the structure of liabilities in developing countries, focusing in particular on FDI and equity stocks understanding the endogenous determination of the capital structure for predicting the effects of policy interventions in this area.

29. Samuvel G.H. Hnang and Frank M.Song (2000) suggested that leverage increases with firm size, non debt tax shields and fixed assets and decreases with profitability and correlates with industries. Leverage in firms increases with volatility and firms tend to have much lower long term debt. The static trade – off model rather than pecking order hypothesis seems better for featuring capital structure of industries.

30. Dan S. (dhariwal) and John R. Graham (2000) examined that firms respond to debt– related tax incentives, the response does not seem particularly strong, especially among mature profitable companies. Myers (84) Shevlin (1999) both argue that non tax adjustment costs might be large enough to discourage the use of debt. Scholer and Wolfson (1989) conjective that adjustment cost increase as a firm evolves from start up to mature firm, there by exerting an ever – increasing disincentive to sue debt. Keeping all these in their mind concluded that by determining how aggressively firms move toward their ‘Target debt ratio’ each year they found that movement toward the target debt ratio decreases overtime, which they attribute to increasing adjustment costs.
31. Sanjiva Prasad et al. (2001) have analyzed the financial structure of Malay and Thai non-financial companies using accounts data set consisted of the published accounts of 174 listed Thai Companies over an average period 5 1/2 years and 165 listed Malay companies over an average of just under 8 years. The main findings of the study were four-fold. First, the evidence generally supported the pecking order hypothesis. Secondly, they have suggested that this 'brake' of equity valuation preventing over gearing by unprofitable firms may not be working for both Malaysia and Thailand. Thirdly, they have found that information as of metrics still persist. Fourthly, risk was found to have a linear influence on leverage.

32. Armen Hovakimian, Tim opler & Sheridan Titman (2001) found that when firms adjust their capital structures, they tend to move toward a target debt ratio that is consistent with theories based on trade-off between the cost and benefits of debt. In contrast to previous empirical work, on test explicitly account for the fact that firms may face impediments to movements toward their target ratio and that the target ratio may change over time as the firm's profitability and stock price change. A separate analysis of the size of the issue and repurchase transactions suggested that the deviation between the actual and target ratio plays a more important role in the repurchase decision than in the issuance decision.

33. Laurence Booth, Varouj Aivazian Asli, Dermirguc-kunt and Vojislav maksimovic (2001) analyzed whether capital structure theory is portable across countries with different institutional structures. They, further analyzed capital structure choices of firms in 10 developing countries, and provide evidence that these decisions are affected by the same variables as in developed countries. They suggested that although some of the insights from modern finance theory are portable across countries, much remains to be done to understand the impact of different institutional features on capital structure choice.

34. Emilio Colombo (2001) investigated the capital structure of Hungarian firms using cross section and a panel data approach. Balance sheet data and market structure for 100 firms are composed as data set. Evidence are of imperfection that constrain firms in the achievement on their optimal capital structure, but also
same positive indications shown as, there are no distortions typical of the planned system and no signs of the presence of soft budget constraints.

35. **Aydin ozkan's (2001)** objectives was to provide more insight into the empirical determinants of target capital structure of firms and the adjustment process toward this target. A panel date set for 390 UK companies was constructed and dynamic model on the issue of long term target debt ratio of firms and adjustment process to this target the results provide evidence that profitability, liquidity and growth opportunities exert a negative effect on the capital structure choice of firms. There was only a limited support for a positive effect arising from the size of the firm.

36. **I.M.Pandy (2002)** provides new insights on the way in which the capital and market power and capital structure and profitability are related. It was shown that capital structure and market power, as measured by Tobin’s Q, have a cubic relationship. That is, at lower and higher ranges of Tobin’s Q, firms employ higher debt, and reduce their debt at intermediate range. This is due to the complex interaction of the market conditions, agency problems and bankruptcy costs. It also showed saucer-shaped relation between capital structure and profitability because of the interplay of agency costs, costs of external financing and debt tax shield.

