



**Mona School
of Business &
Management**

The University of the West Indies, Mona

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**"Driving Transformation-Finance, Enterprise Development & Wealth Creation"
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Research Presentation

Title: An investigation into the impact of capital structures on the profitability levels of new ventures in Trinidad and Tobago.



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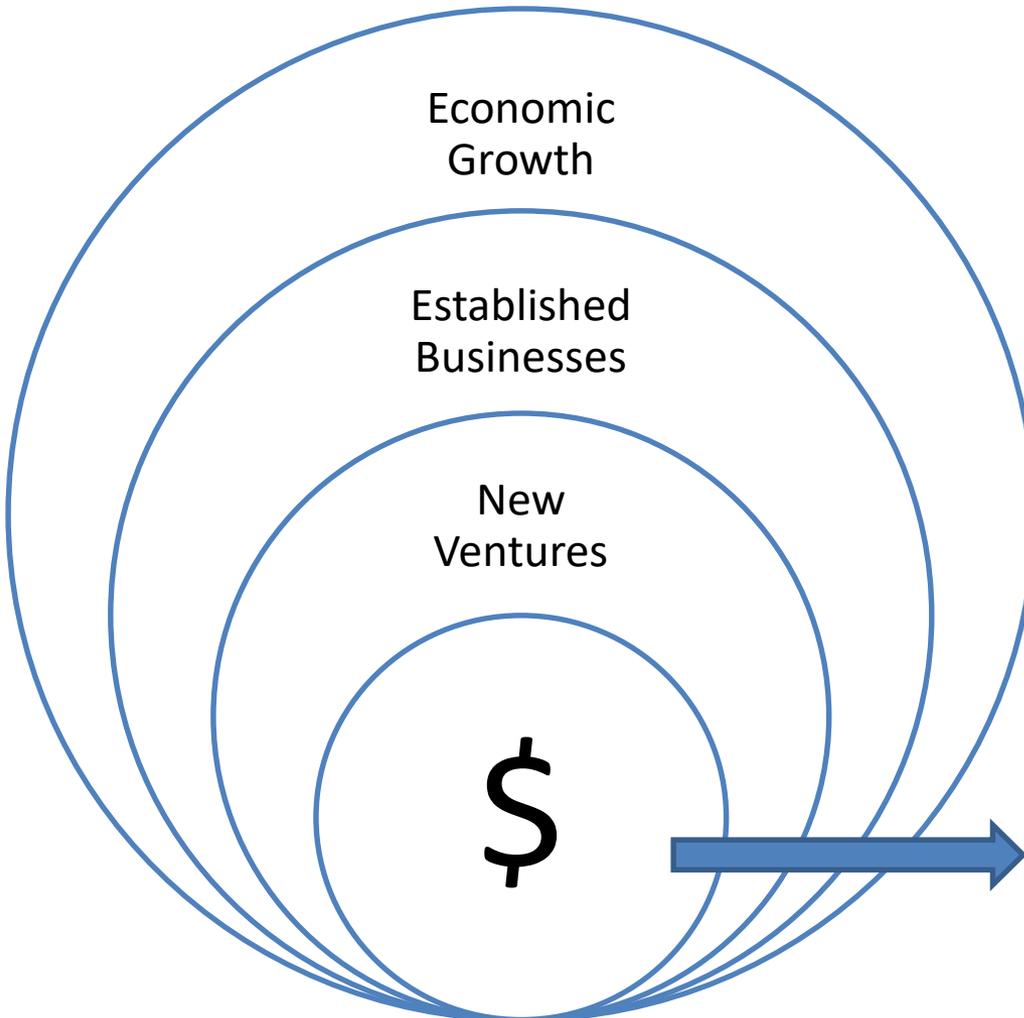
Where Education is beyond the Academics

Presenter: Dr Priscilla Bahaw



Introduction

Why should we be concerned about this topic?



Finding an optimal capital structure that ensures **profit maximisation** is a pursuit of many new venture owners (Jensen, 1986).

Deciding on a **suitable capital structure** remains subjective.

