

Chapter 5

Conclusions

The final chapter presents conclusions of the study. Section 5.1 describes summary of the study following research objectives specified in Chapter 1. Section 5.2 discusses implications of the study findings and finally, Section 5.3 outlines suggestions for future research.

5.1 Summary of the study

The study utilizes the capital structure theories – The trade - off theory and the pecking order theory to examine the impact of specific firm characteristics on financing decisions of public companies listed on the Stock Exchange of Thailand. Its aim is to investigate which firm characteristics significantly affect financing decisions of Thai listed companies and which of the two capital structure theories, the trade - off or pecking order, better explains their financing decisions. The study uses the data from 389 non - financial companies listed on the Stock Exchange of Thailand (SET) during the period 2005 - 2007 as the sample for analysis. The final sample, after considering any missing data, consists of 220 companies. This figure represents the 56% of the listed companies in 2007 and maintains an appropriate volume for testing the proposed research model according to the assumptions of multiple regression analysis (Tabachnick and Fidel, 2001; Field, 2005).

From literature review in Chapter 2 and research methodology in Chapter 3, firm characteristics including firm size (SIZE), liquidity (LIQD), fixed assets (FASST), profitability (PROF), financial risk (FRSK), dividend policy (DIVD) and firm growth (GROW) are independent variables of the study. Total debt ratios (TDR) with book and market values are defined in terms of a proxy of a firm's financing decisions and the dependent variable of the study. In addition, the study employs a dummy variable (1,0) that equals one if firms have the percentage of the total debt ratio greater than 50%, and zero if firms have the percentage of the total debt ratio less than 50% to control the impact which might happen from the capital structure of the firms being different from the behavior of the market as a whole. Descriptive statistics and the ordinary least

squares regression model are used to analyze the results of the study. The following is the summary of the study.

First, to answer which firm characteristics significantly affect financing decisions of Thai listed companies, the study finds that all specific firm characteristics from literature review have a significant impact on financing decisions of Thai listed companies. However, using the different measure of financing decisions, there is a little difference in results. It can be seen that with the book value of total debt ratio as a measure of financing decisions, specific firm characteristics - firm size, liquidity, fixed assets, profitability, financial risk and dividend policy are statistically significant and have signs as expected except firm growth which also shows a positive relationship as hypothesized is not statistically significant. With the market value of total debt ratio as a measure of financing decisions, specific firm characteristics - liquidity, fixed assets, profitability, financial risk, dividend policy and firm growth are statistically significant and have signs as expected except firm size which also shows a positive sign as hypothesized is not statistically significant. Although firm size and firm growth do not show significant in both book and market values of total debt ratio, it can be concluded that all specific firm characteristics - firm size, liquidity, fixed assets, profitability, financial risk, dividend policy and firm growth are the significant determinants of financing decisions of Thai listed companies.

Second, to answer which of the two capital structure theories, the trade - off or pecking order, better explains their financing decisions, the study finds that specific firm characteristics in all analysis have signs on financing decisions as expectation by assumptions of the pecking order theory rather than those of the trade – off theory. A comparison of firm characteristics signs on financing decisions between assumptions of the trade - off and pecking order theories and the empirical results of Thai listed companies in Table 5.1 clearly shows in that way. The assumptions of the pecking order theory explain positive/negative signs on financing decisions of each firm characteristic as follows. Positive sign of firm size indicates that larger firms tend to use more debt financing than smaller firms. Negative sign of liquidity explains that firms with high liquidity tend to use internal financing rather than external financing. Negative sign of fixed assets shows that firms with high values of fixed assets do not have the information asymmetric problem and then, they can issue equity rather than debt when

they need external financing. Negative sign of profitability discloses that firms with high profitability will have sufficient internal fund to invest in their activities, thus, there is no need to use more debt financing. Negative sign of financial risk also reveals that firms with high interest coverage ratio (which is a proxy of financial risk) can make high earnings, thus, they can use their earnings to invest in their business operation and there is no need to use much debt financing. Positive sign of dividend policy suggests that dividend-paying firms use internal funds to pay dividend and tend to use funds for investment from external financing. Finally, positive sign of firm growth also expresses that firms with high growth need more external funds especially, from debt to invest in their operating activities. Obviously, the results from analysis are in line with those explanations of the pecking order theory. Thus, it can be concluded that Thai listed companies make financing decisions following the pecking order theory.

