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Abstract

The primary motivation behind this study is to decide the structure of capital strategies of the companies of the Republic of Azerbaijan and to give firm-particular determinants (quantities obtained by the addition of products of the elements of a square matrix) of capitalizing and investment solution.

The ramifications of structure of capital hypotheses and the impact of the firm-particular determinants (quantities obtained by the addition of products of the elements of a square matrix) on the structure of capital in Enterprises of the Republic of Azerbaijan are investigated over the 2012-2016 periods. The empirical outcomes demonstrate that there are just 2 informative and essential determinants (quantities obtained by the addition of products of the elements of a square matrix) of structure of capital in Azerbaijan firms.

Keywords: Republic of Azerbaijan, GDP, capital structure, leverage ratio, investment

CONTENTS

INTRODUCTION

Globalization in the world economy has altered and strengthened the essence and states of finance and economy over the last decade.

In light of every part of these progressions, fiscal market analysts try to break down formal and logical corporate fund theories that can be connected by different corporations.

In general, a specialist tries to generate more money to cover capital expenditures. An inquiry here arises: "By what means can an enterprise grow its fiscal sources?" "How might we formalize structure of capital of the organizations?" "How might we get an optimal structure of capital of the firms?"

In these circumstances, the structure of capital is the most talked about and investigated issue in corporate fund.

Since the key work of Modigliani and Miller (1958) [21] structure of capital and its determinants (quantities obtained by the addition of products of the elements of a square matrix) have been counted one of the major and important open deliberation themes.

Literature results demonstrate that corporate fund is for the most part broke down in developed countries. Nevertheless, fiscal structure of the enterprises in developing states has rarely been dissected.

The Republic of Azerbaijan is likewise one of the transition states and picked up freedom beyond the crumple of the Former federation of communist republics - Soviet Union in 1991.

Industry of petroleum & gas secures the main part of economy and the state spending plan of the state. The share of industry of petroleum & gas represents approximately 54% of the gross household product.

The greater part of foreign venture has been directed into the petroleum sector since Azerbaijan regained autonomy, in this manner prompting large-scale advancement throughout the state.

Foreign speculation stayed at USD DOLLARS 10.5 billion in 2013, including AZN 4.9 billion poured into the petroleum and gas industry.

The president of Republic of Azerbaijan in 2005 endorsed state programs to build up the non-petroleum sector.

Along these lines, petroleum and gas revenues over the years have been allotted to create nonpetroleum sector, and the fiscal plan of the Fund for Entrepreneurship Support has developed respectively.

Therefore, we tried to examine determinants (quantities obtained by the addition of products of the elements of a square matrix) of capitalizing solution of Azerbaijan non-petroleum sectors over the 2012-2016 periods. These advantages are valuable for banks and fiscal organizations and lenders, as this study provides leverage characterization of the organizations and sectors in Azerbaijan. While, relationship between the lines of enterprise particular incentives and capitalizing solution, particularly relationship with debt correlation is very useful. Government representatives can likewise revenue by this study by obtaining information about effect of macroeconomic incentives on the structure of capital solution of Azerbaijan organizations over 2008-2013 The contribution of this examination to the literature about the structure of capital is that it is the first investigation that determines the effect of enterprise particular incentives and macroeconomic determinants on the structure of capital solution of Azerbaijan firms.

Because, due to the higher risk of fiscal distress, companies with less optimistic market prospective tend to avoid additional fiscal obligations.

This means that growing debt means a higher quality of business and, therefore, a better rating. This, in turn, leads to the likelihood that corporate governance can affect the value of a firm by changing the structure of its capital. This combination of debt and capital, which maximizes the value of the enterprise and at the same time minimizes the total cost of capital.

An enterprise's structure of capital is conditioned by the proportion of its borrowings to capital equity, the debt-capital equity ratio, resulting from prior capitalizing solutions. This directs to the right hand side of the statements of assets or the balance sheet that reflects the left hand side, and therefore the assets resulting from prior investment solutions. In order to examine how a firm's value is affected by changing the quantity of leverage, only capital restructurings are counted whereas the left hand side stays constant.

Study questions

The determined hypotheses for learning the positive and negative relationship between the lines of leverage correlation and the other variables in order to identify firm's value based on structure of capital are as follows:

- Hypothesis 1. There is positive relationship between the lines of leverage correlation and enterprise size in Azerbaijan firms.

- Hypothesis 2. There is negative relationship between the lines of leverage correlation and revenue-ability in Azerbaijan firms.

- Hypothesis 3. There is negative relationship between the lines of leverage correlation and the relevant non-debt tax shields in Azerbaijan firms.

- Hypothesis 4. There is positive relationship between the lines of leverage correlation and tangibleness or tangibility in Azerbaijan firms.

- Hypothesis 5. There is negative relationship between the lines of leverage correlation and growth opportunity in terms of plant, property & equipment in Azerbaijan firms.

- Hypothesis 6. There is negative relationship between the lines of leverage correlation and growth opportunity in terms of total assets in Azerbaijan firms.

In order to answer the main study question, formulating a proper study design is crucial. We have to interpret the objectives indicated by the main study questions and to define the sources for obtaining data as well as how to analyze collected data. In this section, the study design and the source for data collection will be presented. In the first layer of the study design, we implement a deductive approach.

Unlike an inductive approach that starts by obtaining data to reveal the phenomenon or construct theory, the deductive approach proposes a testable hypothesis based on existing literature and tests them by collecting relevant data to measure the relationship and interpret it.

In addition, due to the essence of analyzing fiscal numerical data, the quantitative method is deemed the most relevant. Besides, the deductive approach is often combined with the quantitative method in the purpose of using data to test the theory.

Additionally, we implements the archival study strategy since the data collected will be mainly from annual published fiscal statements. The design of archival study is to deal with historical data.

Lastly, in the choice of data collection, the thesis combines the mix of primary and secondary sources to construct both theoretical and empirical parts. The theoretical section mainly consists of existing literature from books, journals and articles related to capital structure.

So, the empirical part collects data from the enterprise's annual reports or fiscal statements. The thesis adapts the quantitative study design that implements the deductive approach and quantitative analysis method.

CHAPTER 1. CAPITAL STRUCTURE'S PARTICULAR DETERMINANTS' IMPACT ON AZERBAIJAN FIRMS' VALUE AND INVESTMENT

1.1. Theoretical Background

In economic theory, the influence of the structure of capital on the enterprise's market capitalization and the choice of a particular structure of capital for shaping its competitive advantages is not given much importance. In this connection, a number of questions arise. For example, does the transition from one correlation between the lines of the quantity of debt and capital equity to another matter? whether the availability of fiscal leverage can have a significant impact on the enterprise's fiscal stability.

Among economists, there was no common opinion on these and other problems of fiscal leverage in the activities of companies. In this article, we look at how the structure of capital affects the value, fiscal stability and, consequently, the enterprise's competitiveness.

It is known that the core of fiscal stability and stable functioning of the enterprise is capital equity capital that represents that part of the asset that was formed at the expense of the owners who invested their money in this enterprise. In the statements of assets or the balance sheet , capital equity is equal to the enterprise's net assets and is often treated as an analogue of an enterprise's long-term debt to its owners. The composition of capital equity capital depends on the enterprise's organizational and legal form, but in general terms it is represented as the difference between the lines of the enterprise's assets and the volume of its borrowed funds.

Formally, capital equity is reflected in the passive part of the enterprise's statements of assets or the balance sheet. The main components of capital equity capital are: statutory, additional and reserve capital, as well as retained profit.

The authorized capital acts as a characteristic of the aggregate nominal value of the enterprise's shares acquired by shareholders, i.e. the quantity of money provided by the owners to ensure the statutory activities of the enterprise when it is created. The charter of the enterprise fixes the quantity of the authorized capital, the nominal value of the shares, their number, the categories of shares (common, preferred), and the rights of the shareholders. Contributions to the authorized capital can be both cash and tangible and intangible assets. At the time of transfer of assets in the form of a deposit, the ownership right to them passes to the economic entity; i.e. investors lose real rights to these objects.

Fiscal management is one of the most important components of the enterprise's activities, if not the most important. There are finances, there is business, there is no finance, and there is no business. In a modern, fast-changing world, it is important not only to manage finances quickly, but also to see the capitalizing strategy.

The capitalizing strategy begins with the enterprise choosing a business strategy aimed at maximizing its market value. The strategy is implemented through investments that provide movement in a given direction. Investments require money that means that solutions on capitalizing should ensure the attraction of necessary resources.

"A good capitalizing strategy" should solve the most important task of fiscal management - ensuring long-term growth of the enterprise's value.

The capitalizing strategy should ensure the growth of the well-being of shareholders or its owners. The optimal capitalizing structure and a sound balance of debt and capital equity minimize the total cost of the enterprise's capital, allowing it to simultaneously attract the necessary fiscal resources and maintain flexibility in making fiscal solutions.

An obligatory part of a well-conceived capitalizing strategy is the policy of dividend payments, to the maximum extent consistent with the interests of shareholders.

The main way to grow the market value of the enterprise is to generate revenues, but the issue of securities is not excluded. Since the cost of the sources of funds varies, a reasonable question arises: is it possible for the enterprise to grow its value by changing the capital structure?

One can also look at the problem from the position of correlating risk and profitability with respect to shareholders.

It should be noted that the correlation between the lines of own and borrowed sources of funds is one of the key analytical determinants characterizing the risk of investing fiscal resources in a given enterprise. The attraction of borrowed sources not only causes an grow in the enterprise's riskiness, but is accompanied (at least theoretically) by an grow in the expected return on capital equity.

The reason is obvious: a new project, for that fiscal resources are mobilized, should be attractive that is, economically viable. Undoubtedly, there are different reasons for accepting an investment project, including those that are forced, but in general the project is accepted if its profitability is higher than the enterprise's average rate in weighted cost of capital. If the enterprise's own funds are not enough to adopt such a profitable project and it is necessary to raise borrowed funds that is, a grow in profitability is accompanied by and grow in risk, I would want to emphasize several questions that arise with certainty.

- *Is the expected grow in yield enough to compensate for the developed risk?*
- *What should be the optimal structure of capital in this case?*

Answers with a certain degree of conventionality are given in the framework of the theory of relativity of capital structure, the main contribution to the development of that was made by Modigliani and Miller.

Issues of the possibility and appropriateness of managing the structure of capital have long been debated among scientists and practitioners. There are two main approaches to this problem: the traditional one and the Modigliani-Miller theory.

The structure of capital has a certain influence on the cost of the enterprises and, to maximize its value, enterprises should use debt capitalizing (the Modigliani-Miller model, taking into account income taxes).

Loan capitalizing develops the value of the enterprise, since loans are deducted from taxable revenues (they include the cost of production and therefore reduce the taxable revenue), and therefore, investors receive a larger share of the revenue.

So, the structure of capital has a direct impact on the market value of the operating enterprise that is determined by assessing its prospective cash flows. The calculation is related to the choice of a discount rate based on the level of profitability and an estimate of the expected risk. Determination of the market value of the enterprise is carried out in two stages.

At the first stage, the expected value of the current revenue of the enterprise for a long period is predicted. Current revenue represents revenue before interest payment, but beyond payment of taxes. This achieves independence of the size of cash flows from the structure of sources of capitalizing the enterprise's current operations. Then, the current revenue is developed by the quantity of written-off depreciation of fixed assets and intangible assets and by the quantity of deferred taxes, and other elements not reflected in cash flows are taken into account.

At the second stage, the quantity of prospective capital expenditures required for production activities and maintenance of the current level of the enterprise's revenue is determined that includes the costs of acquiring machinery and equipment, conducting research, increasing working capital. As a result, the enterprise's net cash flows are applied to estimate its market value. Net cash flows are the capital of an enterprise that is at its disposal and applied to fulfil the enterprise's obligations to

investors (for payment of interest, dividends, debt repayment and redemption of its shares).

