The Impact of Financial Deficit and Surplus on Capital Structure: Some Empirical

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ABSTRACT

We empirically examine how and when the firms implement capital structure adjustments. The adjustment process is asymmetric and depends largely on the firms' actual leverage with respect to its targets (above-target/below-target) and its financial status (financial surplus/financial deficit).This study implements two methods - cross-sectional regression and panel data analysis in determine optimal capital structure using 389 firms during 2007-2011. Then, fixed-effects panel data model is analyzed to determine asymmetric adjustment toward optimal capital structure. The result has shown that Thai firms with above-target debt will adjust towards their targets, reducing debt with different speed of adjustment by using financial surplus. On the other hand, for those with below-target debt, the raising debt is required to adjust debt towards the target.

Thai firms with financial surplus, used to reduce both above-target debt and financial deficit, find it easy to issue both debt and equity to increase financial surplus used within the firm. The result has shown that the hypothesis of the pecking order theory is rejected.