Literature Review on Corporate Capital Structure and Dividend Policy

Sahadev Bhatt*1 & Dr. Ram Garg2
1PhD Scholar, 2Professor,
1,2School of Management, Poornima University, Jaipur, India

Abstract: This paper aims to review the literature in four main issues in the world of corporate finance, namely firms’ capital structure decisions and payout policies, in the context of developed as well as emerging markets. The research papers focused on impact of capital structure on firm’s profitability, firm value and corporate Governance as well as the impact of dividend payment on stock price. Various studies adopted quantitative method and examined by setting hypothesis and also few studies tried to construct models to demonstrate various relationship between dependent and independent variables. The review of solution approach, findings and future scope of the research papers is also carried out. The research related to corporate capital structure is carried out by referring 40 papers from year 2007 to 2014. The five stage literature review process was adopted. Depending upon the issues, the reviewed papers summary and find Key words: Capital structure, Corporate Governance, Dividend Policy, Firm Performance, Stock Value.

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I. INTRODUCTION

The discussion of capital structure and dividend policy is a controversial debate in corporate finance that scholars were and still are interested in investigating using different approaches and applying different techniques into different markets. The literature on corporate financial policy, namely dividend policy and capital structure is voluminous and has a hoary tradition, dating back to the seminal Modigliani and Miller (1958) contributions. Two aspects of this literature are noteworthy. First, for the most part, theories of dividend policy differ from theories of capital structure, since, the literature has treated dividend policy and capital structure as two distinct choices, even though there is reason to believe that there are common factors affecting both. Second, the empirical success of these theories has been mixed at best, leaving us with many unanswered questions.

The goal of this review report is to study the contemporary research taken place around the world on different sector of the economy in the area capital structure and dividend policy that treats these financial policy variables as two sides of the same coin. A key aspect of this theory is that capital structure and dividend policy are jointly determined as part of a continuum of control allocations between managers and investors, and hence cross-sectional variations in both are driven by the same underlying factors. The endogenously-determined allocation of control between the manager and investors is important not because of agency or private information problems but because of potentially divergent beliefs that can lead to disagreement about the value of the project available to the firm. The key underlying factor is past corporate performance. Better past performance leads to less disagreement and thus affects the costs and benefits of different control allocations. Dividend policy and capital structure thus constitute an implicit governance mechanism that determines how much control over the firm’s real (investment) decisions is exercised by the manager vis a vis the shareholders, and the firm’s past performance impinges on this governance mechanism.

II. REVIEW PROCESS ADOPTED

At first the broad area of interest was selected and then the scientific research papers from valid sources were searched. Almost all the research papers that were downloaded were scanned for deciding whether it belongs to the area of interest or not. In order to understand the paper broadly and get an idea whether the paper exactly belong to the research area / sub area selected or it deviates, the research papers were classified according to key issues and narrowing down the survey. The papers were then classified into different groups. The groups of research papers were prepared according to common issues & application sub areas.

Next, after the classification an in depth study of each research paper and extraction of details of methodology used to justify the problem,
justification to significance & novelty of the solution approach, precise question addressed, major contribution, scope & limitations of the work presented was done.

After getting the details like key issue / problem, solution approach, hardware / software setup, experimental design, results obtained advantages and limitations presented by the researchers etc then the details with some standard aspect to compare, correlate, and generalize the concepts & methods presented by the authors with reference to other similar works was done. At last the data was synthesis regarding the concept & the results presented by the authors. The gaps in the published research papers were also then noted.

III. CATEGORICAL REVIEW

The review process was adopted by surveying the research in last 8 years (2007-2015) for extraction of information about 4 main issues with various sub issues.

