Dividend and Capital Structure Policy in Indonesia and the Philippines: The Views of Executives of Listed Firms

by

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This paper reports the results of surveys of the chief executive officers of firms listed on the Jakarta Stock Exchange and the Philippine Stock Exchange regarding dividends and capital structure.

The survey responses on dividend policy indicate that Indonesian and Philippines executives believe that dividend policy affects share prices. Further, they believe that firms should have target payout ratios and strive for uninterrupted dividend payments. Indonesian and Philippine executives seem to be aware of signaling and clientele effects.

The survey responses on capital structure policy indicate a preference for following a financing hierarchy rather than adhering to a target capital structure. Both Indonesian and Philippine executives ranked internal equity as their first choice for long-term financing. However, whereas Indonesian executives expressed an aversion to debt, ranking new common stock higher than debt, Philippine executives ranked bank loans ahead of common stock.

Both Indonesian and Philippine executives believe that long-term survival and maintaining flexibility are important considerations affecting a firm's financing decisions. They also believe that a firm's investment and dividend decisions are more binding than capital structure decisions.

The survey responses on dividend policy indicate that Indonesian and Philippines executives believe that dividend policy affect share prices. On capital structure policy, the responses indicate a preference for following a financing hierarchy rather than adhering to a target capital structure.

This paper reports the results of surveys of the chief executive officers of firms listed on the Jakarta Stock Exchange and the Philippine Stock Exchange regarding their views on dividends and capital structure. These surveys are part of an on-going effort to assess the perceptions of executives of countries of the Pacific Basin regarding issues related to corporate financial policy, including their views of financial policy models developed by academicians.

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Survey Methodology

To assess the perceptions of executives in Indonesia and the Philippines, chief executive officers of firms listed on the Jakarta Stock Exchange and the Philippine Stock Exchange, respectively, were surveyed.

Mail questionnaires were used to obtain information regarding dividend and corporate structure policy. The first mailings were followed by complete second mailings to improve the response rates. The questionnaires consisted of various closed-ended and open-ended questions about various issues concerning dividend policy and capital structure policy. They did not require the firms to identify themselves. The dividend policy portion of the questionnaires was adapted by permission from the questionnaire used by Baker, Farrelly and Edelman [1985]. The capital structure policy portion was adapted by permission from the questionnaire used by Pinegar and Wilbricht [1989].

Indonesian executive respondents:
22 industrial (41.5%)
13 financial (24.5%)
6 property (11.3%)
1 hotel (1.9%)
2 consolidated enterprises (3.8%)
9 in multiple or other lines of business (17.0%)

The survey of Indonesian executives was conducted in November 1994. The survey questionnaires, which were mailed under the letterhead of the Jakarta Stock Exchange to the chief executive officers of all listed firms, were written in both English and "Bahasa Indonesia." At the time of survey, there were 210 companies listed on the Jakarta Stock Exchange. The survey resulted in 53 usable responses, a response rate of 25.2%. The responses to the survey were divided into 22 industrial (41.5%), 13 financial (24.5%), 6 property (11.3%), 1 hotel (1.9%), 2 consolidated enterprises (3.8%), and 9 in multiple or other lines of business (17.0%).

Philippine executive respondents:
2 property (4.9%)
5 manufacturing (12.2%)
3 food (7.3%)
5 utilities (12.2%)
4 financial (9.8%)
1 hotel (2.4%)
5 holding companies (12.2%)
3 mining (7.3%)
2 oil (4.9%)
11 firms in multiple or other lines of business (26.8%)

The survey of Philippine executives was conducted in October 1995. The survey questionnaires, which were written in English, were mailed to the chief executive officers of 185 out of 205 listed firms for which the Philippine Stock Exchange provided complete addresses. The questionnaires were mailed under the letterhead of the University of the Philippines. A total of 41 usable questionnaires were returned, resulting in a response rate of 22.2%. The responses to the survey were divided into 2 property (4.9%), 5 manufacturing (12.2%), 3 food (7.3%), 5 utilities (12.2%), 4 financial (9.8%), 1 hotel (2.4%), 5 holding companies (12.2%), 3 mining (7.3%), 2 oil (4.9%), and 11 firms in multiple or other lines of business (26.8%).