Financial support is **constraining factor** to entrepreneurship in the Caribbean (Pounder, 2016; T&T MSE Policy Report, 2016; GEM Report, 2012)

Accessing \$ is an Universal Challenge

Research Objectives

The purpose of this research is to investigate the existing capital structure of new ventures in Trinidad and Tobago and assess the impact it has on net profit margins.

Research Questions

Main Question:

Do capital structures have an impact on net profit margins in new ventures of Trinidad and Tobago?

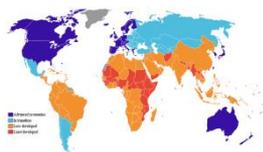
5 Subsidiary Questions:

Is there a significant relationship between	retained earningssource of finance and net profit margin in new ventures of Trinidad and Tobago?
	owners savings...	
	informal investors...	
	short-term debt...	
	long- term debt...	

Originality and Value of Research

Academic Importance

- Literature = inconsistent and contradictory findings.
- Previous research on capital structure and firms concentrated on:



- 1st Study to combine life cycle theory and pecking order theory in the conceptual framework.
- The study provided a theoretical underpinning to the concept of **“Encouraging internal equity finance to drive profitability in new ventures”**

Practical Importance

- provides empirical support to aid new venture owners and financial managers when analysing the opportunity cost of decisions made on the financing mix of their respective companies.

