

Capital Structure Adjustment toward the Industry Mean: An Empirical Evidence on Non-Financial Firms in The Stock Exchange of Thailand (SET)

ABSTRACT

This paper investigates the capital structure behavior of Thai non-financial public firms during 1999 to 2008 whether it is explainable by the optimal capital structure theory or the pecking order theory. The test is conducted to check whether the firm's debt ratio tends to move toward their previous year industry mean by employing the non-parametric Goodman-Kruskal gamma measure. The result indicates that both the optimal capital structure and the pecking order hypothesis can explain the capital structure behavior in Thai market during the period under study. However, the pecking order theory can explain companies' behavior at more extent level compared with that of the optimal capital structure theory. This is because the former is significant at 1% level for most of the industries and for every year, while the latter is significant at 1% and 5% level for most of industries and for some period of years.