37. **Alan A. bevan and Jo Danbolt (2002)** Prior research on C/S by Rajan and Zingales (1995) suggested that the level of gearing in UK companies is Positively related to Z size and tangibility and negatively correlated with profitability and level of growth opportunities. However, as argued by Harris & Raviv (1991) the interpretation of results must be tempered by an awareness of the difficulties involved in measuring both leverage and the explanatory variables of interest. In this study he focus is on the difficulties of measuring gearing, and the scrutiny of Rajan and Zingales results to variations in gearing measures are tested. Based on the analysis of capital structure, Rajan and Zingales results are found to be highly definitional – dependent. The determinants of gearing to vary significantly,
depending upon which component of debt is being analysed. Significant
differences are found in the determinants of long and short term forms of debt.
Given that trade credit and equivalent, on average, accounts for more than 62% of
total debt, the gearing measure if is argued, therefore that analysis of C/S is
incomplete without a detailed examination of all forms of corporate debt.

38. **Saumitra N. Bhaduri** (2002) undertook a case study on Indian Corporate sector
and capital structure is influenced by factors such as growth, cash flow and
product and Industry characters. She applied simple factor analytic model to
explain the observed variation and concluded that the existence of well
functioning liquid financial markets in which investors can diversify risks and the
existence of an efficient legal system in which a broad range of property rights
can be enforced and violated later. Therefore contrary to the general intuition,
many of the mainstream capital structure theories do confirm, to the realities of
developing countries, despite their differences in institutional characteristics.

expenditures and stock price histories affect corporate debt ratios. Consistent with
earlier work, they found that these variables have a substantial influence on
capital structure choices. However, in contrast to previous conclusions, the
influence of these variables tends to change over time. Specifically, it was found
that market timing behavior (i.e., issuing equity when stock prices are relatively
high) has only a weak effect on observed debt ratios but that stock price changes
and firms financial deflcts have relatively strong effects on capital structures that
persist for quite some time. However, the evidence suggests that these effects
partially reverse, and that over long periods of time firms make financing choices
that move them towards their target debt ratios.

40. **Sean cleary** (2003) found that emerging market firm’s exhibit dividend behaviour
are explained by profitability, debt and market to book ratio. High ROE tends to
mean high dividend payments supporting residual cash flow theory of dividend,
similarly higher debt ratios correspond to lower dividend payments, suggesting
that financial constraints affect dividend policy. To conclude, dividends are
negatively related to the tangibility of firm assets. The largest puzzle resulting from the study is that emerging market firms pay higher dividends even after controlling for firm specific characteristics and even though they operate under more severe financial constraints.

41. Gavin cassor, Scott Holmes (2003) investigated the determinants of capital structure and use of financing for small and medium sized enterprises. Hypotheses are empirically examined using size, asset structure, profitability, growth and risk and resulted in the asset structure, which directs the influence is reliant upon the capital structure and financing measure employed. It supports static trade off and pecking order argument proposed by the critical models.

42. Mark jegers (2003) suggested that sustainable growth rate (SGR) for non profit organizations (NPO) is derived in terms of sales growth expressed as activity growth. As dividend policy is, not relevant for NPO, the SGR is determined jointly by profitability, capital structure and efficiency of the organization.

43. Connie X.Mao. (2003) analyzed that accounts for both risk – shifting and under investment debt agency problems. For firms with positive marginal volatility of investment, equity holders’ risk – shifting incentive would mitigate under investment problem. Contrary to conventional views, the total agency cost of debt does not uniformly increase with leverage. For high growth firms in which the under investment problem is severe, the optimal debt ratio is positively related to the marginal volatility of investment was supported by empirical results.

44. Richard A. Lord and W. Ken Farr (2003) showed that firms can design their capital structure to provide a publicly observable indication of compliance with a collusive agreement. They developed two empirically testable hypotheses based on this argument and test these proportions on data for seven integrated mill steel firm. The tests confirmed the hypotheses that leverage is positively related to both price elasticity of demand and the level of convertibles outstanding during the years after the collapse of the basic point pricing system.