The market value of an enterprise (V) is equal to the net present value obtained as a result of discounting the quantity of net cash flows at an acceptable rate of return:

$$V = \sum_{t=1}^{n} D/(1+r)^t$$

Where D is the annual cash net flows; r - rate of return; t is the number of years.

Assuming that the enterprise's revenues are approximately the same for several years, and the period of its activity is not limited to a certain number of years, the formula is simplified:

V = D: r.

Here, as an income, here is the revenue before interest and taxes, reduced by the quantity of revenue tax and other mandatory deductions from revenues.
Net revenue represents the total quantity of funds spent on servicing own and borrowed capital.

The source of these costs is the revenue of the enterprise before the payment of interest and taxes, reduced by the quantity of income tax and other mandatory deductions from revenues.

First of all, the revenue of the enterprise is directed to payment of interest for the use of borrowed funds, and then - to pay dividends to the shareholders of the enterprise. The staying part of undistributed revenue is applied to finance investment projects, i.e. for reinvestment. That is, the market value of an enterprise depends on

the influence of two factors: the magnitude of net revenue and the weighted average rate in cost of capital. Therefore, in order to maximize the market value of the enterprise, the net revenue should be the largest, and the weighted average rate in price of capital is the smallest.

Minimization of the weighted average rate in price of capital is achieved by optimizing the structure of sources of its formation based on the use of various models, including the Modigliani-Miller model and compromise options. This takes into account the effect of the fiscal leverage that determines the level of acceptable fiscal risk for the enterprise.

The main goal of forming a rational structure of the enterprise's sources of funds is to establish a correlation between the lines of own and borrowed funds, in that the value of the enterprise's share would be the largest. This can be achieved with a sufficiently high level of fiscal leverage, when the quantity of debt characterizes the fiscal stability of the enterprise for its shareholders and potential investors. If the share of borrowed funds in the structure of capital is quite high, the degree of fiscal risk develops. But if the enterprise uses only its own means, the level of their profitability does not allow paying high dividends to shareholders, which, in turn, reduces the price of shares and the market value of the enterprise itself.

The determination of satisfactory capitalizing type and fiscal source are exceptionally muddled and laborious for companies. An organization has two essential capitalizing options: capital equity capitalizing (counting issue fund, the most valuable technique) and debt capitalizing (bonds, bank debts, including commercial papers, and so forth.). Retained profit is the main valuable and modest capitalizing, as there are no expenses to shape the funds. Debt capitalizing is another type of choices. For instance, bank debts, including commercial papers, and bonds. Nevertheless, enterprises must be reasonable in their borrowing exercises to dodge over the top risk and expenses. In 1958, Franco Modigliani and Merton H. Miller

established essential structure of capital theory of relativity and gave some hypothetical foundation for fiscal organizing. The foundation of the primary recommendation in this theory of relativity is that the debt capitalizing has no consequences for the value of the firm. It implies that, if there is lacking capital equity to fund a project, the enterprise can apply to debt capitalizing. Also, the extent of debt won't alter the value of the firm. (Modigliani and Miller, 1958) [21].

For instance, let`s accept that V is the market values of the firm, with D and E demonstrating debt capitalizing and capital equity individually.

$$V = D + E.$$

Modigliani and Miller's Proposition says that the market values of the enterprise V is autonomous from the extents of debt and capital equity. It implies that the enterprises will manage the extent of debt and capital equity. Along these lines, the total value of the enterprise won't alter.

For instance, if the capital equity adjusts of the enterprise is 75%, it will utilize 25% of debt capitalizing. In the event of diminishing the capital equity degree, debt capitalizing will grow naturally. What's more, total value won't alter. What's more, this supposition likewise accentuates that productive companies will tend to utilize inner capital equity.

In this theory, capital markets are counted as an impeccable market. Ross (1988) [29] recorded the primary prohibitive ideas, accentuated in Modigliani and Miller's ideal market theory of relativity suppositions.

1. Capital markets are thought to be great. It implies that there was symmetric data in a market, and there are no data costs in the market.

2. The second suppositions show that there were no financial transaction costs.

3. There is rationality in a market. All speculators have rational desires for augmenting benefit of the companies.

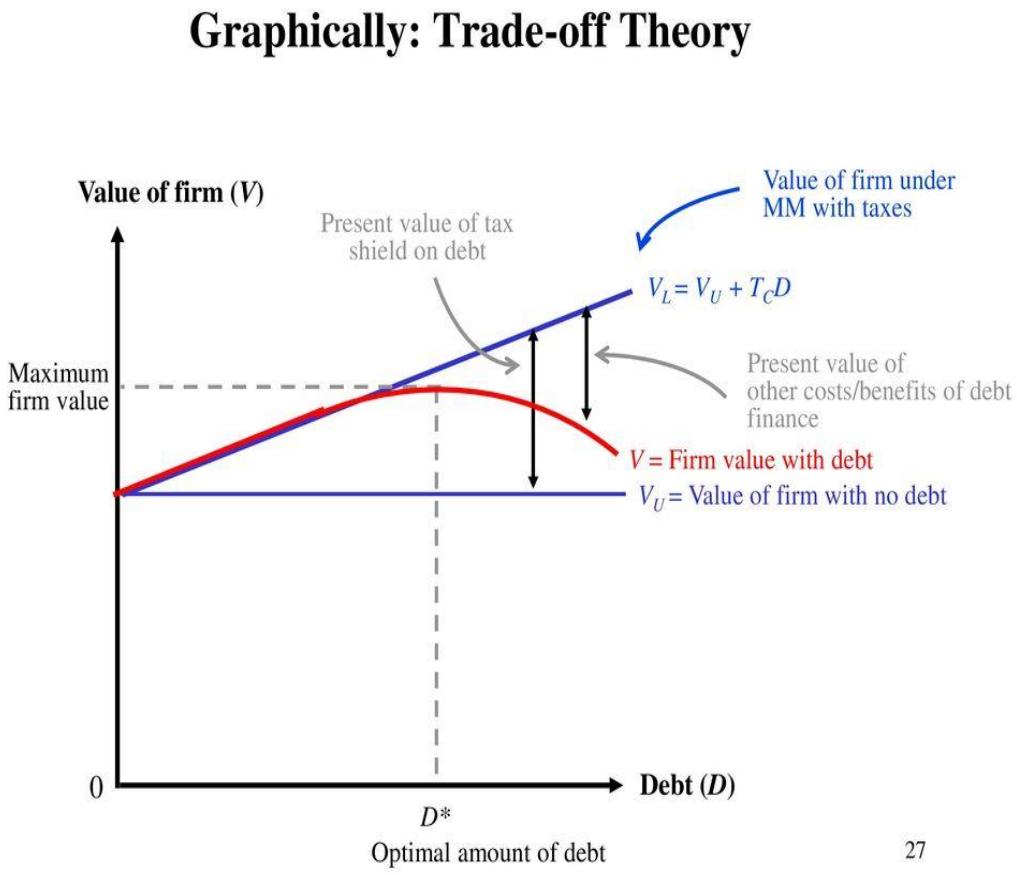
4. There is no corporate assessment.

5. The cost of capital is additionally assessed as zero in suggestion. Myers (2001) [23] told that the cost of capital was counted the normal return of entire securities in the firm. Therefore, the expected return of securities is viewed as zero in the principal suggestion.

In any case, a few researchers contend that it isn't adequate in the real world. Since corporate taxes, data asymmetry, office and insolvency costs exist under genuine conditions and the value of the enterprises has coordinate association with these components, so these ideas are prohibitive for this theory. Along these lines, the outcomes show that Modigliani and Miller's Proposition I is insignificance. Mandacı (2009) [17] likewise demonstrated that in the event of non-taxes and insolvency costs, markets were constantly proficient and the extent of debt or capital equity capitalizing would not impact the value of the firm.

Beyond Modigliani and Miller's hypothesis, a few empirical works have been tried to decide the impacts of debt on the value of the firms. In 1976, Jensen and Meckling examined that if the organization needed to get optimal capital structure, they needed to adjust and to count the advantages and wounds of borrowings. Since an excess of debt, for example, fiscal distress and underinvestment can annihilate total value of the firm.

Figure 1.1. Interpretation of trade-off theory of relativity - Firm's maximum value



Source: Myers ``Structure of capital Puzzle``, (1984)

Nevertheless, too little debt capitalizing can impact to overinvestment [4]. Myers (1984) [22] expressed that it was the great point and could be a great hypothetical foundation for companies for acquiring optimal capital structure. Therefore, it is canceled as trade theory. Subsequently, it is the exchanging of advantages and detriments of borrowings.

Scott (1977) [32] likewise broke down that optimal structure of capital would be given over the adjusting net assessment focal points of debt, fiscal distress and

insolvency costs. The consequences of Bradley, Jarrel and Kim (1984) [8], Sbeiti (2010) [31] and Caglayan (2011) [9] articles are predictable with past suppositions.

The Figure 1.1. The interpretation of trade-off theory.

Trade-off theory of relativity is an extension of the MM theory of relativity created by Miller. The theory of relativity suggests that the firm's optimal structure of capital incorporate the trade-off among the impacts of enterprises and individual taxes, office expenses and insolvency costs, and so on. Trade-off theory of relativity expects that corporations pick levels of debt so as to accomplish an adjust among the advantages from the intrigue assess shield with the costs identified with a prospective fiscal distress or with current fiscal rigidity.

As indicated by the Figure, introduce the value of duty shield increments in parallel to enterprise debt line, until the point when extra borrowing impacts for the expanding of fiscal distress. It implies that at direct debt level likelihood of insolvency and fiscal distress degree are exceptionally frivolous, if the organization keeps on taking extra borrowings, fiscal distress will increment essentially. Along these lines, an organization must acquire harmony between the lines of the duty points of interest and fiscal distress costs. In this point, the enterprise value will be optimal and most extreme. The main way to grow the market value of the enterprise is to generate revenues, but the issue of securities is not excluded. Since the cost of the sources of funds varies, a reasonable question arises: is it possible for the enterprise to grow its value by changing the capital structure?

One can also look at the problem from the position of correlating risk and profitability with respect to shareholders.

As noted above, the correlation between the lines of own and borrowed sources of funds is one of the key analytical determinants characterizing the risk of investing fiscal resources in a given enterprise. The attraction of borrowed sources not

only causes a grow in the enterprise's riskiness, but is accompanied (at least theoretically) by an grow in the expected return on capital equity.

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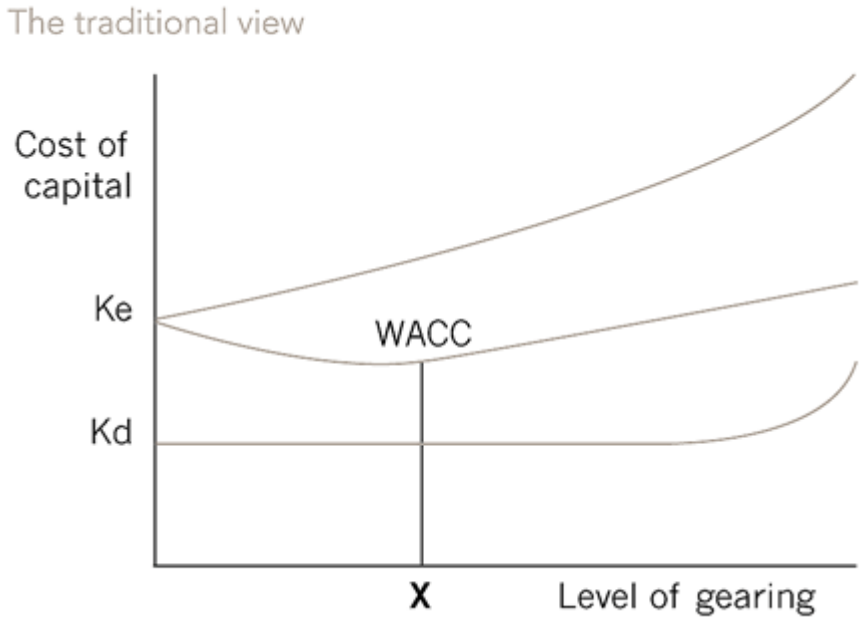
Issues of the possibility and appropriateness of managing the structure of capital have long been debated among scientists and practitioners. There are two main approaches to this problem: the traditional one and the Modigliani-Miller theory.

