Ramanujan International Journal of Business and Research, 2021, 6, 1-11

doi: https://doi.org/10.51245/rijbr.v6i1.2021.205
ISSN: 2455-5959

ARTICLE

Corporate Nationality and Capital Structure Decisions - Evidence from India

Aparna Bhatia [1, *] and Pooja Kumari [1, †]

[1] University School of Financial Studies, Guru Nanak Dev University, Amritsar, Punjab, India.

*aparnamohindru@yahoo.co.in
† chandok.pooja1990@gmail.com

Abstract

This paper examines the Capital Structure of companies classified based on nationality over two-time phases as 2008-09 to 2012-13 and 2013-14 to 2017-18 covering ten years. For each category of companies, the mean of three gearing ratios i.e., Total debt to Net worth ratio, Long term debt to Net worth ratio and Short term debt to Net worth ratio is assessed. The analysis is based on a randomized sample of 206 companies obtained from BT-500 (December, 2017) which are subcategorized on the basis of nationality as Indian Domestic Companies, Indian MNCs operating abroad and Foreign MNCs operating in India. The findings reveal that Domestic Indian companies are more inclined towards debt relative to Indian MNCs and Foreign MNCs over both the time phases. This signifies the importance of the nationality factor which must be contemplated while planning Capital Structure. Statistically significant differences in total and long-term debt ratios of Domestic Indian Companies and Indian MNCs between Phase I and Phase II highlight the significance of the time factor which should also be kept in mind before taking leverage decisions. Overall, the paper suggests the corporations to have beady eyes on the institutional environment of geographical territories in which they operate as well as the time variations before planning their debt structure. The disparities in the debt ratios across nationality and time warrant an empirical investigation of the causes behind them, so examining the determinants of Capital Structure of DCs and MNCs would be an interesting area of research in the future.

Keywords: Capital Structure, Nationality, Multinational Corporations, India.

1 Introduction

Globalisation, Liberalisation and Privatisation have popularised the concept of Multinational Corporations having head office in a particular country while subsidiaries spread across many countries. The phenomenon of going global must be beneficial to the stakeholders as well as the corporate. Financing decisions are one of the most vital decisions for the success of a firm. As a result leverage policies adopted by these corporations have caught the attention of various international finance scholars. The benchmark study (Modigliani and Miller, 1958) which advocated that two similar firms having identical assets, belonging to similar market segments and industry have similar Capital Structure gets invalidated when one firm is domestic and another one is multinational. This is because of more pronounced political risks, exchange rate risks and different taxation rules in MNCs as compared to Domestic Companies (DCs). MNCs differ from their domestic counterparts due to different opportunities and challenges in the international environment (Akhtar and Oliver, 2009). Therefore, their debt usage is expected to be different from Domestic Companies (DCs). Theoretically, it is proclaimed that MNCs can sustain more debt due to lesser bankruptcy risks as they are highly diversified across national boundaries and thus have stable earnings

(Shapiro, 1978). Financing theory also postulates higher debt capacity of multinational firms as compared to domestic firms because of their larger size and lower earnings volatility Mittoo and Zhang (2008). Higher debt in MNCs as compared to Domestic Corporations (DCs) has been evidenced in studies undertaken by Singh and Nejadmalayeri (2004) and Mittoo and Zhang (2008). But anxiously many studies give results contradictory to the empirical pieces of evidences and theoretical perspectives and suggest lesser use of debt in MNCs as compared to DCs. Fatemi (1988) reports lower leverage in U.S. MNCs as compared to DCs. According to him, more pronounced effect of factors favouring lower leverage (additional bankruptcy and agency costs and availability of non-debt tax shields) over factors favouring high leverage (diversification effect, tax benefits etc.) may be the cause of such outcomes. Lee and Kwok (1988) quote higher agency cost in MNCs as the prominent reason behind lower leverage in MNCs as compared to DCs. Agency cost is higher in case of MNCs due to higher information asymmetries which promotes managerial opportunism as a consequence of which monitoring costs by lenders and creditors accelerates. Burgman (1996) contends that labour and capital market imperfections in MNCs cause lesser debt usage in MNCs as compared to DCs. Farooq (2016) argues that MNCs are highly diversified and hence more resourceful than DCs. As a result, availability of higher retained earnings in MNCs leads to lower debt dependence. The greater cost of dispute resolution at international level is another reason behind lower debt usage in MNCs relative to DCs (Fatemi, 1988). In fact there is no consensus for to use of gearing in MNCs and DCs. This lack of unanimity prompted us to evaluate the usage of debt amongst companies operating in our native country, India. So in this paper, we investigate the Capital Structure pattern of companies on the basis of their nationality and assess the leverage graphs of domestic and multinational enterprises operating in India. The assessment is undertaken for ten years divided into two sub-periods as 2008-09 to 2012-13 and 2013-14 to 2017-18 in order to catch the effect of time in capital structure decisions. Three gearing ratios as Total debt to Net worth ratio, Long term debt to Net worth ratio and Short term debt to Net worth ratio are calculated and compared for three groups of companies over two time phases to establish the leverage differences across nationality of companies.

For better understanding, the paper is structured as follows. Section I introduces the topic with reference to Capital Structure opined under different views. Section II reviews the precedent literature. Section III discusses the research methodology of the study. Empirical Findings, Results and analysis related to Capital Structure of Indian Domestic companies and MNCs are presented in Section IV. Section V gathers the concluding observations and gives implications of the study. Section VI suggests scope for further research on the topic.