A. Effects of Capital Structure on Firm Performance

Taani, Khalaf presented an attempt to measure the effect of capital structure on the performance of the Jordanian banks. Employing quantitative technique to analyze the secondary data collected from Amman Stock Exchange (ASE) covering 5 years from 2007 to 2011 and using multiple regressions concluded that bank performance is significantly and positively associated with total debt while total debt was insignificant in determining ROE in banking industry of Jordan [1]. Awunya, Dadson et al, presented an attempt at contributing to the debate on capital structure by examining the relationship between capital structure and firms performance. Analyzed the data using descriptive statistics and panel regression method the study showed that due to overdependence on short term debt, high lending rate of Bank of Ghana and low level bond market activities, the banks of Ghana are highly geared and negatively related to performance. Moreover, capital structure was inversely related to performance in terms of ROE and Tobin’s q [2]. Pastory, Dickson et al. presented an attempt to identify the relationship between capital structure and bank performance. Using casual research design for the quantitative analysis of secondary data collected from bank scope of 20 sample banks in Tanzania covering the period of 7 years from 2005-2011, concluded that the relationship between capital structure and performance of Tanzanian banks to be negative and debt level affects performance of banks negatively[3]. Saeed, Muhamad Mazaffar et al attempted to examine the impact of capital structure on performance of Pakistani banks using deductive approach of research and quantitative technique to analyze the secondary data collected from Karachi Stock Exchange over the period of 2007-2011. Descriptive statistics, correlation matrix and regression models were used for the analysis of data. The findings validated a positive relationship between determinants of capital structure and performance of banking industry [4]. Chunhua, Wang et al, presented an attempt to analyze the relationship between capital structure and performance of information technology firms of China. The data was collected from CSMAR data base for listed IT firms covering 6 years from 2005 -2011 On the basis of proposed assumption of the study they concluded that there is negative relationship between debt ratio to profitability [5]. Mohammadzadeh, Mehti et al, presented an attempt to examine the relationship between capital structure and profitability pharmaceutical companies in Iran . Data were collected for the period of 2001-2010 and top 30 Iranian pharmaceutical companies were taken as sample. Descriptive statistics were used to analyze and describe the data. Based on the regression analysis and F-Limer test it was concluded that the negative and meaningful relationship between profitability and capital structure, Iranian pharmaceutical companies are in the line with the pecking order theory and the results are compatible with the findings of Rajan and Zangnals [6]. Velnampy, T., et al, presented an attempt to investigate the relationship between capital structure and profitability by studying how the capital structure influences on signaling the bank’s profitability in Sri Lanka by selected 10 banks listed in Colombo Stock Exchange and using quantitative research approach to analyze the secondary data collected from Handbook of Listed Companies 2007 covering 8 years from 2002-2009. Both descriptive and inferential statistics were used and the result showed that there is negative relationship between capital structure and profitability except the debt to equity and return on equity [7]. Sadeghian, Nina Sepehr, et al, aimed to investigate the relationship between debt policies and performance of Tehran stock exchange companies by using quantitative approach for a co-relational research design to analyze the data collected from Tehran Stock Exchange from the year 2006 to 2011. The regression model was used to investigate the relationship between performance and debt ratios. Based on the empirical results the authors concluded that there is negative relationship between debt and corporate performance [8]. Wen, Dai et al, attempted to test the relationship between capital structure and firm performance of knowledge-intensive business services (KIBS) firms from China by using regression model and concluded that there was a positive relationship between the intangible assets proportion and capital structure, the relationship
between balance and firm performance is unobvious negative and KIBS companies tend to depend on commercial credit debt financing [9]. Hui, Wang investigated the relationship between capital structure and corporate performance of small and medium-sized enterprises in China. By observing 608 observations and using factor analysis method (FAM) and linear regression model results showed that capital structure can improve corporate performance for small and medium-sized enterprises and concluded that asset-liability ratio could play a more important role in earning management and capital structure decision [10]. Zhaoguo, Zhang, et al. examined the relationship between capital structure and earnings management of the firms with reference to the Chinese capital market by selecting A-share listed companies listed in Shanghai and Shenzhen stock markets over the year between 2003 and 2007, concluded that the equity proportion of controlling shareholders has an inverted U shaped relationship with earnings management, debt financing were positively correlated to earnings management; the proportion of stocks held by external large shareholders was negatively correlated to earnings management but the relationship was not obvious; the equity proportion of executives was a positively related with earnings management in a low level [11]. Manan, Siti Khadijah Ab. attempted to examine the relationship between debt level and profitability of Small and Medium-sized Enterprises (SMEs), considering major characteristics of the enterprises such as size and age. Secondary data for four-year period were collected from the financial statements of concerned SMEs for the years 2003 to 2006 and concluded that there was negative association between debt and profitability based on the significant negative association between DTAR and ROA as well as size of the SMEs had significant positive association with ROA. The age of the SMEs was found to have no influence on profitability. [12] Salehi, Mahdi studied the issue of whether the capital structure decision impacts firms’ performance of 117 non-financial firms listed in Tehran Stock Exchange constituted the sample of the research by collecting for the five-year period 2002-2007 from publicly available sources. They used 3 definitions of capital structure (book value, market value and