His followers believe that, firstly, the cost of a firm's capital depends on its structure and, secondly, there is an optimal structure of capital that minimizes the value of the WACC and, therefore, maximizes the market value of the firm. The following arguments are given.

The weighted average rate in cost of capital depends on the value of its components that are broadly divided into two types: own and borrowed capital. Depending on the structure of capital, the cost of each of these sources varies, and the rate of alter is different. Numerous studies have shown that a moderate grow in the share of borrowed funds that is, a slight grow in fiscal risk, does not cause immediate reaction of shareholders in terms of increasing the required yield, but if a certain

safety threshold is exceeded, the shareholders demand higher returns to compensate for the risk. Simultaneously, the cost of borrowed capital, whereas staying at first virtually unaltered, with a certain alter in the composition of sources begins to develop.

Figure 1.2. Traditional view on the dependence of the cost and structure of capital.



Source: *Think Ahead ACCA*

Example

Find the optimal capital structure. The initial data and the results of the calculation are given in Table. 1.

Table 1.1. Calculation of the optimal structure of capital

Index	**Variants of the structure of capital and its cost**						
	1	**2**	**3**	**4**	**5**	**6**	**7**
Share of capital equity	100 shares	90 shares	80 shares	70 shares	60 shares	50 shares	40 shares

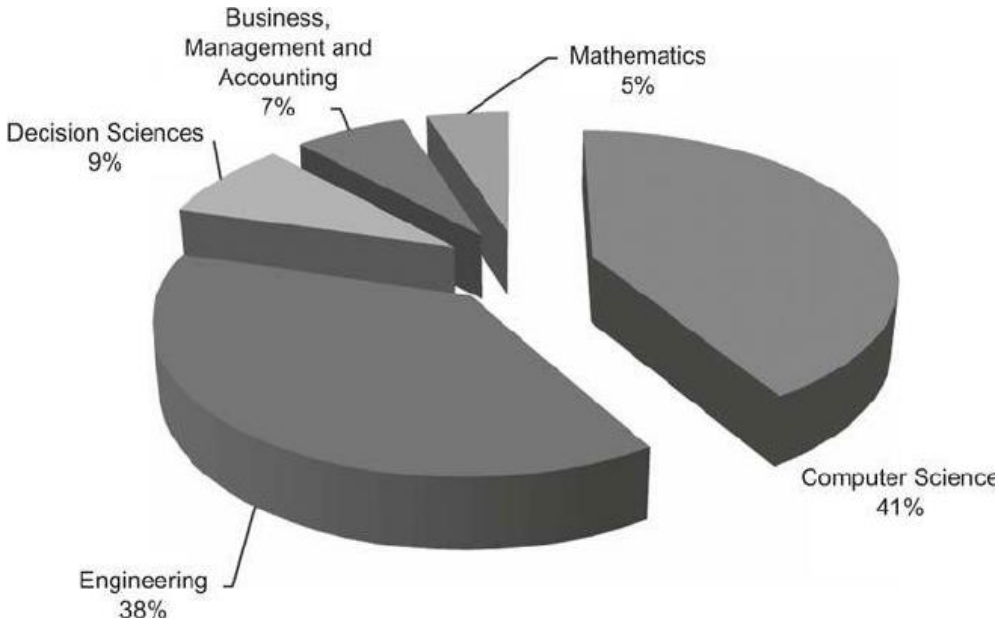
Share of borrowed capital	-	10 shares	20 shares	30 shares	40 shares	50 shares	60 shares
Cost of capital equity	13,0 shares	13,3 shares	14,0 shares	15,0 shares	17,0 shares	19,5 shares	25,0 shares
The cost of borrowed capital	7,0 shares	7,0 shares	7,1 shares	7,5 shares	8,0 shares	12,0 shares	17,0 shares
WACC	13,0 shares	12,67 shares	12,64 shares	12,75 shares	13,4 shares	15,75 shares	20,2 shares

Note: Self-calculation

Therefore, the optimal structure of capital is achieved in the case when the share of borrowed capital is 20%. The weighted average rate in cost of capital is measured by formula (4.10) and has the lowest value of 12.64% (14% -0.8+ 7.1% -0.2).

Key preconditions. The founders of the second approach argue that under certain conditions the market value of the enterprise and the cost of capital does not depend on its structure, and therefore, they can not be optimized, nor can the market value of the enterprise be developed by changing the capital structure. The latter statement is sometimes called the "pie" principle: it is possible to divide the pie in different ways, but its value will naturally stay the same (Fig. 1.3.).

Fig. 1.3. The principle of "pie" in the application to the value of the firm



Source: ResearchGate

The key points of this theory of relativity were published by Modigliani and Miller in 1958. In substantiating their approach, the authors explicitly or implicitly introduced a number of restrictions [9, p. 439]:

• An effective capital market is assumed that implies free information, its fairness to all interested parties, the absence of financial transaction costs, the possibility of any fragmentation of securities, the rationality of investor behavior;

• companies only issue two types of obligations: debt with a risk-free rate and shares (risk capital);

• individuals can carry out loan operations at a risk-free rate;

• there are no costs associated with insolvency;

• all companies are in the same risk group;

• Expected cash flows are perpetual annuities (that is, revenue growth is not expected);

• there are no agency costs that is, the goals of the owners of the enterprise and its top managers are congruent;

• There are no taxes.

Obviously, some restrictions can hardly be counted realistic, but further studies have shown that this does not have a significant effect on the main findings of Modigliani and Miller. In addition, some restrictions were later clarified or eliminated altogether.

The results obtained by these researchers depend on the premise of the presence or absence of taxes on income of legal entities and individuals.

The logic of the Modigliani-Miller theory of relativity without taking into account taxes on incomes of legal entities and individuals. Under the assumptions made, Modigliani and Miller proved two statements [27, p. 261]:

1. The market value (value) of an enterprise does not depend on the structure of capital and is determined by capitalizing its operating revenue (i.e. revenue before interest and taxes) at a rate corresponding to the risk class of the enterprise.

2. The value of the capital equity of a financially dependent enterprise is the sum of the cost of capital equity equivalent to a financially independent enterprise (risk and income) and a risk premium equal to the product of the difference in the value of own and borrowed capital by the quantity of fiscal leverage.

These assertions show that changing the structure of sources by attracting cheap borrowed funds does not grow the enterprise's market value, since the benefits of attracting a cheap source are accompanied by an grow in the risk and, accordingly, the cost of capital equity.

To prove the first assertion, Modigliani and Miller applied the method of arbitration justification. The proofs of these statements will be accompanied by

calculations based on data on companies U and G. These are companies of the same risk class, generating an equal operating revenue each year under the scheme of perpetual annuity, but having different market values and differing in the structure of sources.

According to Modigliani and Miller, companies U and G can not have different market values, because they are in the same risk class and generate the same income. Alignment of values will occur gradually, as a result of arbitrage operations of investors according to the following scheme.

The investor can perform such an operation: he will sell his share of shares in enterprise G, receiving $ 250,000 (5% · 5000 thousand dollars), receive a loan in the quantity of 100 thousand dollars, at 12% per annum and will invest these money in the shares of U that is, its share will quantity to 5.83% (350 thousand dollars: 6000 thousand dollars. 100%).

Another elective theory of relativity in structure of capital is pecking request theory. Myers (1984) [22] accentuated that Donaldson (1961) [11] must be viewed as the pecking request theory. Fundamentally, theory of relativity clarifies that when an organization needs capitalizing amid the investment procedure it mostly inclines toward internal capitalizing. In this circumstance, the managers can limit the asymmetric data costs for the organization. If the inner capitalizing of the organization is lacking, the outside subsidizing winds up extensive. Furthermore, right off the bat, the enterprise issues the most secure securities (Meyer and Allen,1991 [19]).

It must be noticed that there are two types of external capitalizing sources. One of them is retained profit and the other is common fund. The retained profit is the primary valuable subsidizing source in outside capitalizing. In the event that the quantity of capitalizing is inadequate, common fund will be significant (Mandaci, 2009 [17]).

A few researchers see that pecking request theory of relativity isn't reasonable for all conditions. Since certifiable conditions for companies can be not quite the same as pecking request theory of relativity recommends.

In this way, the enterprise must examine choices for utilizing the presumptions of pecking request theory of relativity by thinking about its own particular conditions. For instance, how about we accept that an organization has not been beneficial in late years, it has all the more borrowing, and the debt correlation is high.

In this circumstance, companies can't utilize internal subsidizing. If the organization conveys the second alternative of pecking request theory, the enterprise must tend to utilize more debts. Be that as it may, the enterprise has effectively more debts and debt correlation is high.

There are a number of crucial incentives that have great influence on the structure of capital and investment solutions. I am going to investigate some of them that are more important for investment solutions for fiscal managers.

Optimal structure of capital is consisting of the best debt and capital equity mixture. On the other hand optimal structure of capital provides maximum firm’s value and minimizes cost of capital.

What is cost of capital?

Since cost of capital provides the business with low rate of return it needs on its investments, it is an important part of budgeting solutions. By investigating the cost of capital, the business can choose better solutions on its prospective investments projects and other such capitalizing solutions. Therefore, a cost of capital reveals the business power about the type and value of its all investments. If a business has little information about the rate of return or the cost of capitalizing its operations, it can’t get more business luck.

In addition, it’ll make better atmosphere for new investors on the business, as they can understand the type of rate of return they will get. It also ensures that the

business doesn’t go beyond creditors or investors it can’t repay at the current time. All in all, understanding the cost of capital will encourage the business’ fiscal solution-making. Because of the cost of capital is applied to systematize the market fluctuations, it can help make better fiscal system.

As I mentioned before firm’s capital consist of debt capital and capital equity capital. An enterprise is financed using a mixture of debt (bonds, bank loan) and capital equity (share). All sources of capital have certain cost. Because an enterprise may receive more funding from one source than another, we measure a weighted average rate in cost of capital to find out that of them is cheaper one for the enterprise.

Weighted average rate in cost of capital (WACC) is the average rate in rate of return an enterprise expects to pay to all its various investors. The weights are the fraction of each capitalizing source in the enterprise's target capital structure. For calculation of WACC, we need to know several key factors. These are followings:

Market value of the firm's capital equity - as we mentioned before capital equity is outstanding shares of enterprise and every firm’s shares have own price. Therefore, when we want to know that what is the market value of capital equity we must multiply the number of outstanding shares to market price per share. An enterprise's market value of capital equity is always changing because of these two unique variables alter. Market capitalization is another name of market value of capital equity that is applied to measure a firm's size and helps investors diversify their investments across companies of different sizes and diverse levels of risk.

Market value of the enterprise's debt – if we pay attention all fiscal statements describe only book value of firm’s debt that is not fair determinant for investors. Therefore, we measure market value of debt for better estimation of firms’ debt status. Market value of debt combines book value of debt and all expenses regarding with this debt. The main formula for calculating market value of debt is as following:

Market value of debt = Interest rate x ((1-(1/1+Cost of debt) ^Years)) /Cost of debt + Total Debt/ (1+Cost of debt) ^Years.

