CHAPTER VI

CORPORATE FINANCING POLICY IN NEPAL: A SURVEY

6.1 Introduction

The phenomenon of financing policy and its relationship with the value of an organization have long been a mystifying issue in corporate finance. Financing decisions are vital for the firm's financial welfare and financing policy is viewed to be a way of creating firm's value. A bad decision about capital structure and financing may lead to financial distress and eventually bankruptcy. However all procedures, work instructions and decisions are governed by policies. Financing policy is regarded as one of the important part of the corporate policies. It is a course of action taken by finance executives to address the issues, problems or interrelated set of problems in the course of raising capital fund within an organization. It is a plan of how an organization will finance its activities, what amount of money it will need and where it will come from. It provides rules and consistent guidelines for financial activities and it also sets a foundation for financing decision making. The decision regarding the use of debt and equity modes of financing is not an easy job, with the fact that a number of benefits and costs are associated with the management decisions regarding the optimal use of capital structure. Financing decisions and practices vary from country to country, partly explained by institutional and legal environment as well as macroeconomic factors.

The essence of the corporate financing policy is to determine an optimal capital structure that maximizes the value of the firm. Yet, mixed views exist about whether an optimal capital structure actually exists. Modigliani and Miller (1958) conclude that under stringent conditions of competitive, frictionless, and complete capital markets, the value of a firm is independent of its capital structure. They assert that managers cannot alter firm value or the cost of capital by the capital structures that their firms choose. They point out that financing and capital structure decisions are not shareholder value enhancing and are deemed to be irrelevant. Financing decisions have gained much attention in finance literature over the years since the seminal works of Modigliani-Miller (1958, 1963) capital structure irrelevance propositions. Financial economists have relaxed the restrictive assumptions underlying the theory

of capital structure irrelevance and have introduced capital market frictions into their models. By introducing capital market frictions, such as taxes, bankruptcy costs, and asymmetric information, they are able to explain at least some factors driving capital structure decisions. Consequently, financial economists have set forth various capital structure theories such as trade-off theory (Kraus and Litzenberger 1973), pecking order theory (Myers 1984; Myers and Majluf 1984), signaling (Ross 1977), and market timing theory (Baker and Wurgler 2002) to explain the relevance of capital structure. These theories relate directly to taxes, asymmetric information, agency problems, and bankruptcy costs. Taken separately, these theories cannot explain certain important facts about capital structure. Despite extensive research into the area of capital structure, determining the precise financing mix that maximizes the market value of the firm remains elusive.

Finance managers often face challenges in determining optimal capital structure. An incorrect financing decision may lead to financing distress and eventually bankruptcy (Eriotis, Vasiliou, & Neokosmidi, 2007). Different levels of debt and equity used in capital structure suggest that managers may employ firm-specific strategies for improved performance (Gleason, Mathur, & Mathur 2000). Although financial theory suggests that firms should strive to obtain an optimal capital structure (i.e. one that minimizes a firm's cost of capital), no specific method has been identified to help financial managers determine the optimal level of leverage (Eriotis *et al.*, 2007).

Although earlier capital structure theories grounded within the finance paradigm (static trade off, agency costs and asymmetric information theories) have contributed to a deeper understanding of the capital structure puzzle (Myers, 1984), recent efforts suggest that research for the missing pieces of the puzzle should continue (Ang, 1991; Myeres 1984; Norton 1991). This ongoing research should include a broader managerial perspective (Barton and Gordon, 1987, 1988; Barton and Matthews, 1989), which considers both non-financial behavioral factors. Managerial preferences regarding such issues as efficiency, profits, power maximization, behavior and output control (Child, 1972; Ouchi and Maguire 1975) are critical for understanding decision making within organizations.

Quantitative research in the finance paradigm however, has tended to downplay (if not ignore) managerial preferences, thus yielding capital structure decision theories that do not adequately explain actual financing decisions (Myers, 1984). In order to address some of the weaknesses in the theories which seek to explain firm financing decisions, more recent research efforts have included the investigation of factors such as perceived business risk (Kale *et al*., 1991), institutional ownership (Chaganti and Damanpour, 1991), firm size, management risk perceptions and preferences (Norton, 1991b). All of these issues have been found to play some role in influencing financing decisions within the firms.

How firms make their corporate financing decisions has been one of the most extensively researched areas in corporate finance, yet there is little consensus on how firms choose their capital structure and much remains to understand the link between theory and practice of capital structure (Nor, Ibrahim, Haron, Ibrahim & Alias, 2012). Interestingly, financial executives are much less likely to follow the academically prescribed factors and theories when determining capital structure. This raises the possibilities for additional thought and research on the real practice of financial decision making. Yet capital structure theories are the valid descriptions of what firms should do, perhaps the corporations disregard the theoretical advice. Thus, determinants of financing decisions in corporations are still debated. It is a more required towards a qualitative study of the problem with a view to examining the perception of managers with regard to the financing practices and capital structure of their firms.

Studies utilizing questionnaires for examining corporate financing practices have focused mainly on the developed capital markets (i.e. American and European capital markets), there is lack of such study in underdeveloped economy like Nepal. Further it was hoped that a direct appeal to the company officers involved might shed light on which current theory is closer to the truth, at least in light of management's perceptions. Donaldson is one of the few to have explored the financial policy area from a management viewpoint. This study attempts to investigate similar issue in the Nepalese context by focusing primarily on the financing policy and practices using survey method. A major objective of this survey is to describe the existing corporate financing patterns. This study also analyzes the important factors that influence the

financing decisions of the managers and discovers whether the capital structure practices of Nepalese managers are in line with the capital structure theories. It is deemed that the findings of this survey can address to the problem of financing practices looking at it from the perspective of management. The findings of this study also prescribe specific set of statements describing the preferred option should an entity undertake. Policy prescribed in this study provides the framework for establishing prudent financial goals, and priorities for financial planning.

The rest of the chapter is organized as follows. Section 6.2 presents the review of literature. Section 6.3 incorporates survey procedure and describes the samples. Section 6.4 documents the results of survey analysis and section 6.5 discusses the results.

6.2 Review of literature

Since survey is constructed and used in this study, the focus is on the studies that employ surveys. Studies that employ survey have been included in this section. The review of literature on financing policies and practices has been organized as follows:

I. Review of studies before 2000

II. Review of studies during 2000s to date

III. Concluding remarks

I. Review of studies before 2000

Major studies on financing practices before 2000 has been depicted Table 6.1. Scott and Johnson (1982) analyze the financing-decision processes of large corporations. The data were gathered from a questionnaire that was mailed to the chief financial officer of each firm in the 1979 "Fortune 1000" list. They conclude that firms use target financial leverage ratios as an input to making financing decisions. The most important influence on these targets is the firm's own management group and staff of analysts. Several ratios are used by corporations to measure leverage-especially (1) long-term debt to total capitalization, (2) times-interest earned, and (3) long-term debt to net worth. For computing ratios (1) and (3), book values, rather than market values, are almost always used. It is clearly evident that the participating executives subscribe to the concept of an optimal capital structure. Further, they believe the prudent use of debt can lower the firm's overall cost of capital and that debt-use can affect common

stock price. This is translated in practice into long-term debt to total capitalization ratios that fall predominantly into the 26-40 percent range. More specially, the most popular reported range for this ratio is 26-30 percent. The participating financial executives overtly accept the concept of a corporate debt capacity and maintain rather precise definitions of it. The most popular definition is management-determined limit on the firm's long-term debt to total capitalization ratio. Balance sheet-based leverage ratios serve as definitions of debt capacity for 36 percent of the first 500 respondents and for 50 percent of the second 500 respondents. The desire to maintain a given bond rating is a popular notion (rather than definition) of debt capacity among the first 500 sample group; it represents 21 percent of the responses for those executives. Neither highly sophisticated interpretations of debt capacity, nor attempts to measure it, are evidenced in practice by the survey results.

Table 6.1
Major studies on financing practices before 2000

Study	Major finding
Scott and Johnson (1982)	Participating executives subscribe to the concept of an optimal capital structure. Prudent use of debt can lower the firm's overall cost of capital and that debt-use can affect common stock price.
Donaldson (1984)	Companies appear to be trying to maximize corporate wealth as opposed to shareholder wealth.
Mayer (1990)	Two-thirds on the average of investment financing in developed countries are mobilized through internal financing.
Sultz (1990)	Financing policy matters because it reduces the agency costs of managerial discretion.
Allen (1991)	Australian companies appear to follow a pecking order with respect to funding sources and also report policies of maintaining spare debt capacity.
Norton (1991a)	Market conditions, managerial preferences, and perceptions are the key influencing factors of capital structure decision.
Singh and Hamid (1992)	To some extent developing countries' corporations prefer equity to debt financing.
Ang *et al*. (1997)	Bank credits, retained earnings and trade credits are the main sources of financing for publicly traded Indonesian firms.

Donaldson (1984) concludes that the sampled companies appeared to be trying to maximize corporate wealth as opposed to shareholder wealth. This is largely a result of the desire for independence and survival and is a natural corollary to the fact that it is the "quality and quantity of the financial and human resources under management's control that actually support the business mission". The author suggests that the contributing factor to this position is the extent to which managers have learned to mistrust external funding sources because they cannot actually predict and control

capital market conditions. The author further argues that corporate mangers come to believe in the existence of a capital market "window" which opens and shuts at times outside their control.

The study by Mayer (1990) makes the point that two-thirds on the average of investment financing in developed countries like the US, UK, Japan, Germany, France, Italy, Canada and Finland are mobilized through internal financing.

Sultz (1990) analyzes financing policies in a firm owned by atomistic shareholders who observe neither cash flows nor management's investment decisions. He points out that management derives perquisites from investment and invests as much as possible. Since it always claims that cash flow is too low to fund all positive net present value projects, its claim is not credible when cash flow is truly low. Consequently, management is forced to invest too little when cash flow is low and chooses to invest too much when it is high. Financing policies, by influencing the resources under management's control, can reduce the costs of over- and under-investment. He further reports that as the volatility of a given period's cash flow fall, it becomes less likely that resources available to management will differ significantly from the resources shareholders expect management to have. The author concludes that financing policy matters because it reduces the agency costs of managerial discretion.

Allen (1991) investigates into the financial managers' perceptions of the broad determinants of listed Australian company capital structure decisions. The research method involves a series of field interviews undertaken with the company secretaries and senior financial personnel of 48 listed Australian companies. The author concludes that Australian companies appear to follow a pecking order with respect to funding sources and also report policies of maintaining spare debt capacity.

Norton (1991a) suggests that an approach that considers market conditions, managerial preferences, and perceptions as the key influencing factors of capital structure decision is needed. The author reports that, contrary to financial theory, factors dealing with bankruptcy costs, agency costs and information asymmetries play little, if any role in affecting capital stricture policy in smaller firms. It has been

suggested that management perception of a target debt ratio (if any) and notions of the trade-offs involved in external financing will determine whether debt or equity, or neither will be issued. The sum total of these perceptions, beliefs and conditions which influence owners' decision over time will result in the firm's observed capital structure.

Singh and Hamid (1992) observe very different trends in certain developing countries. The contribution of external sources to the financing of net fixed capital formation in the 1980s was around 50 per cent with a significant share coming from the stock market. Government regulations that directly discourage the use of debt by imposing specified limits to debt ratios of firms could explain, to some extent, the preference of developing countries' corporations for equity rather than debt financing.

Ang *et al.* (1997) have investigated into the capital structure and dividend policies of a sample of large publicly traded Indonesian firms. The survey results show that samples firms seem to have good access to different sources of funds, especially from banks and equity market. The authors have pointed out that bank credits, retained earnings and trade credits as the main sources of financing for publicly traded Indonesian firms. They have found some support that the firms operate as if there exists an optimal debt ratio. Their results are consistent with a world of large profitable firms that have good access to major alternative sources of firms, and yet, these firms are willing, for financing at the margin, to use their superiors' information to their advantage.

II. Review of studies during 2000s to date

Major studies on financing practices during the 2000s to date have been summarized in Table 6.2. Graham and Harvey (2001) test the implications of different capital structure theories through a survey of US managers and find that executives rely heavily on practical, informal rules when choosing capital structure. They find that financial managers take into account on flexibility and credit ratings when they issue bonds. On the other hand, dilution effect and recent price increases are taken into consideration during common stock issues. They observe moderate support that firms follow the trade-off theory and target their debt ratios. They also find some support for the pecking-order theory. They find little evidence that other factors including

agency costs, signaling, asset substitution, free cash flow and product market concerns affect capital structure choice. They also report that managers use many informal criteria, such as credit rating and earnings per share dilution, in making their financing decisions.

Table 6.2
Major studies on financing practices during 2000s to date

Study	Major finding
Graham and Harvey (2001)	Managers use many informal criteria, such as credit rating and earnings per share dilution, in making their financing decisions. Firms follow the trade-off theory and target their debt ratios.
Singh (2003)	Emerging countries with reasonably well- developed banking system and equity markets would follow pecking order pattern of finance.
Bancel and Mittoo (2004)	Financial flexibility, credit rating, tax advantage of debt and earnings per share dilution are primary concerns of managers in issuing debt and common stock, respectively.
Brounen *et al.* (2004)	Financial flexibility to be the most important debt determinant but, while consistent with the pecking order theory, this was not driven by asymmetric information.
Isachenkova and Mickiewicz (2004)	Firms with international parent, firms with concentrated ownership, and firms with larger turnover are less constrained in their access to finance. Also industrial group members favor bond issues.
Frielinghaus *et al.* (2005)	Companies prefer more debt in early stages, while they opt for internal sources as the life stages advance. They conclude that this finding favors pecking order theory.
Beattie *et al.* (2006)	Firms are heterogeneous in their capital structure policies. Small and medium sized UK firms do not determine a target leverage ratio but big sized firms that specify a target leverage ratio seems to be larger.
Colombage (2007)	Financial hierarchy, which appears to be the dominant financial policy among listed Sri Lankan companies.
Isa (2008)	Average debt level among Malaysian companies is less than half of the international average.
Jindrichovska and Korner (2008)	Firms prefer retained earnings among internal financing instruments and bank loans and leasing among external financing instruments.
Chazi *et al.* (2010)	Inconclusive with regard to either the information asymmetry pecking-order or the trade-off theories.
Beena (2011)	Corporate sector mobilized large share of resources through external sources. Borrowings are the major sources of external financing.
Karadeniz, Kandır, Iskenderoğlu and Onal (2011)	Significant relationship between firm size and using incentives in financing setup investments. Companies seem to prefer equity and long-term debt in a sequence.
Gill, Mand, Sharma and Mathur (2012)	Small business growth, small business performance, total assets, sales, tax, and family have positive influence on the financial leverage of small business firms in India.
Nor, Ibrahim, Haron, Ibrahim & Alias (2012)	Mixed support for the notion that firms does trade-off costs and benefits to derive an optimal debt ratio. Regard internal funds for financing projects as the most important source of financing.

