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A Study on Factors Affecting Companies Long-Term Investments within the GCC Markets

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ABSTRACT

This study aims to explore the determinants of companies' long-term investments within the context of Gulf Cooperation Council markets. The importance of this study arises from the fact that earlier researchers who investigated this subject had mostly concentrated on developed markets and evidence from developing markets is largely absent. Besides, the existing studies had focused on factors influencing companies' long-term investment at the company level, and evidence related to the impact of macroeconomic factors on such investments is scarce. A Panel Ordinary Least Squares regression is utilized to analyze the data of 435 companies from the year 2000 to 2014. This period is chosen due to the steady economic conditions of the investigated markets as they enjoyed a less volatile macroeconomic environment compared to post-2014, where the fall of oil prices severely affected these markets' growth. The analysis revealed contradicting findings compared to the existing literature regarding both macroeconomic factors and companies related factors that influences long-term investments. For instance, government spendings, oil prices, and trade levels are all significant factors in the Gulf Cooperation Council companies' long-term investments which is not the case in other emerging markets. Also, the industrial companies within these markets are not severely influenced by these factors compared to the services companies. Hence, the current study extends the existing literature on two dimensions by providing new insight into this subject from new markets and reveals new findings regarding the impact of macroeconomic factors on companies.

Keywords: Corporate Finance, long-term Investments, Capital Expenditure, Internal and External Financing factors, Macroeconomic Variables, GCC Countries.

1. Introduction

A company's long-term investments represent the capital expenditures for non-financial firms in the corporate world. They are allocated to purchase long-term assets like buildings, machinery, and real estate to generate positive cash flow in the future. Researchers were interested in studying these expenditures as they constitute the foundation of the long-term strategy for non-financial companies. However, they focused on companies' internal accounting information, such as profitability and liquidity metrics which leaves rare findings about the macroeconomic factors that effects such investment (e.g., Fazzari et al., 1988; Morck et al., 1990; Beatty et al., 1997; Welch and Wessels, 2000). Moreover, most of the existing findings are from developed markets and evidence from emerging markets is scarce. Hence, the objective of the current study is to explore the variables that influence companies' long-term investments in emerging markets were chosen to represent the markets that depend mainly on a single national revenue stream precisely hydrocarbon revenues. Hence, the chosen markets allow for

generalizing the current study findings to other markets with similar conditions. Furthermore, the variables investigated by this study are divided into three groups under Beatty et al. (1997). The first category represents companies' external financing factors, the second category represents companies' internal financing factors, and the third category represents macroeconomic factors that are significant to the investigated markets. Besides, the analysis takes into consideration the influence of these factors based on the full sample as well as on each sector within the chosen markets.

2. Literature Review

et al., 1988; Morck et al., 1990; Beatty et al., 1997; Welch and Wessels, 2000). Moreover, most of the existing findings are from developed markets and evidence from emerging markets is scarce. Hence, the objective of the current study is to explore the variables that influence companies' long-term investments in emerging markets namely the Gulf Cooperation Council (GCC) markets. These markets were chosen to represent the markets that depend mainly on a single national revenue stream precisely hydrocarbon revenues. Hence, the chosen markets allow for



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manufacturing companies from the Annual Value Line Database. The long-term investment was calculated as the total of plant and equipment over the study period spanned from the year 1970 to 1984. The results revealed that stock values (predicted by contemporaneous and lagged Tobin's q) are substantially correlated with corporate investments. Besides, companies with low dividend payout mostly based their investment decisions on available cash flow. Morck et al. (1990) examined the data of 1,125 US companies from the Compustat Database from the year 1960 to 1987. The growth rate of actual capital expenditure, minus mergers and acquisitions was used to calculate long-term investments. The analysis concluded that there was a weak correlation between stock returns and long-term investments. Also, the cost of borrowing money does not influence the sample companies' long-term investments. Later, Beatty et al. (1997) conducted an empirical analysis of other factors that are predicted to influence businesses' long-term investments. The long-term investment was defined as net capital expenditures which consist of the reported capital expenditures minus sales of property, plant, and equipment. The sample represent Compustat Companies from the years 1973 to 1989. The study investigated three groups of variables that were thought to have an impact on net capital expenditure: external and internal finance factors, as well as tax advantage for businesses. The findings about external financing factors showed that growth in net capital expenditure is predicted by rising stock issuance as well as rising equity returns. Also, this study discovered favorable predictors of growth in net capital expenditures including internal finance parameters namely net profit, and depreciation. Also, it demonstrated a considerable impact of dividend distribution on net capital expenditure. Apart from tax incentives, the study found that most of the investigated characteristics are reliable predictors of future investments.

