

## **Current Practice of Corporate Finance in Thailand: A comparison of SMEs in Thailand and US Companies**

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**Abstract:** *Small and medium enterprises (SMEs) in Thailand are defined as firms with 15 to 200 employees and 30 to 200 million in Baht (Thailand currency) in fixed assets (depending on the business sector). SMEs play an important role in a nation’s economy. However, SMEs lack of access to capital as a result of high interest rates charges are partially the result of incomplete (or no) accounting records, and the inefficient use of accounting information. Also poor record keeping of accounting information makes it difficult for financial institutions to evaluate potential risks and returns making World Bank unwilling to lend to SMEs. The survey focuses on three areas; **capital budgeting, cost of capital, and capital structure**. The survey consisted of 14 questions, which contained 101 items for measuring the four areas. The areas were divided into issues dealing with **capital budgeting** (investment decision criteria), **cost of capital, sources of finance, and capital structure**.*

**Keywords:** *capital budgeting, cost of capital, capital structure, sources of finance, Small and medium enterprises (SMEs)*

### **I. Introduction**

#### **Background**

Small and medium enterprises (SMEs) in Thailand are defined as firms with 15 to 200 employees and 30 to 200 million Baht (Thailand currency) in fixed assets (depending on the business sector). SMEs play an important role in a nation’s economy. They make substantial contributions to employment and comprise the majority of businesses in the nation (Burns & Dewhurst 1996; Bushong 1995; Holmes et al. 2003). In developing countries, small-scale businesses are the most important source of new employment opportunities. Governments throughout the world attempt to promote economic progress by focusing on small-scale enterprises (Harper & Soon 1979). Thailand is classified as a developing country and has traditionally been a major rice exporter. The rice and tourism industries are important to Thailand’s foreign currency earnings. From the mid-1980s until 1997, Thailand experienced a booming economy and double-digit growth. But in June of 1997 the Thai government experienced an abrupt slowdown to less than 2 percent growth. Both small and large firms suffered from this economic crisis. To revive and develop the country’s economy and because they are an important element in economic development, the government realized that SMEs have to be supported by them (Institute for Small and Medium Enterprises Development; Industrial Estate Authority of Thailand). SMEs generate employment, add value, bring in foreign currency and investment, improve labor skills, and have linkages with large enterprises.

SMEs in Thailand are classified into three major categories, as follows (Institute for Small and Medium Enterprises Development):

1. Production sector (including Agricultural Processing, Manufacturing and Mining).
2. Service sector
3. Trading sector (including both wholesale and retail).

SMEs are defined by fixed assets and size of employment as follows (Institute for Small and Medium Enterprises Development):

<b>Fixed Assets</b>	<b>Medium Enterprise</b>	<b>Small Enterprise</b>
<b>Production and Service Sectors</b>	not exceeding Baht 200 million not exceeding Baht 50 million	(not exceeding A\$ 7.4 million) (not exceeding A\$ 1.85 million)
<b>Trading Sector:</b>	not exceeding Baht 100 million not exceeding Baht 50 million	(not exceeding A\$ 3.7 million) (not exceeding A\$ 1.85 million)
<b>Wholesale</b>		
<b>Retail</b>	not exceeding Baht 60 million not exceeding Baht 30 million	(not exceeding A\$ 2.22 million) (not exceeding A\$ 1.11 million)

Size of Employment	Medium Enterprise	Small Enterprise
Production and Service Sectors	not exceeding 200 persons	not exceeding 50 persons
Trading Sector: Wholesale	not exceeding 50 persons	not exceeding 25 persons

A report of the Bangkok Bank shows that in 1998 there were 311,518 SMEs in Thailand, 92% of all enterprises in Thailand, comprising of 131,171 (43%) SMEs in the trading sector, 90,122 (28.9%) SMEs in the production sector, and 87,225 (28.7%) SMEs in the service sector (Institute for Small and Medium Enterprises Development). Although SMEs represent a majority of Thailand's national economy in terms of output, employment and effective utilization of regional resources, they are characterized by poor management and/or administrative skills, limited marketing skills, minimal technology skills, and a lack of access to government and institutional credit facilities (Institute for Small and Medium Enterprises Development).

SMEs lack of access to capital and high interest rates charges are partially the result of incomplete (or no) accounting records, and the inefficient use of accounting information. Poor record keeping of accounting information make it difficult for financial institutions to evaluate potential risks and returns, making World Bank unwilling to lend to SMEs (World Bank 1978). As a result, SMEs pay high interest rates or fall back on the middlemen or moneylenders, whose loans are costly and often restrictive (Institute for Small and Medium Enterprises Development). The misuse and inaccuracy of accounting information causes SMEs to inaccurately assess their financial situation, and make poor financial decisions, as well as leads them to face with the high failure rate (Byron & Friedlob 1984; DiPietro & Sawhney 1977; Fredland & Morris 1976).

Due to the lack of access to the capital markets, the allocation of capital in small firms is very important. Capital assets involve a large amount of money. It should be planned to be sure funds are available. The result of capital budgeting decisions continues for many years. Unnecessarily high expense (depreciation and others) will occur, if the firm invests too much. In contrast, uncompetitive production and loss of market share due to insufficient model and inadequate capacity of equipment may arise, if the firm does not invest enough. An incorrect forecast of asset requirements can have serious consequences. Effective capital budgeting can improve asset acquisitions (Brigham, Gapenski & Ehrhardt 1999). Although capital budget is important to small firms, they do not use the tools that have been developed to improve these decisions (Runyon 1983). Studies show that many small firms are more likely to rely on the payback approach, even though the NPV and IRR methods are both superior to the payback (Graham & Harvey 1999 quoted in Brigham & Houston 2001; Walker, Burns & Denson 1993). Runyon (1983) showed that a small business may put itself at a serious competitive because it fails to use sophisticated discounted cash flow methods.

Even though SMEs are the base of the country's economy, little research has been done on them. Previous studies on Thailand's companies emphasized publicly listed firms. For instance, Yammesri (2003) examined the effects of ownership structure on the corporate performance of Thai non-financial listed firms between 1993 and 1996. Graham, King and Bailes (2000) investigated the relationship between Thai accounting information and Thai security prices, before and after the chaotic devaluation of the baht in 1997. Tirapat and Nittayagasetwat (1999) investigated Thai listed firms' financial distress using macro and micro variables. Also Person (1999) examined a number of quantitative and qualitative variables in predicting bankruptcy for finance companies in Thailand.

