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## Table of Contents

Does technology Innovation help inclusion: A quantitative analysis? .....	4
Cybersecurity Protective Behaviour Model for Industrial Revolution 4.0 Business Environments.....	5
Post-COVID-19 Impact on Audit Quality on selected Banks of GCC.....	6
The Good and Bad Use of Humor at Workplace: Conceptualization and the Empirical Evidence.....	7
Capital Budgeting Strategy and the Pecking Order Theory: A Fresh Look from the Field.....	8
A Study on Factors Restraining the Growth of Financial Inclusion in the Digital Age .....	9
Proposed Legal Framework for New International Trading Order based on “Civilized Ranking System of States” .....	10
The Role of Green Leadership in fostering Employees’ Green Behaviors: The Mediating Role of Green Psychological Climate .....	11
An exploratory study in determining taxpayers' adoption of the E-FILING system .....	12
Supply chain risk mitigation strategies and performance: an empirical analysis for pump & motor manufacturing firms in India .....	13
A critical assessment of the Covid-19 (Miscellaneous Provisions) Act 2020 of Mauritius as a means to achieve business excellence amidst the new normal post-covid challenges.....	14
The Effect of Perceived Leader Behavior on Organizational Commitment among the faculties of Higher Educational Institutions in the Sultanate of Oman.....	15
Re-investigating Organizational Excellence.....	16
Business Excellency Using Six Sigma Green Belt Tools .....	17
Benchmarking: The essence for quality driven Hospitality Education.....	18
Customer Centric Social Entrepreneurship Business Models and Their Solutions to Livelihood Issues in Tamil Nadu, India .....	19
Lean Six Sigma & Industry 4.0: Genesis, Evolution: A Systematic Literature Review.....	20
Production Process Improvement Using Discrete Event Simulation: A Case Study.....	21
Performance measurement tools & techniques.....	22
A model building approach on the effect of Word- Of -Mouth in the purchase of mobile phones .....	23
Implementation of Green Supply Chain with references to Small Scale Industries in Coimbatore District, Tamil Nadu. ....	24
Study on Consumption Pattern of Middle-Class Consumers on Food Items in New Normal.....	25
Customer Attitude towards Bitcoin Adoption in the Banking System in Mauritius.....	26
Women Entrepreneurship in Indian Tourism Industry with Reference to Coimbatore District .....	27
The effect of various external factors and perceived risk as moderator on EdTech Platform adoption in India by applying the UTAUT Model.....	28
Study of mediating effect of trust on Indian Consumer’s usage behavior towards sharing economy .....	29

**Capital Budgeting Strategy and the Pecking Order Theory: A Fresh Look from the Field**

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**Abstract**

**Purpose** – While the pecking order model of capital structure is associated with information asymmetry and postulates that firms prioritize internal financing over external financing, tests of the theory have been unable to establish that it is the first-order importance in determining a company's capital structure, hence this is revisited in this paper based on a new dataset.

**Design/methodology/approach** – A structured questionnaire was distributed to 202 financial and project managers and experts working in publicly quoted companies in Muscat. The data analysis was performed with IBM SPSS. A board of experts and Cronbach's Alpha coefficient determined the instrument's validity and reliability. Outputs from a focus group discussion held in May 2022 were integrated with the survey results.

**Findings** – Internal financing accounts for 36.6%, and debt sources, including Islamic financing, account for 24.4%. The balance of 39% is attributed to the government and other funding sources. It was inferred that the pecking order theory holds good to the extent that firms prefer internal financing and debt over new equity issuance.

**Research limitations/implications** - The research was limited to big firms. The study's results include 26.2% unspecified "other" funding sources. Future studies may revalidate the current findings by including a financial statement analysis of sample firms and extending the project to smaller businesses.

**Practical implications** – How capital projects are financed significantly affects a firm's sustainable cost of capital, profitability, leverage, dividend policy and valuation. Markets where firms are wary of issuing traditional funding instruments, such as debt securities and new equities, need a high level of creativity and innovation to deepen their capital markets.

**Originality/value** – The paper represents a valuable addition to applied corporate finance literature with a new dataset for empirical testing of the pecking order theory of a firm's capital structure.

**Keywords:** Capital budgeting, Financial economics, Financial strategy, Government policy, Pecking order model.