# CHAPTER 5

# CONCLUSION AND RECOMMENDATIONS

## 5.1 Summary and Conclusion

This paper has provided sample evidence to empirically derived (Modigliani & Miller, 1958) theorem. Previous research has not be able to find the relationship between firm value and debt as been theoretical developed by MM. As has been argue by (Jayaraman, 2006), most probably the researcher has ignore the endogeneity possibility of contemporaneous debt. Therefore this paper, by applying Hausman (1978) test has proof that contemporaneous interest expense is indeed endogeneous and should be replace by the predicted interest expense value from the two-stage least square method. By applying the new predicted interest expense, the analysis is consistent with MM theorem, which shows that there is a positive relation between firm value and debt.

This research also looks into the influence factors by other controlling variables and theories that affect the relationship between firm value and debt. The relation between firm value and debt does not influence by alternate theories such as the agency based free cash flow theory or the information asymmetry based signaling theory.

This research also found that the equilibrium of positive relation between firm value and debt is decreasing in the level of managerial alignment. This results consistent with (Jayaraman, 2006) which suggest that in firms where interest of managers are aligned with those of shareholders, managers take on more debt, which reduces the equilibrium relation between firm value and debt.

This paper do analyze that firms with managerial alignment have higher tax benefits of debt of 63 cents compare to average firms which is 38 cents per ringgit.

## 5.2 Suggestion for Future Research

Research that has been conducted has it several constrain and setback. The researcher face challenges in terms of gathering all the adequate data and information from the source. This research should be conducted in a bigger sample to ensure its reliability results. For a sample of 100 firms with 12 years firms operation, there should be 1200 firm-years observation to analyze. The lowest firm-years observation for analysis is 636 or 53% from the total observation.

For future research, it is suggested that the data to be gather from a more adequate resources such as Bloomberg. It is important to really understand how every single analysis is done and ensure that a correct model is selected.

## 5.3 Implications

This research would be a very good reference for students, firms and other academic institutions. As for students, this research shows how to empirically and solves the MM theorem which was found 50 years ago. Understanding all the processes and steps is adamant to ensure understanding the concept of capital structure.

This research explores the issues on tax benefits of debt that would be considered by firms. Firms would know better to find their optimum capital structure. By this research, firms would know their financial standing and how it affects the value of the firms. From the analysis conducted, firms can also identify factors that would increase the firm value.

Although there is risk, such as bankruptcy risk, debt plays an important role in sustainability of a firm. As value has a positive relation with debt, it shows that the higher the debt the higher the value. Besides that, by taking more debts, firms earn tax benefits of debts. This benefit will have it differences between firms that have management who are aligned with shareholder compare with management who are not aligned.