2 Literature Review

Since the pioneering efforts (Modigliani and Miller, 1958), numerous authors have strived to elucidate the concept of Optimal Capital Structure. The two well-known theories of Capital Structure: Trade-off theory (Kraus and Litzenberger, 1973) and Agency theory (Jensen and Meckling, 1976) have posed some implications for the managers of Domestic and Multinational corporations to be kept in mind while designing the Capital Structure. Trade-off theory (Kraus and Litzenberger, 1973) predicts that the firms having lower bankruptcy cost and greater tax benefits should rely more on debt for financing and vice versa. MNC's due to their international involvement are exposed to lower business risks. Therefore they can highly employ debt in their Capital Structure. But majority of the empirical studies established low leverage levels in MNCs as compared to DCs. Fatemi (1988) evidenced lesser use of debt in U.S. MNCs as compared to DCs during 1978 to 1982. Lee and Kwok (1988) too found low debt levels in MNCs as compared to DCs with reference to U.S. corporations. Chen et al. (1997) found negative association between debt ratios and bankruptcy and thus reported lesser leverage in U.S. MNCs as compared to DCs. Aggarwal and Kyaw (2010) too in line with the findings of earlier studies in the U.S. reported significantly lower leverage in MNCs relative to DCs. They stated that internationalization amplifies the operating risks of MNCs and thus cause low debt levels. Ajay and Madhumathi (2012) also noticed lesser debt in Indian MNCs as compared to DCs. They too quoted higher risks of foreign operations as the reason behind low leverage ratios in MNCs. Fatemian and Farzin (2018) too reported significant lower long term debt in Iranian MNCs relative to DCs.

Agency theory Jensen and Meckling (1976) say that due to systematic variations in agency cost between DCs and MNCs, Capital Structure of these corporations varies. This theory suggests higher monitoring costs in case of corporations with international operations relative to Domestic corporations. As MNCs are complex organisations having multiple units across boundaries, managers of subsidiaries tend to maximize their self-interests and hence overlook the interests of the organisation as a whole (Mustapha, 2011). Therefore, to enhance goal congruity, MNCs incur extra monitoring costs to monitor the activities of subsidiaries by appointing managers/directors whose nationality is similar to that of parent company. Parent company also incurs auditing costs in order to keep a vigil on the activities of their subsidiaries. These extra costs cause a reduction in the gearing levels of MNCs as evident in many empirical studies. Burgman (1996) classified U.S. companies into MNCs and DCs and found higher agency cost in U.S. MNCs. Consistent with the previous U.S. studies; he found lower mean debt ratios in U.S. MNCs as compared to DCs. Doukas and Pantzalis (2003) too reported significant differences between the debt structure of U.S. based MNCs and DCs. They further found that MNCs relied more on short term debt rather than long term debt due to higher agency cost in these corporations. Ajay and Madhumathi (2012) too reported higher agency cost of debt and thus low leverage in Indian MNCs vis a vis their domestic counterparts. Similarly, Khaw (2019) over period from 2009 to 2014 found low debt levels in Malaysian MNCs as against DCs. The author stated that MNCs

reduced their debt usage in order to diminish the agency cost and bankruptcy cost associated with debt. Contrary to this, Mittoo and Zhang (2008) evinced lower agency cost of debt in Canadian MNCs and reported higher leverage in Canadian MNCs in comparison to DCs. Mansi and Reeb (2002) too reported more debt usage in U.S. MNCs as compared to U.S. DCs. Singh and Nejadmalayeri (2004) also advocated a positive relationship between international diversification and debt ratios in a sample of French firms. These contradictory findings related to leverage in MNCs affirmed the financial theory which predicts higher leverage in MNCs due to their larger size, lesser volatility in cash flows and enhanced access to international capital markets. A similar study conducted on Australian companies by Akhtar (2005) showed insignificant differences in debt ratios of Australian DCs and MNCs. Likewise, Park et al. (2013) on a sample of U.S. firms did not observe any significant variations in the leverage levels of MNCs and DCs. Nasif and Waseem (2018) too did not report any significant differences in the debt ratios of Pakistani MNCs and DCs during 2005-2018. However, when Akhtar and Oliver (2009) undertook a related study on Japanese corporations, they found significant differences between the Capital Structure of MNCs and DCs. Avarmaa et al. (2011) tried to identify the dissimilarities between the debt structure of DCs and subsidiaries of Foreign MNCs that operate in Baltic States. They explained more leverage in DCs as compared to subsidiaries of Foreign MNCs because of intra group equity funding, higher retained earnings and lesser investment intensity in subsidiaries of foreign MNCs. Likewise, Farooq (2016) in a study on MNCs and DCs in MENA region argued that higher information asymmetries in MNCs leading to managerial opportunism led to lesser debt usage in MNCs relative to DCs. Recently, a study by Musnadi et al. (2018) also envisaged significant differences in the Capital Structure of Indonesian MNC and DCs during 2013-2016.

Review of literature suggests that despite prolific literature available on use of debt by Domestic companies versus Multinational Companies, not even a single study could be found with reference to India examining the nature of debt structure of Indian domestic companies, Indian MNCs operating abroad and Foreign MNCs operating in India. After almost three decades of liberalization and globalization, when economy has witnessed a tremendous increase in Indian companies going global and also Foreign MNCs investing in India, it is important to know the Capital Structure patterns adopted by these global corporations in contrast to the domestic ones. Existing literature has not found any consensus in the findings with respect to leverage of MNCs and DCs. So these incongruities in findings warrant further research in the most recent time period. The present study has made the first effort in itself to subdivide the multinationals into two groups as Indian MNCs operating abroad and Foreign MNCs operating in India through their subsidiaries and compare them with their Domestic counterparts with respect to capital structure decisions.

Thus, the paper proceeds with the following specific objectives-

i. To examine and compare the capital structure of companies based on their nationalities across two time phases.
ii. To investigate whether significant differences exists in the Capital Structure of companies grouped on the basis of nationality.
iii. To assess if the differences in the capital structure of companies classified on the basis of nationality across different periods is significant.