Total market value of the enterprise is equal to mathematical sum of market value of enterprise's capital equity and market value of enterprise's debt.

Cost of Capital equity - it directs to a shareholder's expected rate of return on an capital equity investment. It is the rate of return that can be received by investing the same quantity of money into alternative investment project with the same risk.

In general, we have two ways for calculating cost of capital equity. One of them is dividend growth model that is simple and doesn't apply companies that don't pay dividends. Also, it counts that dividend is growing constant rate for certain time and doesn't take into account any risk factor. Dividend growth model is measured with the following formula:

Cost of Capital equity = (Next Year's Annual Dividend / Current Fund Price)+Dividend Growth Rate

The other model for calculating cost of capital equity is Capital Asset Pricing Model. CAPM is useful because it takes into accounts for an investment's riskiness and it can be applied for any enterprise, regardless of its dividend policy or dividend growth rate. Nevertheless, the determinants of CAPM are forecasting and they generally lead to a less concrete answer than the dividend growth model does. The CAPM method is also based on past performance for forecasting the prospective. The basic formula is as follows:

ra = rf + Ba (rm-rf)

where:

ra = cost of capital equity

rf = the rate of return on risk-free securities

Ba = the beta of the investment in question

rm = the market's overall expected rate of return

For better understanding let us look at the example: Let's assume the following for Enterprise X:

Dividend for next year: 10 AZN.

Current fund price: 100 AZN.

Dividend growth rate: 5%

The rate of return on risk-free securities: 3%

Beta of the investment: 0.9

Market's overall expected rate of return: 16%

Using the dividend growth model, we can measure that Enterprise X's cost of capital as following:

Cost of capital = (10 /100)*100% + 5% = 15%

If we use CAPM, we can get the following result:

Cost of capital = 3% + 0.9*(16% - 3%) = 14.7%

Cost of capital equity is a key component of fund valuation. Because an investor require his investment's growing by at least appropriate to cost of capital equity, cost of capital equity can be applied as the discount rate applied to measure an capital equity investment's fair value. Both cost of capital equity calculation methods have specific advantages and disadvantages.

Cost of Debt - is the return that an enterprise ensures to its debt holders and creditors. For measure firm’s cost of debt we must gather all payment for debt and divide this quantity to total debt.

For instance, let us describe that Enterprise X has 2 million AZN loan with 10% interest rate and 500 000 AZN loan with 12% rate. Enterprise X has also emission bonds quantity of 3 million AZN at 14 % rate.

Solution: For the first loan we must pay 200 000 AZN, for the second loan interest payment equal to 60 000 AZN and interest payment for bonds is 420 000

AZN. So Enterprise X's total interest payment is 680 000 AZN and total debt is equal to 4.5 million AZN. From here Enterprise X's cost of debt is as following:

Cost of debt = 680000/5500000*100% = 12.4 %

This figure is cost of debt before-tax payment. If we want to measure beyond-tax cost of debt we subtract effective tax rate from 1, and multiply this figure by before-tax cost of capital. From above example if we access tax rate 20 % then beyond-tax cost of debt will be equal to

Beyond tax cost of debt = 12.4 * (1-0.2) = 9.92 %.

We almost look through all essential incentives that we need to measure weighted average rate in cost of capital. Basic formula for weighted average rate in cost of capital is as following:

WACC = ((E/V) * Re) + (((D/V) * Rd)*(1-T))

E = market value of the enterprise's capital equity

D = market value of the enterprise's debt

V = total market value of the enterprise (E + D)

Re = cost of capital equity

Rd = cost of debt

T= tax rate

For better understanding let us look through the following example: Assume for a new investment project enterprise needs to get 1 million AZN additional capitals. The enterprise issues and sells 7000 shares of fund at 100 AZN each to raise the first 700 000 AZN. Because shareholders expect a return of 10% on their investment, the cost of capital equity is 10%. Enterprise then sells 300 bonds for 1 000 AZN each to raise the other 300 000 AZN in capital. The people who bought those bonds expect 8% return, so firm's cost of debt is 8%. (Tax rate is 20%). Now we have all the determinants to measure Enterprise's weighted average rate in cost of capital.

WACC = ((700,000/1,000,000) x 0.10) + (((300,000/1,000,000) x 0.08) * (1-0.20))) = 0.089 = 8.9%

The enterprise's weighted average rate in cost of capital is 8.9%. This means for every 1 AZN enterprise raises from investors, it must pay to its investors almost 0.09 AZN in return. An enterprise trying to get lower WACC may decide to grow its use of cheaper capitalizing sources. For example, an enterprise may issue more bonds instead of share for obtaining cheaper capital. This causes increasing the proportion of debt to capital equity, and because the debt is cheaper than the capital equity, the enterprise's weighted average rate in cost of capital would reduce. In this case we must pay attention another essential determinant for capital structure. This is the debt capital equity correlation or leverage ratios.

A leverage correlation is one of necessary fiscal instruments that describe how much capital comes in the form of debt (bonds, loans) or evaluate the ability of an enterprise to pay its fiscal obligations. The leverage correlation is important factor that enterprises rely on a mixture of capital equity and debt to finance their operations and knowing the quantity of debt held by a form is useful for assessing whether it can pay its debts off as they come due. Too much debt can be risky for an enterprise and its investors. If a firm's operations can provide a higher rate of return than the interest rate on its loans, then the debt causes to fuel growth in revenues. Nevertheless, uncontrolled debt quantity can decrease credit downgrades or worse.

There are different leverage ratios. Some determinants that are counted to have essential comparability to debt are total capital equity, total assets, expenses, incomes and interest expense.

There are 5 crucial leverage ratios for estimating debt level:

Debt to capital equity correlation = Total debt / Total capital equity

Debt to assets correlation = Total debt / Total assets

Debt to capital correlation = Today debt / (Total debt + Total capital equity)

Debt to EBIT correlation = Total debt / Profit before interest and taxes (EBIT)

Interest Coverage correlation = EBIT / Interest expense

The most famous fiscal leverage correlation is the debt to capital equity ratio. It is expressed as:

D/E = Total debt / Total capital equity

A high debt to capital equity correlation commonly indicates that an enterprise is aggressive in capitalizing its growth with debt. It can be cause flexible income as a result of the additional interest expense. If an enterprise's interest expense goes up very quickly it may rise the enterprise's chances of default or insolvency. In general, a debt to capital equity correlation greater than 2 is a messenger of risky scenario for an investor; nevertheless this determinant can be different by industry. Businesses that need massive capital expenditures, such as utility and manufacturing companies, may need to hold more debts than other companies. It may be a perfect idea to compare a firm's leverage ratios against previous performance of the same enterprise or the companies that operating in the same industry.

Another vital correlation is interest coverage correlation that is measured profit before interest and taxes (EBIT) divided by the quantity required for paying interest on all of the enterprise's debts to debt holders. For instance, if a firm's revenue before taxes and interest quantity to 40 000 AZN and its interest payment requirements total 20 000 AZN then the enterprise's interest coverage correlation is 2.

A good interest coverage correlation varies not only between the lines of industries, but also between the lines of enterprises in the same industry. In general, an interest coverage correlation of 2 is counted the minimum acceptable correlation for an enterprise that has strong, consistent revenues, such as an industrial enterprise.

Investors prefer to get a coverage correlation of 3 or higher. In case of interest coverage correlation is lower than 1 indicates that an enterprise can't pay its current interest obligations and therefore it has not a good fiscal stableness.

1.2. Literature Review

Beyond the essential work of Modigliani and Miller (1958) [21], the source and the structure of capitalizing has been the fundamental study question in the literature. Occasionally, researchers additionally attempted to gauge determinants (quantities obtained by adding products of elements of a square matrix) of the capital structure. Some studies have focused on developing and developed countries, and some have been compared to country samples for analysis of strategies around the world.

The primary piece of existing literature embraces models on a premise of certain enterprise level determinants, for example, size, profitability, growth openings, and so on.

The fundamental motivation behind the examination of Titman and Wessels (1988) [33] is to decide the impact of undetectable incentives on the leverage correlation of companies by utilizing factor scientific procedure. Total 469 assembling companies were incorporated to the sample over the 1974-1982 period. Respects on the beyond effect of examination, uniqueness and enterprise size are negatively identified with leverage levels. They additionally demonstrated that financial transaction was the fundamental variable for deciding capital structure.

Rajan and Zingales (1995) [27] broke down the enterprise particular variables of structure of capital out in the open firms. G-7 nations (the United States of America, Japan, Germany, France, Italy, the United Kingdom and Canada) were the principle sample for inquiring about. As indicated by empirical beyond effects of the study, all variables are altogether identified with enterprise leverage just in USA

companies. Consequences of regression analysis additionally discover that tangibleness or tangibility is essentially identified with debt correlation in Japan, Germany, France, the United Kingdom and Canada.

There is negative and huge relationship amongst profitability and leverage in Japan and Canada. Market to the book is illustrative for Germany, France, the United Kingdom and Canada. Also, Logsale is fundamentally identified with debt correlation in Japan, Germany, the United Kingdom and Canada.

Hussain and Nivorozhkin (1997) [14] broke down the determinants (quantities obtained by the addition of products of the elements of a square matrix) of structure of capital in Poland companies. 17 companies are chosen for testing over the alter time of the nation, 1991-1994. With respect to comes about, the age of the organization was illustrative determinant for companies.

In this way, enterprise size has a negative and critical relationship with leverage level of the organization. It implies new enterprise uses more debt than more established one does. Enterprises size is positively identified with the debt ratio. Something else, tangibleness or tangibility has the negative impact on the capitalizing solution of the organization.

Chen, Lensink, and Sterken (1998) [10] counted the determinants (quantities obtained by the addition of products of the elements of a square matrix) of structure of capital in Dutch companies. The primary goal of the analysis is to gauge the relationship amongst determinants (quantities obtained by the addition of products of the elements of a square matrix) and leverage correlation of the firm.

Total 51 enterprises are investigated over the 1984 - 1995 periods. The analyst contends that the discoveries of examination are important to pecking request theory of relativity suppositions. Profitability, tangibleness or tangibility and growth openings are critical at 1 % importance level. The coefficient indications of all relationship are gotten positive. Just profitability is negatively identified with debt

ratio. Size has a positive and huge relationship with leverage correlation at 10 % hugeness level. Earning volatility was discovered irrelevant in tests.

One of the primary examinations about structure of capital and usage of hypotheses is the examination of Myers and Sunder (1999). The principle motivation behind this article is to examine separation of factor impacts between the lines of trade-off theory of relativity and pecking request theory. Total 157 companies of the United States of America were actualized for tests over the 1971-1989 period.

The fundamental results of Nobel laureates Modigliani and Miller act as one of the fundamental blocks in modern corporate finance, but it is well known that the initial assumptions accepted by them both in classical works, and in the modernized version of the proof of the theorems on the influence of the structure of capital on the value of the enterprise, are redundant. The probability of a risk-free debt is one of these assumptions, but, as stated in, already from Williams' argument (1938), proposed as a justification for the "law of preservation of investment value" formulated long before Modigliani-Miller, 2 it follows that the firm's value "in no way depends on what its capitalization is (structure capital - R.I.) and in the case of a risky debt. [32, p. 19]

Theorists and practitioners often view Modigliani-Miller's first theorem not as a realistic proof that changing the structure of capital does not affect the enterprise's value, but rather as a way of obtaining a list of conditions whose non-fulfillment makes the enterprise's value dependent on the capital structure. Despite the aura of contradiction and the fact that Modigliani Miller's assumptions impose very strict restrictions on the scope of the derived regularities; their work gave impetus to the development of an entire industry of academic research. Their main contribution to the development of modern finance theory of relativity is probably that they "pointed to the arbitration method of thinking as the most fundamental tool for obtaining results in the fiscal economy" [44, p. 13).

