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The assessment of the applicability of financial structural theorems

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المستخلص:

هذه الدراسة تتعلق بأحد المشكلات الأساسية للتمويل المؤسسي وهي عن مدى مقدرة نظريات الهيكل المالي السائدة على تقديم حلول عملية للمستخدمين المهنيين تساعدهم في تحديد وتقييم ومراقبة الهياكل المالية للشركات؟ تم اجراء دراسة مسح ميداني اتبعت المنهج الوصفي التحليلي وباستخدام الأسلوب الإحصائي الوصفي والاستنباطي وقد تم تطبيق المسح من خلال استبيان شامل يتكون من أثني عشر سؤالا رئيسيا ويحتوي كل سؤال على عدة خيارات يتم تقييمها بواسطة المبحوثين من خلال مقياس ليكرت . توصلت الدراسة للنتائج التالية: وجود فجوة بين نظريات الهيكل المالي والممارسات الفعلية في هذا المجال وبالتالي عدم رضاء جمهور الممارسين عن النظريات السائدة. ايدت نتائج الدراسة مفهوم الهيكل المالي الشامل بديلا لمفهوم هيكل راس المال لأن المفهوم الأول يعرف راس المال المستخدم من خلال البعدين الأساسيين له وهما درجة الرفع المالي ونسبة صافي راس المال العامل. كذلك تم تقييم فعالية الهيكل المالي من خلال تقويم البعدين الأساسيين لرأس المال المستخدم حيث تم تصنيف كل من هذين البعدين الى ثلاث مستويات (أعلى، أوسط، أدنى). أوضحت نتائج المسح الميداني ان فعالية الهيكل المالي تعتمد على حركة المعاوضة بين العوامل المالية الرئيسة المحددة للملاءة المالية. أقرت الدراسة المواصفات المقترحة لنموذج الهيكل المالي الذي يمكن من تحديد وتقييم ومراقبة الهيكل المالي للشركة.

ABSTRACT:

This study deals with one of the central corporate finance questions; it is about to what extent the prevailing financial structural theories have provided appropriate solutions to enable practicing professionals to identify, evaluate and monitor company's financial structures. The undertaken field survey study has adopted the analytical descriptive methodology using the descriptive and inferential statistical techniques. It has been conducted through a comprehensive questionnaire, which consists of twelve sections each one deals with one particular aspect of the research problem and includes a number of alternative options for respondents to evaluate using Likert five points scale. The study main findings include the existence of a gap between the current financial structural theories and the actual practices in the same field, thus implying the dissatisfaction of the public practitioners regarding the prevailing theorems. The study findings also supported the concept of the financial structure rather than the capital structure because the former identifies the employed capital in terms of its two key dimensions; the financial leverage and the net working capital liquidity. Also, it has evaluated the effectiveness of financial structure by assessing the value of its twin elements, which have been classified as high, medium or low. Moreover, the results of the field survey has recognized the trade-off process between the underlying factors of financial strength as the sole determinant of the effectiveness of the financial structure; and it has approved the proposed qualities of the required financial structural model for identifying, evaluating and monitoring company's financial structure.

Keywords; Financial strength , financial leverage, The dynamic financial structural model, the tradeoff process.

Introduction:

A close look at the financial analysis of the international stock markets during the period of the last international financial crisis (2007-2008), reveals that the crisis had arisen mainly due to the theoretical modeling used by the financial industry, which had been based on unrealistic assumptions. It had led to serious problems of mispricing securities in a massive unregulated market for credit default swaps that exploded upon catalytic rises in residential mortgage defaults. That is to say the debt surge and the relaxation of its conditions simultaneously had allowed financial institutions, brokers and traders to raise up corporate securities prices on the anticipation of gaining quick profit from short-term speculations and investment adventures (venture capitalists), such engineered practices may transfer the associated financial risk, but would never avoid it (The economist.com, 39:2013).