adjusted market value) and 5 measures were assumed for financial performance (Operating profit ratio, return on investment, ROE, RET and EBT/S). Results of this study demonstrated that market value and adjusted value measures of capital structure in comparison with book value measures have stronger link with performance. This means market value should be taken more into consideration in evaluating capital structure. They further concluded that many measures of firm performance were negatively correlated with financial leverage [13]. Khan, Abdul Ghafoor examined the relationship of capital structure decisions with firm performance. The study included 36 firms from the nine engineering sectors listed on the KSE during the period 2003-2009. The data were secondary in nature collected from “Balance Sheet Analysis of Joint Stock Companies listed on the Karachi Stock Exchange”. The results of the study showed that financial leverage measured by short term debt to total assets (STDTA) and total debt to total assets (TDTA) has a significantly negative relationship with the firm performance measured by Return on Assets (ROA), Gross Profit Margin (GM) and Tobin’s Q. The relationship between financial leverage and firm performance measured by the return on equity (ROE) was negative but insignificant. Asset size has an insignificant relationship with the firm performance measured by ROA and GM but negative and significant relationship exists with Tobin’s Q [14]. LIU Xiao-yan et.al investigated the effect of debt financing in electric power listed companies. The sample consisted of 51 A-Share listed firms in Shenzhen and Shanghai Stock Exchange and the data were collected from the China Economic Research Center Database for the years from 2004-2006. To test whether the effect of debt financing and the debt level are correlated, they estimated a least square regression model. The empirical results showed that, for the companies with strong profitability, raising the debt ratio can contribute to the improvement of the effect of debt financing; for the companies with poor profitability, it will cause worse effect [15]. Pratheepkanth, Puwanenthiren attempted to identify the impact between capital structure and companies performance in Sri Lanka. The sample consisted of all firms listed in Colombo Stock Exchange for the period of 2005-2009 and the data for this study was gathered from the financial statements as published by Business Companies. Descriptive statistics, correlation and regression analysis was used to analyze and interpret the data. Based on the empirical analysis it was found that there was a negative association between the capital structure and financial performance [16]. Fareed, Zeeshan et. al attempted to test the relationship between capital structure and profitability of textile industry of Pakistan. The sample of the study was consisted of 22 listed textile firms in Karachi Stock Exchange. Secondary data were collected from Balance Sheet Analysis from State Bank of Pakistan for the period of seven years from 2006 to 2012. By using multiple regression and correlation analysis it was revealed that there was negative weak relationship between EBIT and ROA. EBIT has the weak positive relationship with ROA. EBIT has also weak positive relationship with LEVERAGE and there was moderate positive relationship between EBIT and Firm Size [17]. Singh, Gurmeet attempted to provide an empirical
support to the hypothesized relationship between capital structure and profitability. The study consisted of 110 manufacturing firms listed in Bombay Stock Exchange chosen by the Multi-Stage Sampling Technique after categorizing the selected firms into three categories based on two attributes, viz. business revenue and asset size. Firms were grouped into low, medium and high based on business revenue and then classified into small, medium and large based on asset size. The study proved that there was a strong one-to-one relationship between Capital Structure variables and Profitability variables, Return on Assets (ROA) and Return on Capital Employed (ROCE) and the Capital Structure has significant influence on Profitability, and increase in use of debt fund in Capital Structure tends to minimize the net profit of the Manufacturing firms [18]. Ferati, Rametulla examined the impact of the financial structure in the profitability of small and medium enterprise (MSEs) in the republic of Macedonia with a sample of 150 SMEs operating in the region of Polog, Macedonia. For quantitative analysis correlation and regression analysis was employed in the estimation of a function relating the return on the equity (ROE) with the indexes of long and short-run debts, and also with the total of owner’s equity. The results indicated that the profitability was positively correlated with short-term debt and equity, and an inversely correlated with long-term debt. The results of the work showed a great dispersion among the several capital sources used by the Macedonian companies, exception to the equity, the main component, and the one that presents smaller variability [19]. Goyal, A.M., examined the impact of capital structure on profitability of public sector banks in India. Taking the sample of the banks listed on national stock exchange from 2008 to 2012 and collecting the data from audited financial statements of listed banks, website of National Stock Exchange (NSE, the author concluded that there existed a positive relationship among short term debt and profitability of Indian psu banks [20]. Nirajini,A., et. al analyzed the capital structure and financial performance of listed trading companies in Sri Lanka with a sample size of 11 trading sector companies listed in Colombo stock exchange. Data were collected from the hand book of listed companies published by Colombo stock exchange & the individual company’s annual reports for 7 years. Descriptive statistics, correlation and multiple regression models were used for analysis and the authors concluded that there was positive relationship between capital structure and financial performance. And also capital structure was significantly impact on financial performance of the firm [21]. Shubita, Mohammad Fawzi et. al attempted to extend Abor’s (2005), and Gill, et al., (2011) findings regarding the effect of capital structure on profitability by examining the effect of capital structure on profitability. By taking sample consisted of 39 Industrial Jordanian companies listed in Amman Stock Exchange for a period of six years from 2004 – 2009 and using correlation and the regression models it was found that there was significantly negative relation between debt and profitability. The results also showed that profitability increases with control variables; size and sales growth. The findings of this paper contradicted with prior empirical studies like Abor (2005) and Gill, et al., (2011). [22].