The principle of the impossibility of stable arbitrage today plays a key role in understanding the mechanisms of functioning of capital markets and in the estimation of risky investment projects [35, p.36]. In the generalized sense, this principle is the basis of rationality in the economy, integrating the normative solution theory of relativity theory, game theory of relativity and market theory of relativity into a single unit [41, p.14]. The arbitral argument makes the proof of the Modigliani-Miller theorem extremely compact and transparent and allows us to count the law of conservation of investment value as a special case of the general principle of additive of the given values.

There is a natural question: can we weaken the initial assumptions of Modigliani-Miller's theorems and build on the premise of the absence of stable opportunity for extracting arbitrage income, the model of the influence of debt capitalizing on the structure and cost of the enterprise's capital more closely related to the laws of the real world than the classical Modigliani- Miller or the popular Miles-Izsel model? In the present study, such a model is constructed, and it is shown that the relationship known in corporate finance linking the alter in the cost of capital and the value of the enterprise to alters in the debt burden are derived as a particular case from the presented model when additional restrictions are introduced.

The main features of the proposed generalized model of the impact of the debt burden on the cost of capital and the value of the enterprise are as follows.

The Modigliani-Miller model assumes that the absolute value of the debt in the enterprise's capital is unaltered, and that there is an unlimited permanent free cash flow. This design is easy to understand and convenient for illustrating the basic mechanisms of the impact of debt capitalizing on the structure and cost of the enterprise's capital, but it does not correspond to the conditions of practical tasks to be solved in the overwhelming majority of cases. The generalized model allows for an

arbitrary alter in the absolute size of the debt on the estimation horizon and does not impose any restrictions on the structure of the free cash flow.

The Miles-Izsel model is based on the probability of the invariability of the structure of capital expressed by the specific weights of the value of debt and the value of capital equity in the enterprise's total valuation. The implementation of a fiscal policy oriented to the consistency of the structure of capital requires regular adjustment of the quantity of borrowings if the enterprise's estimation alters3, but in practice the solution of the corresponding problem of fiscal planning with the construction of a budget for money is replaced by an estimate with an a priori predetermined (target) capital structure, was actually implemented. This approach is the most common, and the interpretation of its popularity is the simplicity of the calculation procedure. At the same time, the analysis of empirical data allows us to say that the structure of the companies' capital correlates more with the alters in the statements of assets or the balance sheet asset estimation than the market valuation that means that the basic probability of the Miles-Eisel model in reality is often not fulfilled [15, p.14]. At the same time, there is an extensive class of tasks (project capitalizing, LBO, recapitalization) in that neither the quantity of debt nor the structure of capital on the horizon of assessment is known to be permanent, so that the use of classical models for their solution will not be correct due to the mismatch of model assumptions these tasks. The generalized approach proposed in the article provides for dynamic formation and arbitrary alter of the structure of capital as a result of investment and fiscal solutions that develops the flexibility and expands the possibilities of the fiscal model. In particular, the analyst is able to compare the effectiveness of various capitalizing schemes on the assessment horizon, based on expected results of asset turnover, possible sources of capital raising and existing restrictions.

Studies to determine the effect of structure of capital solutions on enterprise value have found significant place in the literature. Within the framework of the studies, as in the theories of classical capital structure; there are those who reach the conclusion that structure of capital solutions have an effect on the enterprise value and those who reach the result that this effect does not exist. Some of the works have been mentioned below.

Masulis (1980) examined the alter in the structure of capital of the alters in the structure of capital by using the 1963 1978 period data of 133 companies selected in accordance with the criteria set by the companies including the NYSE and AMEX indices. The results of the study are as follows: 1) the alter in common fund prices is positively affected by the alter in the leverage ratio, 2) the alter in the non-circulating preference share prices is negatively affected by the leverage ratio, 3) the non-circulating shares are equal to, the alter in the enterprise value is positively related to the alter in the debt level. 5) It is statistically significant that the alter in the enterprise value of 1 $ alter in the value of the debt causes a alter between the lines of 0,23 and 0,45.

Bradley, Jarrell, and Kim (1984) analyzed the fiscal distress costs, the level of the relevant non-debt tax shields and the alter in enterprise value that they identified as determinants (quantities obtained by the addition of products of the elements of a square matrix) in the formation of optimal structure of capital using data from 821 enterprises from 1962- 1981 from 25 sectors that they identified in the two-digit standard industry classification (SIC) . As a result of the regression analysis made, there was a significant and negative correlation between the lines of the leverage correlation and the risk of the AFRIC / total asset ratio that is taken as a measure of the weighted average rate in cost of capital. Therefore, whereas the debt is increasing, the cost of capital is reduced and the grow in debt is less costly. The result of the

analysis is interpreted by Scott's (1977) hypothesis of "collateralized debt" that interprets that lower interest rates will arise if debtors are secured with tangible assets.

In his work Bhandari (1988) examined the effect of the debt / capital equity correlation of capital equity between the lines of 331 and 1241 on enterprise value during the period of 1948-1981 by establishing two-year sub-periods to minimize the effect of possible alters in parameters and to ensure that test results are free from these effects . In Bhandari's work, he argued that the debt-to-capital equity correlation could be applied to interpret the share of betaine's inability to interpret the non-systematic risk. As a result of the regression analysis, statistically significant positive and positive relationship was found between the lines of expected fund returns and debt / capital equity ratio.

The next element of the structure of capital equity is supplementary capital. Additional capital is an item of the enterprise's statements of assets or the balance sheet that reflects the following elements:

● the quantity of reappraisal of fixed assets, capital construction projects and other tangible assets of the organization's assets with a useful life of more than 12 months, conducted in accordance with the established procedure;

● the difference between the lines of the selling value of shares obtained in the process of formation of the authorized capital of the JSC by selling shares at a price exceeding the nominal value and their face value;

● positive exalter rate differences on contributions to charter capital in foreign currency

The procedure for using this capital fund, as a rule, is determined by the owners when reviewing the results of the enterprise for the reporting period. He can go to grow the authorized capital, pay off the statements of assets or the balance sheet loss for the reporting year, and can also be distributed among the founders of the enterprise.

The form of functioning of the enterprise's own capital is also undistributed revenue. This is part of the revenue, not distributed in the form of dividends between the lines of shareholders (founders) and not applied for any other purposes. Due to the relative liquidity of this category of capital, it is most often applied to replenish the enterprise's current assets [17, p.36]. The fund of undistributed revenues can grow from year to year, leading to the fact that, for example, in successful joint-fund companies, retained profit take the leading place among the components of capital equity.

Unlike classical models that presuppose granting and receiving debt at a risk-free rate, the model described in the article allows the creditor's risky essence and the inequality of opportunity to attract debt capitalizing for various participants that is typical for emerging capital markets. So, some companies have the opportunity to borrow at an interest rate below the market average, and then there is the effect of concessional, or subsidized, debt. The opposite situation occurs when, due to the specific circumstances of the borrower, the interest rate under that the debt is attracted is higher than the current market value of borrowed capital and the debt becomes inadequately expensive. From the point of view of the consistency of estimates with external conditions, the fiscal model must take into account similar effects that are realized in the present study.

Another significant difference of the generalized model is the approach to assessing the benefits of the interest tax shield. A classic analysis of the impact of debt capitalizing on the structure and cost of capital assumes that the tax protection of interest payments is fully realized in the quantity of the interest rate in the same period in that interest is accrued. In reality, this probability is not always fulfilled. First, there may be legislative restrictions on the quantity of interest payments charged to taxable revenues. Secondly, the quantity of periodic savings on taxes due to interest payments is determined not only by their quantity, but also by the size of the

operating revenue, and consequently, temporary shifts between the lines of the moment of emergence of the right to a tax shield and the moment of its actual implementation are possible. The specifics of the formation of a tax shield affect the enterprise's estimation through a change in the structure of the cash flow available to investors, and, as a result, the risk of this flow alters. In the generalized model, the tax shield of the period is taken into account only in the quantity of the actually realized quantities. At the same time, as analysis has shown, the cost of capital can alter with the change in the share of the benefits of the tax shield in the enterprise's estimation even if the structure of capital is constant.

The above characteristics of the generalized model of the relationship between the lines of structure and the cost of capital and the additional opportunity offered by the generalized approach to the construction of a fiscal model of estimation by the method of discounting cash flows suggest that the most promising area for their application is the problems of economic justification for strategic solutions, analysis of the investment value of business development alternatives , mergers and acquisitions financial transactions, business plan expertise and an assessment of the expected returns of individual the investment projects.

The following fact proves the relevance of the approach proposed in the article for appraisal practice. In the last, third, edition of the book of authoritative experts in business estimation (Pratt, Grabowski, 2008), a separate supplement to the chapter on the weighted average rate in cost of capital appeared (Pratt, Grabowski, 2008, p. 297), devoted to the question of calculating this parameter in the case when the structure of capital alters periodically. The departure from full dominance in the methodology of business estimation assumptions about the immutability of the structure and cost of capital4 is significant in itself, but as a toolkit, the authors of the appendix use the classic WACC formula and the CAPM model in combination with Hamada's formula to adjust the systematic risk parameter for the fiscal risk of the debt burden. And here

it should be noted that the correctness of the application of the WACC formula is due to a rather long list of assumptions, and Hamada's formula is a potential source of serious errors in the estimated calculations. A generalized model of the impact of debt capitalizing on the structure and cost of the enterprise's capital allows these restrictions to be lifted [16, p.24].

Empirical findings demonstrate that tangibleness or tangibility has the positive relationship with leverage level of the organization. It implies that companies with more tangible assets utilize more debt capitalizing. Profitability is negatively and fundamentally identified with the leverage correlation of the firm.

I would want to demonstrate that each of these outcomes is predictable with pecking request theory. The retesting of the sample by utilizing cross-sectional analysis centrality level and coefficients of the variable are discovered unaltered.

Antoniou, Guney, and Paudyal (2002) [2] explored determinants (quantities obtained by the addition of products of the elements of a square matrix) of structure of capital in European nations. Germany, as well as, the United Kingdom, and France are chosen for the testing of structure of capital speculations in this paper. The sample covers 1987-2000 periods for Germany, 1983-2000 period for France and 1969-2000 periods for the United Kingdom.

Enterprise size is positively and fundamentally related to the leverage level of the companies for all nations. In the meantime, the interest rate has a negative and critical impact on the debt correlation of the companies. Profitability and market to book correlation are additionally negatively related with borrowings for all nations with an exemption of Germany.

Tangibleness or tangibility is fundamentally related to the leverage level for Germany and the United Kingdom. The indications of variables are positive and negative separately. Be that as it may, this value is unimportant for France companies.

At the same time, liquidity and volatility don't demonstrate the huge relationship with leverage.

Bauer (2004) [5] researched the enterprise particular components of the structure of capital in the Chezh Republic over the 2000-2001 period. Total 72 companies are incorporated into a sample for every year. The discoveries of study demonstrate that profitability is negatively identified with debt correlation and this outcome is coordinating the pecking request theory.

As indicated by the outcomes there is positive and huge relationship amongst size and leverage. This outcome affirms trade-off theory. Tangibleness or tangibility and growth openings are likewise negatively identified with debt ratio. Remorsefully, volatility isn't identified with leverage.

Determinants (quantities obtained by the addition of products of the elements of a square matrix) of structure of capital in Nepal recorded enterprises are dissected by Baral (2004) [3]. Size, risk, revenue, growth rate are chosen fundamental independent variables in inquiring about. Baral referred to past study and computed the dependent variables as the correlation of total debt to total assets.