The implication of the debt crisis on business corporations:

Against this gloomy economic background, following the crisis, many business organizations with high financial leverage experienced financial difficulties and become technically bankrupt and unable to meet their due debt obligations. Some of these corporations struggle to survive by adopting adequate financial policies or undertaking some sort of corporate restructuring adjustments, which the financial restructuring constitutes a highest level of it.

Review of contemporary relevant research activities:

The following previous studies represent part of the reviewed studies in the domain; some other studies have been reviewed but not presented due to space limitation.

The trade-off theory revisited on the effect of operating leverage:

The authors found a theoretical and empirical evidence of a positive relationship between the operating leverage and the financial leverage. It has been shown that the relationship does not need to be process specific; instead, it is a direct result of the financial flexibility of managers. Taxes, bankruptcy costs, transactions costs, adverse selection, and agency conflicts, they have all been advocated as major explanations for the use of corporate debt financing (Kristofer et. all: 2016), the study has shed light again on the expediency and flexibility of the tradeoff theory

The Determinants of Capital Structure: Evidence from the Turkish Manufacturing Sector :

The authors investigated the determinants of capital structure in Turkey by using the panel data method. The sample period spans from 1993 to 2010 for 79 firms in the manufacturing sector traded on the Istanbul Stock Exchange. The base model was expanded with firm size and sector specific effects. This study compares also effects on capital structure according to the industrial sectors and firm size of variables used in models. Growth opportunities, size, profitability, tangibility and non-debt tax shields are used as the firm-specific variables that affect a firm’s capital structure decision. The empirical results present that there are significant relationships between growth opportunities, size, profitability, tangibility and leverage variables, but non-debt tax shields explanatory variable has insignificant effect on leverage, it has been using the book value of the total debt to total assets ratio as leverage variable (Acaravci, 2011). The study attempted to identify the underline factors, which governs the leverage.

Capital Structure Dynamics and Transitory Debt:

The research developed a model that showed how and why debt serves as a transitory financing vehicle to meet the funding needs associated with random shocks to investment opportunities. It yields a variety of new testable predictions about the time paths of leverage and institutes a link between investment and capital structure dynamics (Harry Deangelo et. All, 2008).The study allows topredict the average value over time.

Researchers' remarks in respect of the previous research efforts:
The reviewed researches on the related subjects of the domain have concluded to the unsatisfactory performance of the current capital structure theorems and that in real life situations there have been numerous unrelated practices, the matter that indicates a research gap between theory and practice in respect of the evaluation of the effectiveness of financial structures. Nevertheless, the researchers and financial practitioners continue to exert continuous efforts to clarify the situation. Based on the reviewed literature it would be appropriate to consider the corporate financing decisions and the investment ones jointly. It has been claimed by some active theorists, who had investigated the interrelationship between the capital structure and the financial performance that they have been closely interrelated (Javad and Akhtar,2012) .
Therefore, the capital structure can virtually be considered as a core area of the corporate finance, which encompasses both the investment and finance as two faces of one coin. The strategy of the current research is to reconcile the difference between theory and practice by setting up a flexible and reliable framework to guide management decisions in respect of the effective financial structure.

1) The theoretical Framework of the study (state of the art):

The importance of financial strength for all business firms:
Mr. Paul J Beckert, the president of pinnacle business solutions commented on the importance of financial strength as follows;
Business owners need to monitor the financial strength of their companies relative to their marketplace on an on-going basis, placing increased focus on the key areas of business profitability, liquidity and solvency, this can really have a positive impact on your financial strength" (www.Pinnacle-business.com,2017)

The concept of financial structuring:
It is the concept of designing and implementing a financial structure relevant to company's total employed capital. It shows the basic relations of the employed capital; the proportion of equity to debt capital and the net working capital ratio, which determines the proportion of long to short term finance.

Financial strategy or policy:
Financial strategy or policy refers to the strategic planning of company's financial resources to attain its objectives and maximizes the value of the company. It spells out the sources and means for financing the business activities in three major stages as follows:

- Determining the total amount of employed capital needed to finance firm's investment schedule by determining the proportion of long term to short term finance.
- Determining the proportion of equity to long-term debt that make up the employed capital.