3 Database and Research Methodology

3.1 Sample and Period

To evaluate the Capital Structure practices of companies belonging to varied nationalities the sample is derived from BT- Business Today- 500 companies (dated 17th December, 2017) Companies belonging to Government and Financial Sector are excluded and the ones for which data is not available during the total time period are also omitted. Resultantly, after applying these filters, a final sample of 334 companies is obtained and divided into three groups as Indian MNCs operating abroad, Foreign MNCs operating in India and Domestic companies. But, in order to avoid the problem of unequal sample sizes among the aforesaid three categories of companies, the existing sample of 334 companies was randomized and outliers were deleted. At last, an effective sample of 206 companies was obtained for analysis. In order to catch the effect of time on these companies, over which different economic and political changes have taken place in the economy, the total time period of 10 years has been split into two halves as 2008-09 to 2012-13 and 2013-14 to 2017-18 named as Phase I and Phase II respectively. Phase I represents post recessionary period as Indian economy was reviving from the spill over effects of U.S. recession. Phase II is the recent time period when New Companies Act, 2013 was introduced. SEBI (Prohibition of Insider Trading) Regulations, 2015; Insolvency and Bankruptcy code, 2016 were introduced. Certain economic disruptions in the shape of Demonetisation of Indian currency in November 2016 and introduction of Goods and Services Tax (GST) in July, 2017 were also witnessed. The sampled companies vary over these two time phases because of their transition from one category to another over years. The classification of sampled companies during two time phases is given in Table 1 below:

Table 1. Classification of companies on the basis of nationality during Phase I and Phase II.

	Number of Companies	
	Phase I (2008-09 to 2012-13)	Phase II (2013-14 to 2017-18)
Indian Domestic Companies	76	77
Indian MNCs operating abroad	80	79
Foreign MNCs operating in India	50	50

3.2 Measurement of Nationality

In order to assess the differences in Capital Structure practices of companies on the basis of geographical dispersion of their operations, the companies have been divided into three groups as 1) Indian Domestic Companies 2) Indian MNCs abroad and 3) Foreign MNCs operating in India through subsidiaries. Indian Domestic Companies are ones which have their operations restricted to their national boundaries alone. These companies undertake their business activities within their home country only. Indian MNCs abroad are the Indian companies but with operations expanded beyond national boundaries. Foreign MNCs are those companies that are of foreign origin but have operations in India. In other words, Multinational companies operating in India as a subsidiary of its parent company abroad are Foreign MNCs. In the previous studies, different bases have been considered to code a company as MNC. Studies by Fatemi (1988) have undertaken Foreign Sales ratio as a base to classify the firms into Domestic and Multinationals. Further, studies undertook Lee and Kwok (1988) and Burgman (1996) used Foreign tax ratio for classifying the companies into DCs and MNCs. Akhtar (2005) defined MNCs as the company which has its business activities in other countries. Avarmaa et al. (2011) defined MNCs as the company who's more than 50% of earnings directly owned by foreign company. Akhtar and Oliver (2009) defined MNC as the company that has at least one overseas subsidiary. Using this base, in the present study, we have coded a company as an Indian MNC if it has at least one subsidiary located in foreign country in the year 2018. Furthermore, a company has been defined as Foreign MNC if it has its parent company abroad and subsidiary located in India.

3.3 Sources of Data

Data is obtained from the secondary sources. Ace Equity and Prowess databases have been used. Annual reports of the companies have also been explored, whenever needed.

3.4 Measurement of Capital Structure

Different proxies of Capital Structure have been used in the empirical studies. Rajan and Zingales (1995) argue that the definition of Capital Structure depends upon the objective of analysis. Different ratios have been used to measure the Capital structure as Total Debt to Total Assets ratio. (Remmers et al., 1974; Boquist and Moore, 1984; Mackay and Phillips, 2001; Goveas, 2004; Rastogi et al., 2006; Das and Roy, 2007; Paliwal and Ruchi, 2010; Abzari et al., 2012; Pinkova and Riederova, 2013); Debt-Equity ratio (Belkaoui, 1975; Devi, 1992; Ramulu, 1993; Goveas, 2004; Omran and Pointon, 2009; Paliwal and Ruchi, 2010; Manjule, 2014; Baby et al., 2016), Long term Debt to Total Assets (Michaeles et al., 1999; Rastogi et al., 2006; Talberg et al., 2008; Pinkova and Riederova, 2013), Total Borrowings to Total Assets (Rastogi et al., 2006), Long term Debt to Equity (Devi, 1992), Long term Debt to Capital Employed (Rehman et al., 2010), Total Debt to Total Capitalization (Rajan and Zingales, 1995; Deesomsak et al., 2004)), Total Debt to Net Worth (Khan and Jain, 2018), Long term Debt to Net Worth (Ilyas and Raju., 2017; Khan and Jain, 2018) and Total Debt to Capital Employed (Pandey, 2015), Short term Debt Financing ratio (Omran and Pointon, 2009), Short term Debt ratio (Abor, 2007). The aforesaid measures have multiple critical explanations attached to them. For example, Total Debt has been condemned on the point that it raises the debt levels as some of the current liabilities like accounts payable are meant for transaction purposes rather than financing (Rajan and Zingales, 1995). Short term debt is criticized on the ground that it keeps on varying with the operations of firms (Rastogi and Narwal, 2014). Moreover, in case of outstanding debt, no interest tax deduction benefits are available so they cannot be examined in a way similar to long term debt. Despite these expositions, some authors favour the inclusion of short term debt as a part of total debt. They have their different outlook concerning the use of short term debt. As some current liabilities such as bank overdraft remain permanently in the business for financing purposes. Further, likewise long term debt holders, short term creditors are also paid together with long term creditors in the event of insolvency of a corporation (Khan and Jain, 2018). Also, Short term debt is extensively used relative to long term debt in developing nations (Booth et al., 2001). Short term liabilities are also used even for meeting long term obligations (Rasoolpur, 2012). So they cannot be ignored while deciding upon Capital Structure of a concern.