B. The effects of capital structure on the value of firm

Collins, Oboh Sankay et al aimed to examine the effects of a firm’s capital structure on its market value with a Data set obtained from annual reports of 39 listed non-financial companies through purposeful sampling for the period of 2005 to 2009. The empirical effect was tested by using a multiple regression estimator framework and concluded that a firm’s leverage choice affects its market value positively and significantly meaning that a firm can actually attain an optimal capital structure at the point where risk is minimized and returns are maximized [23]. Šarlija, Nataša, et al examined the impact of liquidity on the capital structure of firms with the sample size of 1058 randomly selected small and medium-sized enterprises from different eight sectors. Pearson correlation coefficient was used to test the hypotheses and relationship between liquidity ratios and debt ratios, the share of retained earnings to capital and liquidity ratios and the relationship between the structure of current assets and leverage and concluded that the firms with more liquid assets use less leverage and long-term leveraged firms are more liquid. Increasing inventory levels leads to an increase in leverage and increasing the cash in current assets leads to a reduction in the short-term and the long-term leverage [24]. Ahmad, Abd Halim et al examined whether an optimal level of debt exist at which a firm could maximize its value. The sample consisted of 467 listed companies on Bursa Malaysia from 2005 to 2009 excluding financial institutions and insurance companies. The data were collected from the DataStream. The bootstrap procedure was applied and repeated for 100 times for each of the three panel threshold tests and demonstrated a single threshold effect between debt ratio and firm value. This study provided new evidence that there was a threshold debt ratio of 64.33% for Malaysian companies and further increase in debt have no effect to the firm value. These results of this study were consistent with trade-off theory which hypothesized that high debt ratio lead to financial distress and thus deteriorate the firm value [25]. Thomas, Kiptanui Tarus et al attempted to determine the effect of profitability,
firm size and liquidity on capital structure. With panel data from financial statements of 34 firms listed in Nairobi Securities Exchange for a period of 7 years from 2006-2012 excluding commercial banks. The paper used multiple regressions to test the hypothesis and the study reported results of cross-sectional regression that used the mean values of variables of sub-periods. Descriptive statistics and correlation coefficients were also used in the study and found that that profitability and liquidity were negatively and significantly related to capital structure but firm size was positively correlated and not significant on capital structure [26]. Cheng Lim, Thian investigated the determinants of capital structure of financial service firms in China by taking the sample of 36 A-share listed firms on Shanghai and Shenzhen Stock Exchange over the period of 2005-2009, including banks, insurance and investment companies. The year-end data were collected from CSHAR based on the firm’s financial statements and annual reports. Multiple linear regression models were used and it was found that profitability, firm size, non-debt tax shield, earning volatility and non-circulating shares were significant influence factors in financial sector. Moreover, the firm size was positively related to the corporate leverage ratio. The author also found that Chinese institutional characteristics effect the capital structure decision. In addition, he concluded that capital structure determinants of financial firms are similar to other industries and largely state ownership do effects capital structure choices [27].