The main theorems relevant to financial restructuring:

M&M (irrelevance theory);

M&M theory (1958), postulates, "The value of the firm is not dependent on the choice of capital structure or financing decision, rather the market value of a firm depends on its operating cash flows" . This viewpoint clearly indicates that no direct relationship between firm's financing and investment decisions, whereas it has been evidenced that the financial structure of a company changes according to the result of it operations. However the theory has severely criticized due to the many assumptions attached to it, which could hardly realized.

M&M with corporation tax theory;

In their second version of their theory on capital structure, Modigliani and Miller (1963) amended their earlier model by recognizing the existence of corporate tax. Their acknowledgement of the existence of corporate tax and the tax deductibility of interest payments implies that, as a company levers up by replacing equity with debt, it shields more and more of its profits from corporate tax. The tax shield advantage enjoyed by debt finance over the dividends of equity finance means that company's WACC decreases as leverage increases; this suggests that the optimal capital structure for a company is 100 per cent debt finance.

This approach of M&M with corporate taxes does acknowledge tax savings and thus infers that a change in debt equity ratio has an effect on WACC (Weighted Average Cost of Capital). This means the higher the debt, the lower is the WACC (Pinegar.J and Wilbricht L, 1989) Therefore, this approach is one of the most recognized approaches of Capital Structure Theory. The theory has been criticized of not taking into consideration the following aspects:

1. Tax exhaustion due to the possibility of insufficient profits to make use of the whole tax credit.
2. The impact of the personal income tax, which raises up interest as the result of arbitrage process on the supply side between debt and equity.
3. The risk of bankruptcy at higher levels of leverage.

Trade-Off Theory:

The term trade-off theory is used by different authors to describe a family of related theories. In all of these theories, a decision maker running a firm evaluates the costs and benefits of alternative sources of finance. It is often assumed that an internal solution could be obtained so that the marginal costs and the marginal benefits are balanced (Luigi & Visinescu, 2009). On the other hand, the tradeoff process between financial leverage and earnings had revealed a negative correlations between the optimal leverage and the current earnings level (Sudipto S. and Fernando Z,2003). The tradeoff process would result in a positive or negative net impact.

The Pecking order theory:

The pecking order theory is based on firm's management preferences. It suggests that the manner in which firms cover their financing deficits does not depend on the current levels of debt, as would reasonably expected to be. The theory has been popularized by Myers and Majluf, who asserted that the corporate management prefer internal funds rather than external funds and prefers debt rather than equity (Myers and Majluf, 1984). Therefore the basis used by the pecking order theories are quite different from the other theories, this is because it is an ex-post model describing the real life situation, whereas the others are ex-ante forecasting or expecting what should be rather than what actually is.

Researcher's remarks on the theoretical framework of the study:

The theoretical framework of the study has concentrated on the main issue of the research. It has been intended to reflect the diversity and the unity of the research at the same time. The theoretical extracts has pointed out that current theorems have failed to address fully the issue. This could be attributed to the interrelations of financial structuring with other related financial factors. The financial structural decision overlaps with other fields of corporate finance. Therefore, it becomes essential for management to identify and coordinate these related factors. The ultimate objective always is to maintain a strong financial position. Having arrived at this conclusion, it would be appropriate to evaluate company's financial structure in terms of their respective financial strength in order to arrive at the effective financial structure. It has been anticipated that such coordination will take the form of a multivariate function of financial strength as it will be explored throughout the field survey study.

The field survey study:

The statement of the problem of the research:

The problem of the research paper can be summarized as follows:

• To what extent the prevailing financial structural theories have provided practical solutions to enable practicing professional to identify, evaluate and monitor company's financial structures.

• What are the underlying financial factors that determines the adequate financial structure for company's situation?

The hypotheses:

The null hypotheses of the research has been stated as follows:

i. The current financial structural theorems could identify, evaluate and monitor company's financial structure.

ii. The effective financial structure could not be achieved through the trade-off process of the underlying financial factors of company's financial strength.

