A microfranchise case study on the evolsution of the debt-to-equity ratio in the capital structure model

[1*] Mr.Susanta Kumar Swain, [2]Mr. Sunil Kumar Mishra
[1]Asst. Professor, Dept. of MBA, NIT BBSR,
Asst. Professor, Dept. of MBA, SAM & T, BBSR
1*Susantakumarswain@thenalanda.com ,sunilmishra@yahoo.com

Abstracts

This essay seeks to create a capital structure model for microfranchising from the standpoint of Malaysia . The focus of this study will be on the elements that go into creating a capital structure model that emph asises the debt to equity ratio. The debt in micro franchising is analysed using a regression model. The d ependent variable in this study is the debt to equity ratio, while the independent factors are growth, tangi bility, profitability, business size, liquidity, and age.

Keywords: Micro franchising; Capital structure

1. Introduction

In the late 1940s, franchising first appeared in the US and Europe. Meanwhile, Isaac Singer is the founder of Singer Sewing Machine Company. He appointed an independent salesman at the time in order to boost his company's distribution of sewing machines. So, at this time, franchising was invented (A. Hamid & Omar, 2005). Singer Sewing Machine Company's franchising was the first franchise busin ess introduced in Malaysia, whereas A&W was the first fast food in this industry, according to Mohd Ha rif et al. (2011). (Baputey, 1998)

If the finance selections were made incorrectly, it could have an impact on the company's worth (Gomez et al., 2012). For instance, excessive debt exposure will result in bankruptcy (Oino, 2014). The majority of profitable companies focus primarily on increasing dividends to shareholders. However, the manager needs to choose the right combination of debt and equity (Ukaegbu & Oino, 2012). The best capital structure model will be created as a result of this investigation. There aren't many studies being done in this particular area. This can be brought on by the difficulties in obtaining data from small businesses (Saarani & Shahadan, 2013). Managers of businesses frequently struggle to choose the best capital structure. Companies haven't been able to accumulate adequate liquidity to sustain during credit expansions.

2. Problem Statement

Regarding the aforementioned problems, no research that were done have created a debt to equity in the capital structure model for this specific field. In order to strengthen the financial condition of franchise businesses and build the capital structure of the debt to equity ratio in micro franchising, this paper's objectives. The elements that affect the composition of the debt to equity ratio and the capital structure in micro franchising will also be realigned by this study.

3. Research Objectives

The study's primary goal is to:

a) Define the connection between micro franchising expansion and the capital structure's debt to equity ratio.

b) To determine the connection between micro franchising profitability and its capital structure's debt to equity ratio.

c) To determine how the capital structure's debt to equity ratio in micro franchising relates to liquidity.

d) To determine how a micro franchise's capital structure's debt to equity ratio relates to the size of the company.

e) To determine the association between firm age and the debt-to-equity ratio in micro franchising.

4.Research Questions

The following questions are addressed in this work in an effort to:

a) Does the debt to equity ratio of the capital structure model in micro franchising have a good relationship with growth?

b) Does the debt to equity ratio of the capital structure model in micro franchising have a positive relationship with the tangibility of an asset?

c) Does profitability in microfranchising have a negative relationship with the debt to equity ratio of the capital structure model?

d) Does the debt to equity ratio of the capital structure model in micro franchising have a good relationship with liquidity?

e) Does the debt to equity ratio of the capital structure model in micro franchising have a favourable relationship with the firm size?

f) Does firm age have a favourable relationship with the capital structure model's debt to equity ratio?

Growth

5.Literature Review

Huang and Song (2002) assert that businesses with high-growth prospects are more likely to have higher levels of debt. High-growth corporations are anticipated to need more outside funding and may be heavily leveraged in the case of companies that are in the tender stage with more concentrated ownership (Heshmati, 2001). Growth and total debt have a positive association, say Bhaduri (2002), Chen (2004), Tan and Jang (2005), Norvaisiene and Stankevciene (2007), Oyesola (2007), Shah and Khan (2007), Al-Najjar and Taylor (2008), and Cespedes et al. (2009). There is an issue with underinvestment, which causes investors and shareholders to ignore investment initiatives with a positive net present value while new projects are frequently given to them as growth prospects (Saraani & Faridah, 2013).