This paper study the use of financial decisions excellent complement of SMEs in Thailand Company and US Company

### **Problem Identification**

Surveys offer an excellent complement to other research methods in corporate finance. As Graham and Harvey (2001) point out, survey approach offer a balance between large sample analysis and clinical studies. Despite their limitations such as the fact survey measure beliefs and not actions and the fact that surveys respondents may not be representative of the population, surveys help us get an idea of what is the practice on the ground. Gitman and Forrester (1977), Gitman and Mercurio (1982) and Lintner (1956) are some prominent surveys of corporate finance practice which have added to knowledge of corporate finance practice and also guided corporate finance research. To knowledge, there are no reported surveys of corporate finance practice in Thailand. paper is intended to fill this gap.

The results are compared contrasted with those reported for US company by Grahama and Harvey (2001). Specifically, the objectives of the survey are the following; first, to determine the techniques Thai companies use in their investment decisions and capital budgeting decisions, second, to find out how Thai companies estimate their cost of capital and capital structure, and third, to evaluate the companies' debt policy as a function of the choices for the companies' debt and appropriate amount of debt

**Objectives of the Research**

To study the use of financial decisions excellent complement of SMEs in Thailand Company and US Company

**II. Methodology**

**Design**

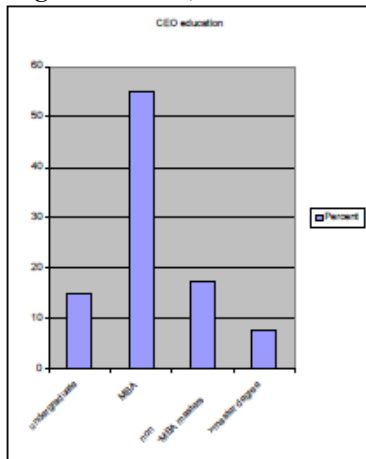
The survey focuses on three areas; capital budgeting cost of capital, and capital structure. Instead of designing a questionnaire from the scratch, the research uses the Graham & Harvey (2001) as the basis of the survey. Graham and Harvey’s questionnaire is based on a review of the existing literature and uses a format and design to minimize biases. The questionnaires were given to some professionals working in Thai companies. The research selected the professionals based on the judgment of their understanding of corporate finance in Thailand. Based on inputs from these professionals the research modified the questionnaire. The final version of the questionnaire has 14 questions most with subparts. The questionnaire was three pages long and took approximately 20 minutes to complete. The research introduced a feature in the responses scale that was not present the Graham and Harvey version. The research realized in the preliminary discussions with selected financial professionals, that many items in the questionnaire maybe unfamiliar to some or all respondents. Accordingly, each item in questionnaire offers a choice to respondents to say “I don’t know”. The research believes that tabulation of the responses “I don’t know”, would offer useful insights into the practice of corporate finance in Thailand. The research collected information on all the company characteristics as in Graham and Harvey but use only the size of the company for further analysis. This is because of two reasons; A: the number of responses is limited to 40 and B: the Graham and Harvey study finds fundamental differences between large and small firms.

The survey consisted of 14 questions, which contained 101 items for measuring the four areas. The areas were divided into issues dealing with capital budgeting (investment decision criteria), cost of capital, sources of finance, and capital structure. Seventeen items measured the capital budgeting methods. Another seventeen items related to the cost of equity capital and project discount rate. Fifty-nine items related to capital structure and debt policy. Eight items related to characteristics of the companies.

**Summary statistics of the sample: Characteristics of the respondents**

Figures 1a and 1b compare the education profile of the respondents in the survey with that of Graham and Harvey survey. About 48 percent of respondents were between 50-59 years old, and another 38 percent, almost, between 40-49 years old. In the US sample 50% of the respondents were between 50-59 years old (Figures 2a and 2b).

**Figure 1a: Thai, CEO education**



**Figure 1b: US, CEO education**

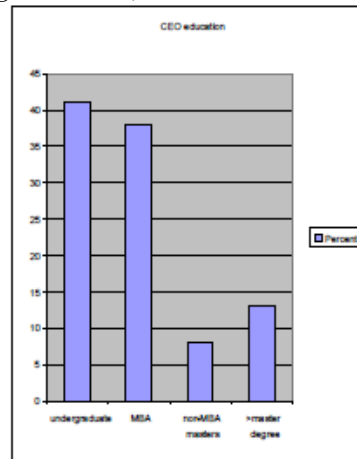


Figure 2a: Thai, CEO Age (years)

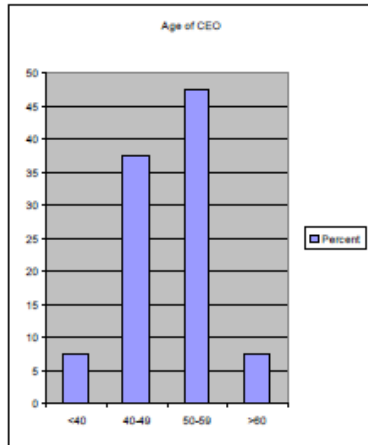
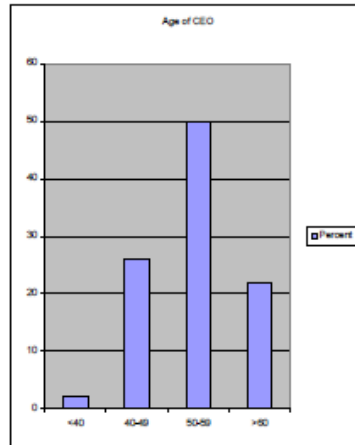


Figure 2b: US, CEO Age (years)



The respondents' experience in financial management was quite extensive. Both Thai and US CEOs change their jobs frequently. Thirty-eight percent had more than ten years and less than four years experience, while in US, 38 percent had less than four years experience (Figures 3a and 3b).