Survey Limitations

Before discussing the results of the surveys, it is important to note several limitations of this study. The surveys were limited to firms listed on the Jakarta Stock Exchange and the Philippine Stock Exchange. The views on dividend and capital structure were (presumably) obtained only from chief executive officers. Obviously, chief executive officers are not the only ones involved in dividend and capital structure decisions.

It may be that the questionnaires themselves, which were based upon Western models and theories, caused a non-response bias in the results. The survey results may largely reflect the responses of executives familiar with Western models and theories.[1] Those that did not believe that Western models were useful or relevant may have not responded. This would certainly help explain the high levels of agreement among the executives who did respond. However, it is not possible to determine from the survey results if such a source of non-response bias exists.

The questionnaires, which were based upon Western models and theories, may have caused a non-response bias in the results. Executives who did not believe that Western models were useful or relevant may have not responded.

With these limitations in mind, the next sections discuss the results of the surveys and the implications for theory and practice.

Survey Results: Dividend Policy

To assess executive views on issues concerning dividend policy, the respondents were asked to indicate their level of agreement with each of the 13 closed-end statements based upon a seven-point scale: -3 = strongly disagree, -2 = moderately disagree, -1 = slightly disagree, 0 = no opinion, +1 = slightly agree, +2 = moderately agree, and +3 = strongly agree. Table 1 contains summary statistics on the responses to the closed-end statements from Indonesian and the Philippine executives. The statements are listed in the order in which they appeared in the questionnaires.

[1] A number of executives in various Pacific Basin countries received their education at Western universities. Western models and theories are also taught in the universities in the Pacific Basin, often using Western finance textbooks.

Table 1
Comparative Results: Dividend Policy

Statement	Level of Agreement: Disagreement (-3 -2)	(-1 0 +1)	Agreement (+2 +3)	Mean	Country
a. Dividend payout affects share price.	3.8%	35.8%	60.4%	1.43	Indonesia
	2.4%	46.3%	51.2%	1.59	Philippines
b. New capital investment requirements of the firm generally have little effect on modifying the pattern of dividend behavior.	20.8%	28.3%	50.9%	0.75	Indonesia
	43.9%	34.1 %	22.0%	-0.58	Philippines
c. A firm should have a target payout ratio and periodically adjust its payout toward that target.	1.9%	15.0%	83.0%	2.06	Indonesia
	4.9%	34.1%	61.0%	1.54	Philippines
d. Reasons for dividend policy changes should be adequately disclosed to investors.	0.0%	9.4%	90.6%	2.42	Indonesia
	0.0%	9.8%	90.2%	2.49	Philippines
e. The market uses dividend announcements as information for assessing security values.	5.7%	41.5%	52.8%	1.40	Indonesia
	4.9%	46.3%	48.8%	1.29	Philippines
f. Management should be responsive to its shareholders' preferences regarding dividends.	0.0%	20.8%	79.2%	1.87	Indonesia
	2.4%	19.5%	78.0%	1.83	Philippines
g. Dividend distributions should be viewed as a residual after financing desired investments from available earnings.	17.0%	45.3%	37.7%	0.51	Indonesia
	14.6%	29.3%	56.1%	1.15	Philippines
h. A change in the existing dividend payout is more important than the actual amount of dividends.	17.0%	52.8%	30.2%	0.28	Indonesia
	29.3%	61.0%	9.8%	-0.29	Philippines
i. A firm should avoid making changes in dividends that might have to be reversed in a year or so.	9.4%	39.6%	50.9%	1.04	Indonesia
	4.9%	26.8%	68.3%	1.76	Philippines
j. Dividend payments provide a "signaling" device of future company prospects.	17.0%	35.8%	47.2%	0.68	Indonesia
	9.8%	31.7%	58.5%	1.37	Philippines
k. Capital gains expected to result from earnings retention are riskier than dividend expectations.	11.3%	56.6%	32.1%	0.64	Indonesia
	20.5%	61.5%	17.9%	-0.13	Philippines
1. A firm should strive to maintain uninterrupted dividend payments.	3.8%	13.2%	83.0%	2.25	Indonesia
	4.9%	29.3%	65.9%	1.56	Philippines
m. Investors are basically indifferent between returns from dividends versus those from capital gains.	39.6%	37.7%	22.6%	-0.45	Indonesia
	32.5%	40.0%	27.5%	-0.25	Philippines

Attitudes on Dividends and Share Value

As previously noted, much of the controversy in the literature deals with the relationship between dividends and share value. Executives in both Indonesia and the Philippines agreed that dividend payout affects share prices (a) and therefore is not irrelevant. No strong views were expressed regarding whether returns from capital gains are more risky than returns from dividends (k), the basic justification offered by traditionalists to support the belief that shareholders prefer dividends to capital gains.