The alternative hypotheses of the research had been stated as follows:

i. The current financial structural theorems could not identify, evaluate and monitor company's financial structure.

ii. The effective financial structure could be achieved through the trade-off process of the underlying financial factors of company's financial strength

The objective and the scope of the field survey study:

The objective of the field survey study is to obtain an independent professional assessment of the viability of the current theorems in the field of financial structure and identification of the appropriate approach to arrive at the effective financial structure, based on the views of practicing professionals.

The scope of the field survey study will cover three distinct stages as follows:

I. Evaluation of the current relevant prevailing theories and concepts, in respect of financial structures and their respective impacts

II. Identification of the anticipated gap between the theoretical and the real life practices and identification of the research problem.

III. Exploring the views of practicing professional regarding the appropriate approach to arrive at the most practical way to arrive at the effective financial structure.

The research approach and methodology:

The research paper follows mainly the qualitative approach in order to obtain an independent professional valuation of the prevailing theorems and concepts, as well as to explore their views about the most adequate solution to the stated problem and thus providing evidence about the validity of the set hypotheses.

It adopts the analytical descriptive methodology using descriptive and inferential statistical techniques. The selected tool of data collection for the field survey study has been a specially designed survey questionnaire. It consists of twelve sections each one deals with one particular aspect of the research problem and includes a number of alternative options for respondents to evaluate using Likert five points scale from zero to four.

The collective scores for each option will be processed statistically in order to provide sufficient evidence that leads to testing the set hypotheses in a systematic way in order to culminate the research efforts towards its final objective. The applied statistical analysis includes, calculating the average and the associated standard deviation for all options of each of the twelve sections, identifying the ranking of options within each section. It will also involve carrying out the chi-square test to compare the actual results of field survey with the expected ones according to the set hypothesis.

The selected sample and the population frame:

The targeted population of the professional practitioners in the field of financial restructuring in the Sudan and neighboring countries estimated to be around one hundreds personnel, most of them located in Saudi Arabia and United Arab Emirates. The accessibility to this population is limited to only one hundred, however those who have expressed their willingness to receive the questionnaire have been about 60%.

Testing the consistency and reliability of the questionnaire:

The questionnaire has been evaluated by three independent financial experts then given to five respondents to attempt, having taking into considerations their remarks and the result of testing, the questionnaire has been improved to require standard and issued finally to 60 respondents.

The statistical analysis of the sample:

The sample has been carefully selected to include wide spectrum of the concerned field practitioners in the near regional countries and it has been classified according to relevant strata.

The stratified planned and actual sample distribution:

Table (1) shows the analysis of the sample based on the planned and actual distribution: It appears from the analysis that budgeted number has been within the reasonable limit in the light of the complexity of the tackled problem. The proportion of the answered and returned forms to the total distributed ones has been about 52%, it constitutes a simple majority, which can just allow passing an ordinary resolution at AGM of a company, and accordingly could be considered as satisfactory.

Table (1): The stratified planned and actual sample distribution:

Strata of the sample	Planned and distributed	Actual received	%
Managing directors	5	2	40%
Financial directors and controllers			
Financial consultants	15	8	53%
Other relevant directors and managers	15	7	47%
Total sample	60	31	52%

Source: field study

The type of qualification and the geographical distribution of the members of the sample:

Table (2) shows the cross analysis of the levels and type of qualification and the geographical distribution of the selected sample.

Table (2): The type of qualification and the geographical distribution of the sample:

Country of domicile	Type of qualification			total
	Post graduate studies	Professional qualification	Both academic and Professional	
Sudan	9	11	3	23
Arab countries	1	1	2	4
Others		4		4
total	6	24	10	31

Source: field study

The Corporate finance experience and degree of involvement:

Table (3) shows the analysis of the levels of experience in corporate finance and the degree of involvement in financial restructuring of the members of sample:

Table (3): Corporate finance experience and degree of involvement:

Degree of involvement in financial structuring.	Corporate finance experience			total
	Less than 5 years	Less than 10 years	Less than 15 years	
Rarely	2			2
From time to time	2	4	10	16
Frequently		3	7	10
Continuously		1	2	3
total	4	8	19	31