Singh (2003) argues that emerging countries with reasonably well-developed banking system and equity markets would follow pecking order pattern of finance not only

because of the informational asymmetries but also due to the institutional specificities of emerging markets in particular, the desire to maintain family ownership and control of corporations.

Bancel and Mittoo (2004) have surveyed managers in 16 European countries on the determinants of capital structure, in order to examine whether European and US managers' views on capital structure are driven by similar factors. They have found that financial flexibility, credit rating, tax advantage of debt and earnings per share dilution are primary concerns of managers in issuing debt and common stock, respectively.

Brounen *et al.* (2004) have surveyed 313 CFOs across 4 European countries (the UK, the Netherlands, Germany and France), including 68 from the UK. They have also found financial flexibility to be the most important debt determinant but, while consistent with the pecking order theory, this is not driven by asymmetric information.

A relevant survey in the economies in transition has been conducted by Isachenkova and Mickiewicz (2004). They have found that in Hungary and Poland the firms with international parent, firms with concentrated ownership, and firms with larger turnover are less constrained in their access to finance. Next to it, they have also found that industrial group members favor bond issues and disinvestments in financing of their investment activities.

Frielinghaus *et al*. (2005) have reported that South African companies prefer more debt in early stages, while they opt for internal sources as the life stages advance. They conclude that this finding favors pecking order theory.

A comprehensive survey of corporate financing decision-making in UK listed companies has been reported by Beattie *et al.* (2006). A key finding is that firms are heterogeneous in their capital structure policies. About half of the firms seek to maintain a target debt level is consistent with trade-off theory, but 60% claim to follow a financing hierarchy which is consistent with pecking order theory. They have found that most of the publicly traded small and medium sized UK firms do not

determine a target leverage ratio. On the other hand, the number of big sized firms that specify a target leverage ratio seems to be larger.

Colombage (2007) provides significant evidence from emerging market by investigating capital structure practices among of the Sri Lankan listed companies. The results demonstrate a devotion to a financial hierarchy, which appears to be the dominant financial policy among listed Sri Lankan companies.

By utilizing both market data and survey data from various sources (including other studies in local markets and other countries), Isa (2008) focuses on capital budgeting, capital structure and dividend policies and practices of the Malaysian companies. The study concludes that the average debt level among Malaysian companies is less than half of the international average. This indicates that there is much scope for corporate lending in the banking industry and also much scope for private debt securities in the capital markets.

Jindrichovska and Korner (2008) investigate into the empirical evidence on determinants of financing decisions on the pool of respondents among financial managers of Czech firms. They discover that firms follow pecking order theory for working capital financing. However, the arguments for pecking order theory in investment financing are not strong. They report that firms prefer retained earnings among internal financing instruments and bank loans and leasing among external financing instruments. For IPO, the firms perceive this instrument as less available and costly. However, larger firms perceive it as more available than smaller firms.

A recent survey study by Chazi *et al.* (2010) adapts to an amended Graham and Harvey (2001) survey in six Middle Eastern countries (Bahrain, Kuwait, Oman, Saudi Arabia, Qatar and UAE). They study an extended set of financial decisions through a contrast between Gulf region with North American and European peers. They employ a questionnaire, containing questions on cost of capital, capital budgeting, corporate governance and questions about Islamic financial instruments. Result of their study is inconclusive with regard to either the information asymmetry pecking-order or the trade-off theories, consistent with Graham and Harvey (2001). The results offer mixed support as to which theory better explains the debt-to-equity ratio in the Middle East.

Beena (2011) has analyzed the financing pattern of Indian corporate sector during 1990-2009. The author asserts that Indian private corporate sector mobilized large share of resources through external sources although there is an increasing trend in the share of internal financing since 2000. Borrowings are the major sources of external financing. Share of resources mobilized through capital market has sharply declined since mid-1990s. It is likely that Indian acquiring firms mobilized large funds through external sources although the share of retained profit was quite substantial unlike in the case of the manufacturing sector. The author argues that the pecking order theorem does not seem to be applicable in the case of the Indian manufacturing sector. Further, it is concluded that although stock market development is expected to lower the cost of capital for Indian corporations, it has not played a major role as far as the actual resource mobilization of the Indian manufacturing sector is concerned.

Karadeniz, Kandır, Iskenderoğlu and Onal (2011) critically look at the role of firm size on capital structure decisions of unquoted 163 Turkish lodging companies. The survey results suggest that there is a statistically significant relationship between firm size and using incentives in financing setup investments. Furthermore, they detect a statistically significant relationship between firm size and common stock issues. Likewise, they observe a significant linkage between firm size and personal debt. However, financing preferences for setup investments, ongoing operations and future investments seem to be independent from firm size. Moreover, there is a hierarchical preference for internal sources, debt and common stock issues. This sequential order of financing sources is compatible with pecking order theory. Other findings are also related with the validity of pecking order theory in explaining the capital structures of Turkish lodging companies. This finding supports trade-off theory. Companies could reach money markets more easily; tendency of determining target debt ratios is stronger for bigger companies. Finally, big lodging companies appear to use incentives more heavily than small companies do. This finding necessitates a thoroughly review of incentive policy for tourism industry. Turkish lodging companies seem to prefer equity and long-term debt in a sequence.

Gill, Mand, Sharma and Mathur (2012) examine the factors that influence financial leverage of small business firms in India. Their study surveys small business

owners from Punjab area of India in order to gather information. Subjects are asked about their perceptions, beliefs, and feelings regarding the factors that influence financial leverage of their firms. This study utilizes survey research (a non-experimental field study design). The findings of this study show that small business growth, small business performance, total assets, sales, tax, and family have positive influence on the financial leverage of small business firms in India.

Nor, Ibrahim, Haron, Ibrahim and Alias (2012) have critically looked at the capital structure practices of the Malaysian CFOs by employing a survey analysis on the non-financial listed firms in Malaysia, conducted from November 2010 to March 2011. The 203 usable responses from the Malaysian CFOs have been obtained, thus representing a response rate of 25%. The study's objective is to analytically identify how the capital structure choices are influenced by those who make the decisions in practice. The survey result provides mixed support for the notion that firms does trade-off costs and benefits to derive an optimal debt ratio. From the financing hierarchy point of view, this study finds that Malaysian managers regard the use of internal funds for financing projects as the most important source of financing. This study enriches the literature by discovering the extent to which the capital structure theories are able to explain the corporate financing behavior and practices of Malaysian managers.

III. Concluding remarks

Review of the past studies that employ survey analysis on investigating the capital structure practices indicate inconsistencies in terms of factors considered important by the managers in making debt-equity financing decisions as well as some deviations between the theories and the practices of capital structure. The use of a field research (survey) approach has been prompted by the lack of agreement in the academic literature. This is summarized in a paper by Myers (1984), which concludes that capital structure policy remains a puzzle. It is hoped that a direct appeal to the company officers involved might shed light on which current theory is closure to the truth, at least in the light of management's perceptions. Donaldson (1961, 1969, and 1984) is one of the few researchers to have explored the financial policy area from a management viewpoint. Donaldson and Lorsch (1983) have also explored the financial policy from a management viewpoint particularly decision making practices

at the top level. These results have been published in a series a monographs (1961, 1969, 1983, and 1984).

Modigliani and Miller (1958) point out that the financing and capital structure decisions are not shareholder value enhancing and are deemed to be irrelevant. Sultz (1990) concludes that financing policy matters because it reduces the agency costs of managerial discretion. Graham and Harvey (2001) argue that the relatively low support for these capital structure theories indicates that there is either a problem with the theories or that practitioners are ignoring them. Such discrepancies may also due to the fact that there is no single theory which is good enough and that these theories are complementary rather than competing. This issue raises the need for further exploration and critical analysis on the important factors that influence the corporate financing decisions of the managers. This requires knowledge of the measures that managers' use, the factors that affect the choices made, and the theories that are being applied (explicitly or implicitly, partially or completely) as well as knowledge of those factors and theories that they apparently disregard.

Chazi *et al.* (2010) have also found inconclusive result with regard to either the information asymmetry pecking-order or the trade-off theories in practice. Hence, this study aims to analytically examine how the Nepalese firms determine their overall financing strategy, why they choose a particular mix of financing instruments, and why they choose to limit borrowings or set up spare borrowing capacity. The managers' feedback is crucial in discovering whether the capital structure practices of Nepalese managers are in line with the capital structure theories, specifically the static trade off theory and the pecking order theory.

6.3 Survey procedure

The survey section of this study examines the important factors related to the financing policy and also assesses the opinion of practitioners regarding the influence of financing policy on firm’s value.

6.3.1 Research design

A research design is the overall plan for obtaining answers to the questions being studied and for handling some of the difficulties encountered during the research

process (Polit and Beck, 2004). Research design has been developed to meet the unique requirements of a study. Survey research owes its continuing popularity to its versatility, efficiency, and generalizability. In view of the importance of survey research, this study has adopted survey research design to collect the views of the respondents with regard to corporate financing policy. Using the survey design, the primary data were collected using well-organized questionnaire with the expectation of reducing measurement error by encouraging respondents to answer questions carefully and to participate in the survey.

6.3.2 Population and sampling

The population of this study is consisted of manufacturing and non-manufacturing (hotel and trading) enterprises listed in Nepal Stock Exchange and the sampling frame of this study is the list of all financial executives of these enterprises.

Sampling is a vital part of a survey and if done well the results from the sample can be used to describe the whole study population. It is the process of selecting part of a larger group of participants of the population to represent the entire population with the intent of generalizing the results from the smaller group, called the sample, to the population. In this study stratified random sampling technique has been used for selecting the sample. Stratified random sampling divides the population into homogenous subgroups from which elements are selected at random. The rationale for using stratified random sampling strategy has been to increase precision without increasing cost and reduce sampling errors. Using this sampling strategy the population has been classified into sub-populations (strata) based on industry types: manufacturing and non-manufacturing (hotel and trading). The randomly chosen sample from sub-populations provides data to represent subgroups.

Sample size is an important part of the study design to ensure validity, accuracy, reliability and, scientific and ethical integrity of the study. An inadequate sample size leads to imprecise estimates and a lack of power to detect significant differences between groups. An overestimate of the required sample size leads to a waste of resources to answer the research question. According to ROSCOE (1975), sample size larger than 30 and less than 500 are appropriate for most research. The author asserts

that where samples are to be broken into subsamples, a minimum sample size of 30 for each category is necessary.

The survey method has an impact on response rate. A high rate of response can reduce the possibility of a non-representative sample. According to Babbie (1990), the 60% response rate is regarded as good response rate. Table 6.3 displays the total number of questionnaires distributed and response rate of the survey.

Table 6.3
Questionnaires distributed and response rate

Industry Category	Number of questionnaires distributed	Number of questionnaires returned (actual sample)	Response rate (%)
Manufacturing	198	132	66.67
Non-manufacturing (Hotel & trading)	77	49	63.64
Total	275	181	65.82

In this study, the sample sizes for each stratum (subsamples) are: manufacturing 132 and non-manufacturing 49. The sample sizes chosen are more than a minimum sample size as suggested by ROSCOE (1975). Thus, the sample size seems to be adequate for generalizability of the results. Out of the 275 questionnaires sent to the target the target population, 181, usable responses have been collected. This represents a response rate of 65.82 % which seems good response rate as suggested by Babbie (1990). In this study, the target population has been fairly represented considering that key personnel who are relevant to the study have been reached.

The pre-tested questionnaire were distributed to respondents in the industry category after feedback improved to collect the desired information related to the corporate financing policy, capital structure and firm value. The questionnaires were distributed from February 2013 to May 2013 to practitioners of selected enterprises of the Kathmandu Valley, Biratnagar, Hetaunda, Butwal and other places of Nepal. The other places included were Birgunj, Chitwan, Gorkha, Pokhara, Nawalparasi, Bhairawa and Nepalgunj.

The questionnaires were delivered to the chief executive, general manager, financial managers or treasurers and chief accountant. These individuals were generally more

involved in day to day finance activities and thus, are probably the most appropriate ones to complete the survey. Moreover, as the respondents were of high hierarchical positions in their organizations, the quality of information is expected to be particularly high with a high degree of reliability. Given the quality of response, the high responsibility position of respondents, the reasonable size of the sample in relation to the population, and the fact that the companies were among the largest in the business sector in Nepal, the sample can be deemed to be representative.

6.3.3 Construction, pre-testing and development of questionnaire

Questionnaire is generally regarded as an instrument of a survey. It has been used to collect generalisable information from the executives who have experiences in managing fund in Nepalese enterprises. The questionnaires were constructed to encompass different aspects of corporate financing policy. The questionnaires were prepared in the form of Likert scale requesting the respondents to rate how important these variables are in determining firm's financing policies. The questionnaires were also in the form of ranking alternatives, option choice, close end and as well open end. Respondents were given opportunities to specify other alternatives in the space provided. Respondents were also encouraged to write other relevant comments in the margin of the survey instrument.

The construction of the questionnaire went through several stages. Questionnaire were initially designed and developed using the approach of Scott and Johnson (1982), Allen (1991), Graham and Harvey (2001), Bancel and Mittoo (2004), Chazi *et al.* (2010). In the early stage, the questionnaire was revised several times to ensure that questions related to the concepts being tested are adequate with respect to question flow, usefulness of instructions and readability of the questionnaire.

The questionnaires were running for pre-test at the early part of January 2013 to the fifty (55) financial executives of five listed enterprises of Kathmandu Valley as well as twenty five (25) academicians in financial field for checking efficiency, relevancy and the meaning of the questions. The financial executives selected for pre-test respondents were the chief executive, general manager, financial managers or treasurers, chief accountant and account officers. Academicians selected for pre-test respondents in financial field were lectures and associate professor involved in the

teaching of finance subjects in different campus situated at Kathmandu Valley of Tribhuvan University Nepal. The four main issues of design such as question content, question form, the instrument and procedures were considered while questionnaire pre-testing. The purpose of pre-test was to explore information about the relevancy of questions' items and adjust variables in the appropriate scales and building a completed questionnaire in Nepalese context.