Figure 3a: Thai, CEO tenure (years)

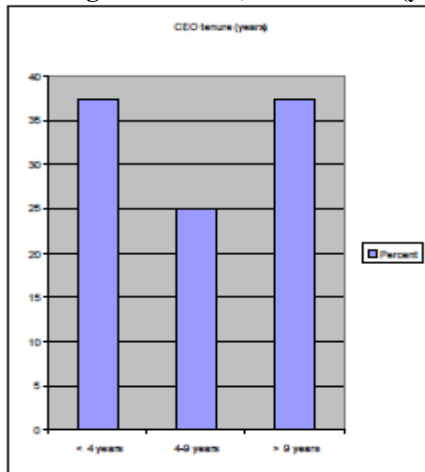
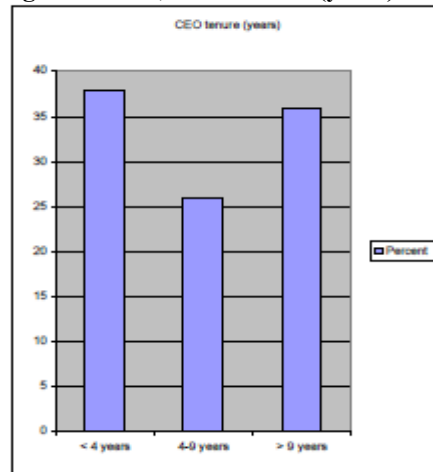


Figure 3b: US, CEO tenure (years)



Characteristics of the Firms surveyed. The following tables present summary information about the firms in the sample. The Thai companies range from very small, (20 percent of the sample firms have sales of less than \$499 million), to very large, nine percent of the sample firms have sales of more than \$1 billion) (see figure 4a). The US companies range from very small (26 percent of the sample firms have sales of less than \$100 million) to very large (42 percent have sales of at least \$ one billion) (see figure 4b) Graham & Harvey (2001).

Figure 4a: Thai, Sales

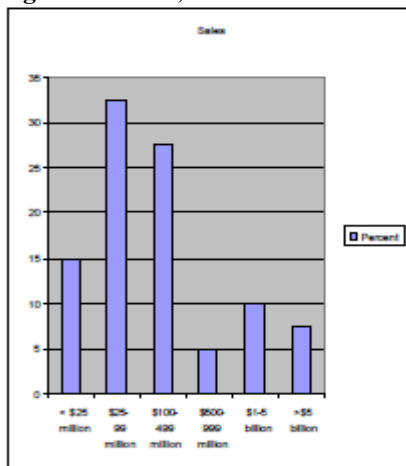
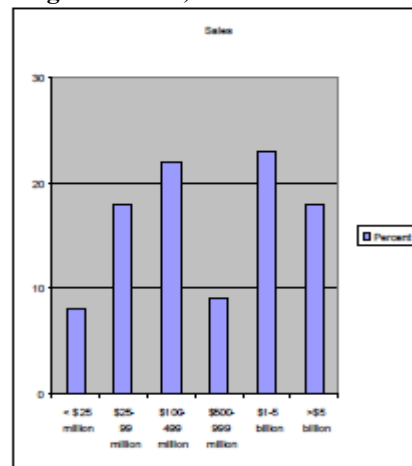
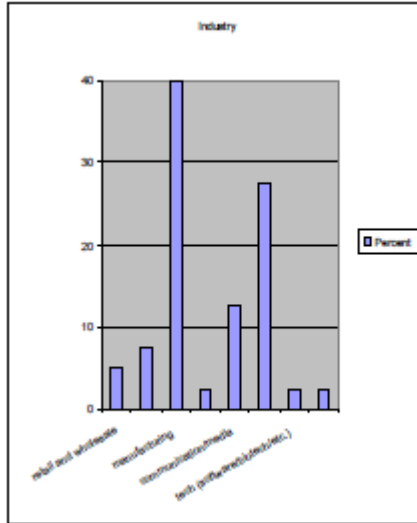


Figure 4b: US, Sales

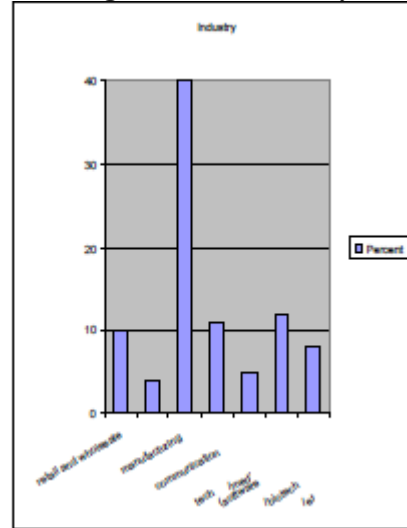


Forty percent of the firms are manufacturing firms in both Thai and US sample (Figure 5a and 5b). In the Thai sample non-manufacturing firms are spread across different industries: financial (28 %), communication and media (13%), mining and construction (8%), and retail and wholesale (5%). For the US sample the non manufacturing firms are spread as: financial (15%), transportation and energy (13%), retail and wholesale (11%), and high-tech (9%).

**Figure 5a: Thai, Industry**

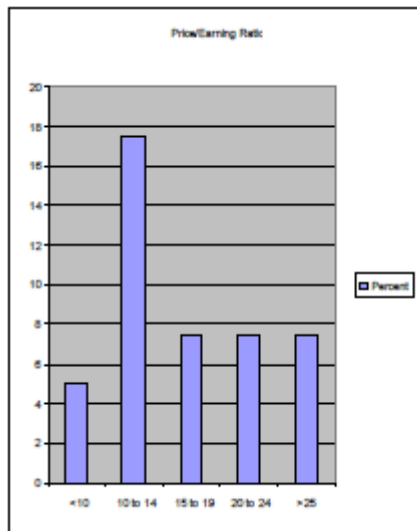


**Figure 5b: US, Industry**

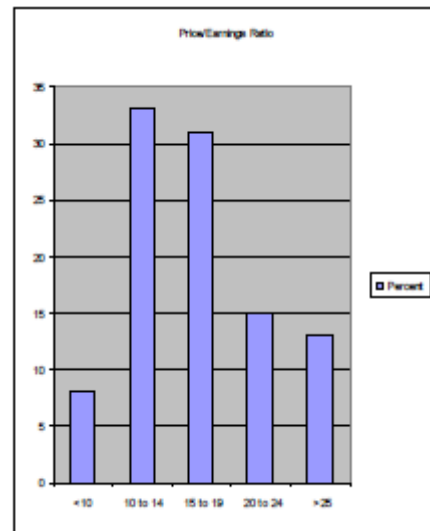


The median price-earnings ratio of Thai companies is 10 (Figure 6a). Forty percent of the respondents have price-earnings ratio of 10 or greater. This means that these firms as growth firms which indicate opportunities affect corporate behavior. Thus, The research refer to the remaining 60 percent of the respondents as non-growth firms. US's median price-earnings ratio is 15. Sixty percent of the respondents had price-earnings ratios of 15 or greater (Figure 6b) while the rest of 40 percent of respondents are non-growth firms.