A similar study was conducted by Welch and Wessels (2000), and they compared the US, United Kingdom (UK), Canada, mainland Europe, and Japan. Like Beatty et al. (1997) this study discovered that except for mainland Europe, lagged equity returns are the most prominent cross-sectional predictors of growth in net capital expenditures. They also found that the profit tax rates are the only variable that can accurately forecast the growth of net capital expenditure across businesses in mainland Europe. Businesses with high-profit taxes increase their net capital expenditure as a result. Thus, these earlier studies on the determinants of business capital expenditures motivated few researchers to investigate the factors that influence a company's long-term investment in developing countries. Bolbol and Omran (2004) examined the correlation between equity returns and long-term investment for 83 companies listed in the Arab Republic of Egypt, the Hashemite Kingdom of Jordan, the Kingdom of Morocco, the Kingdom of Saudi Arabia, and the Republic of Tunisia. The analysis showed that capital expenditure is significantly influenced by sales and debt growth but not by cash flow or stock returns. Also, Jiang et

expenditure and return on assets for 357 industrial enterprises listed on the Taiwan stock market from the year 1992 to 2002. The results showed a strong positive correlation between the variable under study.

Later, Nguyen and Dong (2013) conducted a more extensive study by investigating factors that affected 500 nonfinancial companies that were listed on the Vietnam Stock Exchange. The study concluded that cash flow, fixed capital intensity, business risk, financial leverage, company size, and prior investment were the main factors influencing the long-term investments of their sample companies. Similarly, Subrahmanyam et al. (2013) investigated and compared the factors that influence long-term investment for US and Indian enterprises. Their finding demonstrated that the company's previous growth (measured in terms of earnings per share) and degree of financial leverage are the main predictors of the US company's capital expenditure. On the other hand, free cash flow and business size are the main indicators of capital expenditure for Indian companies.

Consequently, the markets chosen by these studies to examine the determinants of a company's long-term investments are regarded as either developed or developing markets that fall in economies that rely on a variety of national revenue streams to maintain growth. Hence, further research into the factors influencing a business's long-term investments is still necessary for two main reasons. First, some markets fall in economies that rely on mainly a single national revenue stream to maintain growth. Thus, it is crucial to investigate the impact of related macroeconomic factors of these markets on local companies' long-term investments. Second, almost all of the studies reviewed had considered factors at the company level to determine what influences businesses' long-term investments, and there are few findings about variation in the company's long-term determinants across various markets.

The current study closes this gap in the literature and provides findings that can be generalized to countries with a single source of national revenue. This is made by addressing three primary questions as follows: (1) Are the current conclusions regarding the factors influencing the company's capital expenditures valid in the GCC markets? (2) Is there a direct link between countries primary revenue source and the long-term investments made by its domestic companies? (3) If any, does this effect extend to all market sectors in these countries? To the best of the author's knowledge, these aspects are not covered by any of the existing studies in this domain. **3. Data**

Attries. Bolbol and Omran (2004) examined the correlation reen equity returns and long-term investment for 83 panies listed in the Arab Republic of Egypt, the Hashemite adom of Jordan, the Kingdom of Morocco, the Kingdom of li Arabia, and the Republic of Tunisia. The analysis showed growth but not by cash flow or stock returns. Also, Jiang et (2006) investigated the relationship between capital