In order to scrutinize the usage of both long term and short term debt by Indian Domestic companies and MNCs, the present study employs three measures of leverage-

i. Total Debt to Net Worth ratio,
ii. Long term Debt to Net Worth ratio and
iii. Short term Debt to Net Worth.

Total Debt to Net Worth ratio or Debt Equity ratio indicates lenders or creditors contribution against each rupee of owner contribution. This ratio truly reflects the leverage levels of a corporation as earnings left after meeting fixed interest requirements enhance the earning per share and hence shareholders return. Total Debt (TD) includes both Long term Debt and Current Liabilities. So this ratio is formulated as below:

$$\frac{Total\ Debt}{Net\ Worth\ Ratio}$$

where, Total Debt = Long term Debt + Current Liabilities and Net Worth ratio = Share Capital+ Share Warrant+ Total Reserves- Miscellaneous Expenses not Written off.

In order to investigate the long term solvency position of a concern, second measure i.e. Long term Debt to Net Worth ratio (LTDNW) has been taken in this study. It is formulated as

$$\frac{Long\ Term\ Debt}{Net\ Worth\ Ratio}$$

where, Long term Debt = Secured Loans + Unsecured Loans.

The reason behind using the third measure i.e. Short term Debt to Net Worth ratio (STDNW) has is the ability of short term creditors to exert some pressure on the concerns. Like long term liabilities, this ratio also ascertains the financial risk of firms. It is formulated as

$$\frac{Current\ Liabilities}{Net\ Worth\ Ratio}$$

The current study uses book value rather than market value for measuring the Debt to Net Worth ratios because it represents the true value of financial leverage. Though market value is desirable, but it is devoid of accounting practices.

3.5 Statistical Techniques Used

To examine whether significant differences exist in the debt ratios of three groups of companies, Welch ANOVA is employed during Phase I. The condition of homogeneity of variance was not satisfied during Phase I unlike Phase II where one way ANOVA has been employed. In order to determine if debt ratios differs significantly over both the time phases in case of all the three companies, Paired Sample t- test is used after checking the assumptions of normality and deletion of significant outliers.

4 Empirical Findings, Results and Analysis

4.1 Capital Structure- Variations across Nationality

Capital structure adopted by the three categories of companies across two time periods is presented below in Table 2:

Table 2. Capital Structure of Companies across Nationality

Classification of Companies	TDNW (Mean %)		LTDNW (Mean %)		STDNW (Mean %)	
	Phase I (2008-09 to 2012-13)	Phase II (2013-14 to 2017-2018)	Phase I (2008-09 to 2012-13)	Phase II (2013-14 to 2017-18)	Phase I (2008-09 to 2012-13)	Phase II (2013-14 to 2017-18)
Indian Domestic Companies	136.10	112	61.19	40.05	74.90	72.02
Indian MNCs operating abroad	106.22	93.9	47.37	29.2	58.84	64.74
Foreign MNCs operating in India	80.99	98.23	19.05	27.78	61.94	70.45

As observed from Table 2, during Phase I (2008-09 to 2012-13) Indian Domestic Companies have highest average TDNW that equals to 136.10%, succeeded by Indian MNCs operating abroad having an average total debt of 106.2% and at last stands Foreign MNCs operating in India with an average TDNW of 80.99% only. A preference similar to TDNW is substantiated in case of long term debt with Indian Domestic Companies utilizing maximum long term debt with an average of 61.19% followed by Indian MNCs operating abroad at average of 47.37% and Foreign MNCs operating in India being the least debt oriented stands at the lowest average of LTDNW at 19.05%. With respect

to STDNW ratio, Domestic Companies utilizes maximum debt with average STDNW of 74.9% followed by Foreign MNCs operating in India at an average of 61.94% and Indian MNCs using minimum short term debt with average STDNW of 58.84%.

Phase I (2008-09 to 2012-13) represents the post recessionary period. During this phase, Indian Domestic companies are observed to be using maximum total debt with their greater inclination towards short term debt. In India, banks are the major investors in debt market. Indian banking stood the test of time and resisted the turbulence caused by US recession in 2008. The banks in India remained insulated from the effects of global recession due to their strong financial fundamentals. Moreover, time to time intervention by Reserve Bank of India and stringent monetary guidelines sheltered Indian banking system from adverse impacts of US crisis. Money lending has its foundation in faith. Indian banks bound the faith of their customers even during recessionary times perhaps due to their cautious and conservative lending policies. So, cheaper debt remained a favoured source of finance for the Domestic companies. Also, Domestic corporations have finite sources of earnings as their operations are restricted to domestic boundaries alone. Thus borderline profits and scarce retained earnings prompt these companies to choose relatively cheaper source of debt for financing their operations. But higher proportion of short term debt rather than long term debt perhaps hints at the inefficient legal system of the country. Creditors find it difficult to enforce their rights because legal procedures in India are quite lengthy and exorbitant so they restrict their lending for shorter period instead. Thus, these vulnerabilities in Indian legal system preclude lenders to lend for long term. During Phase I, Indian MNCs operating abroad made lesser use of debt as compared to Indian Domestic companies. The possible reason behind this may be lack of liquidity in global market in the aftermath of US recession in 2008. Many financial institutions abroad collapsed which restricted the borrowings of Indian MNCs through their overseas subsidiaries. Sufficiency of profits available with MNCs too could be a restraining factor in debt usage. Being geographically diversified, they have multiple investment opportunities. Even during financial turmoil, they sustain their profits by shifting their output from collapsed market to those with favourable conditions. Due to better access to global money market, greater proportion of borrowings of MNCs is financed through short term sources. Minimum debt usage amongst Foreign Companies operating in India is evidenced during Phase I. Failure of global money market as a consequence of US crisis caused tightness in the Indian money market. Money market rates shot up, which resulted into lesser credit availability to these corporations in India. Further, MNCs rely more on real options i.e. intangible assets rather than tangible assets or assets in place (Lee and Kwok, 1988) in order to avoid expropriation of assets by the host governments. Thus lack of collaterals in the form of tangible assets may be one of the reasons behind their lesser usage of debt. Also in order to reduce balance of payment deficit, host government may restrict the local borrowings by these corporations as these corporations usually repatriate their earnings to their parent countries rather than investing them in host countries. Cultural differences also account for variations in debt raising behaviour of companies. India is primarily a relation based country rather than a rule based one (Hooker, 2008). In relation based countries personal relations and social networking plays a prominent role even in formal processes. Lack of acquaintance makes it difficult for foreign companies to borrow conveniently and speedily from the Indian financial market. Legal pitfalls as underdeveloped debt market due to weak creditor rights protection mechanism in India too must have hindered the long term debt usage by foreign companies operating in India. Therefore, these companies are coaxed to rely on alternative sources of finance.