Growth

Huang and Song (2002) assert that businesses with high-growth prospects are more likely to have higher levels of debt. High-growth corporations are anticipated to need more outside funding and may be heavily leveraged in the case of companies that are in the tender stage with more concentrated ownership (Heshmati, 2001). Growth and total debt have a positive association, say Bhaduri (2002), Chen (2004), Tan and Jang (2005), Norvaisiene and Stankevciene (2007), Oyesola (2007), Shah and Khan (2007), Al-Najjar and Taylor (2008), and Cespedes et al. (2009). There is an issue with underinvestment, which causes investors and shareholders to ignore investment initiatives with a positive net present value while new projects are frequently given to them as growth prospects (Saraani & Faridah, 2013).

Liquidity

In a given acute stress scenario, liquidity refers to the amount of high-quality liquid assets that are available to meet short-term liquidity needs (Saararani & Shahadan, 2013). Sibilkov (2009) asserts that leverage and liquidity are positively correlated. In light of the notion that liquidity significantly affects debt ratios, the relationship between liquidity and capital structure must be taken into account (Udomsirikul, Jumreornvong & Jiraporn, 2011). Companies with strong liquidity ratios may have higher debt ratios because they can access short-term finance more easily (Al- Najjar & Taylor 2008).

Large firm

Understanding the relationship between business size and leverage is essential since, in contrast to small enterprises, large firms seek to diversify their financing sources (Shumway, 2001). Romano, Tanewski, and Smyrnios (2001) assert that the size of that company has a substantial impact on leverage. Additionally, the maturity structure of debts varies between small and large businesses (Uyar & Guzelyurt, 2014). Size has a favourable correlation with long-term debt and a negative correlation with short-term debt (Benkraiem & Gurau, 2013).

Age of the Company

Age is crucial when analysing a firm's capital structure (Bhaird, 2010). Typically, a financial institution will assess the company's creditworthiness over time. The ability to get external financing decreases as a company gets younger. According to Klapper, Sarria-Allende, and Sulla (2002), businesses that have been in operation for under four years rely more on unofficial finance and less on bank financing. Older businesses typically have higher debt ratios in order to grow their businesses (Petersen & Rajan 1994). Age is positively correlated with debt, which has been proven (Hall et.al 2004).

6. Hypotheses

H1: The ratio of debt to equity and growth are positively correlated.
H2: The debt to equity ratio and the tangibility of the assets have a favourable link.
H3: The debt to equity ratio and profitability have a negative relationship. H4: Liquidity and the debt-to-equity ratio have a favourable link.
H5: The debt to equity ratio and firm size have a favourable association.
H6: The age of the company and the debt to equity ratio have a favourable association.

7.Methodology

Data Collection Procedure

The secondary data will be used in this study. This study will be conducted within the micro franchising business with the start-up capital of not more than RM50, 000 (Bernama, 2014). A list of respondents recommended by Perbadanan Nasional Berhad and SMEs Bank will be used in this study. The data will be obtained from the annual report of micro franchising business.

Analysis of Panel Data

Compared to the times series and cross sectional approaches, the panel data method has additional benefits. The panel data method combines the cross sectional and times series approaches. In recent years, the panel data approach has been chosen (Michaelas et al., 1999; Sogorb-Mira & Lopez-Gracia, 2003; Frank & Goyal, 2003). Several studies have used panel data analysis in their research, however none of these studies look at how the debt to equity ratio develops in micro franchising. The panel data general regression model is expressed as follows.