C. The effects of capital structure on corporate governance and vice-versa

Gill, Amarjit et al examined the relationship between corporate governance and capital structure of small business services firm in India. The sample consisted of 600 Indian, Punjab area small business owners with 142 surveys through telephone and questionnaire. Descriptive statistics, Varimax rotation factor analysis, Pearson’s Bivariate correlation analysis and regression modes were used to analyze and interpret the data and concluded that capital structure of small business services firms is positively associated with CEO duality, board size, small business growth and family [28]. Esfahani, Azadesh Zahiri, ND investigated the impact of corporate governance and capital structure on dividends payout of Malaysian listed companies using a cross-sectional design and regression model to measure the relationship between variables. Based on the results, authors concluded that corporate governance has negative but no significant effects on dividend payout [29]. Locke, Stuart et al investigated the linkage between corporate governance and capital structure decisions of listed firms in Sri Lanka. The sample consisted of 113 non-financial firms listed in Colombo Stock Exchange (CSE) from 2006 to 2010 with 565 observations. Regression models were used to measure the relationship among corporate governance variables and capital structure variables and concluded that Sri Lankan listed companies pursue high debt policy with high insider ownership and CEO duality. Non-executive directors used to emphasis low external financing than board with executive directors. The study also found that the issue of corporate governance has important implications on the financing decisions of Sri Lankan listed firms [30]. Ahmadpour, Ahmad et al attempted to investigate the relationship between corporate governance and capital structure of listed firms in Tehran Stock Exchange. Publicly listed companies in Tehran Stock Exchange were selected for the year 2005 to 2010. Using linear-multiple regression analysis and from testing the research hypotheses, it was found that there a positive relationship between Ownership Concentration, Board Size, Internal Auditor and capital structure but a negative relationship between Institutional Share Ratio and capital structure. Moreover no significant relationship was found between Board Independence, CEO Duality and capital structure [31]. Rehman, Muhammad Ateeq Ur et al investigated the relationship between corporate governance and capital structure of Pakistani banking firms. Data were collected from a sample of 19 listed banks in Karachi Stock Exchange selected on the basis of convenient sampling technique for the years from 2005 to 2006. They used OLS regression models to find the relation between both dependent and independent variables. An ownership concentration, board independence, managerial ownership, board size and number of meetings held during the year were considered as independent variables. Based on the results, it was concluded that there was no relationship between corporate governance and capital structure in the banking sectors of Pakistan. Moreover, all independent variables are positively related with capital structure except ownership concentration which affects adversely to capital structure but in overall there is an insignificant relationship between corporate governance and capital structure [32].