In Phase II (2013-14 to 2017-18), maximum average of TDNW ratio is of Domestic companies at 112%, followed by Foreign MNCs operating in India with an average TDNW of 98.23% and at last Indian MNCs operating abroad with an average of 93.9%. However, with respect to LTDNW ratio, Domestic companies are seen to be using maximum debt with average LTDNW of 40.05% followed by Indian MNCs operating abroad at an average of 29.2% and Foreign MNCs using minimum long term debt with an average LTDNW of 27.78%. The sequence of debt preference similar to TDNW is seen in case of short term debt. Average STDNW is 72.02%, 70.45% and 64.74% for Domestic, Foreign MNCs and Indian MNCs respectively. In Phase II (2013-14 to 2017-18), Domestic companies once again preferred the cheaper source of finance i.e. debt in their Capital Structure. But as compared to Phase I, lesser debt levels are observed in Phase II amongst Domestic companies. Sudden Demonetization in the country in November, 2016 squeezed the liquidity in the hands of people which caused slowdown in the demand especially in Textile, Consumer Goods, Retail and Automobile industries. Launch of GST in July, 2017 created some uncertainties in the minds of consumers as well as retailers and thus hit the sales of Domestic Corporations, though for a short term. This decline in sales led to reduction in the profitability of these corporations which ultimately reduced the willingness of banks and other lenders to lend to these corporations. The payback capacity also became capricious, thus reducing the proportion of debt in the capital structure. Foreign companies operating in India started using more debt as compared to Indian MNCs. Perhaps, steady earnings of these corporations accompanied with improvement in creditor rights due to implementation of Insolvency and Bankruptcy Code, 2016 during Phase II encouraged these companies to increase usage of debt. Indian MNCs operating abroad reduced their dependence on long term debt. Rather, they are preferring sources other than debt for financing their operations. Tightening of lending norms by increasing the provision to 2% on standard loans to subsidiaries of Indian MNCs operating abroad by Reserve Bank of India seems to be a very valid reason for reduced leverage. Further, they are getting listed on international stock exchanges and thus having enhanced access to equity capital even at low cost can be another probable reason behind this shift. These corporations are however seen to be dependent more on short term debt. High information

asymmetries due to underdeveloped bond markets, poor legal protection and macro-economic instability in the country seems to have increased the tendency of MNCs to rely on short term debt in their capital structure.

A noticeable observation suggests that in case of both Domestic Indian companies and Indian MNCs operating abroad, the proportion of debt with respect to all the three categories as Total, Long term and Short term debt has decreased in Phase II as compared to Phase I. Further, it is apparent that the decrease in leverage is mainly due to reduction in long-term debt levels, as the short term debt usage has relatively remained the same as compared to previous phase. Improvement in the Indian stock market and thus the availability of alternative long term source of finance such as equity seems to be a strong reason for the decline in debt usage. Introduction of mandatory guidelines with respect to Corporate Governance under New Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, may also have enhanced the willingness of the investors to invest in equity shares. Due to better corporate governance practices, equity investors may be sensing more protection from the self-oriented behaviour of managers which ultimately leads to reduction in the cost of equity and therefore preference for investment in shares increased. In contrary to the findings related to Indian Domestic and Multinational companies, subsidiaries of Foreign MNCS operating in India have shown increase in their debt levels during Phase II as compared to Phase I. Launch of 'Make in India' campaign in September, 2014 improved the localization of these MNCs in India. Their turnover and asset base also got a boost. Huge earnings by these corporations may have encouraged the lenders to lend them. However more dependence on short term debt is observed. Short term debt perhaps provides more protection to the lenders as compared to long term debt. It reduces the agency problems by reducing shareholders incentives to engage in highly risky projects. Further, less developed financial markets in the developing economies are another reason behind their dependence on short term debt rather than long term debt. Further, the diversified nature of these corporations and thus lesser earnings volatility may provide them better access to the money markets.

