

Capital Structure : An Empirical Study of Choices and Strategies for Indian Service Sector Companies

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Abstract

The emerging economies of the world are growing in multiples and it's due to the dawn of the service sector. In this paper, we try to answer the following questions : Are the effects of the firm- specific and the country- specific determinants on the ability of Indian service sector companies to obtain financing? Are the modern capital structure theories valid in explaining capital structure of the Indian Service Sector companies? We empirically analyse the capital structure choices and strategies of Indian Service Sector firms using a panel of 57 non-financial service firms listed in the Bombay Stock Exchange for the period of 2004–2015 and apply the econometric techniques and panel data analysis, fully modified OLS (FMOLS) estimation, and panel least squares (fixed effects models). Among the four alternative theories of capital structure, the pecking order theory seems to explain Indian service sector firms' decisions. However, there is little evidence to support the trade off theory.

I. Introduction

IN THE FINANCE Literature, the most discussing topic is capital structure in the developed as well as the developing economies of the world. Over the past five decades the researchers are focused on the firms' financing criteria and what is the factors (firms' specific as well as countries' specific) impact on the firms' financing. In this regards the great number of researcher developed the theoretical models to explain the capital structure pattern and to provide the empirical evidence that the theoretical models have explanatory power when applied to the real world (Modigliani and Miller 1958, Jensen and Meckling 1976, Myers 1977, Harris and Raviv 1999, Bayrakdaroglu, Ege and Yazici 2013). The focus of both academic research and practical financial analysis has been for those large corporations with publicly traded debt and equity securities that dominate economic life throughout the developed world.

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