CHAPTER 5

CONCLUSION AND SUGGESTIONS

5.1 CONCLUSION

This study investigates the determinants of firm capital structure. It focuses mainly on the role of stock market return explanation on the capital structure of firms listed on the Stock Exchange of Thailand covering the periods from 1992 to 2002. The corporate factors that are hypothesized to affect financing decision are growth opportunity, profitability, and equity-return volatility. They are all statistically significant except for collateral value. Nevertheless, the magnitudes of the estimated coefficients of these variables are obviously very low relative to the magnitudes of the coefficient of stock market return adjusted historical capital structure which measures firm's inert actions toward the target capital structure. As a whole, the results confirm that the observed corporate capital structure is primarily driven by the influence of the market movement rather than by the managerial responses to other corporate factors mentioned. Thus, firms show little inclination trying to counteract the whipsawing in order to return to their optimal capital structure in every one of periods measured. Moreover, this study divides the period of investigation into two periods which consists of pre-crisis period and post-crisis period in order to capture the effect of liquidity crunch emerged from financial crisis. This uncovers that firms tend to act more inertly in altering their capital structure to the target capital structure during pre-crisis period than they do during post crisis period. Plausibly, gaining access to financial market during the different periods before and during the post-crisis is acounted for the fluctuation under the degree of capital structure readjustment.

The study offers some insights on the relation between firm's inert behavior in returning toward the target capital structure and firm attributions. The finding discovers a positive association between return on asset and a tendency of rebalancing toward the target capital structure which is consistent with the following explanation. Firm that has relatively low return on asset is expected to be much less correlated with rebalancing behavior because low-profit firm has less potential in acquiring or retiring liability than high-profit firm does. On the other hand, there is a strong tendency on negative relation between size of firm asset and rebalancing behavior of firm. Particularly, there are also some mild evidence that low equity-return volatility firms or low growth firms are less inert than large equity-return volatility firms or high growth firms in rebalancing toward their target capital structure.

Finally, the statistics demonstrates, in either short or long run, that the samples of firms studied are still unable to readjust toward their predetermined capital structure in reaction to changing firm values.

5.2 LIMITATIONS AND SUGGESTIONS

In studying the role of stock market return explanation on firm's capital structure, it may be argued that the sensitivities of individual stock to entire market are different; Notwithstanding, this argument may not be a big deal because a large number of stock samples in this study can reflect the market.

While the current research represents a basic step in understanding the role of stock market return on firm's capital structure, but further researches could be done in two extensions to this study. First, gathering data samples for a longer period could yield a better picture of behavior on firms in correcting their capital structure back to a prior capital ratio and a broader insight of the determinants of firm's capital structure would be displayed. Finally, incorporating other corporate factors to analyze the underlying cause that make firm fail to rebound toward the target capital structure could better extend the research