Source: field study

The analysis of the responses to the field survey questions:

Table 4 to 16 has been extracted from the spread sheet of primary data compiled from the completed designated questionnaire forms. Hereunder is the detailed analysis of all sections:

Assessment of company's financial strength (FS):

Table (4) shows that the preferred method for assessment of company’s financial strength is the one that combines both qualitative and quantitative analysis, this can be interpreted as that the financial analysis should be supplemented by a qualitative evaluation of the related assumptions, symptoms and results, the standard deviation for the best two options has been very narrow. The result of chi square test to the preferred method of assessment is 75%, this result supports the adopted alternative hypothesis.

Table (4): Methods of assessment of company's financial strength (FS):

Options’ criteria	average	SD	Rank	remarks
Using qualitative descriptive tools	2.0	1.0	4	least
Using quantitative analysis tools	2.6	1.0	3	third
Using multivariate functions	3.1	0.5	2	second
Using qualitative and quantitative analysis	3.7	0.7	1	first

Source: field study

The underlying financial variable of financial strength:

Table (5) shows that all the underlying financial variables of financial strength are acceptable, attaining average score around 3 and that the most recommended one is the profitability then the twin factors of financial structure and at the bottom the sales/ assets turnover ratio, the associated standard deviation for all options has been rather narrow.

The result of chi square test for the underlying financial factors (KUFFS) is 95%, this result strongly supports the recognition of KUFFs as independent variables of FS and the approach adopted in this research

Table (5): The underlying financial variable of financial strength

Options’ criteria	average	SD	Rank	remarks
Financial leverage (FL)	3.1	0.8	2	second
Net Working Capital liquidity (NWC LQ)	3.0	0.9	3	third
Return on assets (ROA) & retained earnings ratio (RTE)	3.4	0.6	1	first
Sales/ asset turnover (SA)	2.9	0.7	4	least

Source: field study

Table (6) shows the various reasons for the change of company’s financial strength, the first factor has been the non-financial structural ones and the second being the trade off, however, this is not the expected order, nevertheless the result support the trade-off process at the second rank, with narrow standard deviation for all options.

The result of chi square test is 99%, this result of reasons for change of financial strength supports the alternative hypothesis.

Table (6): Reasons for changes of financial strength over time:

Options' criteria	average	SD	Rank	remarks
Financial leverage (FL)	3.1	0.7	4	least
Net Working Capital liquidity (NWC LQ)	3.1	0.7	3	third
Non-financial structural (ROA, RTE, SA)	3.3	0.5	1	first
The tradeoff process	3.2	0.9	2	second

Source: field study

Table (7) shows that the all the suggested impacts to be measured through the Z scores have been accepted by more than 3 scores except the sales turnover ratio, the two elements of financial structure on the top, the standard deviation for all options has been narrow , this support the research alternative hypothesis.

The result of chi square test is 76%, this support the evaluation of the effectiveness financial structure approach adopted in this research.

Table (7): The Z score model measures the impact of independent variables
On company's financial strength as follows

Options' criteria	average	SD	Rank	remarks
The impact of financial structure	3.1	0.8	2	second
The impact of financial liquidity	3.1	0.8	2	second
The Impact of ROA & RTE Profitability	3.1	0.6	1	first
The Impact of Sales/ asset turnover	2.5	0.9	4	least

Source: field study

Table (8) shows that the evaluation of the special characteristics of the Z score function has been very well accepted by the majority of respondents and three of the proposed characteristics have scored above 3 , however the last one won 2.9 scores which is fairly acceptable with the largest standard deviation, but for the others has been very narrow

The result of chi square test is 98%, this result of the special characteristics of Z score function supports the alternative hypothesis and the approach adopted in designing the financial structure model, and consequently the results obtained therefrom.

Table (8): Evaluation of the special characteristics of Z score function:

Options' criteria	average	SD	Rank	remarks
It reflects key internal financial factors	3.1	0.4	3	third
It can arrive at F.S. in different ways	3.6	0.5	2	second
Need to be used repetitively for periods	3.7	0.5	1	first
FL & LQ are the only controllable factors	2.9	1.0	4	least

Source: field study

Table (9) shows that the respondents support the suggested approach to resolving the various degree of severity facing troubled companies all the steps has been approved with very narrow standard deviation.