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Financial Market). This period is chosen due to the steady economic conditions of the investigated markets as they enjoyed a less volatile macroeconomic environment compared to post-2014, where the fall of oil prices severely affected these markets' growth. At the end of 2014, a total of 692 companies were listed on these stock markets. All financial companies were excluded from the sample due to the nature of financial companies' longterm investments which mainly consist of financial products and their investment on tangible fixed investments is minimal. Hence, only 434 companies that are listed on the GCC market were examined and the overall remaining data formed an unbalanced panel data comprising 534 observations. Furthermore, the authors acquired the data from the Bloomberg Terminal and referred back to the company's financial statements in the case of missing data. Furthermore, the World Bank Database and the Organization of the Petroleum Exporting Countries (OPEC) website was used to gather the macroeconomic factors data that is considered by this study.

4. Methodology

Following Beatty et al. (1997) the current study categorizes the variables under investigation into three groups namely: companies' external finance factors, companies' internal financing factors, and macroeconomic factors. The first two categories achieve the goal of comparing the factors that influence companies' long-term investment in developed and emerging economies. The third category achieves the goal of determining whether macroeconomic conditions have an impact on companies' long-term investments.

The authors estimate the following panel Ordinary Least Squares regression (OLS) with robust standard errors to cope with the heteroscedasticity:

 $NCEX_{it} = \beta_0 + \beta_1 NE_{it} + \beta_2 FL_{it} + \beta_3 FRR_{it} + \beta_4 ROE_{it} + \beta_5 DIV_{it}$ + $\beta_6 FC_{it}$ + $\beta_7 DEP_{it}$ + $\beta_8 CT_{it}$ + $\beta_9 \Delta SAL_{it}$ + $\beta_{10} \Delta TA_{it}$ + $\beta_{11}\Delta GE_{it} + \beta_{12}\Delta COP_{it} + \beta_{13}TOTR_{it} + \varepsilon_{it}$

Where ε_{it} is the error term, β is the coefficients of the independent variables, Δ indicates change, and the subscript *it* indicates the company at a specific year. The following is a summary of the variables within the above model and their predicted relationships with net capital expenditures:

<u>Symbol</u>	Name	Definition	Predicted Relationship
NCEX	Net Capital Expenditure	NCEX _t /TA _t	NA
NE	Net Equity Issuing Authority	NE _t /TA _t	+
FL	Financial Leverage	FLt	+
FRR	Weighted Average Cost of Capital	FRRt	+
ROE	Rate on Common Equity	ROEt	+
DIV	Cash Dividends on Common	DIV _t /TA _t	-
FC	Free Cash Flow	FCt/TAt	+
DEP	Depreciation	DEPt/TAt	+
CT	Corporate Tax	CT _t /TA _t	-
Δ SAL	Percentage Change in Sales	$\Delta SAL_t/TA_t$	+
ΔΤΑ	Percentage Change in Total Assets	$\Delta TA_t/TA_t$	+
ΔGE	Percentage Change in Government Expenditure	ΔGE_t	+
ΔCOP	Percentage Change in Crude oil price	$\Delta \operatorname{COP_t}$	+
TOTR	The Ratio of Terms of Trade	TOTRt	+

company's long-term investment is net capital expenditure, which is determined as:

 $NCEX_t = (CAPEX_t - DEP_t)/TA_t$

NCEX is the dependent variable and it represent the annual reported capital expenditure from the cash flow statement at time $_t$ less DEP $_t$ which represents the annual depreciation. All the accounting variables assessed in this study are scaled on total assets listed on the balance sheet at year t which is represented as TA_t . Moreover, the independent variables include the three categories of factors under investigation namely: companies external finance factors, companies internal financing factors, and macroeconomic factors. Table 3 in Appendix (A) provides the rationale for considering these variables and how they are measured. The hypothetical links between the companies external financing factors and companies net capital expenditures is mainly inspired by the trade-off theory. Trade-off theory gives the preference of debt financing over equity financing. It argues that the companies can gain from tax benefits to improve its value. Consequently, taking into consideration that both NE and