45. Andress Almazan & Carlos.A. Molina (2003) examined the dispersion in leverage ratios among firms within industry and related this dispersion to industry
characteristics. They found that more concentrated industries and industries where the use of leasing is more intense exhibit greater intra-industry dispersion. They also documented greater dispersion in industries where firms use less incentive compensation, sit more insiders in their boards, are older and have larger capital expenditure in relation to their assets.

A.Panno (2003) investigated the empirical determinants of capital structure choice by analyzing security issues made by companies in the UK and Italy between 92 & 93, Examined how companies actually select between financing instruments at a given point in time and in different financial contracts. A descriptive model of choice is developed and then estimated using logit and probit estimation procedures and using data of two samples, which are assumed to be representative of a particular financial environment the results provide evidence of interesting differences between the two financial markets, generally supporting the idea of UK market being more recent developments of capital structure theory on the whole, the results provide support for positive effects of size and profitability and negative impact of liquidity conditions and bank ruptcy risk on the financial leverage of companies. This together with the negative effect displayed by the available resents which are taken as a proxy of internally generated funds, lends support to the placing order theory of capital structure. It is also suggested that firms in well developed financial systems(UK)may have long target leverage ratio, while in less efficient markets (It always an optimal debt level does not seem to be a major concern. Finally for both markets, the results are consistent with the motion that the tax advantage of debt financing plays a relevant role in C/S decisions.

Mihir A. Desai, C. Fritz Foley James R. Hines Jr. (2004) analyzed the capital structures of foreign affiliates and internal capital markets of multinational corporations. 10% higher local tax rates are associated with 2.8%higher debt/asset ratios, with internal borrowing being particularly sensitive to taxes. Multinational affiliates are financed with less external debt in countries with underdeveloped capital markets or weak creditor rights, reflecting significantly higher local borrowing costs. Instrumental variable analysis indicated greater borrowing from
parent companies substitutes for ¼ of reduced external borrowing induced by capital market conditions. Multinational firms appear to employ internal capital markets opportunistically to overcome imperfections in external capital markets.

48. Lisa A. Keister (2004) established the firms must dramatically reduce their financial dependence on the state and begin to borrow from non state capital sources. Institutional and resource dependence theories are used to examine this fundamental transformation of firm capital structure in China. He proposed that managers borrow from external sources even when internal funds were available because retained earnings were considered state assets. Firms used retained earnings to signal financial health but borrowed externally to reduce dependence on the state. Uncertainty during transformation produced inter firm imitation of borrowing strategies, particularly imitation of local and high status others and concluded that the dynamics of market development shaped firm borrowing strategies.

49. A. Bevan and Jo Danbolt (2004) tested the extent to which the influence of these determinants are affected by time – variant firm – specific heterogeneity. He suggested that the results of traditional studies may be biased owing to a failure to control for firm – specific time invariant heterogeneity. The results of the fixed effects panel estimation find large companies to have higher levels of both long term and short term debt than do smaller firms, profitability to be negatively correlated with the level of gearing, although profitable firms tend to have more short – term bank borrowing than less profitable firms and tangibility to positively influence the level of short term borrowings as well as long term debt elements. However the level of growth opportunities appears to have little influence on the level of gearing, other than short term borrowing, where a significant negative relationship is observed.

50. George Kanatas & Financing Qi (2004) investigated that if the management is more concerned with the firm's survival than profitability, it is efficient to use a levered capital structure and thereby transfer the liquidation decision to lenders. They furnished this, with an idea to a setting where lenders behave...
opportunistically when they control the liquidation decision. An optimal mix of debt and dividends can mitigate the twin moral hazard problems of the manager and the lender. Given as otherwise optimal capital structure, initiating a dividend policy uses firm value lowers debt payments, but rises total cash disbursements interest and dividends to investors.

51. Graham C. hall, Palrick J. Hutchinson and Nicos Michaelas (2004) examined that there are variations in both small and medium enterprises capital structure and the determinants of capital structure between the countries surveyed. The hypotheses appear, by using regression and F-tests, to hold up reasonably well as overall explanations with that for collateral being the strongest and that for growth being the weakest. The variations could well be due to differences in attitudes to borrowings, disclosure requirements, relationships with banks, taxation and other national economic, social and cultural differences. These, in turn, are likely to be related to different levels of agency information asymmetry and signaling costs between countries.