D. The impact of dividend policy on stock price

Ebrahim, Mohammad et al investigated the relationship between earning, dividend, stock price and stock return. They used panel data regression with random effects of slope coefficient and intercept for the firms listed in Tehran Stock exchange covering the period from 2001 to 2010. Three different models proposed by Easton & Harris (1991) and Frino & Tibbits (1992) were used to test the hypotheses and found that shareholders pay special attention to dividends and also the variable prior dividend divided by stock price at the beginning of the period affects stock return. Moreover, there is a
significant relationship between current period earning divided by stock price at the beginning of stock market period and stock return. It was also concluded that there was the existence of relationship between earning, dividend and stock return [33]. Hasan, Md. Abdullah Al, et al aimed at evaluating the effect of dividend policy on market price of share in context of Bangladesh. The study was based on the secondary data collected from annual reports of 28 sample companies covering four industries having seven companies from each industry for the period of 2005 to 2009. Multiple regression analysis using least square estimation method was employed to test the effect of dividend policy on share price. Moreover, descriptive statistics, F –test and correlation analyses were also used. Based on the results, the authors concluded that there was a positive relationship between the market price per share and dividend per share; and market price per share and retained earnings per share. They also proved that the effect of dividend payout is more on market price than retention and there was a significance effect of dividend policy on MPPS which supports the relevancy of the dividend policy [34]. Pradhan, Radheshyam attempted to explain the effect of dividend payment and retained earnings on market price of share in the context of Nepalese companies. Based on the cross sectional data, regression models were used taking MPS as dependent variable and DPS, R/E and P/E ratio as independent variables. A total of 177 observations were observed for the secondary data of 29 companies from 1991-1999. The regression models were tested in linear and logarithmic forms. On the basis of empirical result, the author concluded that dividend has strong and retained earnings have low effect on the market price of Nepalese companies. Further he revealed that Nepalese stockholder prefer dividend than retained earnings [35]. Thanatawee, Thanatwee examined the relationship between ownership structure and dividend policy of Thai non-financial firms. The ownership data was collected from SETSMART and the financial data was drawn from the data base of Euro money Institutional Investor Plc. via www.securitues.com. The sample comprised of 1927 observations for 287 firms over the period of 2002 to 2010. Both descriptive and multivariate analysis was done to draw the empirical results from the data. The results revealed that Thai firms were high concentrated ownership structure and mostly owned by institutions. Moreover, among control variables, profitability, firm size and the ratio of retained earnings to book equity have positive effects on a firm’s decision whether to pay dividend and how much to pay dividends. In addition, the amount of dividend payout was positively related to growth opportunities but negatively related to financial leverage. However, free cash flow has no significant relation with dividend policy of the Thai firms [36]. Agye , Samuel Kwaku et al attempted to find the relationship between dividend policy and performance of banks in Ghana. They have used panel data collected from the financial statements of 16 commercial banks for a period of 5 years from 1999-2003. Based on the Hausman (1978) specification test, the fixed effect model was used to find the relationship between dependent and independent variables. From the empirical result it was concluded that the banks that pay dividend increase their performance. The authors also found that leverage, size of a bank and bank growth enhances the performance of banks. Further, they concluded that dividend policy has an effect on firm value [37]. Tran, Quoc Trung , et al examined dividend policy behavior in Vietnamese stock market. The sample consisted of 118 non financial firms listed in both Ho Chi Minh City and Ha Noi City stock exchanges in the period from 2006 to 2011. The relevant information and data were collected from Tan Viet Securities and cross-checked with the database of Stockbiz Investment Limited. The regression partial adjustment models proposed by Lintner (1956) & Fama and Babiak (1968) were used to analyze and interpret the data. Based on the results, the authors concluded that firms in Vietnamese Stock Market have stable dividend policy behavior [38]. Guo, Jianqiang et al attempted to provide an empirical analysis of dividend policy and its influencing factors for IT companies. The sample consisted of 101companies in 2010 and 145 in 2011. The data were collected from the CSMAR for year 2006 to 2011. Multiple regression models were employed to verify the influence factors in the cash dividend. The analysis results showed that a company's cash dividend level is positively related to company's profitability, the amount of wealth, solvency, company size, but is not directly related to the relationship with the company's growth and cash flow [39]. Li Ji-ming et al examined the relationship between corporate dividend policy and financial performance of Chinese listed companies. Sample were taken from all firms listed in Shanghai and Shenzhen Stock Exchange which belong to CSI 300 Index representing most large companies in all sectors in China. Data were collected from Handbook of 2007 listing companies' information and Shenzhen and Shanghai listing companies' 2007 annual report compilation (CD-ROM) as well as from Securities Time Internet Edition. By employing the method of analysis of variance (ANOVA) and regression model the study found a significant positive relationship between dividends per share and financial performance. Chinese listed companies’ dividend policies have strong effects on their share prices, while the market has little reflection on cash dividend; and bonus share was more popular in market than cash bonus [40].
IV. ISSUE WISE SOLUTION APPROACH