The consequences of numerous regression show that lone 3 variables were noteworthy in look into. Size of the enterprises and growth has a positive relationship with a leverage of the firms. In another way, earning a rate of business has backward sign with debt ratio. Business risk, level of leverage and revenue pay-out is not logical variables for structure of capital solution of Nepal Listed firms.

Mandaci (2009) [17] investigated optimal structure of capital hypotheses over the Turkish non-fiscal firms. Specialist chose 247 enterprises from various modern areas and sample likewise secured 1996-2004 periods. The technique for investigating is investigated by regression analysis.

Concerning the empirical outcomes, there is the negative connection with the leverage correlation and this outcome is reliable with pecking request theory. It

implies that high beneficial Turkish enterprises like to utilize internal capitalizing. The tangibleness or tangibility is likewise negatively identified with debt correlation and infers the consequence of trade-off theory. There are additionally negative relationship between the lines of size, liquidity, and leverage.

CHAPTER 2. METHODOLOGY AND VARIABLES

2.1. Positive and Negative Relationship Between the lines of Leverage Correlation and Profitability in Azerbaijan Firms

The capital structure is a combination of long-term sources of funds used by the firm. It consists of debt and capital securities and is sent to the company's permanent capitalization. It consists of long-term debt, preferred share capital and shareholders' funds.

Decisions related to the capitalization of the company's assets are very important in every business, and the finance specialist often faces the dilemma of what should be the optimal share of debt and capital. As a rule, there should be an appropriate combination of debt and capital in the capitalization of the firm's assets. The structure of capital, as a rule, is intended to satisfy the interests of shareholders.

Therefore, instead of collecting the entire fund from shareholders, a part of the long-term fund can be attracted as a loan in the form of a bond or a bond by paying a fixed annual fee. Although these payments are considered expenses for the organization, this method of capitalization is taken to better serve the interests of ordinary shareholders.

There is some importance to the optimal structure of capital. These are:

Maximization of value: the structure of capital maximizes the market value of the firm, ie. In an enterprise that has a properly designed capital structure, the maximum amount of claims and shares of shareholders is maximized.

Minimizing costs: the capital structure minimizes the cost of capital or the cost of capitalizing the firm. Determining the right combination of sources of funds, an enterprise can keep the total cost of capital to the lowest level.

Growth of the share price: the capital structure maximizes the market price of the company's shares by increasing the profit per share of ordinary shareholders. He also develops payment of dividends to shareholders.

Investment opportunities: the capital structure develops the enterprise's ability to find new investment opportunities for creating wealth. With proper capital support, he also develops confidence in debt obligations.

The growth of the state: the capital structure develops the pace of investment and growth of the state by increasing the company's ability to participate in prospective investments in wealth creation.

If we pay attention above we can see that all of listed are the main goals of every enterprise. Therefore we try to investigate how we can get optimal structure of capital that has a great impact of the firm’s value and investment policy. Also we try to disclose that structure of capital differences exist in emerging and emerged counties. Finally we apply the world experience to the Azerbaijani companies and we’ll endeavor to find out that gaps exist about Azerbaijani companies.

In the shape of the literature the study questions of investigation are defined as takes beyond:

1) What is a structure of capital and what are the fundamental determinants?

2) That incentives have the effect on the leverage correlation of the organization?

3) Is there any relationship between the lines of macroeconomic determinants and leverage ratio?

4) Is the empirical consequence of analysis reliable with the suppositions of pecking order theory of relativity and trade-off theory?

In this way, the choice of variables is the most critical piece of the response to these study questions. For the most part, the discoveries of literature survey demonstrate that the companies utilize distinctive variables for estimating the impacts. Obviously, the suspicion of hypotheses is likewise imperative for picking variables.

Dependent Variables

As specified in a hypothetical piece of investigation, structure of capital is a blend of securities and diverse fiscal hotspots for the capitalizing of genuine investment. At the end of the day, structure of capital speaks to the extent and blend of fiscal sources that are securities, short and long-term debt and capital equity.

Matos (2001) [18] expect that if the organization utilizes debt capitalizing together with capital equity, it implies that the enterprise is levered firm. With respect to literature survey, measurement of structure of capital is demonstrated as the leverage correlation of the companies. Another clarification of this correlation is debt ratio.

The principle utilized calculation technique is a correlation of total liabilities to total assets. Researcher emphasizes that all blend of liability things. For example, creditor liabilities, stores, remote trade liabilities, saves and long-term debts give total liabilities.

There are two types of calculation techniques or methods for debt ratio. One of them is count with book values and the other is figuring with market values. Honest and Goyal (2003) [12] expect that book value speaks to the past circumstance of companies. Something else, market values demonstrate the prospective position of the firms.

There are distinctive computation approaches for total leverage ratio. Padron, Apoloniraio, Santana, Conceptio, Martel and Sales (2005) [26] utilized leverage

correlation by dividing total borrowings of the organization to the entirety of the debt and capital equity.

Sayilgan, Karabacak, Kucukkocaoglu (2006) [30] counted the leverage correlation total debt to total capital equity. The computation strategy for leverage correlation in Booth, Aivazian, Demirguc Kunt and Maksimovic (2001) [7] articles are likewise reliable with past investigations.

Subsequently, total leverage correlation is chosen as dependent variable and figured by dividing total liabilities to the aggregate of the total liabilities and total values.

$$\textit{Total debt ratio=total liabilitiestotal liabilities / total equities}$$

Independent Variables

Hypotheses and studies recommend that the companies utilize structure of capital solution for obtaining data about expenses and advantages of capitalizing. As per the literature, a few elements that have an effect on the structure of capital solution are chosen as independent variables.

➢ Size - There are distinctive clashes over the clarifications of relationship between the lines of enterprise size and leverage ratio. In respects of theory of relativity dialogs, there are two principle suppositions. Pecking order theory of relativity contends that there is negative relationship between the lines of variables. Nonetheless, trade-off theory of relativity safeguards contends that there happens positive relationship between the lines of enterprise size and debt ratio. In this study, the positive relationship is accepted between the lines of enterprise size and leverage ratio. It implies the suspicion of trade-off theory of relativity is fitting for Azerbaijan companies. Also, Natural Logarithm is utilized for the checking of enterprise size.

The determined hypotheses for learning the positive and negative relationship between the lines of leverage correlation and the other variables in order to identify firm's value based on structure of capital are as follows:

- Hypothesis 1. There is positive relationship between the lines of leverage correlation and enterprise size in Azerbaijan firms.
- Hypothesis 2. There is negative relationship between the lines of leverage correlation and profitability in Azerbaijan firms.
- Hypothesis 3. There is negative relationship between the lines of leverage correlation and the relevant non-debt tax shields in Azerbaijan firms.
- Hypothesis 4. There is positive relationship between the lines of leverage correlation and tangibleness or tangibility in Azerbaijan firms.
- Hypothesis 5. There is negative relationship between the lines of leverage correlation and growth opportunity in terms of plant, property & equipment in Azerbaijan firms.
- Hypothesis 6. There is negative relationship between the lines of leverage correlation and growth opportunity in terms of total assets in Azerbaijan firms.

Hypothesis 1. There is positive relationship between the lines of leverage correlation and enterprise size in Azerbaijan firms.

Hypothesis 2. There is negative relationship between the lines of leverage correlation and profitability in Azerbaijan firms.

Myers (1984) [22] shows that profit level of the organization is the primary pointer for the picking of capitalizing type. Pecking order theory of relativity accepts that there is negative relationship amongst profitability and leverage ratio.

It implies that beneficial companies have more profit and abnormal state retained profit. These companies will utilize internal store right off the bat. The borrowing level will show the least level.

Along these lines, there is negative relationship amongst profitability and debt ratio. The consequences of investigation of Caglayan (2011) [9] Mishra (2011) [20] and Joever (2006) [16] are reliable with the suppositions of pecking order theory.

The other way around, trade-off theory of relativity contends that positive connection must be amongst profitability and leverage ratio. Since high profitable companies have more profit and they can reimburse interest and fundamental debt installments effortlessly.

Along these lines, they keep an eye on all the more borrowing. EBIT/total assets are chosen fundamental calculation method of profitability ratio. There are accepted negative relationship amongst profitability and the debt correlation of the companies.

2.2. Positive and Negative Relationship between the lines of leverage correlation and the relevant non-debt tax shields / tangibleness or tangibility in Azerbaijan firms

Hypothesis 3. There is negative relationship between the lines of leverage correlation and the relevant non-debt tax shields in Azerbaijan firms.

The relevant non-debt tax shield - Theories dependably expect that companies utilize debt capitalizing for saving tax.

The expanding of the relevant non-debt tax shield impacts for the limiting of tax benefits. In this way, there is negative relationship between the lines of the relevant non-debt tax shield and debt capitalizing. In this circumstance, both of the trade-off theory of relativity and pecking order theory of relativity propose that there

is negative relationship between the lines of the relevant non-debt tax shield and leverage correlation of the firms.

As per the literature survey and suspicion of speculations correlation of yearly deterioration of costs to total assets is the fundamental determinant of this investigation. What's more, the negative relationship is accepted for Azerbaijan companies.

Hypothesis 4. There is positive relationship between the lines of leverage correlation and tangibleness or tangibility in Azerbaijan firms.

Asset tangibleness or tangibility - Tangibleness or tangibility is the most imperative determinant of capital structure. Pecking order theory of relativity expects that companies with more tangible assets watch out for less borrowing.

I contend that companies with more tangible assets, for the most part, are vast companies. Also, vast companies utilize internal fund and utilize debt capitalizing at the least level.

Along these lines, there is negative relationship between the lines of asset tangibleness or tangibility and debt ratio. Trade-off theory of relativity shows the positive relationship amongst tangibleness or tangibility and profitability.

Since these assets are security for debt capitalizing and it is the certification of debt. In the meantime, insurance decreases the risk of debt and keeps up the steadiness of reason amongst bank and companies.

The fundamental calculation method for this study is chosen as takes beyond:

$$tangibility = (tangible\ assets + inventories) / total\ assets.$$

What's more, the positive relationship is contended for determining the relationship between the lines of tangibleness or tangibility and debt ratio.

2.3. Positive and Negative relationship between the lines of leverage correlation and plant, property & equipment in Azerbaijan firms

Hypothesis 5. There is negative relationship between the lines of leverage correlation and growth opportunity in terms of plant, property & equipment in Azerbaijan firms.

Hypothesis 6. There is negative relationship between the lines of leverage correlation and growth opportunity in terms of total assets in Azerbaijan firms.

With respect to speculations and learns about enterprise particular determinants (quantities obtained by the addition of products of the elements of a square matrix) of capital structure, following table demonstrates the calculation method and the indication of the relationship between the lines of variables.

Table 2.1. Clarification of independent variables

Variables	**Definition**	**Relationship for theories and models**	**Relationship from studies**	**Expected relationship**	**Theories**
Profitability	EBIT/Total assets	-	-	-	Pecking order theory
		+			Trade-off theory

Enterprise size	Natural logarithm of total sales	-			Pecking order theory
		+	+	+	Trade-off theory
Growth opportunity in plant, property and equipment	Percentage alter in property, plant and equipment	+			Pecking order theory
		-	-	-	Trade-off theory
Growth opportunity in total assets	Percentage alter in total assets	+			Pecking order theory
		-	-	-	Trade-off theory
The relevant non-debt tax shield	Annual depreciation expenses/total assets	-			Pecking order theory
		-	-	-	Trade-off theory
Tangibility	(tangible assets + inventories) / total assets	-			Pecking order theory
		+	+	+	Trade-off theory

Source: Compiled by self

By counting all the determined variables, the proposed equation model in terms of the investigation is as follows:

Leverage of the enterprises = β0 + β1 profitability + β2 enterprise size

+ β3 growth opportunity in terms of plant, property and equipment

+ β4 growth opportunity in terms of total assets + β5 the relevant non-debt tax shield + β6 tangibleness or tangibility + ε

The principal reason for this study is to dissect the enterprise particular determinants (quantities obtained by the addition of products of the elements of a square matrix) of structure of capital in Enterprises of the Republic of Azerbaijan over the 2012-2016 period. 6 primary enterprise particular variables are counted in analysis.