**Figure 6a: Thai, Price/Earnings Ratio**



**Figure 6b: US, Price/Earnings Ratio**



One-third of the sample of Thai firms have debt-to-asset ratio between 20 percent and 40 percent, and another one-third have debt-to asset ratio below 20 percent. see figure 7a). Surprisingly, a third of sample firms did not answer this question. However, the results represent to firms with debt ratio greater than 30 percent as slightly levered. Around one-third of the sample of US firms have debt-to-asset ratio below 20 percent, and another third have debt ratio between 20 percent and 40 percent. Thus, another third of sample firms have debt ratios greater than 40 percent which mean that these firms have highly leverage (Figure 7b)

Figure 7a: Thai, Long-term debt ratio (%)

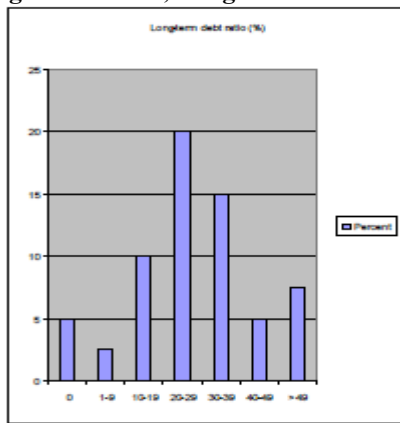
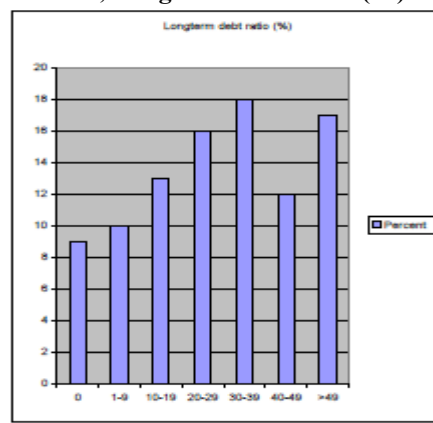


Figure 7b: US, Long-term debt ratio (%)



Approximately eight percent of the Thai firms have credit rating of BBB, 5 percent have an AA/AAA rating, and around three percent have A+/A, B/CCC and CC/C rating. In contrast, 20% of the US firms have credit rating of AA or AA, 32 percent have an A credit rating, and 27 percent have a BBB rating. The rest of samples have debt with rating of BB or lower (see Figure 8a and 8b, respectively).

Figure 8a: Thai, Credit rating (%)

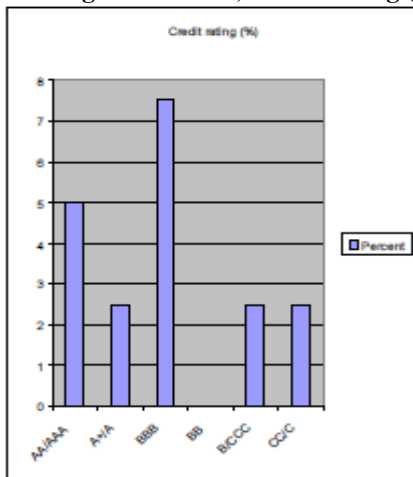
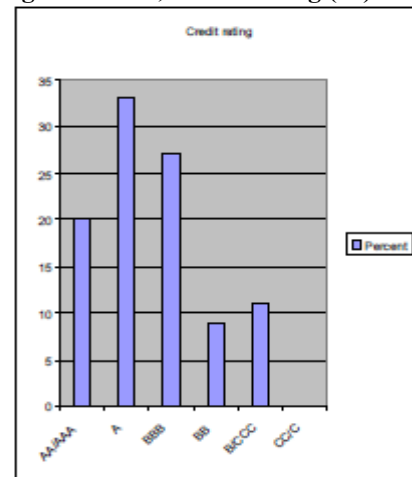


Figure 8b: US, Credit rating (%)



The top three executives own at least five percent of the common stock of their firms in nearly 28 percent of the Thai samples and 55 percent of the US samples. This means that CEO characteristics allow us to consider whether managerial incentives or entrenchment affect the survey responses (Figure 9a and 9b).

Figure 9a: Thai, Exec. Stock ownership

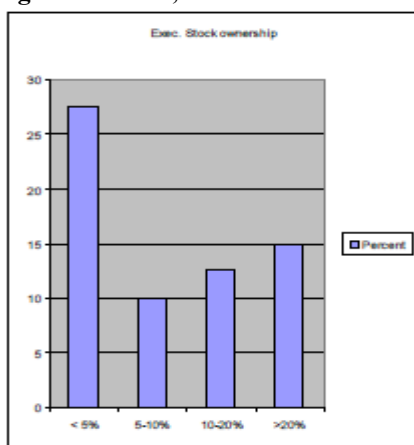
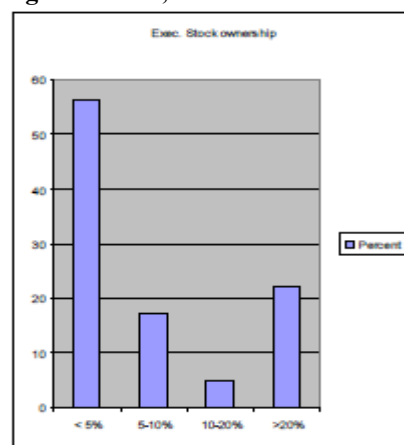


Figure 9b: US, Exec. Stock ownership



Figures 10a and 10b show for Thai and US firms respectively:

- Approximately 63 percent and 58 percent pay dividends,
- 55 percent and 7 percent are regulated utilities,
- 70 percent and 68 percent calculate the cost of equity, and 10 percent and 20 percent considered issuing convertible debt.