Attitudes on Lintner's Findings

In a classic study based upon interviews with American corporate executives in the mid-1950's, Lintner [1956] reported that although many firms do have long run payout ratios based upon earnings, year-to-year dividends respond slowly to earnings. Firms are reluctant to increase dividends to levels that cannot be sustained for fear of having to cut dividends later.[2]

Executives in both countries agreed that a firm should strive to maintain uninterrupted dividend payments (l) and should avoid making changes in dividends that might have to be reversed in a year or so (i). They also agree that firms should have a target payout ratio and periodically adjust its payout toward that target (c).

Executives in Indonesia expressed only slight agreement with the statement that a change in existing dividend payout is more important than the actual amount of dividends (h). Executives in the Philippines expressed slight disagreement.

Executives in both countries agreed that a firm should strive to maintain uninterrupted dividend payments and should avoid making changes in dividends that might have to be reversed in a year or so. They also agree that firms should have a target payout ratio and periodically adjust its payout toward that target.

Attitudes on Signaling Effects

Three statements involved signaling effects : (d), (e), and (j). The highest ranking statement in both Indonesia and the Philippines was that reasons for dividend policy changes should be adequately disclosed to investors (d). Executives in both countries agreed that dividend payments provide a "signaling of the firm's prospects" (j), although executives in Indonesia expressed only slight agreement. Executives in both countries agreed that the market uses dividend announcements as information for assessing security values (e).

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[2] The "stickiness" of dividends was also noted by Donaldson [1961] in a study on the financing practices of a sample of large U.S. corporations published in 1961. He observed that although firms adapt target payout ratios to their investment opportunities, they do so gradually trying to avoid sudden changes in dividends.

Attitudes on the Clientele Effect

Three statements dealt with clientele effects : (f), (k) and (m). Executives in Indonesia and the Philippines strongly agreed that management should be responsive to its shareholders' preferences regarding dividends (f). Executives in both countries expressed slight disagreement with the statement that investors are indifferent between returns from dividends versus those from capital gains (m). As previously mentioned, there was no strong opinion expressed whether shareholders have different perceptions regarding the riskiness of dividends and capital gains (k).

Attitudes on the Residual Policy

An implication of the signaling and clientele effects is that the residual policy should not be adhered to in the short-run (i.e., year-to-year) due to the erratic pattern of dividends that may result. If applied, it should be applied over a longer period in order to smooth the firm's dividend payments. Statements (b) and (g) address application of the residual policy. Whereas executives in Indonesia expressed slight agreement with the statement that new capital investment requirements have little effect on modifying the pattern of dividend behavior (b), executives in the Philippines expressed slight disagreement. On the other hand, executives in the Philippines slightly agreed with the statement that dividend distributions should be viewed as a residual after financing desired investments from earnings (g). No strong opinion was expressed by executives in Indonesia.

Other Determinants of Dividends

Executives in Indonesia and the Philippines strongly agreed that management should be responsive to its shareholders' preferences regarding dividends. Hoewever, they expressed slight disagreement with the statement that investors are indifferent between returns from dividends versus those from capital gains.

The closed-ended statements included in the dividend policy portion of the questionnaire are based upon theories derived from Western models of financial markets and institutions. However, there may be other issues related to dividend policy in Indonesia and the Philippines that were not included. In an attempt to identify other determinants of dividend policy that may be unique to Indonesia and the Philippines, the questionnaires also included open-ended questions asking executives to identify the major factors in determining the dividend policies of their firms.

In the case of the questionnaire used in Indonesia, the questions were completely open-ended. The responses to the questions were varied. The two most frequently identified determinants included the firm's investment opportunities/requirements and the profitability of the firm. Respondents also cited the need to maintain stable dividends. The availability of cash, the firm's cash flows, and the firm's share price were also cited. None of the determinants listed appeared to be unique to Indonesia.