The variable employed in this study to represent the FL are a source of liquidity, but differ in terms of their associated cost, defined as FRR, must have an effect on companies' ability to fund their long-term investments. Beside, both the pecking order and agency cost theories serve as the main inspirations for the hypothetical justification of the links between the companies internal financing factors and businesses net capital expenditures. According to the pecking order hypothesis, businesses should finance their investments with funds generated internally, mostly cash on hand made from retained earnings. Equity financing should be used as a last alternative if the cost of the investment cannot be paid by internally generated money. Instead, the company should employ debt financing, ranging from low risk to high-risk debt. Likewise, the agency cost theory argument contends that managers are driven to hold more cash generated internally to maintain control over the company's investment choices. Therefore, managers are exempt from any requirements for external financing and are also exempt from disclosing information to the market regarding the company's investment strategy. Hence, these theories suggest that internal financing factors can influence company's investments. Furthermore, in-



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line with the current study main goal to examine the company's net capital expenditure and both the previously mentioned company-level factors and macroeconomic relevant variables. The current study considers government expenditures, crude oil price and terms of trade as the most influential macroeconomic variables to the GCC countries markets.

5. Results and discussion

The data is summarized in Table 1 which consists of two panels before explaining the regression results which were previously indicated. The descriptive statistics are shown in panel (I) and the correlation coefficient matrix is shown in panel (II). All the variables assessed by this study had little variation, as shown in panel (I). The data in panel (I) indicates that the sample companies had a moderate policy for their long-term investments across the period under consideration. The sample companies' average net capital expenditure is around 4% of their total assets, while the average rate of return they attained is close to 7%. The sample companies show a similar level of growth, with an average annual change in sales of almost 5% and an average annual change in total assets of almost 6%. Given an average financial leverage level of almost 60% compared to an average equity issuance level of nearly 50%, the sample companies appeared to rely more on borrowed money to build their businesses. As a result, the descriptive findings show that the GCC companies' overall investment policies during the period under consideration were maintained through consistent investment growth.

Furthermore, the pairwise correlation shown in panel (II) of table 1 was the focus of the author's additional analysis to investigate the relationship between the variables evaluated in the current study. In terms of negative and positive connections, the result indicates a reasonable association between the variables tested. For instance, net capital expenditures and a company's rate of return are positively correlated. The company would have greater liquidity for long-term investment if its rate of return was high. The ratio of financial leverage and net equity issuing activity also exhibits an adverse relationship. The amount of borrowed debt fell as the amount of net equity issued rose.

This assessment aids in identifying the correlation between the tested variable as well as identifying collinearity issues before performing the regression analysis. The findings indicate that there is only a weak association between the factors.

Three-panel OLS regression is included in the discussion of the results that follow. The regression of the entire sample of companies is shown in the first column of table 2, and the regression of companies that operate in the services and industrial sectors are shown in the second and third columns respectively. There are three reasons why the regression analysis is set up in this order. We can first get the whole sample results to thank it. It also enables us to determine whether the results remain the same when the sample is divided. In other words, it works as a robustness check. Thirdly, it gives us more details on how companies in the industrial and service sector differ in terms of the factors that influence long-term investment. The empirical analysis for the entire sample in column 1 reveals that nearly every element examined in this study had an impact on the company's long-term investments although to varying degrees. The company rate of return, financial leverage ratio, and net equity issuance activity all have a positive correlation with net capital expenditure and are statistically significant at the 5% level of significance. These findings suggest that an increase of 1% in company net equity issuance activity, rate of return, and percentage of financial leverage may result in increases in the company's long-term investments of 0.26, 0.19, and 0.56 respectively. However, it appears that the second group of variables includes those that are very important and connected to the company's long-term investments. At the 1% level significant with net capital expenditure, return on the common stock, free cash flow, and depreciation are all favorably extremely significant. Corporate tax has a negative high significance at the 1% level of significance. The company's long-term investments are favorably correlated with both changes in sales and total assets, but only at the 5% level of significance. Dividends are included in the second category as well, but it does not appear to have any impact on the long-term investments made by GCC companies.