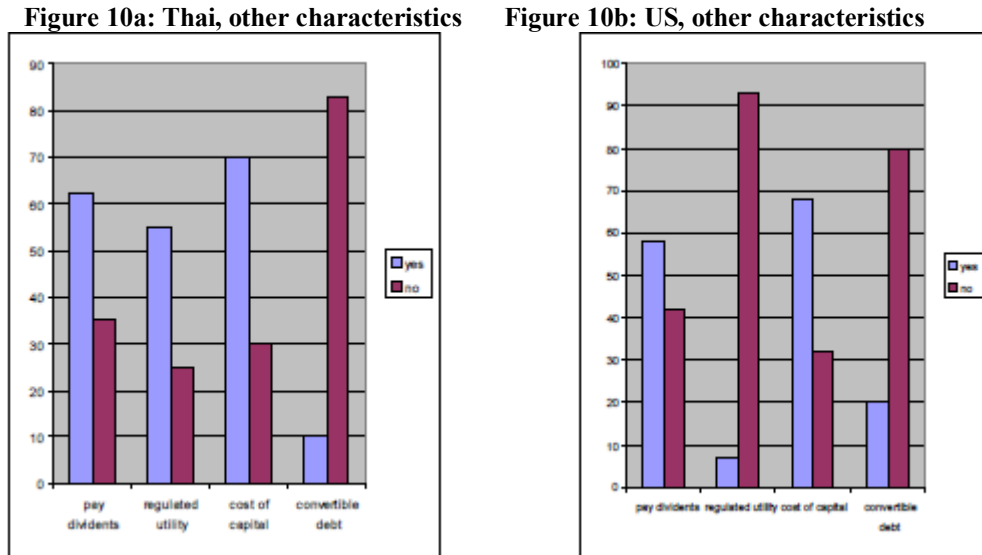
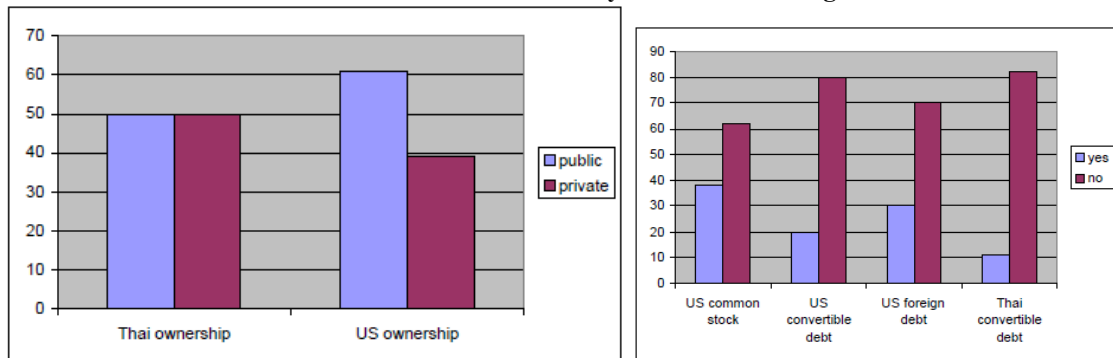


Figure 11 shows 50% of the Thai sample and 61% of the US sample are publicly owned. The rest are privately owned. Figure 12 shows that 36 percent of the sample US firms seriously considered issuing common equity stock, 20 percent considered issued convertible debt, and 30 percent attention about issuing debt in foreign markets. Similarity, for the sample of Thai firms has 10.5 percent have seriously considered issuing convertible debt. The questionnaire has not asked the Thai firms about issuing Common stock or foreign debt.

**Figure 11: Thai & US, other characteristics**      **Figure 12: US & Thai, percent that Seriously considered issuing...**



### Summary Statistics and Data Issues Results

#### Capital budgeting

As found with the US sample, NPV and IRR are two of the most frequently used capital budgeting techniques by Thai companies. Seventy-five percent and sixty-eight percent of The respondents use NPV and IRR respectively. However, 77.5% of the respondents use the payback period making it the most popular capital budgeting technique used by Thai companies. The payback criterion was also found to be popular among US companies (56.74% of the respondents almost or almost always use the payback period). Payback period as a criterion has several serious limitations which are discussed in standard finance textbooks and finance courses. The popularity of payback period could be either due to severe capital constraints on investing firms or due lack of sophistication in making capital budgeting decisions. Graham and Harvey (2001) find evidence of the latter. With the limited sample the research analyze whether there is a difference in the use of payback period between large and small firms.

As **Table 1** shows large firms in Thailand are, if anything, more likely to use the payback period. Payback period would appear to be the most popular capital budgeting technique across a spectrum of Thai companies. Despite the popularity of payback period, cash flow based techniques including those based on discounted cash flows, are more widely used than techniques based on accounting numbers. Only 43.24% of The respondents always or almost always use the accounting rate of return. 15.79% of the small firms and 9.52% of the large firms in The sample claim not to know what a Hurdle rate is. This could be interpreted, as can be similar responses to other questions, either to mean that the respondents are unaware of this technique (and therefore do not use them) or to mean that the terminology (even when translated) may be unfamiliar to them, even though they could be using the technique.

Even though about 10% of the respondents claim not to know what Adjusted Present Value (APV), Value at Risk or Real Options are, the percentage of respondents who claim to use these techniques, from among those who know it is higher in each case than in the US sample. There also appears to be no difference between large and small Thai companies in the use of these techniques. The research would like to interpret these results with caution. As Graham and Harvey (2001) observe in the context of CAPM, the researchers are not sure if these techniques are understood well and are applied properly in practice. Further surveys, could address this as one of the issues.

### **Cost of Capital**

Only 70% of the respondents said that they estimated their cost of capital. This raises questions about how the other respondents use the NPV or the IRR techniques. Between 10% and 15% of the respondents do not know 5 of the 6 techniques of estimating Cost of Capital which are listed in the questionnaire. Accounting for the responses which say “I don’t know”, the use of average historical returns on common stock is the most popular method of estimating the Cost of Capital in Thailand. Seventy percent of the respondents claim to use it always or almost always, which makes it twice as popular in Thailand compared to the US (see **Table 2**). Thai companies are also thrice as likely to use the Dividend discount model as US companies to estimate their Cost of Capital.

Table 1: Survey responses to the question: How frequently does your firm use the following techniques when deciding which projects or acquisitions to pursue?

