CHAPTER 7

CONCLUSION

Thai corporations are found to follow capital structure theories. Tax theory, bankruptcy costs explanation, agency theory and pecking order theory may explain the different capital structure policies among Thai firms. The different capital structure determinants between listed and non-listed matched firms may affect the higher leverage ratios of non-listed matched firms relative to listed firms. However, these theories cannot totally explain the higher leverage ratios of non-listed matched firms relative to SET-listed firms. The additional explanation is that non-listed Thai firms are found to follow too aggressive capital structure due to the lack of access to stock market. Furthermore, listed Thai firms are found to follow too conservative financing policies due to the manager's self interest to reduce firm's risk. However, the use of additional percentage of leverage will decrease firm's profitability among SET-listed firms but not among non-listed firms.

The capital structure determinants among SET-listed firms are found to follow the capital structure theory. SET-listed firms will be induced to use less leverage if they are confronted with the higher extent of asset uniqueness and the larger profitability. SET-listed firms that have larger size, healthier financial status and higher extent of asset tangibility will have larger borrowing capacity. On the other hand, non-listed matched firms having larger total assets, less probability of bankruptcy and less profitability will use more aggressive capital structure. These findings are consistent with the traditional trade-off theory and the pecking order theory.

However, growth rate of firm and asset utilization ratio as the proxy for agency costs of equity are not found to affect capital structure decisions. We think that the agency theory cannot effectively explain the financing decisions among listed Thai firms due to the concentrated ownership among SET-listed firms and the interlocking ownership between financial institutions and SET-listed firms. Claessens et al. (2001) found that separation of management from ownership control was rare among listed Thai firms. Nearly 70% of managers among SET-listed firms were from the controlling family. Therefore, there is little role for debt in mitigating the conflict of interest between shareholders and manager.

In addition, the disciplining role of debt among listed Thai firms may be ineffective. The banking sector in every East Asian country was weak and poorly supervised as suggested by Edwards (1999). The lack of the disciplining role of debt was due to the interlocking ownership between financial institutions and corporations as suggested by Alba et al. (2000). Excessive lending to related parties had also been singled out as an important source of financial fragility in Thailand. The survey by Claessens and Fan (2002) showed that firms with connections to banks and politicians had more long-term debt than firms without such ties did. The finding of negative relationship between profitability and leverage especially among listed Thai firms in this study seems to support the inefficient role of debt in disciplining management. The bankruptcy costs and agency costs of debt are found to overweigh the benefits of debt in mitigating the agency costs of equity among SET-listed firms.

Due to the lack of access to stock market, non-listed Thai firms cannot effectively determine their optimal capital structure. They can take only what they can borrow as much as possible. Therefore, non-listed Thai firms will have higher leverage ratios than the otherwise similar SET-listed firms. Since non-listed Thai firms have limited funds and have concentrated ownership, they will not invest their funds among negative NPV projects. Furthermore, non-listed firms that have higher leverage ratios will have larger funds for future investment. These may lead to the less negative relationship between profitability and leverage among non-listed firms compared to SET-listed firms. The bankruptcy costs and agency costs of debt are found to offset the benefits of debt in mitigating the agency costs of equity among non-listed Thai firms.