The preceding discussion suggests that there are differences in financing patterns of companies on the basis of nationality of companies in both the time phases. In order to check whether the differences between the capital structure of the Domestic and Multinational corporations are significant or not, Welch ANOVA in Phase I and One way ANOVA during Phase II has been applied at 5% level of significance. The results are shown in Table 3 as stated below:

Table 3. Results of Welch ANOVA and ANOVA during Phase I and Phase II

Phase I				
Welch	**Statistic**	**df1**	**df2**	**Sig**
TDNW	7.152	2	127.434	.001
LTDNW	22.618	2	133.744	.000
STDNW	1.468	2	115.491	.235

Phase II						
		Sum of Squares	**df1**	**Mean Square**	**F**	**Sig.**
TDNW	Between Groups	1.364	2	.682	.986	.375
	Within Groups	140.480	203	.692		
	Total	141.844	205			
LTDNW	Between Groups	.633	2	.316	2.263	.107
	Within Groups	28.379	203	.140		
	Total	29.011	205			
STDNW	Between Groups	.224	2	.112	.254	.776
	Within Groups	89.281	203	.440		
	Total	89.505	205			

From Table 3, it is evident that statistically there is a significant differences in the capital structure of Domestic, Indian MNCs and Foreign MNCs operating in India during Phase I with respect to total and long term debt. However, no significant differences in the short term debt usage are seen in case of the three groups of companies. Both Domestic and multinational concerns are using short term debt to a large extent during Phase I. However, in Phase II no significance differences in the capital structure choices of three groups' of corporations are observed, which confirms that statistically the debt structure choices whether total, long term and short term do not vary among Domestic, Indian Multinationals and Foreign Companies operating in India. Since the differences exist in the capital

structure of Domestic, Indian MNCs and Foreign MNCs operating in India during Phase I. Games Howell post hoc test has been applied in Phase I to know these differences minutely. The results are shown in Table 4.

Table 4. Results of Games Howell Post hoc test in Phase I

Capital Structure Ratios	(I) Companies	(J) Companies	Mean Difference (I-J)	Sig.
TDNW	Domestic	Foreign MNCs	.551099*	.001
LTDNW	Foreign MNCs	Domestic	-.421467*	.000
		Indian MNCs	-.283274*	.000

**The mean difference is significant at the 0.05 level*

Table 4 shows that during Phase I, Domestic Companies with no multinational operations have significant differences with MNCs operating in India at 5% level of significance with respect to TDNW ratio. They are using more total debt as compared to Foreign MNCs operating in India. The results also highlight that both Domestic companies with no multinational operations and Indian MNCs are significantly different from Foreign MNCs operating in India with respect to long term debt at 5% level of significance. Foreign MNCs operating in India are using lesser debt as compared to the Domestic and Indian MNCs during Phase I.

Mean debt ratios show a variation over two time phases considered in the study. In order to test the significance of differences in the three gearing ratios between Phase I and Phase II in case of companies grouped on the basis of nationality, Paired t- test is applied at 5% level of significance. The results are reported in Table 5 below:

Table 5. Results of Paired Sample t-test for Indian Domestic Companies, Indian MNCs and Foreign MNCs operating in India

	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference		t	df	Sig. (2-tailed)
				Lower	Upper			
Indian Domestic Companies								
Pair 1 (TDNW Phase I- TDNW Phase II	.267395	.823552	.094468	.079205	.455584	2.831	75	.006
Pair 2 (LTDNW Phase I- LTDNW Phase II)	.225013	.486214	.055773	.113908	.336118	4.034	75	.000
Pair 3 (STDNW Phase I- STDNW Phase II)	.044092	.504233	.057840	-.071130	.159314	.762	75	.448
Indian MNCs								
Pair 1 (TDNW Phase I- TDNW Phase II	.192675	.527974	.059029	.075180	.310170	3.264	79	.002
Pair 2 (LTDNW Phase I- LTDNW Phase II)	.211306	.332489	.037173	.137314	.285298	5.684	79	.000
Pair 3 (STDNW Phase I- STDNW Phase II)	-.017394	.376128	.042052	-.101097	.066309	-.414	79	.680
Foreign MNCs								
Pair 1 (TDNW Phase I- TDNW Phase II	-.172224	.967715	.136856	-.447245	.102797	-1.258	49	.214
Pair 2 (LTDNW Phase I- LTDNW Phase II)	-.087340	.334954	.047370	-.182533	.007853	-1.844	49	.071
Pair 3 (STDNW Phase I- STDNW Phase II)	-.085066	.918708	.129925	-.346160	.176028	-.655	49	.516

Table 5 reports statistically significant differences in the mean total and long term debt ratios between Phase I and Phase II in case of Indian Domestic Companies and Indian MNCs. However, no significant differences are seen in the short term debt ratios of these groups during two time phases. Foreign MNCs do not exhibit any significant variations in various mean debt ratios during two time phases considered in this study.

On the whole, it is evident that Domestic companies with no multinational operations are highly debt oriented in both the time phases. However, reduction in proportion of debt is evidenced in case of these companies in Phase II as compared to Phase I. Even Indian MNCs are seen to be shifting their preference towards other sources of finance rather than debt in Phase II. Increase in proportion of debt has been seen in the Capital structure of Foreign MNCs operating in India. The findings further show lesser leverage in MNCs as compared to Domestic companies. Overall, the results reveal significant variations in total and long term debt ratios of Domestic and Indian MNCs over two time phases, which indicate that these companies are trying to adjust their capital structure towards a

target. In other words, these companies are endeavouring to have a debt-equity combination which minimizes the risks and maximizes the returns for all stakeholders. Further, higher bankruptcy and agency cost in case of MNCs as compared to interest tax deduction benefit may propel them to move towards a target debt ratio as appropriately suggested by the Trade-off Theory.