	US				Thai			
	% always or almost always		% always or almost always		sales < 99m small firm	sales > 99m large firm	do not know (%)	
	mean	mean	mean	mean	mean	mean	small firm	large firm
(a1) Net present value	74.93	3.08	75.00	3.13	3.16	3.20	-	-
(a2) Internal rate of return	75.61	3.09	68.42	3.13	2.88	3.45	5.26	-
(a3) Hurdle rate	56.94	2.48	27.27	1.27	0.60	1.88	15.79	9.52
(a4) Earnings multiple approach	38.92	1.89	29.41	1.24	0.82	1.69	5.26	4.76
(a5) Adjusted present value	10.78	0.85	39.39	1.70	1.65	1.75	5.26	4.76
(a6) Payback period	56.74	2.53	77.50	3.23	3.00	3.40	-	-
(a7) Discounted payback period	29.45	1.56	45.95	2.16	1.61	2.72	-	-
(a8) Profitability index	11.87	0.83	52.63	2.16	1.94	2.42	5.26	-
(a9) Accounting rate of return (or book rate of return on assets)	20.29	1.34	43.24	1.81	1.72	1.89	5.26	-
(a10) Sensitivity analysis (e.g., "good" vs. "fair" vs. "bad")	51.54	2.31	63.16	2.68	2.28	3.21	5.26	-
(a11) Value-at-risk or other simulation analysis	13.66	0.95	30.56	1.50	1.18	1.83	5.26	4.76
(a12) We incorporate the “real options” of a project when evaluating it	26.59	1.47	36.36	1.67	1.63	1.81	5.26	4.76

Notes: 1. 6 point Likert scale, 0 = never, 4 = always and 5 = I don't know  
 2. each item has the total of 100 percentage  
 3. We report the overall mean as the % of respondents that answer 3 (almost always) and 4 (always).



Table 2: Survey responses to the question: Does your firm estimate the cost of equity capital? How do you determine your firm's cost of equity capital?

	US				Thai				
	% always or almost always		% always or almost always		sales < 99m small firm		sales > 99m large firm		do not know (%)
	mean	mean	mean	mean	mean	mean	small firm	large firm	
(c1) with average historical returns on common stock	39.41	1.72	73.08	2.73	2.90	2.63	-	-	
(c2) using the capital asset pricing model (CAPM, the "beta" approach)	73.49	2.92	73.91	2.87	1.90	3.62	-	9.52	
(c3) using the CAPM but including some extra "risk factors"	34.29	1.56	40.00	1.85	1.44	2.18	5.26	19.05	
(c4) whatever our investors tell us they require	13.93	0.86	24.00	1.60	1.78	1.50	5.26	-	
(c5) by regulatory decisions	7.04	0.44	40.91	1.91	2.10	1.75	-	9.52	
(c6) back out from discounted dividend/earnings model, e.g. Price=Div./(cost of cap. - growth)	15.74	0.91	43.48	1.83	1.78	1.86	5.26	9.52	

Notes: 1. 6 point Likert scale, 0 = never, 4 = always and 5 = I don't know  
 2. each item has the total of 100 percentage  
 3. We report the overall mean as the % of respondents that answer 3 (almost always) and 4 (always).

The use of CAPM in estimating cost of capital seems popular in Thai companies. Though 12% of the respondents do not know of CAPM, of the rest who do, 73.91% use the CAPM. However, as Graham and Harvey (2001) point out in the context of similar results with the US sample, the findings do not indicate whether the CAPM is properly applied in practice or whether it is at all the best model to determine the Cost of Capital.

**Specific Risk Factors**

In this question the research investigate how Thai companies treat risks other than market risk in their project evaluation. The research also report on the percentage of respondents who make some adjustments, either to the cash flows or to the discount rate or to both. Overall, a larger percentage of Thai companies than US companies make some adjustment to all the risk factors listed in questionnaire. The most important source of risk for Thai companies is the risk of unexpected inflation (see **Table 3**). Foreign Exchange Risk and Business cycle risk are about equally important as for US firms. Commodity price risk is important for a significantly larger percentage of Thai companies than US companies. This result could be a reflection of an absence of markets in Thailand to effectively hedge against commodity price risks.

Finance Theory suggests that firms should use different discount rates to evaluate projects of different risks. Standard finance textbooks (e.g. Ross, Westerfield, and Jaffe, 2002) have detailed discussions of the shortcomings in using a firm level Weighted Average Cost of Capital (WACC) to discount all projects evaluated by the firm. Do Thai firms use a risk-matched discount rate in project evaluation? About 15% of The respondents do not know what the question implies (see **Table 4**). Of those who respond to the question, 63.64% of the respondents always or almost always use the discount rate for the entire company. Consistent with the findings with the US sample, 45.45% of the respondents also use the risk-matched discount rates. How does one interpret these findings? One possible interpretation is that "it is possible for a firm to have a single discount rate and have risk matched discount rate—it just means that all the project they consider are the same risk i.e. the firm's risk."1 A larger percentage of Thai companies than US companies always or almost always use a country specific discount rate in their project evaluation.

**Project versus Firm Risk**

Standard textbooks in corporate finance (for e.g. (Ross *et al.* 2005)) carry at least two chapters on capital structure. At the end of the first chapter the conclusion would be: "In a world with corporate taxes but no bankruptcy costs, firm value is an increasing function of leverage". The second chapter typically discusses the limits to use of debt. Costs of potential bankruptcy are a limit to the use of debt. Personal tax rates typically mitigate against the use of higher leverage, assuming managers are working to increase the wealth of the firm's shareholders. Firms may choose debt equity ratios based on industry averages. Graham & Harvey (2001) provide a full review of these factors and the justifications behind the items in their questionnaire on capital structure.

Table 3: Survey responses to the question: When valuing a project, do you adjust either the discount rate or cash flow for the following risk factors?