52. Amy Dittmar (2004) examined that, in a spin off, the parent divides the assets of the firm and chooses C/S for the new stand alone entity. Therefore, he used to investigate 56 firms + 22(To take debts) firms (not taken debts) how firms determine S/S. He added that the subsidiary has a leverage ratio lower than the parent's similar to that of a comparable non spin off firm growth opportunities are the primary determinant of the subsidiary's leverage profitability has no impact on leverage choice. These results support the predictions of the trade off theory of C/S and provide in sight into why previous studies found a negative relation between leverage and profitability.

53. Makoto Nagaishi (2005) emphasized that the capital structure of regulated firms in India plays an important role in rate regulation due to the interaction between investment and financial decisions of regulated firms and the pricing choices of regulators. To examine the empirical robustness of certain proportions related to the ideas, are consistent with, regulation which tends to create an initiative for
regulated firms to increase their debt level, debt has a positive effect on the return on equity and if a regulated firm’s investment is relatively large.

54. **Shumi Akhtar** (2005) studied the significance of determinants of capital structure on a sample of Australian multinational and domestic corporations for 10 years resulted that the level of leverage does not differ significantly between multinational and domestic corporations using cross – sectional Johit regression analysis, found that growth, profitability and size are significant determinants of leverage collateral value of assets is a significant determinant of leverage for domestic corporations, and bankrupt of costs and the level of geographical diversification are significant for multinational corporations. When industry effects are considered, the significance of the original determinants remains unchanged.

55. **Frieling haus, Moster, and fiver** (2005) argued the case for a relationship between capital structure and firm’s life stage. They provided an overview of the two structure. The nature of the relationship supports the pecking order theory of capital structure and suggested a practical use of the life stage model in helping firms to understand how their financing is likely to change over time.

56. **Nengjiu Ju, Robert Parrino, Allen M. Poteshman and Michael S. Weisbach** (2005) examined optimum capital structure choice using a dynamic capital structure model that is calibrated to reflect actual firm characteristics. The model use contingent claim methods to value interest tax shields, allows for reorganization in bankruptcy, and maintains a long – run target debt to total capital ratio by refinancing maturing debt. Using this model, they calculated optimum capital structures in a realistic representation of the traditional trade – off model which do not imply that firms tend to sue too little leverage in practice. They also estimated the costs borne by a firm whose capital structure deviates from its optimal target debt to total capital ratio. The costs of moderate deviations are relatively small, suggesting that a policy of adjusting infrequently is likely to be reasonable for many firms.
57. **Jan mahrt – Smith** (2005) examined interaction effects of capital structure and ownership structure in manager–run corporations. The empirical predictions are, strong, concentrated equity ownership is associated with strong, concentrated debt holding. If long term firm specific investment is important, then the equity should be more dispersed. Board representation by banks is desirable especially if equity ownership is concentrated. Environments with weak bankruptcy procedures may be associated with relatively dispersed equity ownership patterns. Tough debt conveniants may be more prevalent in environments that also favour large equity holders.

58. **Stephen A. Ross** (2005) provided an inter temporal synthesis of the basic neoclassical theory of capital structure as a trade off between tax effects and bankruptcy cost. The bankruptcy cost is partially endogenized as the loss of future tax benefits and the stationary reorganisation policy is considered.

59. **Philippe Gand, Elion Jani, Martin Hoesli and Andre Bender** (2005) analyzed the determinants of the capital structure for a panel of 104 swiss companies listed in SSE. Dynamic tests are performed for 10 years and found that the size of companies and the importance of tangible assets are positively related to leverage, while growth and profitability are negatively associated with leverage. The sign of these relations suggested that both the pecking order and trade off theories are at work in explaining capital structure, although more evidence exists to validate the latter theory. Our analysis also showed that firms adjust toward a target debt ratio, but the adjustment process is much slower than in most other countries.