5 Conclusion and Managerial Implications

The current study elucidates that nationality is an important attribute that drives Capital Structure decisions of companies operating in India. The results of the study assert more preference of debt in Domestic Indian Companies as against Indian MNCs operating abroad and Foreign MNCs operating in India during both the time phases. Significant variations in the Total and Long Term Debt ratios of Domestic Indian Companies and Indian MNCs operating abroad between two time phases highlights that time is also a big factor affecting gearing choices. Indian Domestic companies and Indian MNCs are seen to be using more debt during Phase I as compared to Phase II. Also a noticeable observation suggests that the decline in debt usage during Phase II is mainly due to reduction in long term debt levels of these corporations. The proportion of short term debt is rather increasing in Phase II both in case of Foreign MNCs operating in India and Indian MNCs operating abroad.

The results have some strong implications for corporate sector. First, institutional voids affect financing decisions. In fact, it seems that nationality causes significant differences in leverage choices because of restrictions foisted by a country's institutional framework. Hence the corporations must assess the limitations imposed by institutional set ups prior to planning their debt structure. Secondly, managers of MNCs are suggested to consider the economic, political, legal and cultural environment of countries in which their subsidiaries are located prior to designing their Capital Structure. Thus, country-wise differences in terms of tax structures, level of development of financial institutions, status of capital markets, availability of credit facilities etc. must be reviewed. Thirdly, use of long term debt provides the benefit of equity trading. Therefore managers of Indian Domestic companies must plan their financial decisions astutely such that there is optimum proportion of long term debt and equity in their Capital Structure. This shall reduce the overall cost of financing and would contribute towards maximization of firms' value. Fourthly, in the times of globalization, liberalization and privatization when there is a surge in the cross-country business arrangements, a proactive role is required to be undertaken by the regulatory authorities of India hosting foreign MNCs. The institutional set up should encourage long term financing in these corporations. Also, Bond market which is relatively underdeveloped in India requires fortification. In fact, stringent steps are required to be taken by the Securities Exchange Board of India (SEBI) for the promotion and development of both the stock as well as the bond market in the country. More effective legal procedures must be formulated in order to give better protection to the creditor rights. To sum up, utmost endeavours should be made to gauge the environment of a geographical location at a particular point of time before taking a leverage decision so that it proves fruitful to all the stakeholders.

6 Scope for future Research

The current paper reviews the Capital Structure decisions of companies emanating from varied origins with their operations in India over two different time phases. No doubt the current work adds value to the extant literature, but this is just a preliminary effort. To provide greater insights into the financing decisions of companies the work can be extended on studying the varied determinants affecting Capital Structure decisions of MNCs and DCs. Similar study can also be replicated on companies from other developing and developed countries. Finance is the foundation of business and hence assessment of financing decisions would always remain desirable.

References

Abor, J., 2007. Industry classification and the capital structure of ghanaian smes. Studies in Economics and Finance 24 (3), 207–219.

Abzari, M., Faathi, S., Torosian, A., 2012. Inter-industry differences in capital structure and product market competition : Evidence from Iranian companies. Interdisciplinary Journal of Contemporary Research in Business 3(9), 395–402.

Aggarwal, R., Kyaw, N.N.A., 2010. Capital Structure, Dividend Policy, and Multinationality: Theory versus Empirical Evidence. International Review of Financial Analysis 19(2), 140–50.

Ajay, R., Madhumathi, R., 2012. Diversification Strategy and its Influence on the Capital Structure Decisions of Manufacturing Firms in India. International Journal of Social Science and Humanity 2(5), 421–26.

Akhtar, S., 2005. The Determinants of Capital Structure for Australian Multinational and Domestic Corporations. Australian Journal of Management 30(2), 321–341.

Akhtar, S., Oliver, B., 2009. Determinants of Capital Structure for Japanese Multinational and Domestic Corporations. International Review of Finance 9(1-2), 1–26.

Avarmaa, M., Hazak, A., Männasoo, K., 2011. Capital Structure Formation in Multinational and Local Companies in the Baltic States. Baltic Journal of Economics 11(1), 125–145.

Baby, S., Dutta, C., Kalita, B., 2016. Analysis of Capital Structure in Different Industries in India. Journal of Management in practice 1(1), 1–30.

Belkaoui, A., 1975. A Canadian Survey of Financial Structure. Financial Management 4(1), 74–79.

Booth, L., Aivazian, V., Demirguc-kunt, A., Maksimovic, V., 2001. Capital Structures in Developing Countries. American Finance Association 56(1), 87–130.

Boquist, J.A., Moore, W.T., 1984. Inter-Industry Leverage Differences and the Deangelo- Masulis Hypothesis. Financial Management 13(1), 5–9.

Burgman, T.A., 1996. An Empirical Examination of Corporate Capital Structure. Journal of International Business Studies 27 (3), 553–570.

Chen, C.J., Cheng, C.A., He, J., Kim, J., 1997. An Investigation of the Relationship between International Activities and Capital Structure. Journal of International Business Studies 28(3), 563–577.

Das, S., Roy, M., 2007. Inter-Industry Differences in Capital Structure: Evidence from India. Finance India 21(2), 517.

Deesomsak, R., Paudyal, K., Pescetto, G., 2004. The Determinants of Capital Structure: Evidence from the Asia Pacific Region. Journal of Multinational Financial Management I (4–5), 387–405.

Devi, N.Y., 1992. A Study of Cost of Capital and Capital Structure in Indian Industries. Doctoral dissertation, Bharathiar University, Coimbatore, India.

Doukas, J.A., Pantzalis, C., 2003. Geographic Diversification and Agency Costs of Debt of Multinational Firms. Journal of Corporate Finance 9, 59–92.

Farooq, O., 2016. Do Multinational and Local Corporations Differ in their Leverage Policies? Evidence from the MENA Region. Journal of Applied Business Research 32(1), 1–10.

Fatemi, A.M., 1988. The Effect of International Diversification on Corporate Financing Policy. Journal of Business Research 16(1), 17–30.