Table 1: Descriptive Statistics & Correlation Matrix												
Particulars	Investme	nt Co Fac	mpanies Externs ctors	al Financing	Companies Internal Financing Factors						Macroeconomic Factors	
	Panel I: Descriptive Statistics											
Observation Mean Std. Dev Min Max	NCEX 3758 0.0402 0.0320 0.0062 0.0883	<u>NE</u> 3991 0.4969 0.6292 0.0290 1.637	FRR 4972 6.6473 1.7204 4.6363 9.2287	FL 3922 0.5823 0.4750 0.0962 1.3273	ROE 4622 10.7626 8.0643 0.6390 21.776	DIV 3236 0.0859 0.0624 0.0263 0.1877	<u>FC</u> 4208 0.0846 0.0567 0.0221 0.1696	DEP 4528 0.0284 0.0177 0.0062 0.0523	<u>CT</u> 1884 0.0175 0.0156 0.0014 0.0407	<u>ASAL</u> 4658 0.0543 0.0688 -0.0223 0.1599	<u>ATA</u> 4499 0.0616 0.0865 -0.0462 0.1838	<u>AGE</u> 6525 0.1155 0.0554 -0.0467 0.1929
	Panel II: Correlation Matrix											
NCEX	0.1050	1.0000										
FRR	0.0466	-0.1859	1 0000									
FL	0.0019	-0.2197	-0.3027	1.0000								
ROE	0.2659	0.1071	0.0706	0.0126	1.0000							
DIV	-0.0008	-0.1226	0.2359	0.2440	0.3359	1.0000						
FC	0.1958	0.1042	0.0335	0.0335	-0.2507	-0.3370	1.0000					
DEP	0.3151	-0.1697	0.0560	-0.0294	0.0846	-0.1281	-0.1452	1.0000				
СТ	-0.1261	0.0560	-0.2691	-0.1226	-0.3459	-0.7129	0.2103	0.1104	1.0000			
ASAL	0.1846	-0.0163	0.1462	0.0514	0.3069	0.1652	0.0053	-0.0046	-0.2726	1.0000	1 0000	
ΔΤΑ	0.2109	0.0768	0.0053	-0.0179	0.2597	-00694	0.2220	-0.1099	-0.0332	0.1044	1.0000	1 0000
AGE	0.0332	-0.1307	0.0483	0.0340	-0.1443	-0.0167	0.0001	0.0103	-0.0018	-0.0227	-0.2061	1.0000
ACOP	0.0782	0.0508	-0.0624	0.0331	0.1220	0.0010	-0.0916	0.0176	-0.0498	0.0540	0.0949	-0.6270
TOTR	0.0568	0.0281	0.0595	-0.0773	0.0445	0.0728	-0.0496	0.0296	-0.0244	-0.0463	-0.0572	-0.0282
Note: Inis table combunes two statistical Analysis. Panel (A) present the descriptive statistics namely: the number of observations, mean, standard deviation and minimum and maximum value of the												
variables. Panel (B) presents the result of the pairwise correlation in a matrix format. The variables are categorized into three groups as discussed in section 3.												



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The third group, which also contains changes in government spending, the change in the price of crude oil, and the ratio of terms of trade, is statistically significant and has a favorable relationship with long-term investments. However, compared to changes in government spending and crude oil prices, the impact of terms of trade on net capital expenditure is unmistakably greater at the 5% level of significance compared to the 10% level of significance for the other two macroeconomic factors. Therefore, the overall findings of the full sample regression imply that internal financing factors specifically: the return on common equity, the volume of free cash flow, the level of depreciation, and the level of corporate tax are the most notable determinants of GCC company's long-term investments. The number of shares issued, the percentage of rate of return, and the degree of financial leverage are the next important factors. Additionally, macroeconomic variables have a significant impact on the long-term investments made by GCC companies, but their impact is lesser than the first two groups of factors. Consequently, these results both support and refute the results of earlier research. For instance, Beatty et al. (1977) found that the amount of net equity financing activity, dividend payouts, high cash levels, high depreciation, and high tax payments are all significant factors influencing the long-term investments of US companies. In a similar vein, this study discovers that, except as shown in the descriptive analysis in panel (I) of table 1. dividends, all of these factors are significant drivers of GCC

companies' long-term investment. Dividends are a significant factor in determining long-term investments for Canadian and Japanese companies, but not for US and European companies, according to Welch and Wessels (2000) research.