60. **Armen Hovakimian** (2006) found that the importance of historical Average market to book ratios in leverage regressions is not due to past equity market timing. Although equity transactions may be timed to equity market conditions, they do not have significant long lasting effects of Capital structure. Debt transactions exhibit timing patterns that are unlikely to induce a negative relation between market to book ratios and leverage, and that historical average market to book ratios have significant effects on current financing and investment decisions,
implying that they contain information about growth opportunities not captured by current market to book ratios.

61. Reint Gropp and Florian Heider (2009) showed that mispriced insurance and capital regulation were of second order importance in determining the capital structure of large U.S. and European banks during 1991 to 2004. Instead, standard cross-sectional determinants of non-financial firms' leverage carry over to banks, except for banks whose capital ratio is close to the regulatory minimum. Consistent with a reduced role of deposit insurance, we document a shift in banks' liability structure away from deposits towards non-deposit liabilities. They examined that unobserved time-invariant bank fixed effects are ultimately the most important determinant of banks' capital structures and that banks' leverage converges to bank specific, time invariant targets.

62. Dilek Teker, Ozlem Tasseven, Aycatuvel (2009) examined that capital structure of a company consists of a particular combination of debt and equity issues to relieve potential pressures on its long-term financing. To examine such issues, many theories have been developed in the literature and they generally focus upon what determinants are likely to influence the so-called leverage decisions of the firms. Among these, the MM theory, trade-off theory and signaling theory have been said to mainly play a crucial role in identifying and testing the various properties of the leverage decisions. This paper defines the fundamental underlying these theories and evaluates whether some a priori assumed macroeconomic determinants can be related to the leverage parameters of interest examined in the paper. For this purpose, they conducted an empirical research that covers 42 selected firms traded at the Istanbul Stock Exchange ISE-100 index. Following the developments in the contemporaneous estimation techniques that allow us to use time series and cross section data concurrently, the panel data methodology has been applied to the actual data to compute the leverage ratios for each firm within the time period 2000-2007. From this, it is hoped that it highlights the issue of what properties the leverage ratios have and to satisfy our
curiosity about how can the macroeconomic determinants affect the leverage ratios under various groupings such as tangibility, size, growth opportunities, profitability and non debt tax shields. Main results revealed that return on assets and tangibility of assets have a positive and statistically significant impact on the firm’s leverage ratio, while the ratio of total depreciation to total assets and profit margin on sales to have some negative and significant impacts on firm’s leverage degree.

63. **Joseph A. Atwood, Myles J. Watts, and Alan E. Baquet** investigated that the producer’s first response to risk is to restrict the use of debt. Price support programs and insurance are substitutes in reducing producer risk. The availability of insurance in a setting with price supports allows producers to service higher levels of debt with no increase in risk.

64. **Boodhoo Roshan** tested that there have always been controversies among finance scholars when it comes to the subject of capital structure. So far, researchers have not yet reached a consensus on the optimal capital structure of firms by simultaneously dealing with the agency problem. It provides a brief review of literature and evidence on the relationship between capital structure and ownership structure. It also theoretical support to the factors (determinants) which affects the capital structure.

65. **Ayeshamaz and Mohamed Nasr** capital structure decisions are among the most important and crucial decisions for any business because of their effect on value and cost of the company. In this paper we have discussed the determinants of capital structure of Pakistani firms. We selected a sample from Pakistani companies registered on Islamabad Stock Exchange. The sample is divided into two sub-samples of private and government owned companies to make comparison between both sectors. The sample comprised 91 Pakistani companies out of which 80 companies are private and 11 are government owned covering the period of 1999-2006. Tangibility, size, Growth rate, ax Provision, ROA and Profitability are used as independent variable, while Leverage is the dependent variables. For analysis purpose descriptive statistics, Spearman’s correlation and
Regression analysis are used. The Results imply that government owned and private companies of Pakistan use different patterns of financing, and that government owned companies employ more leverage than private companies.

Conclusion

In Indian context, studies relating to Capital Structure are limited. This study aims to give clear picture about the determinants of capital structure in Indian textile industries.