The questionnaire used in the Philippines specifically listed three possible determinants of dividend policy along with blanks for listing other factors. Respondents agreed that the firm's investment opportunities, the availability and cost of alternative sources of capital, and constraints on dividend payments (e.g., cash availability, bond indentures) were important factors in the determination of dividend policy. Respondents did not list any other factor that appeared to be unique to the Philippines.

Survey Results: Capital Structure Policy

To assess executive views on capital structure policy, we used an adaptation of the questionnaire used by Pinegar and Wilbricht [1989] to survey U.S. executives. In an attempt to identify determinants of capital structure policy that may be unique to Indonesia and the Philippines, the capital structure portions of the questionnaires also included open-ended questions asking executives to identify the major factors affecting the capital structure policies of their firms.

Executives in both Indonesia and the Philippines expressed a strong preference for following a financing hierarchy. Specifically, 78.8% of the respondents in Indonesia and 90% in the Philippines follow a financing hierarchy, whereas only 21.2% and 10%, respectively, seek to maintain a target capital structure.

Target Capital Structure versus Financing Hierarchy

The first question of the capital structure portion of the questionnaire asked respondents to indicate whether, in raising new long-term funds, firms should "maintain a target capital structure by using approximately constant proportions of several types of long-term funds simultaneously" or "follow a financing hierarchy in which the most advantageous sources of long-term funds are exhausted before other sources are used." Executives in both Indonesia and the Philippines expressed a strong preference for following a financing hierarchy. Specifically, 78.8% of the respondents in Indonesia and 90% in the Philippines follow a financing hierarchy, whereas only 21.2% and 10%, respectively, seek to maintain a target capital structure. These results are consistent with the pecking order hypothesis. However, as Ang, Fatemi, Rad [1995] point out, preference for a financing hierarchy alone does not constitute sufficient support of the pecking order hypothesis.

Financing Hierarchy

Respondents who expressed a preference for the financing hierarchy were asked to rank seven sources of long-term funds in order of preference for financing new investments: internal equity (retained earnings), new common stock (to public), new common stock (rights issue), bank loans, bonds, convertible bonds, and preference shares. The results for Indonesia and the Philippines are shown in Tables 2 and 3, respectively. For each source, the percentage of responses within each rank, the percentage of respondents who did not rank the source, and the mean of the rankings are shown. Higher means indicate higher preferences.

As indicated, 82.9% of the respondents in Indonesia (who expressed preference for following a financing hierarchy) ranked internal equity (retained earnings) as their first choice of financing. Internal equity was ranked first by 80.6% of Philippine executives.

These results are consistent with the pecking order hypothesis, in which firms prefer internal to external financing. However, the pecking order hypothesis further implies that if the firm raises external funds, debt is preferred to new common stock. Unlike the findings of Pinegar and Wilbricht [1989] for U.S. executives, in which both straight and convertible debt was ranked higher than new common stock, executives in Indonesia ranked new common stock, both to the public and through rights issues, higher than debt. Within the debt category, bank loans were ranked ahead of bonds.

The results in the Philippines are mixed. Executives in the Philippines ranked bank loans ahead of new common stock, however, they ranked bonds below new common stock.

The low rankings of convertible bonds and preference shares in both Indonesia and the Philippines are not surprising, given the low importance of these securities in these countries.

Table 2
Preference Rankings of Long-Term Funds Among Firms in Indonesia that Follow a Financing Hierarchy*

Sources by Order of Preference	Percentage of Responses Within Each Rank								
	First	Second	Third	Fourth	Fifth	Sixth	Last	Not Ranked	Mean**
1. Internal equity (retained earnings)	82.9%	2.4%	7.3%	2.4%	0.0%	0.0%	0.0%	4.9%	6.41
2. New common stock (to public)	7.3%	41.5%	26.8%	4.9%	7.3%	0.0%	4.9%	7.3%	4.80
3. New common stock (rights issue)	2.4%	22.0%	36.6%	26.8%	4.9%	2.4%	0.0%	4.9%	4.59
4. Bank loans	4.9%	22.0%	17.1%	12.2%	7.3%	26.8%	4.9%	4.9%	3.80
5. Bonds	0.0%	9.8%	4.9%	19.5%	34.1%	22.0%	2.4%	7.3%	3.10
6. Convertible bonds	0.0%	2.4%	4.9%	22.0%	31.7%	22.0%	7.3%	9.8%	2.73
7. Preference shares	0.0%	0.0%	0.0%	17.1%	2.4%	22.0%	48.8%	9.8%	1.68

