

leverage is the most important motive as compared to other motives. In comparison between repurchase and non-repurchase firms, the significant different only exist for market value, financial leverage and profitability, thus this indicates that repurchase firms are undervalued, indebtedness and profitable as compared to non-repurchasing firm. In addition, the results from all the statistical analysis show the consistencies of the regression results.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter presents the conclusion and practical implications from this current research. In addition, limitations are also discussed and suggestions for future research are also highlighted. This chapter is organised as follows; Section 5.2 discussed on

implications of the findings. Section 5.3 summarises the contribution and significance of the research whilst section 5.4 highlights limitations and suggestions for future research. Finally, Section 5.5 provides the main conclusion of this study.

5.2 IMPLICATIONS OF THE FINDINGS

The findings of this study reveal very interesting result indicating that share repurchase may explains the financial characteristics of the firms. In addition, more precise comparison allows for better understanding of the repurchase behaviour.

Findings of this study have implications to a few of groups. The main group are among repurchase firms themselves. According to the findings, the main motive repurchase is to adjust their financial leverage in order to achieve optimal capital structure. Comparison between repurchase and non-repurchase firms make possible to understand that the repurchase firms are relatively under leverage, more profitable and undervalued as compared to non-repurchase firms. Thus, the result proven that the hidden motives (as highlighted by Nasruddin and Angappan, 2003) are possible to discover by studying the financial results of the firms. Thus, academic researches make it possible to ascertain such hidden motives. By looking at the raising trend of share buybacks, the flexibility and the multitude reasons for repurchase requires the management to consider whether or not the program provide value to shareholders. According to Badrinath et. al, (2001) repurchase should be avoided when the firms are over-leveraged and when both

profitability and sales growth rate are exceed the industry average. In fact, the management should clearly indicate the motive of share buybacks in order to avoid any misinterpreting information by investors as negative signal.

The another group to benefits from this study is for the shareholders to understand the real motives of share buybacks as well as financial characteristics of repurchase and non-repurchase firm. This will allow the shareholders in order to guide them for better investment decision. In addition, potential investors also will be benefits in analysing the financial characteristics in order to ascertain the investment prospects of repurchase firms.

Finally, the Malaysia capital market regulators such as Bursa Malaysia and Securities Commission should closely monitor the share buybacks program among firms. Given the popularity of the buybacks program, it will be better to have stringent control policy in order to avoid and misconduct behaviour that will negatively impact shareholders' welfare. In fact, the firms may take advantage to undertake repurchase merely to improve financial ratios without consider the impact on shareholders' wealth. It become worst when the funding for repurchase is comes from the borrowed funds. From my opinion, I think the regulators should study the probability to allow tender offer repurchase in order to provide variety for repurchase program. For example, in US and UK both tender offer and open market repurchase are allowed in the market.

5.3 CONTRIBUTION AND SIGNIFICANCE OF THIS RESEARCH

This study maybe the first of its kind in Malaysia which researches on the motives of share buybacks by comparing the repurchase firms with non-repurchase firms. Such comparisons allow for more precise identification of buybacks motives. Surprisingly, by studying both repurchase and non-repurchase firms this study indirectly identify the financial characteristics between these two groups. In other words, this study generate two main findings in one study i.e determinats of share buybacks in term of the real motives as well as the financial characteristics of the firms. The result of this study hopes to convey specific information to the interested parties i.e corporations, investors as well as financial market regulators.

Moreover, this study also has the significance in opening up avenues for more studies on share buybacks where this area of study is lacking in empirical research.

5.4 LIMITATIONS AND SUGGESTION FOR FUTURE RESEARCH

This study is not the end but a means to achieve better understanding of the motive of share buybacks that enable better investment decision to investors as well as better

buybacks activity among the corporate. Therefore, a few limitations are identified thus opening a room for future research opportunities in this area.

5.4.1 Limitation

Perhaps more of other financial variables should be considered in order to investigate the motives of share buybacks. However, more variables do not mean that the model is able to digest the real motive of share buyback. This is because financial variables are mostly related to each other and multicollinearity problems should be considered accordingly. In addition, for a reason relating to time constraints and lengthiness, only limited variables may be considered.

In term of generalisability, it is hard to replicate this study in other countries because in Malaysian jurisdiction only open market share buybacks is allowed. Whereas, in most developed countries, there is existence of tender offer as well as open market repurchase. In term of the results, it is subject to the period of study and variables being considered. Therefore, the results are unable to explain or predict the other possible motivations of buybacks.

On top of that, another potential limitation to this study is that characteristics of firms may change over-time. For example, following the current credit crunch crisis, poor

performing firms may not exhibit the same characteristics as the firms in this study. In fact, the free-cash flow hypothesis might not be supported. The variations of results from time to time should be expected by the researchers given the nature of financial ratios variability. Nevertheless, this limitation open-up rooms for further investigations and clarifications.

5.4.2 Suggestion for future research

A number of suggestions for future research are discussed in this sub-section. Considerations to extend this research will enable to provide better comparison and allow for better justifications on the motives of share buybacks.

Perhaps, a larger sample size should be considered in future study in order to have better identification of buybacks motives. In addition, stratified sampling procedures may be considered in order to gather more representable sample size. For example, future study may consider to include variables that may explain the employee stock options scheme (ESOS) as the motivation of share buybacks.

Further research by way of survey may allow for better comparison with current study. In fact, the survey type research is still non-existence in Malaysia. The survey might also compliments current research so that more meaningful interpretation might be digest

form both studies. In addition, another method of analysis may be used in order to ascertain the motives of share buybacks. There are possible alternative methods that are available in order to investigate such motives.

It is advisable to extend the current study by considering macroeconomics variables that may influence share buybacks. The macroeconomics factors such as stock market index, interest rate, exchange rate, Gross Domestic Product (GDP) and Consumer Price Index (CPI) are among the variables that may explain the variability of share buybacks. The share buybacks history started with the 1997 Asian financial crisis, thus with current credit crunch crisis, it may open up avenue for research by analysing the trend of share buybacks before, during and after current financial crisis.

In addition, it is meaningful to study the post-repurchase behaviour of the repurchase firms. This is to confirm whether or not the firms meet the specific motives of share buybacks. In addition, it is to ensure that the firms are really committed in doing such program with the objective to increase the value of shareholders.

5.5 CONCLUSION

The outcome of the present study reveals the important motives of share buybacks. The results shows that the motives of share repurchase include obtaining optimal capital structure, excess cash flow, and undervaluation of share price. However, the study unable to confirms the anti-takeover deterrence hypothesis. The result reveals that the most important motive of share buybacks are (1) to achieve optimal capital structure, (2) to distribute cash to share holders and (3) to signal that the share price is undervalued. Contradicted to previous study, current study concludes that undervaluation is not the most important variables that explain the motive of share buybacks. It postulates that the motive of share buybacks may change over time depending on the financial performance of the firms. However, the results are consistent for all the statistical method employed and support hypothesis 1, hypothesis 3 and hypothesis 4 accordingly. It indicates that repurchase firms are under leverage, more profitable and undervalued than non-repurchase firms.

This study is the first of its kind in Malaysia that researches the motives of share buybacks by comparing repurchase and non-repurchase firms. Having includes the non-repurchase firms, the study able to explain the differences between these two groups in term of their financial characteristics. It can be concluded that, the determinants of share buybacks are significantly explains by the factors related to financial leverage, profitability and the market value ratio.

Finally, I am hoping that current research opening avenues for more studies since there is lack of empirical research in this area.