Debt to equity ratio example

I t = o + 1 GROWTHi, t + 2TAi, t + 3PROFITi, t + 4FS, I $t + \beta 5 LIQUIDITY$, I $t\beta 6 AGE$i, t + si, t
Keys:
Debt =Debt
GREEN = Green
Tangible assets (TA)
Profit equals PROFIT
Firm size (FS)
LIQUID = Liquid AGE = Age, t = Time-series, and I = Data cross section

8.Expected Outcomes
The results of this study are anticipated to add to the scant literature on the capital structure model's debt to equity ratio in micro franchising. Additionally, it is applicable to be used in microfranchising businesses. Additionally, managers can utilise this model to determine the best distribution of various financial sources across the company. Finally, it is critical that the government create a microfranchise programme that will aid upcoming microfranchisors.

9.Conclusion
The development of the ideal capital structure model for microfranchising can help to strengthen the financial position of the microfranchise industry. This is usually something fresh because micro franchising is only starting to gain attention in this region. Additionally, the capital structure model might assist the aspiring franchisee in lowering the overall risk of the business. However, this new model will help the government create the microfranchise programme and, concurrently, raise the number of new entrepreneurs participating in this industry.

References
M.T. Hamid and R. Omar, 2005. An investigation into the challenges and opportunities faced by franchisors operating their franchise businesses in Malaysia. the document was retrieved from http://ir.uitm.edu.my/5060/1/LP TAHIR A.HAMID 05 24.pdf.

Taylor, P., and B. Al-Najjar, 2008. Ownership structure and capital structure in relation to one another. 34(12), 919–933 in Journal of Managerial Finance.

S. Baputey, 1998. The Success of Bumiputra Franchisees in Malaysia is Affected by Various Factors Master Science Journal. taken from S Baputey's 1998 psasir.upm.edu.my article.

R. Benkraiem and C. Gurau, 2013. How Do French SMEs' Capital Structure Decisions Relate to Corporate Characteristics? 19(2), 149–164, International Journal of Entrepreneurial Behaviour & Research

2014 Bernama via http://www.mfa.org.my/newmfa/konsep-francais-mikro-tarikan-usahawan-baharu/ Retrieved on July 8, 2015 .

S. M. Bhaduri, 2002. Journal of Applied Financial Economics 12, 655–655, "Determinants of Capital Structure Choice: A Study of the Indian Corporate Sector."

1999. Michaelas, N., Chittenden, F., and Poutziouris The UK's choice of financial policy and capital structure. Empirical data from a company panel for SMEs. 113–130 in Journal of Small Economics, 12(2).

Hoe, C. H., Mahad Nor, N. H., and Mohd Harif, M. A. A. (2011). Financial and non-financial factors contribute to franchisee failures in Malaysia. 52–65. In the World Journal of Social Science, 1(2).

Stankeviciene, J., and Norvaisiene, R., 2007. The interaction between internal factors and capital structure decisions at Baltic listed companies. 52(2), 7–17, Journal of Economics and Management.

G. Oyesola, 2006. ownership and capital structures of a few Nigerian quoted companies. The first issue of the International Journal of Applied Economics and Finance, 16–28.

AN Saarani and F Shahadan, 2013. Evidence from the enterprise 50 (E50) SMEs demonstrates how the capital structure of SMEs in Malaysia is determined. Asian Social Science Journal, Volume 9, (6). The document was retrieved from http://ccsenet.org/journal /index.php/ ass/article /viewFile/27012/16496.

2007's "Determinants of Capital Structure" by Shah and Khan. Data from the Pakistani Panel. 3(4), 265-282, Journal of Business Science. F. Sogorb-Mira, 2005 Evidence from a 1994–1998 Spanish Data Panel on How SMEs' Uniqueness Affect Capital Structure. 447–457 in Journal of Small Business Economics, 25(5).

2005; Tang, C. H.; Jang, S. C. Review of Capital Structure Determinants: A comparison of the accommodation and software industries. 26, 175–187, in the Journal of Hospitality Management.

2014; Uyar, A.; Guzelyurt, M. K. Impact of Firm Characteristics on Turkish SMEs' Capital Structure Decision. 141 Journal of Managerial Finance (3),