After the five (5) days, the filled up questionnaires were returned for analysis. The filled up questionnaires returned from pre-test respondents were analyzed through qualitative research method. The qualitative analysis procedures identified some misunderstandings, ambiguity, problems with the design and formatting of questions. The questionnaire used for pre-test was found long and complex for answering. The questionnaire, which was the basis for the pre-test, was ten (10) pages long with 61 questions. Based on the qualitative analysis of the responses of pre-tested questionnaire, the refined and finalize versions of the questionnaire were reduced to 6 pages long with 44 questions after necessary adjustments.

Inappropriate, vague, complex and irrelevant questions to Nepalese context were removed from the questionnaire. Altogether 22 questions were removed after the pre-test analysis. The questions removed were in the form like 5 point Likert scale, option choice, and close end as well open end. The basic reason behind removing of these questions from questionnaire was that these were un-answered partially or completely and also misunderstood by the pre-test respondents and found irrelevant for financing policies issues in Nepalese context.

In order to make better question flow and adjust variables in the appropriate scales, some questions were revised and moved to another location for the improvement of questionnaire. The questions that were revised and moved to another location are: questions (as per finalized questionnaire) 9,11,13,17,19,20,27,31, 32,33,35, 36,40 and 43. In total 14 questions were revised and moved to appropriate location to ensure better question flow of the questionnaire. Some fresh questions as considered relevant for the survey purposes were incorporated in the finalized structured questionnaire. The newly incorporated questions were questions (as per finalized questionnaire) 23, 39, 41, 42 and 44. In total 5 questions were newly added in survey

questionnaire. The rest of 25 questions were found appropriate and relevant by pre-test respondents.

The pre-test procedures identified the questions that needed editing and those with ambiguities, need correction and revisions. After the necessary correction, adjustments and addition, a set of questionnaire was developed for survey purpose. The well developed final questionnaires were then printed and distributed to the targeted respondents in the industry category to collect the desired information related to the corporate financing policy, capital structure and firm value.

6.3.4 Verification of non-response bias

Non-response bias test can assure that there is no evidence that non-response has affected the composition of the observed data. The non-response bias in the estimate cannot be quantified or fully corrected, but indicators of the risk of bias can be useful, as reviewed in Wagner (2012) and in Kreuter *et al.* (2010). However, the standard way to test for non-response bias is to compare the responses of those who return the first mailing of a questionnaire to those who return the second mailing. Those who return the second questionnaires are, in effect, a sample of non-respondents (to the first mailing) and assumed that they are representative of that group. In this study, the tests for non-response bias have been scarce, because of the data on non-respondents, which is necessary to conduct the tests, has not been available.

However, using the multiple thresholds of response rates, researchers can observe the presence of non-response bias. A 50% response rate is generally regarded as acceptable, 60% is regarded as good and a 70% response rate is usually regarded as very good (Babbie,1990). The response rate in this study was 65.82% which seems good response rate as suggested by Babbie (1990). Thus, there is no presence of non-response bias in this study.

6.3.5 Data analysis method

Under the analysis of results, descriptive statistics like percentage, mean, standard deviation etc. have been calculated. The Chi-square test has been performed to report whether the views for manufacturing and non-manufacturing respondents are independent or similar. It is based on a computed Chi-square value and reported p-

value as shown by SPSS 16 version. Spearman rank correlation has been used to test the association between two ranked variables. It is used when there are two ranked variables, and researcher wants to see whether the two variables covary; whether, as one variable increases, the other variable tends to increase or decrease. Using the Spearman rank correlation, the differences between manufacturing and non-manufacturing (hotel & trading) respondents about the preference (rank) of financing issues/ variables have been computed.

Moreover, Independent-Samples t-Test has also been used in the study to analyze the rank order responses. It compares the mean scores of two groups on a given variable. The t-test results are reported twice (i.e. "Equal variances assumed" and "Equal variances not assumed"). Whether the assumption of equal variances holds is evaluated using Levene's test for the equality of variances. The researcher should look at the number under "Sig." for "Levene's Test for Equality of Variances". As a rule of thumb, if Sig.>.05, researcher should use the t-value for the "Equal variances assumed" row (the top row). Reversely, if its p-value ("Sig.") < .05, one should reject the null hypothesis of equal variances and use at the t-value for the "Equal variances not assumed" row (the bottom row).

After selecting appropriate variances ("Equal variances assumed" and "Equal variances not assumed"), researcher should look at t-test for Equality of Means-especially under the "Sig. (2-tailed)" column at the appropriate number based on the Levene's Test. If the Sig. is less than .05 then the statistic is considered to be significant (meaning that the researcher can be 95% confident that the difference between the means of the two groups is not due to chance). Reversely, if the Sig. value is greater than .05 (Sig.>.05), researcher can say that there is not a significant difference between two group means. In this study the Independent-Samples t-Test typically less than .05 indicates that there is a significant difference between the two group (manufacturing and non-manufacturing responses) means.

6.3.6 Reliability and validity

Reliability involves the consistency, or reproducibility, of test scores. Consistency is the main measure of reliability and most popular method of testing for internal consistency in the behavioural sciences is Cronbach's alpha. According to George

and Malley (2003), the minimum acceptable score of Cronbatch's alpha is 0.7. Reliability test using Cronbatch's alpha only indicates if the items hang together; it does not determine if they are measuring attribute. Reliability is a necessary condition for validity.

Validity refers to the degree to which a survey instrument actually measures what it purports to measure. The focus of the validity is not necessarily on score or items, but rather inferences made from the instrument. To make survey instrument more effective, scales should be judged on their content and construct validity. Content validation refers to the extent to which a question appropriately assesses the characteristics it is intended to measure (Fink, 2003). To perform this content validity, a pre-test of the questionnaire was conducted. The purpose was to make sure that the questions were understood in the context of the survey design. A consistent mapping of a question to the wrong factor would have indicated a problem with the question content or wording. After the pre-test of the questionnaire, several wording modification suggestions were collected and incorporated in the final survey.

Construct validity addresses how well an assessment technique provides useful information about the construct/target. It refers to the degree to which inferences can legitimately be made from the operationalizations in the study to the theoretical constructs on which those operationalizations were based. It involves theory and the relationship of data to theory. In the same token, survey instrument for this study were constructed based on relevant theory as well as past empirical evidences and then developed to fit to Nepalese context. Thus, the information drawn from the financial executives using well structured questionnaire is considered to be valid and the survey procedure measured all the major facets of financing policies of Nepalese enterprises.

6.4 Survey results

For the presentation and analysis of primary information, this section is divided into four sub-sections: the first describes the respondents' profile. The second reports reliability statistics and the third presents the survey results of the financing policies and practices in Nepalese enterprises. Finally, the fourth draws the overall discussion together in a general conclusion.

I. Reliability statistics

In this study, reliability test has been conducted using Cronbach's alpha. It is the average value of the reliability coefficient where one could obtain for all possible combinations of items.

Table 6.4
Reliability statistics

Question No.	Cronbach's Alpha	N of Items (Factors)
11	.809	12
13	.783	7
16	.749	6
17	.871	9
19	.828	7
20	.861	11
26	.806	6
27	.836	8
28	.811	5
31	.782	7

The test of the reliability of the questionnaire is necessity to check whether the questionnaire is consistent and suitable for statistical analysis or not. Cronbach's alpha has been calculated using SPSS 16.0 to test for internal consistency reliability only for the five point Likert scale questions among questionnaire of this study. Table 6.4 describes the reliability statistics of the responses. Table 6.4 shows that Cronbach's Alpha ranges from Minimum .749 to maximum .871 which is greater than the range of acceptance (α =0.70). Thus, collected data were reliable and feasible for further statistical testing.

II. Profile of respondent

Table 6.5 Panel-A, presents the characteristics of the respondent firms shows the respondents' profile such as location, title, age, education, and experience and industry representation. The survey produced total 181 usable responses, at 65.82 percent response rate. It is observed from the table that majority of the persons

responding to the survey 53 percent belong to Kathmandu Valley which includes Kathmandu, Latitpur and Bhaktapur. The remaining respondents represent from Biratnager 15 percent, Hetaunda 12 percent, Butwal 11 percent and from other different places of nation 9 percent. The basic reason behind this selection is that most of the renowned manufacturing, hotel and trading companies are concentrated in these areas. As indicated by Table 6.5 Panel-A the majority of the respondents were chief financial officer/financial manager 53 percent, and it is followed by Chief Accountant/Account officer 28 percent and thereafter CEO/ Director 19 percent.

Table 6.5 Panel -A
Respondents' profile and industry representation

Parameters	Classification	No. of respondents	Percentage
Location	Kathmandu Valley	96	53
	Biratnagar	27	15
	Hetauda	22	12
	Butwal	20	11
	Others[a]	16	9
	Total	**181**	**100**
Designation	CEO/Director	34	19
	CFO/Financial Manager	96	53
	Chief Accountant/ Account officer	51	28
	Total	**181**	**100**
Age	Below 30	45	25
	30- 45	103	57
	Above 45	33	18
	Total	**181**	**100**
Education/Qualification	Intermediate	47	26
	Bachelor	103	57
	Master Degree	31	17
	Total	**181**	**100**
Experience	Below 10 years	62	34
	10 to 20 years	72	40
	Above 20 years	47	26
	Total	**181**	**100**
Industry representation	Manufacturing	132	73
	Hotel & Trading	49	27
	Total	**181**	**100**

Source: Survey Questionnaire

[a.] The others respondents include from Birgunj 4, Chitwan 1, Gorkha 1, Pokhara 4 Nawalparasi 1, Bhairawa 2, and Nepalgunj 3.

The information was also collected on the characteristics of the Chief Financial Executives (CEOs) of the respondent firms. About 57 percent of the respondents were between 30 to 45 years of age category and the 25 percent respondents were below the age of 30. The rest 18 percent of the respondents were above the age of 45. The

CEOs of the sample firms were also well educated; about 57 percent had a Bachelor degree and about 26 percent had a Intermediate certificate and the rest 17 percent had a Master Degree. As regards to the respondents' experiences, about 40 percent of them had 10 to 20 years experiences, about 34 percent of them had below 10 years experiences, while 26 percent had more than 20 years experiences.

Table 6.5 Panel-A, also presents the characteristics of the respondent firms. The total respondents were 181; out of which 132 respondents were from manufacturing and rest 49 were from non-manufacturing (hotel and trading) companies. The majority of the respondents were from manufacturing sectors 73 percent and the rest 27 percent from hotel and trading companies.

Table 6.5 Panel-B
Respondents' profile detailed by employees, sales revenues and total assets

Parameters	Classification	No. of respondents	Percentage
No. of Employees	Below 200 employees	90	50
	200 to 400 employees	78	43
	Above 400 employees	13	7
	Total	**181**	**100**
Sales Revenues (last fiscal year)	Below 300 Millions (Rs)	83	46
	300 Million to 600 Millions (Rs.)	64	35
	Above 600 Millions (Rs.)	34	19
	Total	**181**	**100**
Total assets (last fiscal year)	Below 250 Millions (Rs)	37	20
	250 Million to 500 Millions (Rs.)	119	66
	Above 500 Millions (Rs.)	25	14
	Total	**181**	**100**

Source: Survey Questionnaire

Table 6.5 Panel-B presents the characteristics of employees, sales revenues and total assets. As regard to the total employee 50 percent of the responding firms had below 200 employees. It was followed by 43 percent responding firms had 200 to 400 employees, while 7 percent responding firms had employees above 400.

A large proportion of the respondents (46 percent) had sales below Rs.300 millions and the 35 percent of responding firms had sales Rs. 300 millions to 600 millions. The rest 19 percent firms had sales over Rs. 600 millions. About 66 percent of respondent firms had total assets in between Rs 250 million to Rs.500 million. The other 20 percent responding firms had total assets below Rs. 250 million. The rest 14 percent firms had total assets over Rs. 500 million.

III. Analysis of survey

This section explains the survey results of the corporate financing decisions and practices of the Nepalese managers. The results of the opinion survey on the various issues on the financing policies and practices in Nepalese companies are analyzed, presented and discussed.

1. Financing policies practiced by companies

The question relating to this study was about the financing policies practiced by companies. For this question; formal, informal and no policy options were given. Table 6.6 exhibits that majority (54.1 percent) of the sample firms have formal financing policies. About 13.8 percent of the responding had reported have no financing policy. Table 6.6 demonstrates that the Chi-square value is 15.002 and its p-value is 0.001 which shows the result is significant at 1 percent level of significance. It indicates that there is a significant difference between two groups of companies with respect to their financing policies practiced.

Table 6.6
Financing policies practiced by Nepalese companies (Q.1)

This table shows the responses on "what kinds of financing policies you have practiced in your enterprise?" Categorization of respondents is presented in columns and the types of policy are presented in rows. Chi-square value is also provided in the last column of the table.

Policy	Manufacturing		Hotel & Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Formal Policy	83	62.9	15	30.6	98	54.1	15.002[a] (0.001*)
Informal Policy	34	25.8	24	49.0	58	32.0	
No Policy	15	11.4	10	20.4	25	13.8	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire **Significant at 1%*

a. 0 cells (0%) have expected count less than 5. The minimum expected count is 6.77.

2. Financing policies setters

The second question relating with this study was about "who sets the financing policy in your enterprise?". Table 6.7 reflects that majority of respondents report that financing policy setters are Board of Directors (56.4 percent) and is followed by President/ Managing director (15.5 percent). The important financing policy setters are the General Manager (12.2 percent). In this part Spearman correlation has been calculated to point the rank correlation. The rank correlation coefficient is 0.90. The correlation coefficient of 0.90 indicates that the ranking is highly correlated between the manufacturing and non-manufacturing (i.e. hotel and trading) responses. It means there is no difference between manufacturing and hotel & trading companies about financing policies setters.

Table 6.7
Financing policies setters in Nepalese companies (Q.2)

This table shows the responses on "who sets the financing policy in your enterprise?" Categorization of respondents is presented in columns and the status or position is presented in rows. Chi-square value is also provided in the last column of the table.