The fundamental hotspot for calculation ratios and variables in analysis are monetary record and wage articulations of Azerbaijan companies. This information is acquired from the website of the companies and by the gathering CFO. And all information is indicated every year.

The commitment of this investigation to the literature about the structure of capital is that it is the principal study that determines the enterprise particular components of the structure of capital in Azerbaijan.

Tragically, information is not accessible for all companies as the years progressed. Along these lines, lopsided board information analysis will be utilized for this investigation. Initially, total 76 companies are utilized as a part of this research.

What's more, these companies are from different parts. As expressed in the article by Nyangoro (2013), the solid leverage level of fiscal establishments may alter the rightness and vigor of the outcomes. In this way, five fiscal companies were barred from the sample and there are a total of 71 companies and 222 perceptions in the study. With regards to the cash, all information has appeared in US dollars. The relationship between the lines of variables will be investigated in E-sees program.

CHAPTER 3. EMPIRICAL RESULTS

3.1. Model 1 - Results of Data regression analysis results

Unbalanced panel information analysis is the best reasonable method for measuring relationship between the lines of variables on these conditions. To settle on choosing Cross-Section Method type of panel information is the primary requirement in the analysis.

According to Ashenfelter, Levine and Zimmerman (2003), it is important to mull over focal points and inconveniences of models for comparing fixed and random effects models in the investigation.

So, with the assistance of the Hausman test we can choose that display is very valuable in the analysis. The results of the test offer that the cross random effect isn't efficient and fixed effect method is very helpful for measurement of relationship between the lines of variables.

The value of the chi square Hausman test was 27.96 and this value was factually critical. Beyond the Hausman test all variables are incorporated into the program and fixed effect are connected for measurement.

The results of panel information regression analysis are presented in beneath:

Table 3.1. Results of regression analysis on panel data – Model 1

Variables	Coefficients	St. errors	T Values	P> | t |
Profitability	-0.1782	0.1099	-1.62	0.113
Enterprise size	0.0008	0.0091	0.10	0.922
GOTA (growth opportunity in terms of total assets)	0.0001	0.0001	0.58	0.567

GOPPE (growth opportunity in terms of plant, property & equipment)	-0.0001	0.00002	-0.64	0.525
NDTS	-0.3021	0.2769	-1.09	0.282
Tangibility	-0.0685	0.0893	-0.77	0.448
Constant	0.8135	0.1008	8.07	0.000

Source: Self-calculation

As observed from Table, there is no noteworthy relationship between the lines of leverage correlation of the organizations and explanatory variables.

Furthermore, all the whereas, R-squared (R2) value is 0.1508. It implies that the model has approximately 15% clarification percentage.

F insights are figured as 1.15. The table additionally demonstrates that there is a negative relationship amongst profitability and debt ratios.

GOPPE, NDTS and Tangibleness or tangibility are additionally negatively related to the leverage correlation of the firms.

Yet, unfortunately, all relationship are not huge. The analysis likewise shows that corr (u_i, Xb) = 0.0995. In the meantime correlation values prove that there are no strong correlations between the lines of variables.

According to Table, there isn't any strong relationship between the lines of variables. For instance, the correlation value amongst profitability and enterprise size is 0.069. It implies that the correlation between the lines of these variables is 6.9 % and variables are positively correlated.

Table 3.2. Values of correlation between the lines of the independent variables

	Enterprise size	***GOPPE***	***GOTA***	***Leverage***	***Revenue.***	***NDTS***	***Tang.***
Enterprise Size	1.000	0.046	-0.025	-0.170	0.069	-0.025	-0.063
GOPPE	0.046	1.000	0.109	0.033	-0.022	-0.007	-0.020
GOTA	-0.025	0.109	1.000	0.053	-0.008	-0.090	0.179
Leverage	-0.170	0.033	0.053	1.000	-0.246	-0.160	0.146
Prof.	0.069	-0.022	-0.008	-0.246	1.000	0.067	-0.085
NDTS	-0.025	-0.007	-0.090	-0.160	0.067	1.000	0.103
Tang.	-0.063	-0.020	0.179	0.146	-0.085	0.103	1.000

Source: Self-calculation

Moreover, there is a negative correlation amongst profitability and GOPPE, and the figures show that the correlation value is computed as 0.022 or - 2.2%.

3.2. Model 2 - Results of Data regression analysis

The fundamental reason for the unfortunate model is that there are some missing values in variables, particularly, in GOTA (growth opportunities in total assets) and GOPPE (growth opportunities in property, plant and gear).

What's more, these values directly impact the results and correctness of measurement. Along these lines, under these conditions, GOTA and GOPPE will be rejected from the measurement.

Furthermore, the analysis will be broke down for the second time as Model 2.

A total of 4 explanatory variables will be incorporated into the model that represents profitability, enterprise size, NDTS and tangibility.

Regarding each participant of these variables, the panel information regression analysis of the model will be as the takes beyond:

Leverage of the enterprises = β0 + β1 profitability + β2 enterprise size + β3 the relevant non-debt tax shield + β4 tangibleness or tangibility + ε

Reanalysis of the Hausman test shows that the results are predictable with the results of previous model.

The Hausman test offers to choose a fixed-effect approach to this model, as well. The chi-square value in this model was 23.84, being factually critical.

The results of Model 2 panel information regression analysis are presented in Table beneath:

Table 3.3. Results of regression analysis on panel data – Model 2

Variables	***Coefficients***	***St. Errors***	**T Values**	**P> | t |**
Profitability	-0.5338	0.1259	-4.24	0.000***
Enterprise size	0.0166	0.089	1.85	0.068***
NDTS	-0.0676	0.2552	-0.26	0.7992
Tangibility	-0.0969	0.0798	-1.21	0.228

Constant	0.7353	0.0823	8.43	0.000***

Source: Self-calculation

Note: □□□ means the significance level at 10 %

Mulling over the results of Table and Model 2, there are two critical relationships between the lines of variables: the relationship amongst profitability and leverage correlation of the enterprises and the relationship between the lines of enterprise size and leverage ratio.

Profitability is negatively and essentially related with the leverage ratio. The essentialness level of relationship is 10%.

The coefficient of relationship is - 0,5338. It implies that 1 percent grow in profitability effects - 0,5338 decrease in leverage ratio.

The results of relationship are reliable with pecking order theory.

In literature, pecking order theory of relativity defenders expects that there must be a negative relationship amongst profitability and debt ratio.

Furthermore, there is positive and huge relationship between the lines of leverage correlation and enterprise size.

The noteworthiness level is additionally inside 10% for this relationship. The coefficient of relationship is 0.0166.

It implies that 1 percent grow in enterprise size develops leverage of the enterprise by 0.0166 percent.

Nevertheless, the relevant non-debt tax shield and tangibleness or tangibility is not altogether correlated with debt ratio.

The coefficient of the two relationships is negative. Also, R-squared (R2) value is 0.2103.

This figure proves that the model has 21% clarification percentage. F measurements are figured as 5.86 and this value is huge. Analysis likewise demonstrates that corr (u_i, Xb) = - 0.129.

3.3. Model 3 - Results of Data regression analysis

At last, I chose to reanalyze measurement of relationship between the lines of leverage correlation and explanatory variables by including two variables just that are profitability and enterprise size.

These variables had a huge relationship with leverage ratio.

In this way, it will be very concrete to determine the real signs and coefficient of relationship and hugeness with leverage ratio.

In this way, profitability and enterprise size are incorporated into the testing as Model 3.

The Hausman test shows that fixed effect method is deliberate for Model 3. This result is predictable with the previous one.

What's more, it is critical, as well. The chi square value was 6.58.

Condition of Model 3 will be:

$$Leverage\ of\ the\ enterprises = \beta 0 + \beta 1\ profitability + \beta 2\ enterprise\ size + \varepsilon$$

The results of Model 3 are presented in following table:

Table 3.4. Results of regression analysis on panel data – Model 3

Variables	***Coefficients***	***St. Errors***	***T Values***	***P> | t |***

Profitability	-0.5631	0.1236	-4.55	0.000***
Enterprise size	0.0155	0.0088	1.76	0.068***
Constant	0.6887	0.0724	9.51	0.000***

Source: Self-calculation

Note: □□□ means the significance level at 10 %

As can be seen from Table 3.5, the two variables are huge at 10% centrality level.

Profitability is negatively and essentially related to the leverage correlation of the firms. The coefficient of relationship demonstrated - 0.5631.

It implies that 1 percent grow in profitability influences - 0.5631 decrease in leverage ratio.

The results of relationship are reliable with pecking order theory. Allen (1991) clarified that organizations firstly preferred internal capitalizing.

On the off chance that the internal capitalizing channel is lacking, the external capitalizing channel turns out to be more relevant.

With regard to this information, Mandaci (2009) [17] pointed that there are two types of external capitalizing: retained profit and common fund.

Retained profit is the exceedingly reliable capitalizing type. Ross, Westerfield and Jaffe (2005) likewise describe that profitable organizations utilize debt capitalizing at any rate level.

Therefore, the debt correlation decreases in the event of higher revenues. This theoretical background clarifies that the results of measurement are accurate.

Along these lines, there is a negative relationship amongst profitability and leverage ratio.

Literature review likewise affirms the results of the analysis. Rajan and Zingales (1995) [27] proved that there is negative relationship amongst profitability and leverage correlation in Japanese and Canadian organizations.

All the whereas, profitability is negatively related to debt correlation of U.S. organizations (Myers and Sunder, 1999).

Booth, Aivazian, Demirguc, including Kunt and Maksimovic (2001) [7] determined the firm-specific incentives of organizations in Brazil, Mexico, Korea, India, Jordan, Pakistan, Pakistan, Thailand, including Turkey and Zimbabwe over the period in the vicinity of 1985 and 1991.

The results and outcomes of regression analysis show that profitability had negative relationship with debt ratio.

Furthermore, it is fundamentally explanatory variable for capital structure. Study by Bauer (2004) [5], Berk (2005) [6], Akhtar and Oliver (2005) [1] additionally approves the relationship position amongst profitability and leverage ratio.

Besides, enterprise size has noteworthy relationship with leverage.

What's more, the indication of the relationship is positive and coefficient shows 0.0155.

It implies that if there should be an occurrence of an grow in enterprise size, it will impact the increasing of leverage ratio.

Theoretically, trade off theory of relativity defenders accept that debt capitalizing will grow in parallel with enterprise size.

It implies that there must be a positive relationship amongst profitability and debt ratio.

Ozkan (2001) [25] tests the enterprise particular determinants (quantities obtained by the addition of products of the elements of a square matrix) of structure of capital in UK organizations.

Results of measurement suggest that enterprise size is positively related with leverage ratio.

The discoveries are predictable in Swiss firms, as well (Graud, 2005). Zhou Zang (2006) [34] described similar issues in Canadian firms.

He clarified that the size of the organization was the strongest explanatory variable for debt capitalizing of the organization.

It is described that enterprise size has positive relationship with leverage ratio. Furthermore, the researcher additionally emphasizes that multinationals have higher level debt correlation than residential corporations.

Regarding the result of the test in the article by Sbeiti (2010) [31], size is positively related to debt correlation for every one of the 3 states (Kuwait, Saudi Arabia and Oman).

R square of Model 3 is figured 0.20.