Government spending and terms of trade harm long-term investments made by Bangladeshi companies according to Hassan and Salim (2011). In contrast, the current study discovers that both of these factors significantly improve the long-term investments of GCC companies. The fact is that Bangladesh's fiscal strategy is reliant on several revenue streams, the most significant is the business tax, which may be the cause of this discrepancy. Therefore, the high corporate tax imposed on businesses ultimately hinders their ability to invest which leads to a rise in government spending. This is accurate of the GCC fiscal policy, which relies mostly on income from crude oil and just a minor portion of its income comes from business taxes. Furthermore, Hassan and Salim (2011) contended that an increase in the imports index is the cause of the terms of trade's unfavorable impact on Bangladeshi company's long-term investments. This shows that these companies do not export. Therefore, they are discouraged from making further investments. This is not the case with the GCC terms of trade, because the GCC average exports index is around 11 times its import index

	Table 2: Results	s of the Panel OLS Regress	ion	
	Variable	Full Sample (1)	Service Sector (2)	Industrial Sector (3)
	Constant	0.0074	0.0018	0.0071
		(0.325)	(0.840)	(0.449)
	NE	0.0026	0.0084	0.0012
First		(0.001)**	(0.012)**	(0.649)
Category	FRR	0.0019	0.0015	0.0003
		(0.012)**	(0.016)**	(0.774)
	FL	0.0058	0.0019	0.0010
		(0.048)**	(0.037)**	(0.803)
	ROE	0.0008	0.0006	0.0003
		$(0.000)^{***}$	(0.077)*	(0.008)**
	DIV	-0.0146	-0.0266	-0.0852
		(0.628)	(0.446)	(0.057)*
	FC	0.0481	0.2494	0.0342
Second		$(0.000)^{***}$	(0.000)***	$(0.000)^{***}$
Category	DEP	0.5173	1.0425	0.6527
		$(0.000)^{***}$	(0.000)***	0.000)***
	CT	-0.4178	-0.3053	-0.3292
		$(0.000)^{***}$	(0.019)**	(0.026)**
	ΔSAL	0.0331	0.1008	0.0346
		(0.045)**	(0.014)**	(0.020)**
	ΔTA	0.0290	0.0262	0.0392
		(0.002)**	(0.052)*	(0.022)**
	ΔGE	0.0496	0.1102	0.0308
		(0.059)*	(0.002)**	(0.304)
Third	ΔCOP	0.0157	0.0311	0.0183
ategory		(0.063)*	(0.006)**	(0.054)**
	TOTR	0.0055	0.1476	0.1003
		(0.004)**	(0.013)**	(0.012)**
	N	534	205	329
	F-test	21.93	37.09	14.74
	R2	0.3382	0.5444	0.3362

present regression of the service and industrial companies respectively. All regression were run with robust standard errors, and the P-values are in parentheses below the co-efficient estimates *, **, and *** indicate significance levels of 1, 5, and 10% respectively.



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More information about the variation in the determinants of long-term investments among companies in the services and industrial sectors is shown in table 2 columns 2 and 3 respectively. The results show that the calculated regression is structurally sound and robust. In terms of significance level, the regression of the service companies shows nearly identical results to the full sample. The significant level of return on the common stock, tax, and change in total assets are lower than those of the complete sample results. In contrast, the significant levels of change in government spending and crude oil prices are higher than those of the full sample results. However, the empirical findings in column 3 of table 2 show that the determinants of longterm investments for industrial companies are slightly different from that of the entire sample. The significant difference is as follows: (1) Net equity issuing, company rate of return, and financial leverage ratio are not statistically significant concerning the net capital expenditure. (2) Cash dividends to common stockholders are now statistically significant concerning the company's long-term investments at the 10% level of significance and, (3) Government expenditures are not statistically significant to industrial companies' long-term investments. Therefore, the findings in columns 2 and 3 of table 2 company the argument that internal financing factors apart from dividends are the variable that has the greatest influence on GCC company's longterm investments. Then, followed by external financing factors and macroeconomic factors.