	Manufacturing			Hotel & Trading			Total Respondents			Cor.(r_s)
Position	**Number**	**Percentage**	**Rank**	**Number**	**Percentage**	**Rank**	**Number**	**Percentage**	**Rank**	
Board of Directors	81	61.4	1	21	42.9	1	102	56.4	1	0.90[a]
President/ Managing director	21	15.9	2	7	14.3	3	28	15.5	2	
General Manager	12	9.1	3	10	20.4	2	22	12.2	3	
Vice President/ Finance Manager	11	8.3	4	6	12.2	4	17	9.4	4	
Others	7	5.3	5	5	10.2	5	12	6.6	5	
Total	132	100		49	100		181	100		

a. Ranking is highly correlated between manufacturing and hotel& trading.
Source: Survey Questionnaire

3. Influencing parties in setting financial structure

The survey participants were asked to rank several possible influences on their target leverage ratios (question 3). Table 6.8 displays a composite ranking statistic. This item is a weighted average rank for each category (influence) listed in the question. It was derived from all responses to the question and varies inversely with importance of use. That is, the smaller the composite rank measure, the more important the influence on the setting of target leverage ratios. The most important influence is the firm's own management group and staff of analysts. This item accounted for 1.62

weighted average mean. Of the responses ranked number two in importance, commercial bankers dominated the outcomes and accounted for 2.72 mean of such replies. Inspection of the composite ranking statistics shows that trade creditors, and comparison with ratios of industry competitors also have some impact on the determination of leverage targets. Investment bankers, security analysts and trade creditors have only a minimal effect on the development of these targets.

Table 6.8
Influencing parties in setting target financial structure ratios (Q.3)

This table contains the relative importance of capital structure model inputs and/or assumptions in governing financing decisions of Nepalese sample firms (the most important with a 1, next most important with a 2, etc.).

Type of Influence	All Sample (n=181)			Manufacturing (n=132)		Hotel &Trading (n=49)		Levene's Test for Equality of Variances		t-test for Equality of Means		
	Mean	S.D.	Rank	Mean	S.D.	Mean	S.D.	F-value	Sig.	t-value	df	p-value
Our own management and staff of analysts	1.62	1.11	1	1.85	1.23	1.00	0.00	108.487	0.000	7.950*	131.00	0.000
Investment bankers	4.87	1.65	5	4.39	1.53	6.16	1.21	23.029	0.000	-8.089*	107.78	0.000
Commercial bankers	2.72	1.23	2	2.79	1.40	2.55	0.54	122.629	0.000	1.637	178.68	0.103
Trade creditors	3.19	0.94	3	3.05	1.02	3.57	0.54	15.925	0.000	-4.404*	158.00	0.000
Outside security analysts	5.29	1.49	6	5.58	1.61	4.49	0.62	16.541	0.000	6.603*	178.80	0.000
Comparison with ratio of industry competitors	4.12	1.75	4	4.27	1.75	3.71	1.68	0.258	0.612	1.925	179	0.056
Others	6.18	1.13	7	6.06	1.27	6.51	0.51	117.448	0.000	-3.416*	178.05	0.001

Source: Survey Questionnaire **Significant at 1% , **Significant at 5%*

Table 6.8 also shows the t-statistic at the appropriate number based on the Levene's Test for Equality of variances. A low significant value for t-test (typically p-value less than 0.05) indicates the significant difference between the two group means. Hence,

except for commercial bankers and comparison with ratio of industry competitors, there is a significant difference between the manufacturing and hotel & trading companies about influencing parties in setting target financial structure ratios.

4. Methods for describing financing policies

In order to describe the financing policies of Nepalese companies, five alternatives were given to the respondents: risk avoiding, risk accepting, situational, changes over time and other. In this question, situational is highly ranked 101 respondents out of total 181 (55.8%) and it was followed by risk avoiding (30 responses). The third rank was given to the changes over time and few companies were ranked to the risk accepting and other. The negative Spearman correlation (r_s = -0.10) is found between manufacturing and hotel & trading companies about methods for describing financing policies in Nepalese companies. Table 6.9 indicates that the ranking about the methods for describing financing policies slightly differ between manufacturing companies and hotel & trading companies.

Table 6.9
Methods for describing financing policies in Nepalese companies (Q.4)

This table shows the responses on "how would you describe financing policy in your enterprise?" Categorization of respondents is presented in columns and the methods for describing financing policies is shown in rows Chi-square value is also provided in the last column of the table.

Methods	Manufacturing			Hotel & Trading			Total Respondents			Cor.(rs)
	Number	Percentage	Rank	Number	Percentage	Rank	Number	Percentage	Rank	
Risk avoiding	7	5.3	5	23	46.9	1	30	16.6	2	-0.10
Risk accepting	11	8.3	3	7	14.3	3	18	9.9	4	
Situational	93	70.5	1	8	16.3	2	101	55.8	1	
Changes over time	13	9.8	2	6	12.2	4	19	10.5	3	
Other	8	6.1	4	5	10.2	5	13	7.2	5	
Total	132	100		49	100		181	100		

Source: Survey Questionnaire

5. Tax issues in financing decisions

Table 6.10 shows the responses one of the query that does tax issues have a major influence on your financing decisions (question5). About 100 (55.2%) of the respondents agreed that tax issues have a major influence on their financing decisions and 62 (34.3%) of them were showed their disagreement and 19 (10.5%) were unsure.

The result indicates that majority of the Nepalese firms do regard the tax issues in designing their capital structure and financing decision. The Chi-square value is found insignificant and demonstrates that the types of responses do not deviate substantially from the expected values between manufacturing and Hotel & trading companies. Further it indicates that there is no difference between manufacturing and hotel & trading Companies in Nepal about the tax issues related to financing decisions.

Table 6.10
Tax issues have a major influence on financing decisions (Q.5)

This table shows the responses on "do tax issues have a major influence on your financing decisions?" Categorization of respondents is presented in columns and the response is presented in rows. Chi-square value is also provided in the last column of the table.

Response	Manufacturing		Hotel & Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Yes	76	57.6	24	49.0	100	55.2	2.657a (0.265)
No	45	34.1	17	34.7	62	34.3	
Unsure	11	8.3	8	16.3	19	10.5	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire
a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 5.14.

6. Spare debt capacity

Financial executives were also asked that whether they are following a policy of maintaining spare debt capacity or not. Table 6.11 displays the only 64 (35.4%) respondents answered that they have a policy of maintaining spare debt capacity. The majority or 97 (53.6%) respondents answered that they have no such policy. The 20

Table 6.11
A policy of maintaining spare debt capacity in Nepalese companies (Q.6)

This table shows the responses on "do you have a policy of maintaining spare debt capacity?" Categorization of respondents is presented in columns and the response is presented in rows. Chi-square value is also provided in the last column of the table.

Response	Manufacturing		Hotel & Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Yes	31	23.5	33	67.3	64	35.4	42.069* (0.000)
No	90	68.2	7	14.3	97	53.6	
Unsure	11	8.3	9	18.4	20	11.0	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire **Significant at 1%*

(11%) respondents answered that they were unsure on that matter. The significant chi-square value (p-value = 0.000) indicates that there is significant difference

between manufacturing and hotel & trading companies with respect to the policy of maintaining spare debt capacity.

7. Borrowing interest rate

One question asked to the respondents was whether they could borrow more at the same interest rate. The results have been shown in Table 6.12. The 75 (41.4%) respondents indicated that they could borrow more at the same interest rate. The majority of the respondents (i.e. 79 participants or 43.6%) explicitly stated that they could not borrow more at the same interest rate. The 27 (14.9%) respondents answered that they were unsure on the borrowing more at the same interest rate. Since chi-square value is significant at 5 percent level of significance (p-value = 0.046), it indicates that there is significant difference between manufacturing and hotel & trading companies with respect to the borrowing more at the same interest rate.

Table 6.12
Borrowing more at the same interest rate in Nepalese companies (Q.7)

This table shows the responses on "could you borrow more at the same interest rate?" Categorization of respondents is presented in columns and the types of response are presented in rows. Chi-square value is also provided in the last column of the table.

Response	Manufacturing		Hotel & Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Yes	62	47.0	13	26.5	75	41.4	6.159** (0.046)
No	52	39.4	27	55.1	79	43.6	
Unsure	18	13.6	9	18.4	27	14.9	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire ***Significant at 5%*

8. Off-balance sheet financing techniques

The survey participants were asked that do you make use of off-balance sheet financing techniques. The result is depicted in Table 6.13. The 82 (45.3%) respondents reported that their firm make use the of off-balance sheet financing techniques. The other 76 (42.0%) respondents answered that they do not make use of off-balance sheet financing techniques. Only 23(12.7%) respondents reported that they were unsure on that matter. Significant Chi-square value (p-value = 0.001) indicates that there is significant difference between manufacturing and hotel & trading companies with respect to the use of off-balance sheet financing techniques.

Table 6.13
Use of off-balance sheet financing techniques in Nepalese companies (Q.8)

This table shows the responses on "do you make use of off-balance sheet financing techniques?" Categorization of respondents is presented in columns and types of response are presented in rows. Chi-square value is also provided in the last column of the table.

Response	Manufacturing		Hotel & Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Yes	71	53.8	11	22.4	82	45.3	14.172* (0.001)
No	47	35.6	29	59.2	76	42.0	
Unsure	14	10.6	9	18.4	23	12.7	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire **Significant at 1%*

9. Industry norm for financing decision

Table 6.14 shows the responses of industry norm for financing decision. In the response of the query that do you see your borrowing in industry terms, 52.5% of 181 respondents answered in the affirmative to the question. The 22.1% respondents could not see their borrowing in industry terms. It seems that majority of the sample companies follow borrowings practices in line with industry terms. About 25.4% respondents were unsure on that matter. Chi-square value (p-value = 0.000) indicates that there is significant difference between manufacturing and hotel & trading companies with respect to the use of industry norm for making financing decision.

Table 6.14
Industry norm ever used for financing decision in Nepalese companies (Q.9)

This table shows the responses on "is the concept of an industry norm (standard debt ratios for similar lines of business as your own) ever used by your firm in arriving at a financing decision?" Categorization of respondents is presented in columns and types of responses are presented in rows. Chi-square value is also provided in the last column of the table.

Response	Manufacturing		Hotel & Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Yes	85	64.4	10	20.4	95	52.5	31.252* (0.000)
No	18	13.6	22	44.9	40	22.1	
Unsure	29	22.0	17	34.7	46	25.4	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire **Significant at 1%*

10. Financial Leverage Measures

The relative extent to which the many leverage measures are employed in industry, however, is not generally known. So the financial executives were asked to rank a series of familiar leverage measures in order of importance in their firm's financing-

decision procedures (question 10). The information from these responses is presented in Table 6.15. The composite ranking statistics for each measure are displayed in Table 6.15. The composite ranking statistic ranks total liabilities divided by total assets first in importance, long term debt divided by total assets second, and long term debt divided by net worth third in preference. Among alternatives leverage measures total liabilities divided by total assets (debt ratio) was considered most important in these firms' financing decision procedures.

Table 6.15
Financial leverage measures used in Nepalese companies (Q.10)

Measures	All Sample (n=181)			Manufacturing (n=132)		Hotel &Trading (n=49)		Levene's Test for Equality of Variances		t-test for Equality of Means		
	Mean	S.D.	Rank	Mean	S.D.	Mean	S.D.	F-value	Sig.	t-value	df	p-value
Total liabilities divided by total assets	2.43	2.52	1	2.73	2.84	1.61	0.93	74.29	0.000	3.97	177	0.000
Long term debt divided by total debt plus net worth	5.01	2.28	6	4.71	2.26	5.80	2.18	1.68	0.197	-2.89	179	0.004
Common equity divided by total assets	4.73	1.91	4	5.20	2.02	3.47	0.62	127.52	0.000	8.79	175	0.000
Long term debt divided by total assets	3.73	1.22	2	3.80	1.12	3.57	1.47	30.57	0.000	0.97	70	0.337
Long term debt divided by net worth	4.31	2.45	3	4.26	1.97	4.47	3.45	102.57	0.000	-0.41	60	0.686
EBIT divided by total interest expense	5.59	1.42	7	5.62	1.62	5.49	0.62	25.71	0.000	0.79	179	0.431
EBIT divided by interest expense plus the before tax equivalent of preferred dividend payment	5.81	2.53	8	5.55	2.90	6.51	0.55	70.84	0.000	-3.62	153	0.000
EBIT plus rent expense plus depreciation expense divided by interest expense plus the before tax equivalent of preferred payment plus rent expense	4.85	2.42	5	4.76	2.52	5.10	2.15	14.40	0.000	-0.91	100	0.364
Others	8.38	0.91	9	8.16	0.98	8.98	0.14	52.91	0.000	-9.36	145	0.000

*Source: Survey Questionnaire *Significant at 1% **Significant at 5%*

The survey result is somewhat surprising that the times-interest ratio was less emphasized by the Nepalese financial executives. Though common equity ratio

gained some preference (i.e. fourth in preference) in their firm's financing decision. The rest of the financial leverage measures were less emphasized by the respondents.

Table 6.15 also shows the t-statistic at the appropriate number based on the Levene's Test for Equality of variances. The significance level of Levene's Test for Equality of Variances decides whether to choose the top row or the bottom row. If it (significance) is less than 0.05, than one should choose the t-value for Equal variances not assumed (the bottom row). If the significance is 0.05 or greater than the t-value for the Equal variances assumed row (the top row) should be used. For leverage measures shown in Table 6.15 except long term debt divided by total debt plus net worth, bottom rows have been chosen to use the t-value. A low significant value for t-test (typically p-value less than 0.05) indicates the significant difference between the two group means. Hence, for five measures out of nine such as: Total liabilities divided by total assets, Long term debt divided by total debt plus net worth, Common equity divided by total assets, EBIT divided by interest expense plus the before tax equivalent of preferred dividend payment, and Others; there is a significant difference between the manufacturing and hotel & trading companies about the financial Leverage Measures used. Since p-value is less than 0.05 for these options, the statistic is considered to be significant and meaning is that one can be 95% confident that the difference between the means of the two groups is not due to chance.

11. Factors governing firms' financing decisions

Respondents were also asked to indicate the relative importance of various factors in governing financing decisions of their firms (question 11). Financial executives' relative disinclination toward capital structure theory, in general, is further reflected in their rankings of twelve factors are summarized in Table 6.16. The median value of composite mean is 2.775. Six of the twelve factors there have mean ranks higher than 2.775. The other six factors have mean rank lower than 2.775. The respondents have indicated rank first for 'projected cash flow or earnings from the assets to be financed' and ranked second for 'financial flexibility' and 'riskiness of the assets to be financed' is ranked third. They have reported lowest order in relative importance for 'others'. The survey results indicate that Nepalese enterprises pay more importance in 'projected cash flow or earnings from the assets to be financed' and 'financial flexibility' in governing financial decisions.