This part discusses the issue wise solution approaches which have been used by the researchers to validate or simulate their results and findings, the type of methodologies adopted, technology platform used with the name of the author and reference numbers in details and the variables used to obtain or validate their results.

A. The effect of capital structure on the firm performance

- Deductive approach of research was used and employed quantitative technique. Moreover some researchers used casual research design.
- Used Multiple regressions, correlation matrix, Descriptive statistics F-Limer test, ANOVA factor analysis method (FAM)
- Capital structure was taken as an independent variable and firm performance or profitability was considered as dependent variable.
- Econometric tests were conducted to validate the multicollinearity problem and serial correlation.

B. The effect of capital structure on the Value of firm

- The empirical effect was tested by using a multiple regression, the threshold autoregressive model, Pearson correlation coefficient and other descriptive statistics.
- Data set were obtained from annual reports, DataStream, Financial Agency, and CSMAR.
- Total leverage and long term leverage were considered as dependent variable as proxy of capital structure and profitability, asset tangibility, firm size, non-debt tax shield, growth opportunities, earning volatility and non-circulating shares were used as independent or determinant variables.
- Authors demonstrated a single threshold effect between debt ratio and firm value.

C. The effects of capital structure on corporate governance and vice-versa

- Corporate governance variables such as CEO tenure, CEO duality and board size were taken as independent variables, family was taken as dummy variable, and small business growth as a control variable and capital structure was taken dependent variable.
- Descriptive statistics, Varimax rotation factor analysis, Pearson’s Bivariate correlation analysis and regression models were used to analyze and interpret the data.
- A Durbin-Wu-Hausman test was used as a diagnostic test for endogeneity of capital structure proxy and other variables.
- Capital structure measured by debt ratio was used as dependent variable, corporate governance measured by managerial ownership percentage, ownership type, CEO duality; board size and non-executive directors used as explanatory variables; and size and age of the firm were used as control variables.

D. The impact of dividend policy on stock price

- The researchers developed different hypotheses to test relationship between the current period earning per share to beginning stock price ratio and stock return, relationship between dividend per share of current period to beginning stock price ratio and stock return, and the relationship between beginning reverse stock price, current period earning per share to beginning stock price return, prior dividend per share to beginning stock price ratio and stock return.
- They used panel data regression with random effects of slope coefficient and intercept for the firms and employed different models proposed by Easton & Harris (1991) and Frino & Tibbits (1992) were used to test the hypotheses.
- Multiple regression analysis using least square estimation method was employed to test the effect of dividend policy on share price. descriptive statistics, F-test and correlation analyses were also used.
- MPS as dependent variable and DPS, R/E and P/E ratio as independent variables.
- The Logit regression model was estimated to examine the relationship between ownership structure and dividend policy taking dividend payout ratio as a dependent variable and various ownership characteristics as independent variables. The Fixed Effect regression partial adjustment models proposed by Lintner (1956) &Fama and Babia (1968) were used to analyze and interpret the data.
- Based on the Hausman (1978) specification test, the fixed effect model was used to find the relationship between dependent and independent variables.
- Firm performance measured by EBIT/Equity was used as dependent variable, dividend policy measured by Dividend/NI was used as independent variable; and risk, capital structure, bank size, growth and age were used as control variables.
- Variance inflation factor analysis was conducted to test the presence of multicollinearity among independent and control variables.
V. STRENGTHS , WEAKNESSES AND SCOPE