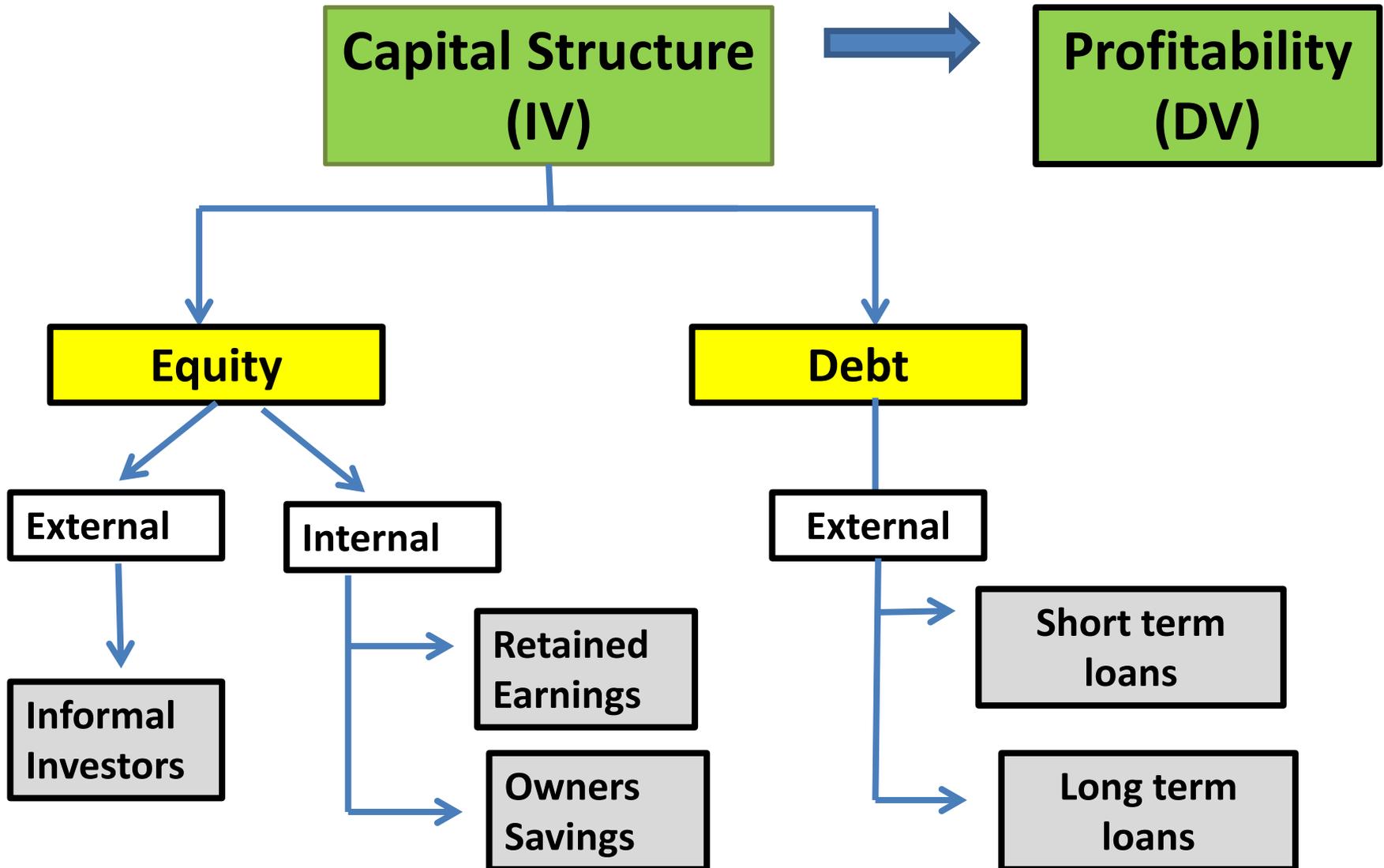
Literature Highlights

- Debt and equity finance are the two main forms of capital that entrepreneurs can obtain to start and grow their businesses.
- Whilst there are pros and cons of choosing debt or equity finance, layered financing is an option that can be used to raise finance from multiple sources (Scarborough & Cornwall, 2016).
- 3 main theories popular to the literature domain which gives insights on what drives the capital structure decisions are the Pecking Order Theory, the Static Trade-Off Theory and the Life Stage Theory.

Mixed Findings:

- A positive relationship was also found by Gill, Bigger and Mathur (2011) between leverage and profitability.
- Olokoyo (2013) and Quang and Xin (2014) found a negative impact of firms capital structure on financial performance.
- Chanda and Sharma (2015) in their study of Indian manufacturing firms revealed that these firms return on assets was not determined by their capital structures.

Conceptual Framework



Hypotheses

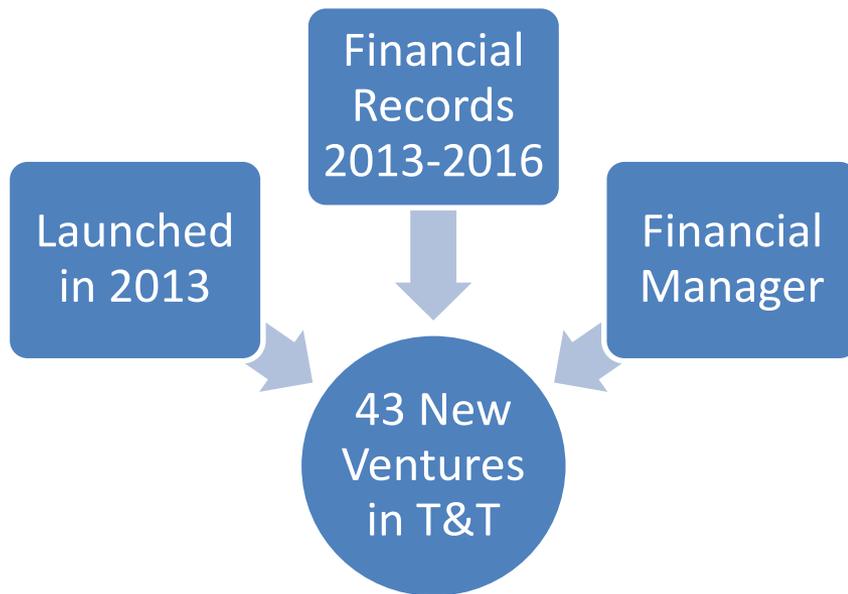
H1: Capital structure has an impact on net profit margins of new ventures in Trinidad and Tobago.