Table 6.16
Factors governing firms' financing decisions in Nepalese companies (Q.11)

This table contains the relative importance of capital structure model inputs and/or assumptions in governing financing decisions of Nepalese sample firms (on a scale of 1 to 5, where 1 = Unimportant and 5 = Important). Means are calculated by assigning scores of 1 through 5 for rankings from "unimportant" to "important", respectively, and by multiplying each score by the fraction of responses within each rank. A score of o is assigned when a source is not ranked.

Factors	All Sample (n=181)			Manufacturing (n=132)		Hotel &Trading (n=49)		Levene's Test for Equality of Variances		t-test for Equality of Means		
	Mean	S.D.	Rank	Mean	S.D.	Mean	S.D.	F-value	Sig.	t-value	df	p-value
Maximizing price of publicly traded securities	2.61	1.35	7	2.11	1.25	3.96	0.20	59.20	0.000	-16.46	148	0.000
Financial flexibility	4.20	0.69	2	4.08	0.71	4.53	0.50	0.44	0.507	-4.04	179	0.000
Cost of bankruptcy	2.18	1.19	9	2.08	1.33	2.43	0.61	79.36	0.000	-2.38	171	0.019
Restrictive covenants of senior securities	1.90	0.97	10	2.04	1.07	1.51	0.51	18.00	0.000	4.49	169	0.000
Projected cash flow or earnings from the assets to financed	4.42	0.99	1	4.42	1.09	4.43	0.65	10.65	0.001	-0.09	144	0.928
Riskiness of the assets to be financed	3.87	1.16	3	3.64	1.24	4.47	0.54	15.79	0.000	-6.20	174	0.000
Avoiding dilution of common shareholders claims	2.32	1.35	8	2.07	1.36	3.00	1.10	5.85	0.017	-4.75	105	0.000
Company credit rating	2.94	1.21	6	2.73	1.30	3.51	0.65	23.74	0.000	-5.36	164	0.000
Transaction costs	3.64	0.89	4	3.71	0.95	3.43	0.68	9.27	0.003	2.23	120	0.027
Personal tax rates of your debt and equity holders	1.88	1.15	11	1.64	0.91	2.51	1.47	72.04	0.000	-3.85	62	0.000
Maintaining comparability with a firms in the industry	3.45	1.13	5	3.80	1.09	2.51	0.58	7.81	0.006	10.27	157	0.000
Others	1.82	1.18	12	1.92	1.31	1.55	0.65	39.36	0.000	2.54	165	0.012

Source: Survey Questionnaire **Significant at 1%* ***Significant at 5%*

The t-statistic based on the Levene's Test for Equality of variances has been displayed in Table 6.16. The p-value of the t-statistic evidenced that most of the factors are significant at 5% level of significance. Hence, except 'projected cash flow or earnings from the assets to financed', for factors governing firms' financing decisions that there is significant difference between manufacturing and hotel & trading companies.

12. Short-, medium- or long –term funding sources

The next question was intended to investigate whether there was a current preference for a particular maturity structure in borrowings. The results are also shown in Table 6.17. As the respondents suggest, attitudes varied considerably but a number of common themes were apparent. Respondents had shown their first ranking on short (up to 1 year) and the second rank on long (>5 years) maturity funding sources. The third rank was put to the 'term does not matter'. The respondents have given last

rank on 'policy of matching assets and liabilities'. The low positive Spearman rank correlation ($r_s = 0.19$) is found between manufacturing and hotel & trading companies about preferences for short-, medium- or long –term funding sources. It indicates that the manufacturing and hotel & trading companies are not significantly different about the preferences for short-, medium- or long-term funding sources.

Table 6.17
Preferences for short-, medium-, or long-term funding sources in Nepalese companies (Q.12)

Methods	Manufacturing			Hotel & Trading			Total Respondents			Cor. (r_s)
	Number	Percentage	Rank	Number	Percentage	Rank	Number	Percentage	Rank	
Short (up to 1 year)	52	39.40	1	7	14.30	3	59	32.60	1	0.19
Medium/Short (up to 3 years)	7	5.30	7	9	18.40	2	16	8.80	4	
Medium (up to 5 years)	9	6.80	5	6	12.20	4	15	8.30	5	
Long (>5 years)	17	12.90	3	13	26.50	1	30	16.60	2	
Policy of matching assets and liabilities	5	3.80	8	4	8.20	6	9	5.00	7	
Term does not matter	24	18.20	2	3	6.10	7	27	14.90	3	
Depends on interest rates	10	7.60	4	5	10.20	5	15	8.30	5	
A balance of short/medium/long	8	6.10	6	2	4.10	8	10	5.50	6	
Total	132	100		49	100		181	100		

Source: Survey Questionnaire

13. Sources of long-term funds for new investment

In another query, financial executives of sample firms were asked to rank the long-term source of funds in order of preference for financing new investments (question 13). Rankings of seven sources of long-term funds by respondents are summarized in Table 6.18. For each source, the mean, standard deviation, and rankings are given. Higher means imply higher preferences.

As indicated, respondents ranked 1 for 'long-term debt' with a mean rank of 4.39 as their first choice. 'Internal equity' was ranked second by the respondents with a mean rank of 3.52, third rank was assigned to 'external common equity' with a mean of 2.59 and straight preferred stock was chosen in next order (2.15). Convertible debt was ranked in lower order than the external common equity and straight preferred stock, even though to some extent Nepalese firms follow the pecking order hypothesis. This result implies that 'long-term debt' was mostly favored and

'convertible debt was found unpopular in responding firms as a source of long-term fund.

The t-statistic based on the 'Levene's Test for Equality of Variances' has been displayed in Table 6.18. The p-value of the t-statistic evidenced that all the factors except 'external common equity' are significant at 5% level of significance. Hence, there is significant difference between manufacturing and hotel & trading companies in respect of preference (choice) for sources of long-term funds for financing new investments.

Table 6.18

Sources of long–term funds in order of preference for financing new investments (Q.13)

This table contains the sources of long –term funds in order of preference for financing new investments of Nepalese sample firms (on a scale of 1 to 5, where 1 = Not important and 5 = Important). Means are calculated by assigning scores of 1 through 5 for rankings from "Not important" to "Important", respectively, and by multiplying each score by the fraction of responses within each rank. A score of o is assigned when a source is not ranked.

Factors	All Sample (n=181)			Manufacturing (n=132)		Hotel &Trading (n=49)		Levene's Test for Equality of Variances		t-test for Equality of Means		
	Mean	S.D.	Rank	Mean	S.D.	Mean	S.D.	F-value	Sig.	t-value	df	p-value
Internal equity	3.52	1.55	2	4.07	1.30	2.06	1.16	0.11	0.742	9.47	179	0.000
External common equity	2.59	1.41	3	2.7	1.37	2.27	1.48	0.03	0.869	1.88	179	0.062
Long-term debt	4.39	1.23	1	4.19	1.34	4.92	0.57	33.23	0.000	-5.11	176	0.000
Convertible debt	1.33	0.68	7	1.4	0.70	1.14	0.61	17.99	0.000	2.43	97	0.017
Straight preferred stock	2.15	1.51	4	2.44	1.56	1.37	1.04	47.53	0.000	5.34	129	0.000
Convertible preference stock	1.49	0.99	6	1.61	1.05	1.16	0.72	22.12	0.000	3.23	125	0.002
Others	2.05	1.19	5	1.84	1.14	2.61	1.13	0.97	0.327	-4.06	179	0.000

*Source: Survey Questionnaire *Significant at 1% **Significant at 5%*

14. Financing with equity issues

One question was included to explore the factors which might companies to make equity issue. The result is shown in Table 6.19. One major circumstance emerged as being likely to trigger an equity issue. It was, to fund a major expansion; about 52.5% of the 181 firms gave the clear answer, said they would make issues for this purpose and it is followed by to reduce leverage if market conditions right (19.3 percent) and thereafter to make an acquisition (13.3 percent). The Chi-square value which is significant at 1 percent level of significance indicates that there is dereference between manufacturing and hotel & trading companies about circumstances making an equity issue.

Table 6.19
Circumstances making equity issue (Q.14)

Methods	Manufacturing		Hotel & Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
To fund a major expansion	82	62.1	13	26.5	95	52.5	33.204* (0.000)
To make an acquisition	9	6.8	15	30.6	24	13.3	
If market conditions is right	6	4.5	6	12.2	12	6.6	
To reduce leverage if market conditions right	28	21.2	7	14.3	35	19.3	
Avoid it	7	5.3	8	16.3	15	8.3	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire **Significant at 1%*

15. Financing with debt issues

One question asked was 'under what circumstances would make a debt issue'. Table 6.20 displays that the majority of respondents (37.0 percent) answered that they were much more likely to fund a major expansion and it is followed by to add to liquidity (22.7 percent) and thereafter 'if market conditions right' (12.7 percent). Very few respondents (7.2 percent) answered that their firms would make a debt issue to make an acquisition. The chi-square value which is significant at 1 percent level of significance indicates that there is difference between manufacturing and hotel & trading companies about the circumstances making a debt issue.

Table 6.20
Circumstances making a debt issue (Q.15)

Methods	Manufacturing		Hotel & Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
To fund a major expansion	59	44.7	8	16.3	67	37.0	35.304* (0.000)
To make an acquisition	8	6.1	5	10.2	13	7.2	
To add to liquidity	35	26.5	6	12.2	41	22.7	
If market conditions right	7	5.3	16	32.7	23	12.7	
To fund a long-term asset if market conditions right	13	9.8	9	18.4	22	12.1	
Avoid it	10	7.6	5	10.2	15	8.3	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire **Significant at 1%*

16. Choice between short-term and long-term debts

With respect to factors affecting firm's choice between short-term and long term debts, first priority is given for 'we except our rating to improve so we borrow short- term until it does', The second priority to 'matching the maturity of debt with the life of assets', the third priority to 'borrow short-term reduces the chance that our firm will want to take on risky projects'. Among the factors displayed in Table 6.21 last priority is given for long -term market rate to decline. The results point out that Nepalese non financial companies decisions regarding the choice between short-term and long term debt is highly affected by 'we except our rating to improve so we borrow short- term until it does.'

Table 6.21
Factors affecting firm's choice between short-term and long-term debts (Q.16)

This table contains the factors affecting firm's choice between short-term and long-term debts (on a scale of 1 to 5, where 1 = not important and 5 = very important).

Factors	All Sample (n=181)			Manufacturing (n=132)		Hotel &Trading (n=49)		Levene's Test for Equality of Variances		t-test for Equality of Means		
	Mean	S.D.	Rank	Mean	S.D.	Mean	S.D.	F-value	Sig.	t-value	df	p-value
Issue short -term debt and waiting for long term market rate to decline	2.14	1.28	6	2.15	1.45	2.12	0.60	83.31	0.000	0.19	177	0.849
Matching the maturity of debt with the life of assets	2.96	1.73	2	3.13	1.77	2.51	1.57	3.89	0.050	2.16	179	0.032
Borrow the short -term so that returns from new projects can be captured by shareholders	2.51	1.22	5	2.83	1.19	1.65	0.86	7.21	0.008	7.33	119	0.000
We expect our rating to improve, so we borrow short-term until it does	3.10	1.64	1	2.64	1.62	4.37	0.86	42.94	0.000	-9.27	158	0.000
Borrowing short-term reduces the chance that our firm will want to take on risky projects	2.80	0.96	3	2.57	0.93	3.43	0.71	4.75	0.031	-6.63	113	0.000
We issue long-term debt to minimize the risk of having to finance in "bad times"	2.63	1.64	4	3.02	1.71	1.57	0.74	113.51	0.000	7.95	175	0.000

*Source: Survey Questionnaire *Significant at 1% **Significant at 5%*

17. Firm's choice to the appropriate amount of debt

Responses on firm's choice to the appropriate amount of debt have been shown in Table 6.22. When asked respondents about the factors affecting firm's choice to the appropriate amount of debt, the first rank has been given for the 'volatility of our earnings and cash flow' and second rank is given for 'financial flexibility, and followed by 'tax advantage of interest deductibility'. Transactions costs and fees for issuing debt have been given the fourth priority.

Table 6.22
Factors affecting Firm's choice to the appropriate amount of debt (Q.17)

This table contains the factors affecting firm's choice to the appropriate amount of debt on a scale of 1 to 5, where 1 = not important and 5 = very important. Means are calculated by assigning scores of 1 through 5 for rankings from "unimportant" to "important", respectively, and by multiplying each score by the fraction of responses within each rank. A score of 0 is assigned when a source is not ranked.

Factors	All Sample (n=181)			Manufacturing (n=132)		Hotel &Trading (n=49)		ene's Test for Equa of Variances		t-test for Equality of Means		
	Mean	S.D.	Rank	Mean	S.D.	Mean	S.D.	F-value	Sig.	t-value	df	p-value
advantage of interest deductibility	3.52	1.44	3	3.33	1.64	4.04	0.20	284.77	0.000	-4.92	141	0.000
ntial costs of bankruptcy or near bankruptcy financial distress	2.51	1.36	6	2.70	1.43	2.02	1.03	2.47	0.118	3.04	179	0.003
ncial Flexibility	4.23	0.70	2	4.30	0.46	4.02	1.09	291.72	0.000	1.76	55	0.084
credit rating (as assigned by rating agencies)	1.90	1.32	8	2.19	1.39	1.12	0.63	155.00	0.000	7.07	172	0.000
transactions costs and fees for issuing debt	3.26	1.16	4	3.31	1.32	3.12	0.48	188.83	0.000	1.40	179	0.162
debt levels of other firms in the industry	1.90	0.86	8	2.01	0.90	1.61	0.64	3.36	0.069	2.81	179	0.006
ry to have enough debt so that we are not in an attractive target	2.03	1.25	7	1.85	1.07	2.53	1.56	50.39	0.000	-2.83	65	0.006
nsure that upper management works hard and efficiently	2.93	1.38	5	3.38	1.23	1.73	1.00	26.04	0.000	9.23	106	0.000
volatility of our earnings and cash flows	4.35	0.71	1	4.46	0.50	4.04	1.04	1298.65	0.000	2.72	56	0.009

*Source: Survey Questionnaire *Significant at 1% **Significant at 5%*

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The fifth priority is given' to ensure that upper management works hard and efficiently'. The last priority is equally given to 'our credit rating' and 'the debt levels of other firms in the industry'. It indicates that 'our credit rating' and the debt levels of other firms in the industry' are less emphasized by the non-financial Nepalese companies while determining the appropriate amount of debt.