This is consistent with the market timing and pecking order theories predictions, which both propose a preference for internally generated funds over outside financing measures, as mentioned in Section 3. The findings also show that except for government spending, only internal financing and macroeconomic factors have an impact on the long-term investments of GCC industrial companies. As a result, this analysis concludes that GCC industrial companies but not GCC service companies might survive if crude oil reserves were to run out or their prices fall. The industrial companies increased exposure to international markets is the most likely cause of this finding. Changes in the price of crude oil and variation in trade have an impact on these companies' long-term investments, but government spending does not affect these investments. Therefore, the GCC economic authorities must encourage service companies to grow their businesses in foreign markets to boost sustainability. Such action

will facilitate the shift of GCC economies from hydrocarbon economies to open market economies.

6. Conclusion

This study aims to explore the factors influencing companies' long-term investments in new markets namely the GCC markets and compare its findings with prior findings. Besides, examining the impact of new macroeconomic variables on companies' long-term investments such as government spending, crude oil prices, and trade levels. As a result, this study offers important insights into the literature in general and the GCC countries in particular. For instance, it is found that dividend pay-outs have a minor effect on GCC companies' longterm investments which is not the case with western companies' long-term investments who are significantly influenced by this aspect. Additionally, this study is the first to demonstrate that return on common equity has a significant role in influencing a company's long-term investment. It also finds that government expenditures, crude oil prices, and trade levels have a positive notable effect on GCC companies' long-term investments. However, the impact on service companies is greater than the industrial companies.

Hence, the GCC economic authorities can take two cues from this conclusion. First, the current study results show that their efforts to diversify their economies have been effective given that they currently have an industrial sector whose sustainability is independent of sovereign fiscal measures. Second, rather than relying solely on local markets, the GCC economic authorities should offer greater facilities to boost the export of services. By taking such a step, the GCC economies will be able to move away from their reliance on oil and into the realm of open economies.

Finally, the lack of macroeconomic data makes it difficult to investigate other significant factors that are supposed to influence companies' long-term investments. Therefore, future studies are needed to investigate additional macroeconomic factors which are predicted to influence a firm's long-term investments including educational attainment and institutional impact. There is a need to investigate the association of these factors with companies' long-term investments because these factors are considered to be very essential for any economy and their effects on the investment capacity need to be documented.