	US	Thai
	<i>The adjustment can be either of discount rate or of cash flows or both (%)</i>	<i>The adjustment can be either of discount rate or of cash flows or both (%)</i>
(d1) risk of unexpected inflation	38.24	92.50
(d2) interest rate risk (change in general level of interest rates)	48.73	45.95
(d3) term structure risk (change in the long-term vs. short-term interest rate)	24.86	45.71
(d4) GDP or business cycle risk	44.44	55.26
(d5) commodity price risk	32.57	52.94
(d6) foreign exchange risk	44.89	48.65
(d7) distress risk (probability of bankruptcy)	18.52	34.29
(d8) size (small firms being riskier)	34.00	55.88
(d9) "market-to-book" ratio (ratio of market value of firm to book value of assets)	13.07	41.67

Notes: 1. 0 = never, 1 = discount rate, 2 = cash flow, 3 = both, and 4 = neither

In the both Thailand and the US, the tax advantage of interest deductibility is seen as the most important benefit to companies from issuing debt (see **Table 5**). Larger Thai companies value this advantage more than the smaller Thai companies (mean of 3.22 vs. 2.41) Graham & Harvey (2001) find for their sample of US companies that companies are less concerned about the costs of distress than about the effect of borrowing on their credit rating. Among the Thai companies the concern is more about the costs of distress and less about the effect on credit rating. This is understandable in view of two factors. One is that the public debt market, which requires credit rating, is small in Thailand. Most Thai companies borrow directly from banks and financial institutions, which perform their own evaluation of loan applications and do not require credit ratings. Secondly, given the experience of the Thai corporate sector after the 1997 crisis, the scepter of the costs of bankruptcy looms large in front of every Thai company. This might also explain why over 48% of the Thai companies take into account the concerns of suppliers and customers that firms with high leverage might go out of business.

Table 4: Survey responses to the question: How frequently would your company use the following discount rates when evaluating a new project in an overseas market? To evaluate this project the research would use

	US		Thai					
	% always or almost always	mean	% always or almost always	mean	sales < 99m small firm mean	sales > 99m large firm mean	do not know (%)	
							small firm	large firm
(b1) the discount rate for our entire company	58.79	2.50	63.64	2.70	2.44	2.88	5.26	14.29
(b2) the discount rate for the overseas market (country discount rate)	34.52	1.65	46.88	1.97	1.56	2.27	-	14.29
(b3) a divisional discount rate (if the project line of business matches a domestic division)	15.61	0.95	27.59	1.48	1.43	1.50	10.53	14.29
(b4) a risk-matched discount rate for this particular project (considering both country and industry)	50.95	2.09	45.45	2.15	1.80	2.41	5.26	4.76

Notes: 1. 6 point Likert scale, 0 = never, 4 = always and 5 = I don't know  
 2. each item has the total of 100 percentage  
 3. We report the overall mean as the % of respondents that answer 3 (almost always) and 4 (always).

Table 5: Survey responses to the question: What factors affect how you choose the appropriate amount of debt for your firm?

	US				Thai			
	% always or almost always	mean	% always or almost always	mean	sales < 99m small firm mean	sales > 99m large firm mean	do not know (%)	
							small firm	large firm
(h1) the tax advantage of interest deductibility	44.85	2.07	69.44	2.78	2.41	3.22	-	4.76
(h2) the potential costs of bankruptcy, near-bankruptcy, or financial distress	21.35	1.24	45.71	1.91	1.89	1.88	-	4.76
(h3) the debt levels of other firms in our industry	23.40	1.49	55.26	2.29	2.21	2.44	-	4.74
(h4) our credit rating (as assigned by rating agencies)	57.10	2.46	38.89	1.67	1.44	1.82	5.26	4.76
(h5) the transactions costs and fees for issuing debt	33.52	1.95	63.89	2.61	2.22	3.06	-	4.76
(h6) the personal tax cost our investors face when they receive interest income	4.79	0.68	25.00	1.47	1.83	1.06	-	4.76
(h7) financial flexibility (we restrict debt so we have enough internal funds available to pursue new projects when they come along)	59.38	2.59	77.78	3.14	2.94	3.44	-	4.76
(h8) the volatility of our earnings and cash flows	48.08	2.32	57.14	2.69	2.71	2.71	-	4.76
(h9) we limit debt so our customers/suppliers are not worried about our firm going out of business	18.72	1.24	48.57	2.29	2.53	2.12	-	4.76
(h10) we try to have enough debt that we are not an attractive takeover target	4.75	0.73	11.76	1.03	1.13	0.94	10.53	4.76
(h11) if we issue debt our competitors know that we are very unlikely to reduce our output	2.25	0.40	11.43	1.03	0.94	1.13	-	9.52
(h12) a high debt ratio helps us bargain for concessions from our employees	0.00	0.16	0.00	0.54	0.50	0.56	-	9.52
(h13) to ensure that upper management works hard and efficiently, we issue sufficient debt to make sure that a large portion of our cash flow is committed to interest payments	1.69	0.33	20.00	1.29	1.28	1.31	-	9.52
(h14) we restrict our borrowing so that profits from new/future projects can be captured fully by shareholders and do not have to be paid out as interest to debtholders	12.57	1.01	52.78	2.25	2.00	2.53	-	4.76

Notes: 1. 6 point Likert scale, 0 = never, 4 = always and 5 = I don't know  
 2. each item has the total of 100 percentage  
 3. We report the overall mean as the % of respondents that answer 3 (almost always) and 4 (always).

### Capital Structure

A surprising finding is that nearly 64% of the respondents always or almost always consider the transaction costs and fees of issuing debt as a determinant in choosing the appropriate level of debt. This suggests that these costs are not trivial. Even more surprising is that these costs are more important for larger companies than for smaller companies (mean score of 3.06 for larger companies compared to 2.22 for smaller companies). The importance of transaction costs and fees is also highlighted in the responses tabulated in **Table 7**. Approximately 44.44% of The respondents delay issuing debt because of transaction costs and fees (corresponding figure for the US sample is only 10.17%). Another 40% of our respondents delay retiring debt because of recapitalization costs and fees. (Corresponding figure for the US sample is 12.43%). The mean scores for large and small Thai companies are not different indicating that the transaction costs and fees are important irrespective of company size. The evidence that Thai firms are influenced not only in their decision about the appropriate level of debt but also in their decision about delaying issue or retirement of debt by the size of transaction costs and fees suggests some support for the transactions costs hypothesis (Fischer *et al.* 1989).