18. Issue of convertible debt

In a response to a question (Q. 18) about the 'firm ever issued convertible debt' in yes/no question form, all (100 percent) of the respondents reported that they did not issue convertible debt. It indicates that Nepalese sample companies are not issuing any convertible debt.

19. Factors affecting to issue convertible debt (Q.19)

One academic question asked to rank to the different factors affecting to issue convertible debt. The study condition only on whether a firm seriously considered issuing convertibles. The factors used in decisions to issue convertible debt are presented in Table 6.23. The first rank is assigned for 'less expensive than straight debt', and second rank is given 'ability to call force conversion if/when necessary'. The third and forth ranks are assigned to 'stock currently undervalued' and 'inexpensive way to issue delayed common stock' respectively. Among the factors, the last rank is given for 'avoiding short-term equity'. The result indicates that 'less expensive than straight debt' is an important features affecting convertible debt policy. There is moderate evidence that executives like convertibles because of the ability to call or force conversion if/when necessary.

The t-statistic based on the 'Levene's Test for Equality of Variances' has been displayed in Table 6.23. The p-value of the t-statistic evidenced that most of the factors are significant at 1% level of significance. Hence, there is significant difference between manufacturing and hotel & trading companies in respect of preference (choice) on the factors affecting to issue convertible debt.

Table 6.23
Factors affecting to issue convertible debt in Nepalese companies (Q.19)

This table contains the factors affecting to issue convertible debt in Nepalese companies on a scale of 1 to 5, where 1 = not important and 5 = very important. Means are calculated by assigning scores of 1 through 5 for rankings from "unimportant" to "important", respectively, and by multiplying each score by the fraction of responses within each rank. A score of o is assigned when a source is not ranked.

Factors	All Sample (n=181)			Manufacturing (n=132)		Hotel &Trading (n=49)		Levene's Test for Equality of Variances		t-test for Equality of Means		
	Mean	S.D.	Rank	Mean	S.D.	Mean	S.D.	F-value	Sig.	t-value	df	p-value
Inexpensive way to issue delayed common stock	2.72	1.58	4	2.59	1.72	3.06	1.09	32.86	0.00	-2.18	135	0.031
ability to call force conversion if/ when necessary	3.12	1.52	2	2.82	1.67	3.92	0.34	220.48	0.00	-7.17	157	0.000
Stock currently undervalued	2.78	1.60	3	2.37	1.58	3.90	1.03	17.21	0.00	-7.61	132	0.000
To attract investors unsure about riskiness	2.61	1.03	5	2.64	1.15	2.55	0.58	25.16	0.00	0.66	164	0.513
Avoiding short-term equity dilution	2.51	1.35	7	2.86	1.38	1.59	0.67	22.43	0.00	8.20	166	0.000
Other industry firms successfully use convertibles	2.55	1.15	6	2.23	1.13	3.39	0.67	58.35	0.00	-8.39	144	0.000
Less expensive than straight debt	3.34	1.59	1	2.77	1.45	4.90	0.59	212.04	0.00	-14.11	178	0.000

Source: Survey Questionnaire *Significant at 1% **Significant at 5%

20. Firm's decisions about issuing common stock

Respondents were also asked to rank on factors affecting the firm's choice to issue common stock; the first rank is given for 'maintaining target debt-to-equity ratio'. The second, third and forth ranks are given for 'inability to obtain funds using other sources', 'if our stock price has recently risen, the price at which we can issue is high', and 'whether our recent profits has been sufficient to fund our activity' respectively.

Among the factors displayed in Table 6.24, 'earnings per share dilution' is ranked nine and 'providing share to employee as stock option plan' is given last priority. The results indicate that Nepalese non-financial companies do not considered earning per share dilution and providing share to employee as stock option plan while issuing common stock.

Table 6.24
Factors affecting Firm's choice to issue common stock (20)

This table contains the factors affecting firm's choice between short-term and long-term debts (on a scale of 1 to 5, where 1 = not important and 5 = very important).

Factors	All Sample (n=181)			Manufacturing (n=132)		Hotel & Trading (n=49)		Levene's Test for Equality of Variances		t-test for Equality of Means		
	Mean	S.D.	Rank	Mean	S.D.	Mean	S.D.	F-value	Sig.	t-value	df	p-value
If our stock price has recently risen, the price at which we can issue is high	3.18	1.32	3	3.12	1.48	3.33	0.75	76.56	0.000	-1.23	163	0.221
Stock is our least risky source of funds	2.73	1.57	5	2.67	1.71	2.92	1.10	38.72	0.000	-1.17	134	0.246
Providing share to employee as stock option plan	2.17	1.13	10	2.37	1.18	1.61	0.73	38.96	0.000	5.18	139	0.000
Maintaining a target debt -to - equity ratio	4.12	0.96	1	3.99	1.05	4.47	0.54	9.81	0.002	-3.99	160	0.000
Using a similar debt/equity ratio as is used by other firms in our industry	2.53	1.21	8	2.33	1.34	3.08	0.45	99.58	0.000	-5.68	178	0.000
Whether our recent profits have been sufficient to fund our activities	2.96	1.78	4	3.12	1.84	2.51	1.52	18.67	0.000	2.27	104	0.025
Issuing stock gives a better impression of our firm's prospects than using debt	2.73	1.45	5	3.14	1.40	1.61	0.86	18.48	0.000	8.83	140	0.000
The capital gains tax rates faced by our investors	2.68	1.33	6	2.5	1.37	3.16	1.09	2.79	0.097	-3.04	179	0.003
Diluting the holdings of certain shareholders	2.59	0.86	7	2.58	0.91	2.61	0.70	3.79	0.053	-0.25	179	0.800
Inability to obtain funds using other sources	3.44	1.33	2	3.02	1.30	4.55	0.50	24.76	0.000	-11.41	179	0.000
Earnings per share dilution	2.48	1.45	9	2.59	1.52	2.18	1.20	13.02	0.000	1.88	108	0.063

Source: Survey Questionnaire **Significant at 1%* ***Significant at 5%*

21. Common stock owned by the largest three stock owners

As regards to the percent of the common stock owned by the largest three stock owners, Table 6.25 displays that the majority (49.2 percent) of the respondents reported that more than 20 percent of the common stock was owned by the largest three stock owners in their companies. The least holdings (less the 5 percent) have been reported by 18.8 percent responding companies. The insignificant Chi-square value indicates that there is no difference between manufacturing and hotel & trading companies about the ownership percentage of largest three stock owners.

Table 6.25
Percent of the common stock owned by the largest three stock owners (Q.21)

Position	Manufacturing		Hotel &Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Less than 5%	29	22.0	5	10.2	34	18.8	5.444 (0.142)
5 to 10%	23	17.4	6	12.2	29	16.0	
10 to 20%	18	13.6	11	22.5	29	16.0	
More than 20%	62	47.0	27	55.1	89	49.2	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire

22. People owned the company's common stock

Respondents were also asked to report to the number of people owned the company's common stock. Table 6.26 displays that 24.3 percent respondents reported that their companies' common stock is owned by 500 to 1000 people (stock holders). The table 6.26 also displays that majority (60.2 percent) responding companies' common stock was owned by less than 500 to 1000 people (i.e. shareholders). About 17 percent respondents reports that their common stock was owned by the more than 100,000 people (shareholders). The tabulated results indicate that majority of Nepalese non-financial companies are narrowly held as regard to the ownership structure. Chi-square value is significant at 5 percent level of significance. It indicates that manufacturing and hotel and trading companies are significantly different as regards to the number of people owned the companies' common stock.

Table 6.26
Number of people owned the company's common stocks (Q.22)

Position	**Manufacturing**		**Hotel &Trading**		**Total Respondents**		**Chi-square**
	Number	**Percentage**	**Number**	**Percentage**	**Number**	**Percentage**	
Up to 100	29	22.0	5	10.2	34	18.8	13.135** (0.022)
100 to 500	24	18.2	7	14.3	31	17.1	
500 to 1000	29	22.0	15	30.6	44	24.3	
1000 to 10,000	7	5.3	9	18.4	16	8.8	
10,000 to 100,000	17	12.9	8	16.3	25	13.8	
100,000+	26	19.7	5	10.2	31	17.1	
Total	132	100	49	100	181	100	

*Source: Survey Questionnaire **Significant at 5%*

23. Issue of right shares

In a query of firm ever issued the right shares as source of equity financing, the majority of the respondents (76.8 percent) answered no. Only 23.2 percent of the respondents reported yes. It indicates that right share issue is less practiced in Nepalese non-financial companies. In Table 6.27, the chi-square value indicates that manufacturing and hotel & trading companies are not different as regard to the right share issues.

Table 6.27
Firm ever issued right share as sources of equity financing (Q.23)

Position	Total Respondents		Manufacturing		Hotel &Trading		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Yes	42	23.2	30	22.7	12	24.5	0.062 (0.803)
No	139	76.8	102	77.3	37	75.5	
Total	181	100	132	100	49	100	

Source: Survey Questionnaire

24. Situation to issue right shares

One open-ended question was asked to the respondents about the situation firms prefer to issue right share. The similar written opinion of the respondents are grouped and presented in Table 6.28. The tabulated results display that highest percentage (32.6 percent) respondents answered for 'to reduce transactions costs/cost of issue', it is followed 19.9 percent for 'new project expansion and to decrease debt'. About 12.2 percent respondents answered for 'to protect shareholders' interest'. Among different situations answered, only 7.2 percent respondents prefer to issue right shares for 'market growth'. The tabulated opinions also indicates that majority of respondents (52.5 percent) prefer to issues right shares 'to reduce transaction costs/cost of issue' and 'for new project expansion and to decrease debt'.

The Chi-square value is significant at 1 percentage level of significance. It indicates that manufacturing and hotel & trading companies are different with respect to the opinion for the situation firms prefer to issue right shares.

Table 6.28
Situation firms prefer to issue right shares (Q.24)

Situation	Manufacturing		Hotel &Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
To increase capital	10	7.6	5	10.2	15	8.3	26.698 (0.000)
For market growth	7	5.3	6	12.2	13	7.2	
to reduce transaction costs/cost of issue	54	40.9	5	10.2	59	32.6	
For increment of current assets	9	6.8	7	14.3	16	8.8	
If debt financing difficult, prefer right share issue	8	6.1	12	24.5	20	11.0	
New project expansion and to decrease debt	28	21.2	8	16.3	36	19.9	
To protect shareholders' interest	16	12.1	6	12.2	22	12.2	
Total	132	100	49	100	181	100	

*Source: Survey Questionnaire *Significant at 1%*

25. Borrowing in relation to equity capital (Q.25)

In answering the deep rooted in the literature of how much a company should borrow in relation to its equity capital i.e. the optimal of capital structure, Nepalese financial executives seem to be on the providence side. Table 6.29 shows the response on the matters of the optimal capital structure.

In a response to that question, the 42.5 percent, respondents state that the optimal level of capital structure should have a debt/equity ratio more than 1:1 but less than or equal to 2:1. There are 32.0 percent respondents whose report that appropriate level of company borrowing in relation to equity capital should be less than or equal to 1:1 of debt to equity. Only 25.4 percent respondents state that appropriate level of the borrowing should be more than 2:1 but less than or equal to 3:1 of debt to equity. The Table 6.29 shows that majority in aggregate (74.5 percent) Nepalese financial executives are in favor of choosing maximum level of company borrowing in relation to equity.

The Chi-square value is significant at 1 percent level of significant. It shows that Manufacturing companies are different regarding the choice of the appropriate level of company borrowing in relation to equity capital.

Table 6.29
Level of company borrowing in relation to equity capital (Q.25)

Borrowing	Manufacturing		Hotel &Trading		Total Respondents			Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	Rank	
Less than or equal to 1:1 of debt to equity	51	38.6	7	14.3	58	32.0	2	10.243 (0.006)
More than 1:1 but less than or equal to 2:1 of debt to equity	49	37.1	28	57.1	77	42.5	1	
More than 2:1 but less than or equal to 3:1 of debt to equity	32	24.2	14	28.6	46	25.4	3	
Total	132	100.0	49	100.0	181	100.0		

*Source: Survey Questionnaire *Significant at 1%*

26. Owners related factors influencing capital Structure

The survey participants were asked to rank several possible influences on the capital structure. Table 6.30 displays the views of responses in terms of ranking. The results indicate that the highest mean ranking is assigned for the goals (4.45), it followed by knowledge (4.31), need for control (4.13). Three of the six factors there have mean rank of more than 3.88. The results indicate that goals, knowledge, and need for control are considered as important owner related factors influencing capital structure.

Table 6.30
Owners' characteristics factors influencing capital structure (Q.26)

This table contains the factors affecting firm's choice between short-term and long-term debts (on a scale of 1 to 5, where 1 = not important and 5 = very important).

Factors	All Sample (n=181)			Manufacturing (n=132)		Hotel &Trading (n=49)		Levene's Test for Equality of Variances		t-test for Equality of Means		
	Mean	S.D.	Rank	Mean	S.D.	Mean	S.D.	F-value	Sig.	t-value	df	p-value
Need for control	4.13	0.792	3	4.17	0.90	4.02	0.38	149.89	0.000	1.62	176	0.107
Knowledge	4.31	0.74	2	4.07	0.72	4.96	0.20	14.65	0.000	-12.90	171	0.000
Experience	3.62	1.296	4	3.46	1.48	4.06	0.24	99.55	0.000	-4.49	148	0.000
Goals	4.45	0.756	1	4.59	0.59	4.08	1.00	123.30	0.000	3.36	61	0.001
Risk propensity	3.47	1.057	5	3.11	0.93	4.45	0.71	1.33	0.250	-9.19	179	0.000
Perceptions and beliefs about external finance	2.58	0.978	6	2.41	0.90	3.04	1.04	13.98	0.000	-3.76	76	0.000

*Source: Survey Questionnaire *Significant at 1% **Significant at 5%*

As regard to the ranking differences, p-value of the t-statistics indicates that manufacturing and hotel & trading companies are significantly different except need for control.

27. Firm related factors influencing capital Structure

Respondents indicated a preference for firms' characteristics factors influencing capital structure. Ranking of eight factors by respondents who expressed this preference are summarized in Table 6.31. For each source, the mean of the rankings are given. Higher means imply higher preferences. As indicated, the highest mean ranking is assigned for the liquidity (4.86). Similarly tax dominates size and their mean ranks are 4.20 and 4.11 respectively. Four of the eight factors there have mean ranks higher than of 3.64 (i.e. median value of composite means). It indicates that liquidity, tax, size and other variables are considered by the Nepalese financial executives as important factors influencing capital structure**.**

Table 6.31
Firm characteristics factors influencing capital structure (Q.27)

This table contains the factors affecting firm's choice between short-term and long-term debts (on a scale of 1 to 5, where 1 = not important and 5 = very important).