Table 5.1: A comparison of firm characteristics signs on financing decisions between assumptions of the trade - off and pecking order theories and the empirical results of Thai listed companies

Firm characteristics	<u>Firm characteristics signs on financing decisions following</u>		
	<u>Trade off theory</u>	<u>Pecking order theory</u>	<u>Empirical results</u>
Firm size	+	+/-	+
Liquidity	+	-	-
Fixed assets	+	-	-
Profitability	+	-	-
Financial risk	-	-	-
Dividend policy	N.A	+	+
Firm growth	-	+	+

5.2 Implications of the study findings

The implications in this study are divided into two parts – theoretical and practical implications. A discussion of these implications is as follow.

5.2.1 Theoretical implications

From the point of theoretical implications, the study supplements prior research by providing a unique contribution to the literature regarding the specific firm characteristics factors that influence a firm's financing decisions.

First, the study has contributed to research on the capital structure theories by testing two well - known capital structure theories - the trade - off theory and the pecking order theory which have been widely used to explain strategies of financing decisions in Western and Europe countries (Chen and Strange, 2005; Eldomiaty, 2007). The results show that financing decisions of Thai listed companies in the sample follow the rules of the pecking order theory, in that, if firms are profitable enough, they will use internal funds from their retained earnings rather than external funds from debt and equity. When the internal sources run out and the additional funds are needed, they will move to external financing from debt first and choose equity financing as a last resort.

Second, the study attempts to extend research in this area by investigating firm characteristics of public companies listed in The Stock Exchange of Thailand. The results confirm that firm characteristics - firm size, liquidity, fixed assets, profitability, financial risk, dividend policy and firm growth which have been critical factors in research of many countries such as United States, United Kingdom, China (Hong Kong), Austria, Greece, Poland, and India are important and significant factors to financing decisions of listed companies in Thailand as well.

Third, empirical evidence shows that little published research has been undertaken concerning a firm's financing decisions in Thailand. Thus, the empirical results of this study will be beneficial for public by enabling them to obtain more knowledge of the subject of financial management, particularly in the contexts of a firm's capital structure and financing choices.

5.2.2 Practical implications

From the point of practical implications, the significant factors of financing decisions in this study can help business executives, chief executive officers (CEO) and financial managers including related persons more understanding in choosing the appropriate sources for financing. For example, firm size informs them that it is easily for larger firms to use debt when they need external funds because they have better access to credit markets and can borrow at better conditions (Akhtar, 2005; Fan, Titman and Twite, 2003; Frank and Goyal, 2003). Liquidity informs them that there is no need for firms with high liquidity to use debt financing because they have a relatively high amount of current assets, which means they can generate high cash inflows (Eriotis 2007; Mazur 2007). Fixed assets inform them that firms with high amount of fixed assets can issue equity when they need more funds because they are less sensitive to the problem of information asymmetric between managers and outside investors (Eldomiaty, 2007; Gaud, Jani, Hoesli and Bender, 2003). Profitability informs them that firms with high profitability have high ability to generate their internal funds, thus, they will choose to have a small number of debt ratio (Chen and Strange, 2005; Delcours 2007). Financial risk informs them that firms with high risk should use less debt otherwise they may go bankrupt (Cassar and Holmes, 2003; Eriotis, 2007). Dividend policy informs them that dividend-paying firms need to use external funds for investment because their internal funds are used to pay dividends to stockholders (Frank and Goyal, 2004). And the last, firm growth informs them that growing firms need much funds for investment in positive net present value projects, then they tend to use more debt (Bevan and Danbolt, 2002; Cassar and Holmes, 2003). Importantly, the study findings confirm the relevance of the pecking order theory in explaining financing decisions of listed companies in Thailand as well as those in other countries.

5.3 Suggestions for future research

In the literature review, the study found that limited research in this area has been found in Thailand. Thus, future research on factors affecting a firm's financing decisions or capital structure is needed. There are many issues which should be investigated in the future.

First, in addition to firm characteristics, the future research may choose other factors such as governance factors, business groups factors and personnel factors of business executives to examine whether they are also significant factors of a firm's financing decisions or not.

Second, this research used the data from public companies listed in the stock Exchange of Thailand for analysis. Thus, the future research may contribute to the investigation of a firm's financing decisions by using the data from unlisted companies in order to see whether the results of listed companies in the present study are applicable for unlisted companies or not.

Finally, another direction for future research is research methodology. The future research would try to classify sample firms into industry types such as manufacturing and non-manufacturing, use longer period data, and adopt new statistic tests for analysis as they may help future research discover new answers of a firm's financing decisions.