In this section covers the strengths, limitations and scope of the literature review.

A. Strengths

- The researchers measured the effect of capital structure on the performance of the manufacturing, banking, IT, Pharmaceutical, small business services, electric power, knowledge-intensive business services and trading companies.
- The researchers measured the effect of capital structure on the performance in different countries like Jordan, Ghana, Tanzania, Pakistan, China, Iran, Sri Lanka, Nigeria, India, Malaysia, Croatia, Macedonia, Kenya, Bangladesh, Thailand and Vietnam.
- Researchers used Variance Inflation Factor (VIF) and Durbin-Watson testing for multicollinearity and serial correlation problem.
- The empirical effect was tested by using a multiple regressions, the threshold autoregressive models, bootstrap method, and Pearson correlation coefficient.
- Contribute to the additional dividend payout knowledge and help regulatory to enhance the corporate governance mechanism to reduce agency cost.
- The study and its finding were important to use resources reasonably and enhance company value by optimizing the capital structure.

B. Weakness

- The papers have weaknesses terms of selected sample, model design and data mining.
- The researchers were failed to draw a conclusion for the unlisted companies because of a little data.
- The sample size was small and only secondary data were used in the study.
- The researchers failed to study the issue in global perspectives as well as comparative analysis of Islamic and conventional banking system.
- The studies were unable to measure relationship between equity and profitability to have a comparative analysis between the two structures.
- The researchers failed to investigation for the determinants of capital structure over a longer period of time and over a number of economic cycles.
- Other variables of corporate governance in both mature and emerging international markets were not considered.
- Other sectors like sugar industry, Cement industry, Automobile industry or any other sector both for private as well as non-listed companies.

C. Scope

- The further research by taking a longer time period including more determinants of capital structure and profitability measures in global perspectives as well as comparative analysis of Islamic and conventional banking system.
- The further examination of the relationship between equity and profitability to have a comparative analysis between the two structures.
- Further investigation for the determinants of capital structure over a longer period of time and over a number of economic cycles.
- The future research in other sectors like sugar industry, Cement industry, Automobile industry or any other sector both for private as well as non-listed companies.
- Other firms were considered to find out whether there is any significant relationship between fixed assets, assets structure, investment, and volatility, advertising expenditure, the probability of bankruptcy, and uniqueness of the product, earnings volatility of corporate firms etc., in respect of capital structure and Profitability.
- The further research addressing a longer period of time having a broader selection of capital structure and profitability measures to expose some new issues.
- The issue can be studied by considering the financial or real estate influence to leverage, the size of the firm effects and the influence of receivables on leverage.
- Further study can be conducted by considering other factors such as collateral and corporate governance.
- The future research can be done by considering the macro economic factors that may affect leverage and other variables of corporate governance in both mature and emerging international markets.
- Further research can be undertaken by including the examination of the association between managerial ownership and capital structure decisions.
- Future research with focus on (1) the time factor and time series regression model (ii) using components of earning per share rather earning per share and (iii) using components of cash flow rather than dividends.
- Future research can be done on the effect of dividend policy on the performance of other financial institutions like insurance companies.

VI. CONCLUSION

The review process was adopted by surveying the 40 research articles published in last 8 years (2007-
among variables. The purpose of measuring relationship and impact of capital structure and dividend policy on firm value. Indeed, nor does it fully clarify the impact of capital structure and dividend policy on firm value.

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