Factors	All Sample (n=181)			Manufacturing (n=132)		Hotel &Trading (n=49)		Levene's Test for Equality of Variances		t-test for Equality of Means		
	Mean	S.D.	Rank	Mean	S.D.	Mean	S.D.	F-value	Sig.	t-value	df	p-value
Liquidity	4.86	0.36	1	4.83	0.38	4.96	0.29	23.67	0.000	-2.54	114	0.013
Size	4.11	0.92	3	4.30	0.46	3.59	1.49	1025.21	0.000	3.29	51	0.002
Tax	4.20	0.73	2	4.30	0.80	3.94	0.43	84.28	0.000	3.85	156	0.000
Business Risk	3.45	0.65	5	3.59	0.62	3.08	0.57	33.19	0.000	5.21	92	0.000
Tangibility of assets	3.32	0.96	7	3.08	1.03	3.96	0.20	38.27	0.000	-9.34	155	0.000
Uniqueness	3.40	0.69	6	3.36	0.72	3.51	0.58	2.86	0.093	-1.34	179	0.182
Non-debt tax shields	3.13	1.04	8	3.31	1.08	2.65	0.72	10.27	0.002	4.71	128	0.000
Others	3.83	0.83	4	3.77	0.95	3.98	0.32	46.23	0.000	-2.19	178	0.030

Source: Survey Questionnaire

As regard to the ranking differences, p-value of the t-statistics indicates that manufacturing and non-manufacturing (hotel & trading) companies are significantly different in case of liquidity, size, tax, business risk, tangibility of assets, non-debt tax shield, and others.

28. Other external factors influencing capital Structure

A question that was also asked to the respondents was to rank the other external factors influencing capital structure. Among the factors in Table 6.32, the availability of the funds (4.36), conditions in the market (4.30), state of the economy (4.25) have the highest mean ranks. The findings strongly suggest that the availability of the funds, conditions in the market, and state of the economy are considered the important other external factors influencing capital structure in Nepal.

Table 6.32

Other external characteristics factors influencing capital structure in Nepalese companies (Q.28)

This table contains the factors affecting firm's choice between short-term and long-term debts (on a scale of 1 to 5, where 1 = not important and 5 = very important). Means are calculated by assigning scores of 1 through 5 for rankings from "not important" to "very important", respectively, and by multiplying each score by the fraction of responses within each rank. A score of o is assigned when a source is not ranked.

Factors	All Sample (n=181)			Manufacturing (n=132)		Hotel &Trading (n=49)		Levene's Test for Equality of Variances		t-test for Equality of Means		
	Mean	S.D.	Rank	Mean	S.D.	Mean	S.D.	F-value	Sig.	t-value	df	p-value
State of the economy	4.25	0.93	3	4.33	1.06	4.04	0.29	126.76	0.000	2.90	170	0.004
Condition of the market	4.30	0.82	2	4.59	0.71	3.51	0.51	2.52	0.114	9.78	179	0.000
Availability of fund	4.36	0.76	1	4.47	0.62	4.06	0.99	98.27	0.000	2.70	63	0.009
Industry characteristics	3.52	1.00	5	3.67	0.93	3.12	1.09	16.97	0.000	3.14	75	0.002
Government policy	3.99	1.41	4	4.29	0.97	3.18	2.00	159.49	0.000	3.71	57	0.000

Source: Survey Questionnaire **Significant at 1%* ***Significant at 5%*

29. Capital structure improves investors' earnings

Respondents were asked to score how capital structure improves investors' earnings about their agreement. Table 6.33 displays that majority of the respondents (51.9 percent) agreed on the issue. The 17.7 percent of the respondents are strongly agreed. Among total respondents, only 12.2 percent respondents are in doubt about capital structure improves investors' earnings. The 10.5 percent and 7.7 percent of the respondents are disagreed and strongly disagreed respectively. The results indicates that capital structure seem to improve investors, earnings.

The chi-square value reports that manufacturing and hotel & trading companies are different on the statement that capital structure improves investors' earnings.

Table 6.33
Capital structure improves investors' earnings (Q.29)

Response	Manufacturing		Hotel &Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Strongly agreed	25	18.9	7	14.3	32	17.7	11.134** (0.025)
Agreed	76	57.6	18	36.7	94	51.9	
Undecided	12	9.1	10	20.4	22	12.2	
Disagreed	11	8.3	8	16.3	19	10.5	
Strongly disagreed	8	6.1	6	12.2	14	7.7	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire ***Significant at 5%*

30. Higher long-term debt to equity reduces profitability

One question asked to the respondents was whether higher ratio of long-term debt to equity causes firms to reduce their profitability or not. As shown in Table 6.34, about 38.1 percent of respondents are agreed, another 18.2 percent are strongly agreed but 16.0 percent are unclear about the statement. As majority of the respondents showed their agreement (strongly agreed and agreed), it can be concluded that higher ratio of long-term debt to equity causes firms to reduce their profitability. The insignificant Chi-square value indicates that manufacturing and hotel & trading companies are not different about the statement that higher ratio of long-term debt to equity causes firms to reduce their profitability.

Table 6.34
Higher ratio of long-term debt to equity causes firms to reduce their profitability (Q.30)

Response	Manufacturing		Hotel &Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Strongly agreed	22	16.7	11	22.4	33	18.2	1.466 (0.833)
Agreed	53	40.2	16	32.7	69	38.1	
Undecided	20	15.2	9	18.4	29	16.0	
Disagreed	19	14.4	7	14.3	26	14.4	
Strongly disagreed	18	13.6	6	12.2	24	13.3	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire

31. Factors influencing firm's profitability

A better understanding of the factors influencing firm's profitability can be gained by examining financial executives' ranking of seven inputs and/or assumptions. Table 6.35 summarized those ranking. Among the inputs/ factors, growth (4.45), assets turnover (4.20), debt (3.78), and size (3.66) have highest mean respectively. Four of the seven factors, there have mean ranks of 3.66 or higher. The factors in Table 6.35 indicate that growth, assets turnover, debt, and size are considered the important factors influencing the firm's profitability.

Table 6.35
Factors influencing firm's profitability in Nepalese companies (Q.31)

This table contains the factors affecting firm's choice between short-term and long-term debts (on a scale of 1 to 5, where 1 = not important and 5 = very important). Means are calculated by assigning scores of 1 through 5 for rankings from "not important" to "very important", respectively, and by multiplying each score by the fraction of responses within each rank. A score of o is assigned when a source is not ranked.

Factors	All Sample (n=181)			Manufacturing (n=132)		Hotel &Trading (n=49)		Levene's Test for Equality of Variances		t-test for Equality of Means		
	Mean	S.D.	Rank	Mean	S.D.	Mean	S.D.	F-value	Sig.	t-value	df	p-value
Debt	3.78	1.28	3	3.51	1.37	4.53	0.50	86.93	0.000	-7.33	179	0.000
Size	3.66	0.72	4	3.86	0.71	3.12	0.44	21.23	0.000	8.43	138	0.000
Growth	4.45	0.95	1	4.25	1.04	4.98	0.14	175.21	0.000	-7.84	144	0.000
Assets Turnover	4.20	1.17	2	3.91	1.25	4.98	0.14	460.28	0.000	-9.67	140	0.000
Tangibility of assets	2.96	1.45	6	2.89	1.56	3.14	1.06	6.88	0.009	-1.26	126	0.210
Liquidity	3.49	0.88	5	3.62	0.95	3.14	0.50	48.81	0.000	4.37	159	0.000
Age	1.96	1.41	7	1.90	1.62	2.10	0.55	75.21	0.000	-1.24	178	0.216

*Source: Survey Questionnaire *Significant at 1% **Significant at 5%*

As evidenced by p-value of the t-test, the manufacturing and hotel & trading companies are different with respect to ranking of factors influencing firm's profitability except for tangibility of assets and other.

32. Debt in firm's capitalization lower overall cost of capital

One of the questions asked to the respondents is 'Does your firm believe that the use of a proper amount of debt in its capitalization will result in a lower overall cost of capital to the corporation?'. Table 6.36 demonstrates that majority of the respondents

(59.7%) provided the affirmative answer; while 31.5% respondents are unsure but only 8.8% respondents are against the issue that use of a proper amount of debt in its capitalization will result in a lower overall cost of capital to the corporation. The Chi-square value indicates that there is significant different between manufacturing and hotel & trading companies with respect to the use of proper debt level will result in lower overall cost of capital.

Table 6.36
Proper debt level in firm's capitalization will result in lower overall cost of capital (Q.32)

	Manufacturing		Hotel &Trading		Total Respondents		Chi-square
Response	Number	Percentage	Number	Percentage	Number	Percentage	
Yes	77	58.3	31	63.3	108	59.7	7.027** (0.030)
No	8	6.1	8	16.3	16	8.8	
Unsure	47	35.6	10	20.4	57	31.5	
Total	132	100	49	100	181	100	

*Source: Survey Questionnaire **Significant at 5%*

33. Estimating company's cost of capital

The duration for the estimating of the company's cost of capital is also an important part of the corporate financing policies. Table 6.37 shows the different time periods like annually, every investment, infrequently, and other. When respondents are asked to rate the period of the estimating the company's cost of capital, their first common practice is every investment basis (44.2%), and it is followed by annually practice (28.7%). Some companies are also following infrequently and other time dimension. It reveals that Nepalese companies have first priority for estimating cost of capital on an every investment basis. The Chi-square value indicates that there is no significant different between manufacturing and hotel & trading companies with respect to the frequency in estimating cost of capital.

Table 6.37
Frequency in estimating company's cost of capital (Q33)

Frequency	Manufacturing		Hotel &Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Annually	42	31.8	10	20.4	52	28.7	5.044 (0.169)
Every investment	59	44.7	21	42.9	80	44.2	
Infrequently	23	17.4	11	22.4	34	18.8	
Other	8	6.1	7	14.3	15	8.3	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire

34. Estimating before tax cost of debt

One question was asked about the methods to estimate before tax cost of debt. Table 6.38 shows that 38.7% respondents report that current average is used to estimate before tax cost of debt in their firms and it is followed by marginal cost (32%) and their after other (19.3%) but 9.9% respondents are uncertain about the method to estimate before tax cost of debt. The tabulated results indicate that current average and marginal cost methods are mostly used in Nepalese companies as methods to estimate before tax cost of debt. The Pearson Chi-square test shows a p-value of 0.001, i.e. p-value <0.05. The null hypothesis was, therefore, rejected at 95% confidence level and the alternative hypothesis was retained. It was concluded that there is a significant different between manufacturing and hotel & Trading companies with respect to the choice of methods to estimate before tax cost of debt.

Table 6.38
Methods to estimate before tax cost of debt (Q34)

Method	Manufacturing		Hotel &Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Marginal cost	32	24.2	26	53.1	58	32.0	16.302* (0.001)
Current average	60	45.5	10	20.4	70	38.7	
Uncertain	12	9.1	6	12.2	18	9.9	
Other	28	21.2	7	14.3	35	19.3	
Total	132	100	49	100	181	100	

*Source: Survey Questionnaire *Significant at 1%*

35. Estimating cost of equity

The survey results appear in Table 6.39. The results indicate that dividend growth model is by far the most popular method of estimating the cost of equity capital: 54.7 percent of respondents always or almost always use the dividend growth model. The second and third most popular method are other and CAPM, respectively. Arbitrage pricing model is almost not found in practice in Nepalese financial market as no one respondents assigned affirmative on this option. This finding is more or less similar to the findings of Gitman and Mercurio (1982) who survey 177 Fortune 1000 firms and find that only 29.9 percent of respondents use the CAPM but find that 31.2 percent of the participants in their survey use a version of the dividend discount model to estimate their cost of capital. The finding of this study is in contrasts with the finding

of the Bruner, Eades, Harris, and Higgins (1998) find that 85 percent of their 27 best-practice firms use the CAPM or a modified CAPM. While the CAPM is popular in the developed capital marker but it is less practiced in Nepalese companies. The Speaman correlation coefficient of 0.90 indicates that manufacturing and hotel companies are very much similar as regard to the ranking.

Table 6.39
Methods for estimating cost of equity (Q.35)

Methods	Manufacturing			Hotel &Trading			Total Respondents			Cor (r_s)
	Number	Percentage	Rank	Number	Percentage	Rank	Number	Percentage	Rank	
CAPM	9	6.8	3	6	12.2	4	15	8.3	3	0.90
Modified CAPM	7	5.3	4	7	14.3	3	14	7.7	4	
Dividend Growth Model	76	57.6	1	23	46.9	1	99	54.7	1	
Arbitrage Pricing Model	0	0	5	0	0	5	0	0	5	
Other	40	30.3	2	13	26.5	2	53	29.3	2	
Total	132	100		49	100		181	100		

Source: Survey Questionnaire

36. Weighting factors in weighted average cost of capital

Table 6.40 shows the responses on various weighting factors used in computing weighted average cost of capital**.** The current market weights occupy the top (34.3 percent) of the choice, followed by current book weights (29.3 percent), target debt/equity (27.1 percent), and other (9.4 percent) respectively. The result indicates that different weighted methods are more or less used by the Nepalese financial executives. The significant Chi-square value reports that manufacturing and hotel & trading companies are not different on the choice of weighting factors.

Table 6.40
Weighting factors used in computing weighted average cost of capital (Q.36)

Weighting factors	Manufacturing		Hotel &Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Target debt/equity	24	18.2	25	51.0	49	27.1	22.428* (0.000)
Current book weights	45	34.1	8	16.3	53	29.3	
Current market weights	52	39.4	10	20.4	62	34.3	
Other	11	8.3	6	12.2	17	9.4	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire **Significant at 1%*

37. Further adjustment on estimated cost of capital

In order to explore how the cost of equity models are used, respondents were asked to answer the question that having estimated your company's cost of capital, do you make any further adjustments to reflect the risk of individual investment opportunities. The Table 6.41 shows that the majority of the respondents (55.2 percent) provided the affirmative answer. Only 27.1 percent respondents gave negative answer. The unsure answer is also delivered by the 17.7 percent of the respondents. The result indicates that Nepalese financial executives usually make further adjustment on estimated cost capital to reflect the risk of individual investment opportunities. The chi-square value provides the evidence that there is difference between the manufacturing and hotel companies with respect to the adjustment on estimated cost of capital.