The research subsidiary postulations are as follows:

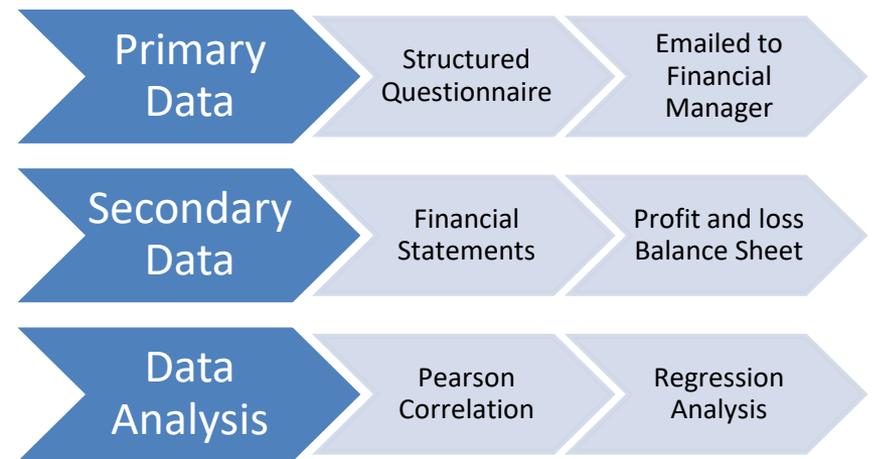
H2	There a significant relationship between....	...retained earningssource of finance and net profit margin in new ventures of Trinidad and Tobago?
H3		...owners' savings...	
H4		...informal investors...	
H5		...short-term debt...	
H6		...long- term debt...	