The result of chi square test is 98%, this result of the possible solutions open to a troubled company supports the approach adopted in designing the financial structure model and consequently the results obtained therefrom.

Table (9): The possible solutions of a troubled company

Options' criteria	average	SD	Rank	remarks
To adjust financial performance	3.0	0.8	4	least
To adjust equity fund (FL & LQ)	3.1	0.6	3	third
To effect financial restructuring	3.8	0.6	1	first
To allow merger or acquisition	3.3	0.7	2	second

Source: field study

Table (10) shows the result of the comparison between the traditional capital structure and financial structure approaches, the two-dimensional approach has scored 3.5, being on top, whereas the option including criticism against the concept of capital structure has won 2.8 scores being fairly acceptable. The standard deviation has been within the reasonable limits
The result of chi square test is 96%, this full support to the new concept of financial structure based on the twin factors of the employed capital, which is in line with the approach adopted in designing the financial structure model and consequently the results obtained therefrom.

Table (10): Capital structure versus financial structure

Options' criteria	average	SD	Rank	remarks
The Capital structure concept is based on FL only.	2.8	0.9	5	least
The Financial structure concept is based on employed capital (CE)	3.3	0.7	3	third
The FL & LQ: are the two dimensional factors of CE	3.5	0.7	1	first
The NWC is an integral part of the CE	3.4	0.8	2	second
The NWC is the variable component of the CE	3.1	0.8	4	fourth

Source: field study

Table (11) shows the evaluation of capital structure theorems by the respondents. The suggested evaluations have been acceptable, but not with same degree of support, in respect of MM theorem, the criticism has been accepted by large majority, however some still belief in MM, this is normal but not final, however the standard deviation fall within reasonable limits.
The result of chi square test is 96%, this result of the evaluation of current theorems support is in line the approach adopted by this research in identifying the gap, identifying research problem and formulating hypothesis, and supports the alternative hypothesis.

Table (11): Evaluation of contemporary capital structure theorems:

Options' criteria	average	SD	Rank	remarks
MM. basic theorem has no practical application due to its assumptions	2.7	0.8	4	least
MM with tax theorem: criticized reg. tax exhaustion, P.I. Tax, bankruptcy risk	2.8	0.8	3	third
The Tradeoff theory: evaluating cost and associated risk of finance.	3.2	0.8	1	first
The Picking order based on management preferences	3.2	0.7	2	second

Source: field study

Table (12) shows the evaluation of effective financial leverage by the respondents. The result is in favor of the most conservative financial policy supporting low level of financial leverage with narrow standard deviation.
The result of chi square test is 88%, this result of the effective financial leverage supports also supports the alternative hypotheses.

Table (12): The effective financial structure (the appropriate financial leverage ratio)

Options' criteria	average	SD	Rank	remarks
Equity: Debt = 5:4	2.4	1.0	3	third
Equity: Debt = 4:5	3.0	0.6	2	second
Equity: Debt = 3:4	3.1	0.6	1	first

Source: field study

Table (13) shows the evaluation of effective financial liquidity by respondent. The result in favor of the high financial liquidity, this is also very conservative approach by respondents, with moderate standard deviation.
The result of chi square test is 87%, this result of the effective NWC liquidity also supports the alternative hypotheses.

Table (13): The effective financial structure (the appropriate liquidity ratio)

Options' criteria	average	SD	Rank	remarks
NWC:TA = 1:6	2.2	0.9	3	third
NWC:TA =1:5	2.7	0.6	2	second
NWC:TA = 1:4	3.1	0.9	1	first

Source: field study

Table (14) shows the evaluation of the impact of NWC liquidity on CE. The result in favor of the proposed impacts with scores above 3 for all alternatives, with the standard deviation for all option within the reasonable limit.

The result of chi square test is 99%; this result of the impact of NWC liquidity on financial strength supports the alternative hypotheses.