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Table 3: Information of the Variables Examined by the Study and the Rationale for Their Consideration.								
Category			Variable Name	Definition	Variable Calculation Formula	Rationale for Considering the Variable		
			Net Equity Issuing Activity	NE	$NE_t = (Outstanding shares_t - Outstanding shares_{t-1})/TA_t$	A hypothetical scenario implies that if the company at year , had a positive NE, it would have raised more money in that particular year and vice versa. Thus, the company capacity for investment will increase.		
Companies Factors	external	financing	Financial Leverage Ratio	FL	$FL_t = \frac{\text{Total debt}}{\text{Total equity}} \times 100$	A rising FL ratio means that the company has raised more capital through the issuance of debt than it has through the issuance of equity. Additionally, borrowing money has lower cost than issuing share to raise money. Thus, the company capacity for investment will increase.		
Companies Factors	external	financing	The Firm Rate of Return	FRR	 WACC_t = {Wd_tRd_t(1-T)} + (Wp_tRp_t) + (We_tRe_t) Where: Wd_t: The proportion of debt that the firm holds at time <i>t</i>. Rd_t: The marginal cost of debt before tax at time <i>t</i>. T : The firm's marginal tax rate at time <i>t</i>. Wp_t: The proportion of preferred equity the firm holds at time <i>t</i>. We_t: The marginal cost of preferred equity at time <i>t</i>. We_t: The marginal cost of preferred equity that the firm holds at time <i>t</i>. We_t: The marginal cost of common equity that the tirm holds at time <i>t</i>. 	The WACC demonstrates the minimum rate necessary for a project to have a positive net present value. As a result, a growth in finances through the issuance of debt or stock must accompany a steady increase in the rate of return. Thus, the company capacity for investment will increase.		
Companies Factors	Internal	Financing	Return on Common Equity	ROE	$\text{ROE}_t = \frac{\text{Net income}_t}{\text{Number of shareholders equity}_t} \times 100$	The companies capacity to invest grows as ROE rises, which theoretically means the company is profitable.		
Companies Factors	Internal	Financing	Dividends to Shareholders	DIV	$DIV_t = (Retained Earnings \times \% \text{ of Dividends Declared})/TA$	hypothetically the companies capacity to invest diminishes if a rise in dividend payment is declared, because it lowers the amount of retained earning which is typically utilizes for investments.		
Companies Factors	Internal	Financing	Free Cash Flow	FC	$FC_t = (Operating cash flow_t - Capital expenditures_t)/TA_t$	In a hypothetical scenario, a rise in FC result in a cash surplus. Thus, the company capacity for investment increases.		
Companies Factors	Internal	Financing	Depreciation	DEP	$DEP_t = \frac{Original cost of asset - Scrap value}{Estimated life of asset} / TA_t$	The accumulation of depreciation theoretically signifies a decrease in the life of assets, which eventually results in an increase in maintenance cost or maybe replacement cost. In this scenario, the company will eventually invest in buying new assets. As a result, net capital expenditure rise.		
Companies Factors	Internal	Financing	Corporate Income Tax	СТ	$CT_t = (Annual profit_t \times Percentage of corporate tax_t)/TA_t$	The main source of reinvestment in capital assets is net profit, which is hypothetically reduced by an increase in the amount paid as corporate income tax. Thus, the company capacity for investment will decrease.		

Appendix A



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Table 3: Information of the Variables Examined by the Study and the Rationale for Their Consideration (Continued).							
Category	Variable Name	Definition	Variable Calculation Formula	Rationale for Considering the Variable			
Control Variable	Change in Sales	ΔSAL	$\Delta SAL_t = (Sales_t - Sales_{t-1})/TA_t$	Is the growth in the company's sales from one year to the next due to fluctuations in business activities			
Control Variable	Change in Total Assets	ΔΤΑ	$\Delta TA_t = (TA_t - TA_{t-1})/TA_t$	Is the growth in the companies' total assets from one year to the next due to fluctuations in business activities			
Macroeconomic factors	Change in Government Expenditures	ΔGE	$\Delta GE = (GOVE_t - GOVE_{t-1})/GOVE_{t-1}$	The relationship is expected to be positive between Fiscal policies and companies' long- term investments. In theory, a lot of government investment should lead to more national projects being developed. As a result, companies will begin bidding to hold these projects and subsequently increase their asset investments to complete such initiatives.			
Macroeconomic factors	Change in Dollar Price of Crude Oil	ΔСΟΡ	$\Delta \text{COP} = (0P_t - 0P_{t-1})/0P_{t-1}$	The relationship is projected to be positive between company's long-term investments and the change in price of the primary source of the country income. This is justified through the inverse association between the US dollar exchange rate and oil prices which is documented in numerous studies. For instance, Fratzscher et al. (2014) discovered that a 1% decline in the value of the US dollar results in a 0.73% increase in crude oil prices. Therefore, since all the GCC currencies, except for Kuwait, are tied to the US dollar and their principal export is crude oil, this relationship is crucial to the GCC markets. Hence, prices of goods and service exported from the GCC decline if the value of the dollar increases. As a result, such an event would boost the company earnings and subsequently promote investment spending.			
Macroeconomic factors	Ratio of terms of trade	TOTR	TOTR _r = (Index of export price)/(Index of import price)	Theoretically, a rise in export of commodities and service results in a rise in businesses outputs. This rise in output is accompanied by a rise in revenue, which eventually motivates businesses to expand by acquiring more assets.			