Table 6.41
Further adjustment on estimated cost of capital to reflect risk of individual investment (Q.37)

Response	Manufacturing		Hotel &Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Yes	73	55.3	27	55.1	100	55.2	7.374** (0.025)
No	41	31.1	8	16.3	49	27.1	
Unsure	18	13.6	14	28.6	32	17.7	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire **Significant at 5%*

38. Cost of capital used other than project analysis

In response on the question that is the cost of capital used for purposes other than project analysis in your company, majority of the respondents (74.6 percent) state the affirmative answer. The 14.4 percent respondents are unsure on that matter. Table 6.42 indicates that Nepalese financial executives prefer to use cost of capital for purposes other than project analysis.

Table 6.42
Cost of capital used for purposes other than project analysis (Q.38)

Response	Manufacturing		Hotel &Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Yes	112	84.8	23	46.9	135	74.6	31.985* (0.000)
No	12	9.1	8	16.3	20	11.0	
Unsure	8	6.1	18	36.7	26	14.4	
Total	132	100	49	100	181	100	

*Source: Survey Questionnaire *Significant at 1%*

The Chi-square value points out that manufacturing and hotel & trading companies are different for the use of cost of capital for purposes other than project analysis.

39. Firm's market value and choice of capital structure

Table 6.43 shows that 42.5% of total respondents affirmed that a firm's market value is directly related to its choice of capital structure and 18.8% of the respondents strongly agreed, but 14.9% respondents were strongly disagreed and 13.8% of the respondents were disagreed, while 9.9% respondents were undecided. This suggests that there is a significant relationship between a firm's market value and its choice of capital structure. The Chi-square value indicates that manufacturing and hotel & trading companies are not different with respect to the agreement that a firm's market value is directly related to its choice of capital structure.

Table 6.43
Firm's market value is directly related to its choice of capital structure (Q.39)

Response	Manufacturing		Hotel &Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Strongly agreed	35	26.5	9	18.4	44	24.3	7.299 (0.121)
Agreed	65	49.2	19	38.8	84	46.4	
Undecided	13	9.8	7	14.3	20	11.0	
Disagreed	11	8.3	6	12.2	17	9.4	
Strongly disagreed	8	6.1	8	16.3	16	8.8	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire

40. Excessive debt and market price

One question asked respondents if the use of an excessive amount of debt would eventually result in the market price of their firms' stock in an adverse way.

Table 6.44
Excessive amount of debt will eventually result in market price be affected (Q.40)

Response	Manufacturing		Hotel &Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Yes	82	62.1	34	69.4	116	64.1	1.087 (0.581)
No	26	19.7	9	18.4	35	19.3	
Unsure	24	18.2	6	12.2	30	16.6	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire

Table 6.44 shows that majority (64.1%) of the respondents provided affirmative answer, but 19.3% respondents were against the statement, while 16.6% respondents were unsure. The insignificant Chi-square value indicates that there is no difference between manufacturing and hotel & trading companies on the statement that excessive amount of debt will eventually result in market price in an adverse way.

41. Leveraged capital structure and high market value

It is observed from Table 6.45 that 111 respondents representing 61.3% of the total affirmed (strongly agreed and agreed) those firms with debt in their capital structure tend to have high market values than firms with only equity capital, but 27 respondents (14.9%) were strongly disagreed, while 25 respondents (13.8%) disagreed. The 18 respondents (9.9%) were undecided. This indicates that the utilization of debt capital in the capital structure of a firm does make it have higher market value than a firm without debt capital in its capital structure. The insignificant Chi-square value shows that manufacturing and hotel & trading companies are not different about the agreement that the utilization of debt capital in the capital structure of a firm does make it have higher market value than a firm without debt capital in its capital structure.

Table 6.45
Leveraged capital structure has high market value than firms with equity capital (Q.41)

Response	Manufacturing		Hotel &Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Strongly agreed	26	19.7	8	16.3	34	18.8	3.044 (0.550)
Agreed	58	43.9	19	38.8	77	42.5	
Undecided	11	8.3	7	14.3	18	9.9	
Disagreed	16	12.1	9	18.4	25	13.8	
Strongly disagreed	21	15.9	6	12.2	27	14.9	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire

42. Proxy (measure) for firm value

As regard to the appropriate proxy (measure) for firm value, the respondents have chosen earnings per share as best measure. The market value of debt plus equity stood as the second priority. The price/earnings ratio and Tobin-q are in third and fourth

choice respectively. Among the measures displayed in Table 6.46, last priority is given for earnings value added. The positive Spearman correlation coefficient (r_s = 0.77) indicates that the choice of measure of firm value is similar between manufacturing and hotel & trading companies.

Table 6.46
Most appropriate proxy (measure) for firm value (Q.42)

Response	Manufacturing			Hotel &Trading			Total Respondents			Cor (r_s)
	Number	Percentage	Rank	Number	Percentage	Rank	Number	Percentage	Rank	
Total market value of debt plus equity	28	21.2	2	5	10.2	4	33	18.2	2	0.77
Price earnings ratio	24	18.2	3	6	12.2	3	30	16.6	3	
Earnings value added	8	6.1	6	3	6.1	6	11	6.1	6	
Tobin-q	10	7.6	4	7	14.3	2	17	9.4	4	
Earnings per share	53	40.2	1	24	49.0	1	77	42.5	1	
Other	9	6.8	5	4	8.2	5	13	7.2	5	
Total	132	100		49	100		181	100		

Source: Survey Questionnaire

43. Debt-equity mix a determinants for market value

Table 6.47 shows that 97 respondents representing 53.6 percent of the total respondents are in favor of statement that debt-equity mix is as determinants for market value in Nepal but 49 respondents (27.1%) were against the statement, while 35 respondents (19.3%) were unsure. This implies that firms can only maximize their market values by an appropriate capital mix of debt and equity capital. The Chi-square value indicates that manufacturing and hotel &trading companies are not different about the favor of statement that debt-equity mix is as determinants for market value in Nepal.

Table 6.47
Debt-equity mix is as determinants for market value in Nepal (Q.43)

Response	Manufacturing		Hotel &Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Yes	71	53.8	26	53.1	97	53.6	0.505 (0.777)
No	37	28.0	12	24.5	49	27.1	
Unsure	24	18.2	11	22.4	35	19.3	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire

44. Focus on market value maximization in deciding capital structure

Table 6.48 displays that 62 respondents representing 34.3% of the total strongly agreed (affirmed) that maximizing a firm's market value should be the major focus when deciding its choice of capital structure, while 61 respondents (33.7%) agreed but 25 or 13.8% of the respondents were undecided, while that of 19 or 10.5% respondents disagreed. This implies that, when deciding a firm's choice of capital structure, maximizing its market value should be its major focus since majority of the respondents (strongly agreed and agreed) affirmed the statement. The Chi-square value is significant at 5% level of significance, manufacturing and hotel & trading companies are different about the agreement that maximizing a firm's market value should be the major focus when deciding its choice of capital structure.

Table 6.48

Maximizing a firm's market value as the main focus in deciding of capital structure (Q.44)

Response	Manufacturing		Hotel &Trading		Total Respondents		Chi-square
	Number	Percentage	Number	Percentage	Number	Percentage	
Strongly agreed	54	40.9	8	16.3	62	34.3	12.560** (0.014)
Agreed	42	31.8	19	38.8	61	33.7	
Undecided	18	13.6	7	14.3	25	13.8	
Disagreed	10	7.6	9	18.4	19	10.5	
Strongly disagreed	8	6.1	6	12.2	14	7.7	
Total	132	100	49	100	181	100	

Source: Survey Questionnaire ***Significant at 5%*

6.5. Discussion

To sum up a, study of financing policies and practices in Nepalese companies has revealed some facts and features to investigate the factors determining their optimal capital structure and financing patterns. The analysis of the primary information indicates that Nepalese sample firms there have formal financing policies and major financing policy setters are Board of Directors and President/ managing director percent. Their financing decisions are made using the information provided by own management and staff analysis, Thus, more important influence on the setting of target leverage ratios is found from the firm's own management group and staff of analysts. The 'situational' and 'risk avoiding' are the two important methods used to describe the financing policies in Nepalese companies.

The survey result indicates that majority of the Nepalese firms regard the tax issues in designing their capital structure and financing decision. Similar result has been obtained from secondary data analysis as tax has been considered an influencing variable in designing capital structure. Further, Nepalese firms have a policy of maintaining spare debt capacity. They could not borrow more at the same interest rate. Nepalese firms make use the of off-balance sheet financing techniques. Majority of the sample Nepalese companies do follow industry norms for their financing decision. Among alternatives leverage measures, total liabilities divided by total assets (debt ratio) was considered most important leverage measure in Nepalese firms' financing decision procedures.

The survey results indicate that Nepalese enterprises pay more importance in 'projected cash flow or earnings from the assets to be financed' and 'financial flexibility' in governing financial decisions. Attitudes varied considerably about the preferences for short-, medium- or long-term funding sources but a common theme was apparent. Nepalese firm prefer short (up to 1 year) followed by long (>5 years) maturity funding sources. As a source of long-term fund, Nepalese financial executives prefer 'long-term debt' as their most favorite followed by 'Internal equity' and 'external common equity' respectively, they do not strictly follow pecking order hypothesis.

The survey has explored the circumstances relating to companies making equity issue. One major circumstance for an equity issue is 'to fund a major expansion' and it is followed by 'to reduce leverage if market conditions right' and thereafter 'to make an acquisition'. There is significant difference between manufacturing and hotel & trading companies about circumstances making an equity issue. The foremost circumstance to make a debt issue is 'to fund a major expansion' and the next major circumstance is 'to add to liquidity'. Nepalese non financial companies' decisions regarding the choice between short-term and long term debt is highly affected by 'we except our rating to improve so we borrow short- term until it does' as well as 'matching the maturity of debt with the life of assets'. As regard to the factors affecting firm's choice to the appropriate amount of debt, the most important factor is 'volatility of our earnings and cash flow' and the next important factor stood 'financial flexibility, and followed by 'tax advantage of interest deductibility'.

Nepalese sample companies are not much more interested in issuing convertible debt. The survey further provided the evidence that among the factors affecting to issue convertible debt, 'less expensive than straight debt' is an important factor affecting convertible debt policy and the next important factor is the 'ability to call or force conversion if/when necessary'.

As regard to the factors affecting the firm's choice to issue common stock, the most important factor is 'maintaining target debt-to-equity ratio'. The factors on next order of importance are: 'inability to obtain funds using other sources', 'if our stock price has recently risen, the price at which we can issue is high', and 'whether our recent profit has been sufficient to fund our activity' respectively. The survey evidence indicates that more than 20 percent of the common stock is owned by the largest three stock owners in their companies. The least holdings are about less the 5 percent. The majority (60.2 percent) responding companies' common stock was owned by less than 500 to 1000 people (i.e. shareholders). The majority of the Nepalese companies did not issue right share. Only little number of the companies did issue right share. It indicates that right share issue is less practiced in Nepalese non-financial companies. As regard to the situation firms prefer to issue right share, similar written opinion of the respondents are grouped and analyzed. The survey opinions indicates that majority of Nepalese companies prefer to issues right shares 'to reduce transaction costs/cost of issue' and 'for new project expansion and to decrease debt'. As regard to the 'how much a company should borrow in relation to its equity capital, the survey result indicates that the optimal level of debt/equity ratio is more than 1:1 but less than or equal to 2:1. Majority (in aggregate) of Nepalese financial executives are in favor of choosing 2:1 or less of company borrowing in relation to equity.

Different factors affecting capital structure have been identified by classifying them into "owners' characteristics factors", "firm characteristics factors" and "other external characteristics factors". Important owner related factors influencing capital structure are: goals, knowledge, and need for control. Important firm characteristics factors influencing capital structure are: liquidity, tax, size and others. The result shows that the availability of the funds, conditions in the market, and state of the economy are considered the important other external factors influencing capital structure in Nepal.

Nepalese financial executives have asserted that capital structure improves investors' earnings. But higher ratio of long-term debt to equity causes firms to reduce their profitability. The survey has explored the key factors influencing firm's profitability by analyzing financial executives' ranking of seven inputs and/or factors. The result shows that growth, assets turnover, debt, and size are considered as the important factors influencing the firm's profitability.

Majority of the corporate executives believe that proper debt level will result in lower overall cost of capital. The duration for the estimating of the company's cost of capital is also an important part of the corporate financing policies. The survey reveals first priority for estimating cost of capital on an 'every investment' basis and it follows 'infrequently'. The methods to estimate before tax cost of debt have also been identified through questionnaire survey. 'Current average' is mostly preferred and it follows 'marginal cost' to estimate before tax cost of debt in Nepalese companies. The survey results indicate that dividend growth model is by far the most popular method of estimating the cost of equity capital the second and third most popular method are other and CAPM, respectively in Nepalese sample companies. This finding is more or less similar to the findings of Gitman and Mercurio (1982) but the finding of this study is in contrasts with the finding of the Bruner, Eades, Harris, and Higgins (1998) find that 85 percent of their 27 best-practice firms use the CAPM or a modified CAPM.

The survey has uncovered the fact about weighting factors. The result indicates that 'current market weights' occupy the top of the choice, followed by 'current book weights' in computing weighted average cost of capital in Nepalese sample companies. With respect to the further adjustments to be made having estimated to the cost of capital to reflect the risk of individual investment opportunities, the majority of the respondents provided the affirmative answer. The result indicates that Nepalese financial executives usually make further adjustment on estimated cost capital to reflect the risk of individual investment opportunities. Since majority of the respondents state the positive answer on the use cost of capital for purposes other than project analysis. The survey result indicates that Nepalese financial executives prefer to use cost of capital for purposes other than project analysis.

The survey has provided the evidence that a firm's market value is directly related to its choice of capital structure. There exists a significant relationship between a firm's market value and its choice of capital structure in Nepalese companies, but the use of an excessive amount of debt would eventually results in the market price of their firms stock being adversely affected. The utilization of debt capital in the capital structure of a firm does make it have higher market value than a firm without debt capital in its capital structure. The most appropriate proxy (measure) for firm value is earnings per share, it followed by market value of debt plus equity. The price/earnings ratio and Tobin-q are in third and fourth choice respectively as appropriate proxy (measure) for firm value. Debt-equity mix is as major determinants of market value in Nepal. This implies that firms can only maximize their market values by an appropriate capital mix of debt and equity capital. Maximizing a firm's market value has been found as the major focus when deciding its choice of capital structure in Nepal.