Table (14): The impact of networking capital (NWC) on employed capital (EC)

Options' criteria	average	SD	Rank	remarks
NWC financing just part of current assets	3.4	1.0	4	fourth
Any change in amount of CE affects NWC liquidity.	3.6	0.6	3	third
Any changes in NWC liquidity affects periodic results	3.5	0.7	3	third
Any shortage/ surplus of NWC affects profitability	3.0	1.0	5	least
An effective FS necessitates sufficiency of CE	3.6	0.6	1	first

Source: Field Study

Table (15) shows the evaluation of effective capital employed by respondent. The result in favor of the low financial leverage and high financial liquidity, this is also very conservative approach by respondents with moderate standard deviation for all options..

The result of chi square test is 81%, this also supports the results obtained in the financial analytical phase.

Table (15): Evaluation of the effective capital employed based on FL & LQ

Options' criteria	average	SD	Rank	Remarks
High FL: High LQ –Group A	2.4	1.0	3	Third
High FL: low LQ –Group B	1.6	0.8	4	fourth
low FL: High LQ–Group C	3.3	0.9	1	first
low FL: low LQ–Group D	2.5	0.9	2	second

Source: Field Study

Table (16) shows the identification of the qualities of the required financial structure model. The result in favor of the proposed qualities with scores above 3 for all alternatives except two of them scored 2.8, though they have been approved by most of the respondents, the standard deviation has been at moderate level.

The result of chi square test is 99%, this result of the targeted qualities of the financial structural model also strongly supports the alternative hypotheses and confirmed the results obtained in the financial analytical phase.

Table (16): The characteristics of the targeted financial structure model

Options' Criteria	average	SD	Rank	remarks
Being a dynamic one in order to adapt to changes	3.5	0.6	1	first
To be based on the tradeoff among KUFFs	3.0	0.7	3	third
To be flexible and applicable to any period and any company	3.1	0.7	2	second
To be based on historical consistency	2.8	0.9	4	fourth
To have an effective FS necessitates sufficiency of CE	2.8	1.1	4	fourth

Source: Field Study

The result of testing the set hypotheses:

Based on the result of the detailed statistical analysis of the respondents' views, which has been indicated by the average scores and the associated standard deviation and ranking together with the results of chi square test for all sections of the designated questionnaire; have largely supported the set alternative hypotheses as follows:

- The current financial structural theorems could not identify, evaluate and monitor company's financial structure.
- The effective financial structure could be achieved through the trade-off process of the underlying financial factors of the company's financial strength.

The conclusions of the field survey:

The detailed statistical analysis of the responses received from all respondents for the various sections of the survey questionnaire have accomplished the targeted objectives as follows:

1. It has identified the gap between the current financial structural theories and the actual practices, thus implying the dissatisfaction of the public practitioners regarding the prevailing theorems.
2. It has supported the concept of financial structure rather than capital structure because the former identifies the employed capital by its two key dimensions the financial leverage and the net working capital liquidity.
3. It has evaluated the main features of the effective financial structure represented by its twin elements and classified as high, medium and low.
4. It has recognized the trade-off process between the underlying factors of financial strength as the sole determinant of the effectiveness of the financial structure.
5. It has approved the required qualities of the required model for identifying, evaluating and monitoring company's financial structure.

Recommendations:

For professional practitioners:

1. The financial structure can be identified and evaluated in terms of the twin dimension of the employed capital as follows:

- The financial leverage, which measures the proportion of debt to equity.
- The net working capital to total assets ratio, which measures the short-term to long-term finance.

2. The application of the financial structural model would enable management to evaluate the effectiveness of company's financial structure and to assess its impact on respective company's financial strength

For future researchers in the area of domain:

The following generic research proposals need to be investigated.

1. The multivariate financial strength function constitutes the key elements necessary for the formulation of a proper company's financial structural policy.
2. The development of theories and concepts, well supported by business practices leads to formulation of adequate financial structural models.
3. The effectiveness of financial structure pledges the effectiveness of the corresponding employed capital.

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