Methodology

Sampling

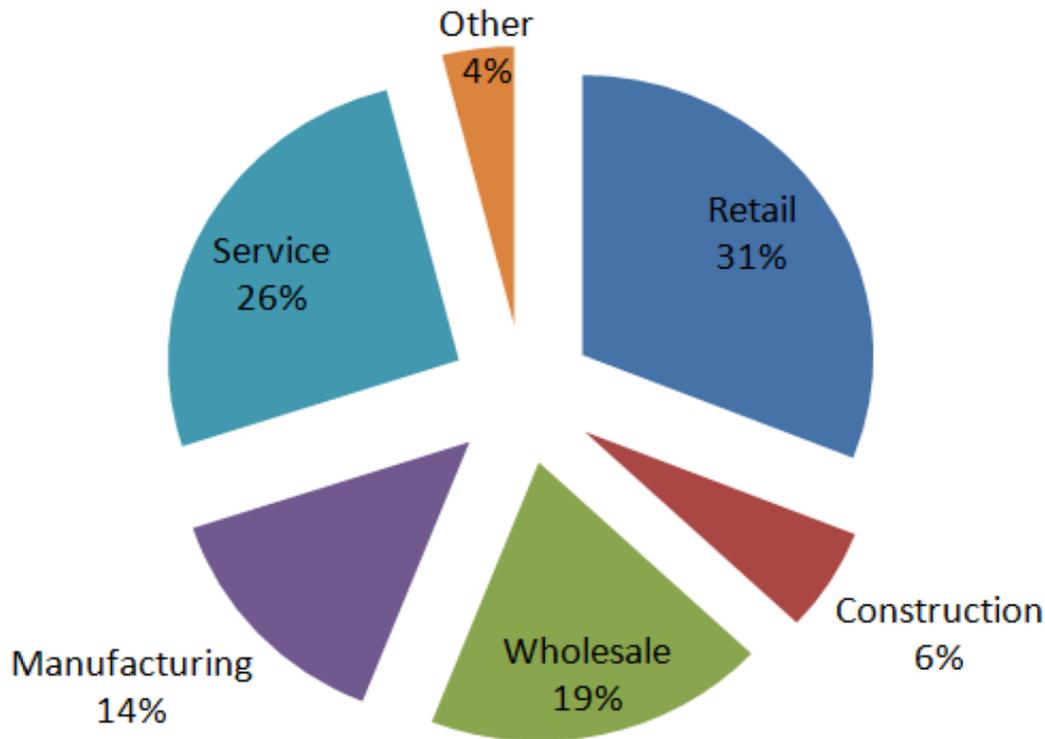


Data Collection and Analysis

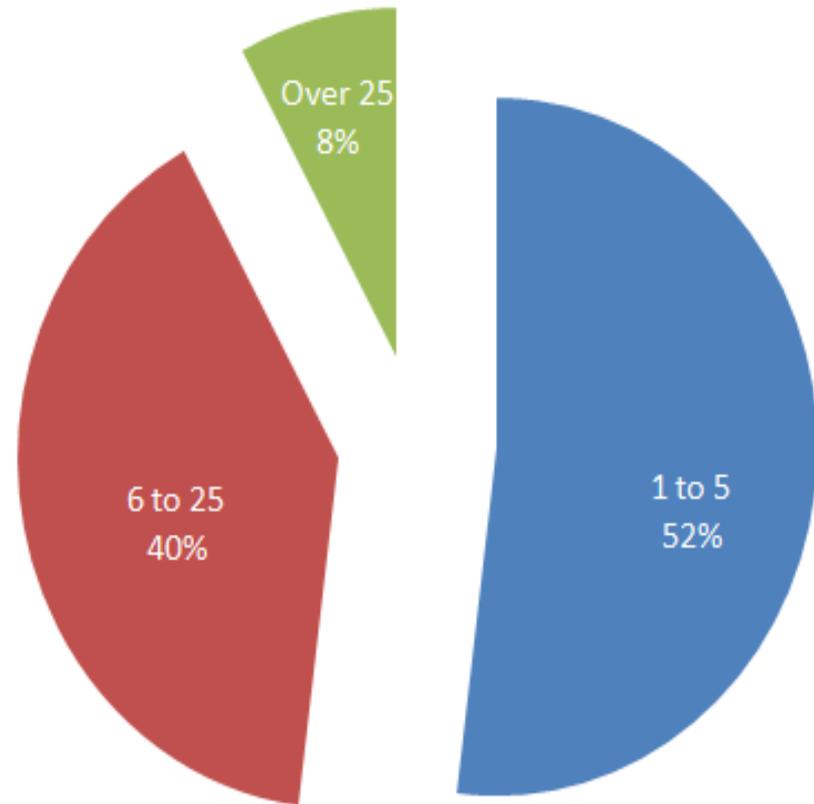


Respondent Profile

Industry or Sector of Business



Number of Employees



Results: Correlation Analysis

	Hypotheses: There is a significant relationship between... ...source of finance and net profit margin in new ventures of Trinidad and Tobago?	R	p-value	Decision	Relationship
H₂	...retained earnings583	.003 **	Accept	+
H₃	...owners' savings...	.789	.000 **	Accept	+
H₄	...informal investors...	-.484	.017 *	Accept	-
H₅	...short-term debt...	-.544	.006 **	Accept	-
H₆	...long- term debt...	-.498	.013 *	Accept	-
* $\alpha = 0.05$		** $\alpha = 0.01$			

