Firm Level Characteristics of Capital Structure: An Evidence from Non-Finance Listed Firms of Nepal

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ABSTRACT

The major focus of this study is to isolate the firm level characteristics and its effect on the capital structure. The investigation has been performed using the panel data of non-finance listed firms on the Nepal Stock Exchange Ltd. (NEPSE). The study period covers 11 yearly observations starting from 2000 to 2010. The firm level characteristics are analyzed as determinants of capital structure according to different explanatory theories. The firm characteristics identified so far as determinants of capital structure are size of the firm, profitability, risk, non-debt tax shield, liquidity, asset tangibility and growth opportunities of the firm. The hypothesis that is tested in this study is that the debt ratio is positively influenced by size, growth rate and asset tangibility and negatively influenced by liquidity, profitability, non-debt tax shield, risk. Debt ratio as dependent variable of this study has been measured as total debt ratio, long term debt ratio, and short term debt ratio.

Most of these studies have devoted themselves in advancing the theory of capital structure and development of models in developed market context. Despite such efforts, capital structure theories have remained as unsolved and contentious issues. In particular, the study of capital structure in the less developed market context has received too little attention. So this study has been conducted in order to fulfill this gap in capital structure in the context of developing countries. The major findings of this study justify the priori hypothesis.