Fatemian, F., Farzin, R., 2018. Capital Structure Determinants Inside Multinational and Domestic Companis: Evidence from Iran. Revista Humanidades e Inovação 5(2), 155–68.

Goveas, C., 2004. Corporate Capital Structure and Cost of Capital- A Study of Companies in selected Industries. Doctoral dissertation, Manglore University, Manglore, India.

Hooker, J.N., 2008. Corruption from a Cross-Cultural Perspective. Cross Cultural Management: An International Journal 16(3), 251–267.

Ilyas, P.C., Raju., G., 2017. Capital Structure Pattern of Companies in India: With Special Reference to the Companies Listed in National Stock Exchange. Capital structure pattern of companies in India: With special reference to the companies listed in national stock exchange. 5(6), 67–75.

Jensen, M., Meckling, W., 1976. Theory of the firm: Management Behavior, Agency Costs and Capital Structure. Journal of Financial Economics 3(4), 305–360.

Khan, M.Y., Jain, P.K., 2018. Financial Management: Text, Problems and Cases. Mc-Graw Hill Education.

Khaw, K.L.H., 2019. Debt Financing Puzzle and Internationalization. Journal of Asia Business Studies 13 (1), 33–56.

Kraus, A., Litzenberger, R.H., 1973. A State preference Model of Optimal Financial Leverage. The Journal of Finance 28 (4), 911–922.

Lee, K.C., Kwok, C.C.Y., 1988. Multinational Corporations vs. Domestic Corporations: International Environmental Factors and Determinants of Capital Structure. Journal of International Business Studies 19 (2), 195–217.

Mackay, P., Phillips, G.M., 2001. Is there an Optimal Industry Capital Structure?. Unpublished Working Paper. .

Manjule, R.R., 2014. Impact of Capital Structure in Indian Industries. International Journal of Scientific and Engineering Research 5 (1), 2239–2249.

Mansi, S.A., Reeb, D.M., 2002. Corporate Diversification: What Gets Discounted?. 57 (5), 2167–2183.

Michaeles, N., Chittenden, F., Poutziouris, P., 1999. Financial Policy and Capital Structure Choice in u.k. SMEs: Empirical Evidence from Company Panel Data. Small Business Economics 12 (2), 113–130.

Mittoo, U.R., Zhang, Z., 2008. The Capital Structure of Multinational Corporations: Canadian Versus U.S. Evidence. Journal of Corporate Finance 14(5), 706–720.

Modigliani, F., Miller, M., 1958. The Cost of Capital, Corporation Finance and the Theory of Finance. American Economic Review 48 (3), 291–297.

Musnadi, S., M., M.D., Rauzaturrahmi, 2018. Capital Structure Analysis of Multinational and Domestic Manufacturing Companies in Indonesia. Research Journal of Finance and Accounting 9 (12), 146–55.

Mustapha, M., 2011. Monitoring Costs of MNC: An Agency Theory Perspective. In International Conference of Global Academy of Business and Economic Research , 22–23.

Nasif, M., Waseem, S., 2018. Comparing Leverage Policy of Multinational and Domestic Firms: Evidence from Pakistan. Journal of Business and Economics 10 (1), 1–17.

Omran, M.M., Pointon, J., 2009. Capital Structure and Firm Characteristics: An Empirical Analysis from Egypt. Review of Accounting and Finance 8 (4), 454–474.

Paliwal, Ruchi, 2010. A Comparative Study of Capital Structure of Indian Companies- An Inter-Industry Analysis. Doctoral thesis, SNDT Women University, Mumbai, India.

Pandey, I.M., 2015. Financial Management. Vikas Publishing House.
Park, S.H., Jungwon, S., Bernard, Y., 2013. Do Multinational and Domestic Corporations Differ in Their Leverage Policies? Journal of Corporate Finance 20 (1), 115–139.
Pinkova, P., Riederova, S., 2013. Inter and Intra-Industry Variations of Capital Structure in the Czech Manufacturing Industry. Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis 61 (7), 2623–2629.
Rajan, R.G., Zingales, L., 1995. What do we know about Capital Structure ? some Evidence from International Data. The Journal of Finance L (5), 1421–1460.
Ramulu, D., 1993. Capital Tructure Planning in Public Enterprises. Published doctoral dissertation, Acharya Nagarujuna University, Guntur, India.
Rasoolpur, G.S., 2012. Composition of Capital Structure Decisions: Comparative Empirical Evidence from India. Choice 317, 18.
Rastogi, A.K., Jain, P.K., Yadav, S.S., 2006. Debt Financing of Corporate Enterprises in India: A Study Showing Impact of Industry, Size and Age Factors. Journal of Advances in Management Research 3 (2), 54–67.
Rastogi, P., Narwal, P., 2014. Differential Analysis of Various Industries on the Basis of Capital and Asset structure : An Indian Study. Industrial Engineering Letters 4 (12), 48–61.
Rehman, M.A.U., Rehman, R.U., Raoof, A., 2010. Does Corporate Governance Lead to a Change in the Capital Structure ? American Journal of Social Management Sciences 1 (2), 191–195.
Remmers, L., Stonehill, A., Wright, R., Beekhuisen, T., 1974. Industry and Size as Debt Ratio Determinants in Manufacturing Internationally. Financial Management 3 (2), 24.
Shapiro, A.C., 1978. Financial Structure and Cost of Capital in the Multinational Corporation. The Journal of Financial and Quantitative Analysis 13 (2), 211–226.
Singh, M., Nejadmalayeri, A., 2004. Internationalization, Capital Structure and Cost of Capital : Evidence from French Corporations. Journal of Multinational Financial Management. 14 (2), 153–169.
Talberg, M., Winge, C., Frydenberg, S., 2008. Capital Structure Across Industries. International Journal of the Economics of Business 15 (2), 181–200.