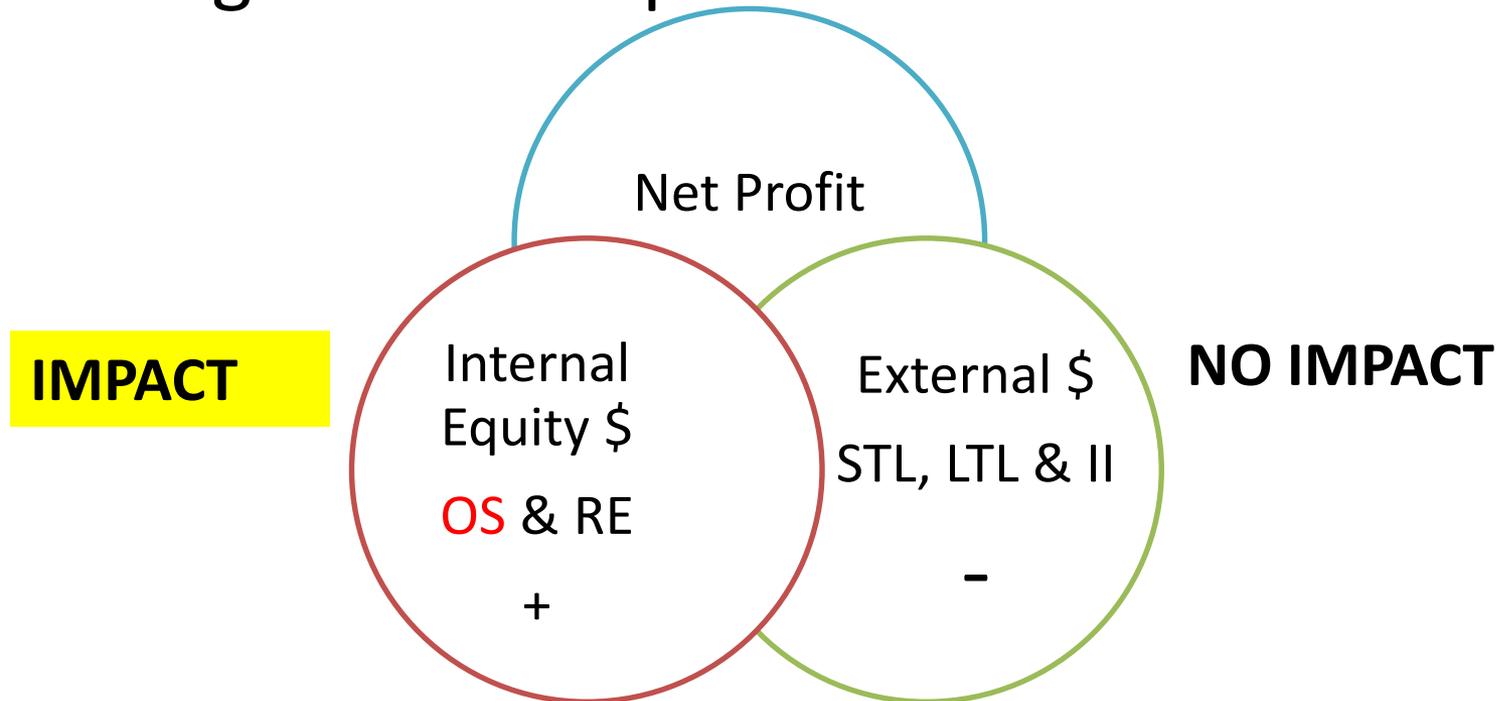
Results: Regression Analysis

$$\text{NPM}_{xy} = \alpha + \beta_1 \text{OS}_{xy} + \beta_2 \text{RE}_{xy} + \beta_3 \text{II}_{xy} + \beta_4 \text{STL}_{xy} + \beta_5 \text{LTL}_{xy} + \varepsilon$$

Dependent variable	Regression test	Model
Net Profit Margin	Step-Wise	= -2.431 + 1.297 Owners Savings + 0.079 Retained Earnings R² = 0.691 , R² adj. = 0.662

Key Findings

- Subsidiary hypotheses were not rejected
- Strong relationships



H₁: Capital structure has an impact on net profit margins of new ventures in Trinidad and Tobago, is Accepted.

Conclusion

The study accomplished its main objective which was to investigate the impact of new ventures in Trinidad and Tobago capital structure on net profit margins.

Newly emerged firms operate differently to that of their larger mature counter parts explaining the discrepancies found

It can be concluded from this study's findings that the pecking order theory which stated that internal versus external sources of finance should be prioritized is in full alignment to the experiences of new ventures in Trinidad and Tobago.

Implications

- **Academic: This study contributed to the literature by:**
 - providing data on the effect of different types of internal and external debt and equity financing options
 - provided a basis for further research on capital structure theories, focusing on newly emerged ventures.
 - Provided a theoretical underpinning to the concept of “ Encouraging internal equity finance to drive profitability in new ventures”
- **Managerial Recommendation :**
 - give preference to owners savings and retained earnings rather than to rely on loans and informal investment to finance their business during the earlier stages of the venture life cycle as these internal sources of equity finance are seen to positively affect profitability in new ventures.

Research Limitations

- Limits Generalization
 - This study is limited to one country under investigation, therefore further research needs to be extended to other countries to know the real picture.

Thank you

Questions /Comments Welcomed

- I would like to say a special thank you to my sponsors:
- CTS College
- Caribbean Educational Publishers

- Thanks to UWI MSBM for the opportunity to share my findings



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