Given The earlier observation about the reliance of Thai companies on banks rather than markets as a source of debt, transaction costs and issuing fees may be expected to be small relative to the size of the borrowing. The responses suggest that there are costs to borrowing from banks in developing countries which are comparable to costs of issuing debt in the markets. To the best of knowledge there is no documentation of transaction costs and fees associated with borrowing by Thai companies. Given their importance, further inquiry into this aspect of corporate finance practice in Thailand is common.

### Common Stock

A surprisingly high percentage (52.78%) of the respondents wants to restrict borrowing so that “profits from new/future projects can be captured fully by shareholders and do not have to be paid out as interest to debt holders” (see **Table 5**). The results show that the importance of maintaining a target debt-to-equity ratio is highlighted in the responses tabulated in **Table 6** (mean score of 3.40 for larger companies compared to 3.50 for smaller companies). Earning per share (EPS) dilution is an important factor that affects US firms’ decisions about issuing common stock. Figure for the US sample is 68.55% and mean score of 2.84 compared to the Thai sample is only 30.77% and mean score of 1.85. .

### Debt

Nearly 57 % of The respondents always or almost always consider issuing debt when recent profits (internal funds) are not sufficient to fund the firm’s activities (Corresponding figure for the US sample is 46.78%). Most Thai and US companies still issue debt when interest rates are particularly low. Overall mean scores on this factor is 2.32 and 2.63 for large and small Thai companies respectively.

Table 6: Survey responses to the question: What factors effect your firm firm's decisions about issuing common stock?

	US				Thai			
	% always or almost always	mean	% always or almost always	mean	sales < 99m small firm mean	sales > 99m large firm mean	do not know (%)	
					small firm	large firm	small firm	large firm
(g1) if our stock price has recently risen, the price at which we can sell is "high"	62.60	2.53	33.33	1.80	2.75	1.45	-	9.52
(g2) stock is our "least risky" source of funds	30.58	1.76	41.18	2.06	3.20	1.58	-	9.52
(g3) providing shares to employee bonus/stock option plans	53.28	2.34	35.29	1.65	1.00	1.92	-	9.52
(g4) common stock is our cheapest source of funds	14.05	1.10	62.50	2.63	3.40	2.27	-	9.52
(g5) maintaining a target debt-to-equity ratio	51.59	2.26	78.57	3.47	3.50	3.40	-	9.52
(g6) using a similar amount of equity as is used by other firms in our industry	22.95	1.45	33.33	1.47	2.25	1.18	-	9.52
(g7) whether our recent profits have been sufficient to fund our activities	30.40	1.76	80.00	3.13	3.25	3.09	-	9.52
(g8) issuing stock gives investors a better impression of our firm's prospects than issuing debt	21.49	1.31	35.71	1.57	2.25	1.30	-	14.29
(g9) the capital gains tax rates faced by our investors (relative to tax rates on dividends)	5.00	0.82	20.00	1.20	1.25	1.18	-	9.52
(g10) diluting the holdings of certain shareholders	50.41	2.14	35.71	1.71	1.00	2.00	-	14.29
(g11) the amount by which our stock is undervalued or overvalued by the market	66.94	2.69	21.43	1.21	0.75	1.40	-	14.29
(g12) inability to obtain funds using debt, convertibles, or other sources	15.57	1.15	35.71	1.71	2.33	1.55	-	9.52
(g13) earnings-per-share dilution	68.55	2.84	30.77	1.85	1.25	2.11	-	14.29

Notes: 1. 6 point Likert scale, 0 = never, 4 = always and 5 = I don't know  
 2. each item has the total of 100 percentage  
 3. We report the overall mean as the % of respondents that answer 3 (almost always) and 4 (always).

Table 7: What other factors affect your firm's debt policy?

	US				Thai			
	% always or almost always	mean	% always or almost always	mean	sales < 99m small firm mean	sales > 99m large firm mean	do not know (%)	
					small firm	large firm	small firm	large firm
(i1) we issue debt when our recent profits (internal funds) are not sufficient to fund our activities	46.78	2.13	56.41	2.49	2.63	2.32	-	4.76
(i2) using debt gives investors a better impression of our firm's prospects than issuing common stock	9.83	0.96	19.44	1.39	1.11	1.71	-	9.52
(i3) we issue debt when interest rates are particularly low	46.35	2.22	55.56	2.36	2.26	2.56	-	4.76
(i4) we use debt when our equity is undervalued by the market	30.79	1.56	31.43	1.46	1.39	1.56	-	9.52
(i5) we delay issuing debt because of transactions costs and fees	10.17	1.06	44.44	2.14	2.33	2.00	-	4.76
(i6) we delay retiring debt because of recapitalization costs and fees	12.43	1.04	40.00	2.06	2.06	2.06	5.26	4.76
(i7) changes in the price of our common stock	16.38	1.08	15.15	1.18	0.94	1.47	5.26	9.52
(i8) we issue debt when we have accumulated substantial profits	1.14	0.53	31.43	1.60	1.56	1.63	-	9.52

Notes: 1. 6 point Likert scale, 0 = never, 4 = always and 5 = I don't know  
 2. each item has the total of 100 percentage  
 3. We report the overall mean as the % of respondents that answer 3 (almost always) and 4 (always).

### **III. Conclusions**

The survey research of the practice of corporate finance in Thailand indicates that practice follows theory but only in parts. NPV and IRR are found to be popular. However, payback period is found to be even more popular. The CAPM is broadly used. Moreover, most of the respondents would be used the discount rate to evaluate a new project in an overseas market, even though the project probable different risk attributes than the overall firm. The limitation of 40 respondents cannot indicate the different risk factor. Risk of unexpected inflation is the most important factor for respondent companies to adjust their discount rate or cash flows.

The survey results show that financial flexibility is the most important reason why companies restrict debt so they have enough internal funds available to pursuer new projects when they come along. Also, the research finds that the tax advantage of interest deductibility is seen as an important benefit by large Thai firms issuing debt. Transaction costs and fees are important factors that mitigate against the use of debt. Companies delay retiring debt because of recapitalization cost and fees. A surprise finding is that Thai firms pay less attention to credit rating (as assigned by rating agencies) when comparing to the US respondents, in their capital structure decision. Thai firms are not concern with earning-per-share dilution when issuing common stock. This is in contrast to US firms. This factor might be effect from firm's size which is not the public companies in the stock market. They will issue common stock whether their recent profits have been sufficient to fund the activities and maintaining a target debt-to-equity ratio.

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