It implies that there is 20% clarification degree of analysis.

F insights are counted 10.88 that is a measurably critical value. Analysis likewise shows that corr (u_i, Xb) = 0.031. The findings of the three models are summarized in underneath:

Table 3.5. Results of 3 models

	Model 1 (Coefficients)	***Model 2 (Coefficients)***	***Model 3 (Coefficients)***
Profitability	-0.1782	-0.5338***	-0.5631***
Enterprise size	0.0008	0.0166***	0.0155***
GOTA	0.0001	-	-

GOPPE	-0.0001	-	-
NDTS	-0.3021	-0.0676	-
Tangibility	-0.0685	-0.0969	-
Constant	0.8135	0.7353	0.6887
Haussmann Test	27.86*** (fixed	23.84*** (fixed effect)	6.58*** (fixed effect)
R2	0.15	0.21	0.20
F Statistics	1.15	5.86***	10.88***
Corr (u_i.Xb)	0.094	-0.129	0.031

Source: Self-calculation

Note: □□□ means the significance level at 10 %

Counting Table 3.6 and every part of the models, our last condition will be as per the following:

Leverage of the enterprises = 0.6887 – 0.5631 profitability + 0.0155 enterprise size Before measurement and predetermining there were 6 theories.

Just the first and the second theories are acknowledged. Just these arguments are kept up with measurement. Other speculations are rejected and H0 is acknowledged.

CONCLUSION

Since 1958, structure of capital has been counted the most examined theme in corporate back. The major inquiry is to discover optimal structure of capital point and determine the principal determinants.

Broad investigations have been attracted to provide the effects of incentives on the leverage correlation of the organizations.

The fundamental part of these investigations interpreters, the enterprise particular determinants (quantities obtained by the addition of products of the elements of a square matrix) in corporate.

Another part of investigations determines the impact of macroeconomic incentives on the capitalizing selection of organizations.

According to previous literature, the majority of these articles have been connected to developing countries. In light of previous literatures and theories, the primary purpose of this investigation is to determine structure of capital strategies of Azerbaijan enterprises.

Developed growth of economy, inclination of macroeconomic determinants, current position of sectors and enterprises were the fundamental part of this investigation.

Results of study have three clarifications.

The primary chose incentives for measurement were profitability, enterprise size, growth opportunity in terms of plant, property and gear, growth opportunities in total assets, the relevant non-debt tax shields and tangibility.

Unfortunately, no noteworthy clarification was found between the lines of variables in the first model.

The principle reason for the unfortunate model is that there are some missing values in variables, particularly, in GOTA (growth opportunities in total assets) and GOPPE (growth opportunities in property, plant and hardware).

Also, these values directly impact the results and correctness of measurement.

Along these lines, the following 4 variables are incorporated into the second model.

According to the finding, just profitability and enterprise size were explanatory and huge factor for leverage correlation of the organizations.

The results of relationship are predictable with pecking order theory. In literature, pecking order theory of relativity defenders accept that there must be a negative relationship amongst profitability and debt ratio.

At long last, the including of just two incentives (profitability and enterprise size) was re-investigated in Model 3.

Furthermore, the results of Model 3, demonstrate that both of determinants (quantities obtained by the addition of products of the elements of a square matrix) are huge and explanatory variables for capitalizing choice of organizations.

There were a few restrictions that influence the results of analysis and constrain the generalization of the findings.

• Firstly, there were excluded all enterprises by years, on account of information inaccessibility.

• Secondly, the investigation covers 2012-2016 periods. Be that as it may, including period from 1994, would be very explanatory and preferable to grow adequate results.

• World fiscal crisis in 2008-2009 impacts affects Azerbaijan.

It will be very important in prospective investigations to examine structure of capital choices and determinants (quantities obtained by the addition of products of the elements of a square matrix) in organizations over the period before and beyond crisis. Structure of capital issues is very important for prospective examinations.

In the light of this investigation, there are a few proposals for the prospective researches:

1. To collect great sample size for analysis.

2. To expand the number of years

3. More enterprise particular determinants (quantities obtained by the addition of products of the elements of a square matrix) and macroeconomic determinants can be incorporated into the investigations.

4. To expand size of industries and sectors.

In accordance with the tasks solved in the present study, the following conclusions are drawn.

1. The above classification of investments revealed the multifaceted essence and complexity of the investment structure.

The study concluded that investment activity is the driving force of the enterprise that is aimed at solving strategic tasks, to develop an industrial enterprise. Without conducting investment activities, the enterprise loses competitiveness - not the ability to fully provide consumers with the proper volume of the product, wear and tear of fixed assets. Investment activity is in step with the production and sale of products (operational activities), operational activities contribute to the implementation of investment activities, forming fiscal prerequisites. These two processes are necessary to maintain competitiveness and cannot be separated from each other. Effective investment is the key to the stability of an industrial enterprise.

2. In the modern market economy, for the management of an enterprise, the effect of the invested funds in assets is characterized primarily by the growth of incomes or cash receipts. An important consequence of the acquisition of assets is the creation of additional revenues, a grow in cash flow or an grow in the enterprise's revenues in quantities larger than the value of the assets acquired. The rate of revenue growth should be higher than the growth rates of production and sales, and those in turn are higher than the growth rates of the value of assets. Growth in the profitability

of the enterprise's assets, due to developed profitability of sales and return on assets, is a consequence of compliance with this inequality.

3. Investments represent an investment of resources in the sphere of production and in the non-productive sphere with the aim of: obtaining income on invested capital; solving the problems of increasing competitiveness; growth of economic, ecological and social efficiency. The main way to solve these problems is capital investment.

4. In form, capital investments are expressed in money resources directed to the reproduction of fixed assets. Capital investments determine the development of the material and technical base of the national economy; they are the main tools for increasing the production capacity of industry, agriculture and other industries, accelerating the development of scientific and technological progress.

5. An important issue in the design of capital investments is the identification and subsequent exploration of sources of capitalizing. The main sources of capitalizing of capital investments are own fiscal resources and intra-economic reserves (net income, depreciation charges, extraordinary income, etc.). It is necessary to form a stream of capital investments from all types of accruals, revenues, enterprise revenues, for the successful operation of the firm, timely renewal of funds and economic growth.

The project can be implemented in an already existing facility, in this case it is necessary to count incentives related to the impact of a new project on the current activity of a functioning enterprise, as well as the impact of this activity on the project. Also, there are projects that have an enterprise that generates character.

6. Management of real investments is directly related to the management of the enterprise as a whole and is associated with almost all areas of its activities. Various processes occurring in the external environment should be taken into account when making an investment solution.

7. The growth of the firm's value and the welfare of its owner is a consequence of the adoption of effective investment solutions. The next step beyond the formulation of investment ideas and search for investment opportunities is the process of managing capital investments, measuring the value and profitability of the project, assessing risks, comparing the costs and benefits of all investment alternatives, to choose the most effective project, in order to grow the value of the enterprise.

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XÜLASƏ

Dissertasiyanın mövzusu “Kapital strukturu və onun firmanın dəyərinə və investisiya siyasətinə təsiri” adlanır.

Dissertasiya işi giriş, 3 fəsil, nəticə və ədəbiyyat siyahısından ibarətdir. Giriş hissəsində tədqiqat sualı, ədəbiyyatın analizi, metodologiya və tədqiqat mövzusunun seçilməsi səbəbi aydınlaşdırılır.

I fəsil “Azərbaycan firmalarında kapital strukturunun əsas determinantlarının firmanın dəyər və investisiya fəaliyyıtinə olan təsiri” adlanır.

Bu fəsildə mövzunun günümüzdə nə qədər aktual və müasir şirkətlər üçün vacib olması, kapital strukturu ilə firmanın dəyəri arasında hansı əlaqələrin mövcudluğu, kapital strukturunun firmanın investisiya siyasətinə necə təsir etdiyi, tədqiqatçıların bu mövzuyla bağlı araşdırmaları analiz edilir.

Qeyd olunan fəsildə optimal kapital strukturu, firma kapitalının əsas idarə üsulları, optimal kapital strukturuna təsir göstərən əsas amillər müzakirə edilir.

II fəsil “Metodologiya və dəyişənlər” adlanır.

Qeyd olunan fəsildə leveraj nisbəti və digər dəyişənlər arasındakı müsbət və mənfi əlaqələr müzakirə edilərək 6 hipotez müəyyən edilir.

III fəsil “Empirik nəticələr” adlanır.

Bu fəsildə inkişaf etmiş və inkişaf etməkdə olan ölkələr arasında kapital strukturunda əsas fərqlər, Azərbaycan şirkətlərində kapitalın dəyəri müzakirə edilərək, Azərbaycan şirkətləri üçün hansı kapital strukturu problemlərinin mövcud olması araşdırılır və 3 model müəyyən edilərək reqressiya və korrelyasiya təhlilləri aparılır.

Nəticə hissəsində isə tədqiqatla bağlı əldə olunmuş nəticələr qeyd olunmuşdur.

Ədəbiyyat hissəsində tədqiqat zamanı araşdırılan və istifadə edilən ədəbiyyatın siyahısı verilmişdir.

SUMMARY

The theme of the dissertation is "Structure of capital and its influence on the value and revenue of the firm". The dissertation consists of the introduction, chapter 3, the results and the list of literature. In the introductory part, the reason for selecting the study question, literature analysis, methodology and study topic is clarified.

Chapter I: "The influence of key determinants (quantities obtained by the addition of products of the elements of a square matrix) of structure of capital on the enterprise's value and investment activity in Azerbaijani companies". This chapter analyzes the relevance of the subject to how current and up-to-date the enterprise is today, the relationship between the lines of structure of capital and the value of the firm, how the structure of capital affects the firm's investment policy, and researchers' study on this topic.

Chapter II is called "Methodology and Variables". In this chapter, the positive and negative relationship between the lines of leverage correlation and other variables are discussed and six hypotheses are identified.

Chapter III is called "Empirical results". This chapter discusses the major differences in structure of capital between the lines of emerging and developing countries, discussing the cost of capital in Azerbaijani companies, examining what structure of capital problems exist for Azerbaijani companies, and determining 3 models of regression and correlation analyzes.

In the final part, the results of the study have been recorded.

The Literature section lists the literature that has been studied and applied during research.

РЕЗЮМЕ

Тема диссертации - «Структура капитала и его влияние на стоимость и прибыль фирмы».

Диссертация состоит из введения, главы 3, результатов и списка литературы. Во вступительной части разъясняется причина выбора исследовательского вопроса, анализ литературы, методология и тема исследований.

Глава I: «Влияние ключевых детерминантов структуры капитала на стоимость и инвестиционную активность компании в азербайджанских компаниях».

В этой главе анализируется актуальность вопроса о том, насколько актуальной и современной является сегодняшняя компания, взаимосвязь между структурой капитала и стоимостью фирмы, как структура капитала влияет на инвестиционную политику фирмы, а также исследования исследователей по этой теме.

В этой главе обсуждается оптимальная структура капитала, ключевые методы управления капиталом фирмы, ключевые факторы, влияющие на оптимальную структуру капитала.

Глава II называется «Методология и переменные».

В этой главе обсуждаются положительные и отрицательные соотношения между коэффициентом плеча и другими переменными и определены шесть гипотез.

Глава III называется «эмпирическими результатами».

В этой главе обсуждаются основные различия в структуре капитала между развивающимися и развивающимися странами, обсуждается стоимость капитала в азербайджанских компаниях, рассматривается, какие проблемы

структуры капитала существуют для азербайджанских компаний, и определение 3 моделей регрессионного и корреляционного анализа.

В заключительной части были зафиксированы результаты исследования.

В разделе «Литература» перечислены литература, которая изучалась и использовалась в ходе исследований.