* *These statistics are based upon the respondents (78.8%) who expressed a preference for the financing hierarchy.*

** *Using Pinegar and Wilbricht's method, mean rankings are calculated by multiplying the percentage in each category with assigned scores of 7 through 1 for rankings from 1 through 7, respectively. A score of 0 is assigned when a source is not ranked.*

Table 3
Preference Rankings of Long-Term Funds Among Firms in the Philippines that Follow a Financing Hierarchy*

Sources by Order of Preference	Percentage of Responses Within Each Rank								
	First	Second	Third	Fourth	Fifth	Sixth	Last	Not Ranked	Mean**
1. Internal equity (retained earnings)	80.6%	11.1%	2.8%	0.0%	5.6%	0.0%	0.0%	0.0%	6.61
2. Bank loans	5.6%	25.0%	22.2%	19.4%	11.1%	5.6%	8.3%	2.8%	4.31
3. New common stock (rights issue)	5.6%	33.3%	13.9%	8.3%	13.9%	16.7%	2.8%	5.6%	4.19
4. New common stock (to public)	2.8%	8.3%	36.1%	5.6%	13.9%	11.1%	19.4%	2.8%	3.56
5. Bonds	2.8%	19.4%	11.1%	11.1%	11.1%	25.0%	11.1%	8.3%	3.31
6. Convertible bonds	0.0%	2.8%	11.1%	19.4%	19.4%	19.4%	22.2%	5.6%	2.69
7. Preference shares	2.9%	0.0%	2.9%	31.4%	25.7%	11.4%	17.1%	11.4%	2.69

** These statistics are based upon the respondents (90%) who expressed a preference for the financing hierarchy.*

*** Using Pinegar and Wilbricht's method, mean rankings are calculated by multiplying the percentage in each category with assigned scores of 7 through 1 for rankings from 1 through 7, respectively. A score of 0 is assigned when a source is not ranked.*

Relative Importance of Various Financial Planning Principles

The next question elicited ratings, on a scale of 1 to 5 (where 1=unimportant and 5=important) of the relative importance of various financial planning principles affecting a firm's financing decisions. The results, ranked in order of importance, are shown in Table 4 for Indonesia and Table 5 for the Philippines.

Ensuring the long-term survival of the firm and maintaining flexibility are the two most important considerations affecting a firm's financing decisions in both Indonesia and the Philippines.

Maintaining long-term relationships with banks was ranked third by Indonesian executives. However, it was only ranked sixth by Philippine executives. Maintaining a predictable source of funds was ranked third by Philippine executives, but only fifth by Indonesian executives. Maintaining financial independence was ranked fourth by both Indonesian and Philippine executives.

Ensuring the long-term survival of the firm and maintaining flexibility are the two most important considerations affecting a firm's financing decisions in both Indonesia and the Philippines.

The maximization of security prices was not ranked as an important factor governing financing decisions by Indonesian and the Philippine executives, who ranked it sixth and fifth, respectively. This result is consistent with the findings of Stonehill, Beekhuisen, Wright, Remmers, Toy, Pares, Shapiro, Egan, and Bates [1974] from their survey of the financial executives of 87 firms in five countries (France, Japan, the Netherlands, Norway, and the U.S.), where they found that not a single country's financial executives, not even those in the U.S., ranked maximization of the market value of shares as their first or even second most important financial goal.

Empirical evidence in the capital structure literature suggests the existence of an industry effect.[3] However, the need to maintain comparability with firms in the same industry was ranked least important by executives in all of the countries surveyed. Apparently, they do not attach a high level of importance to adhering to industry norms, at least relative to other factors affecting financial decisions.

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[3] See Aggarwal [1990] for an empirical study of the influences of country, size, and industry effect on the capital structure of large Asian companies. See Ariff and Johnson [1989, pp. 289-295] for empirical evidence of an industry effect in Singapore, and Ip and Hopewell [1987] for that in Hongkong.

Table 4
Relative Importance of Various Financial Planning Principles in Indonesia

Planning Principle by Order of Importance	Percentage of Responses Within Each Rating: Unimportant	Second	Third	Fourth	Important	Not Rated	Mean*
1. Ensuring long-term survival of firm	0.0%	0.0%	5.6%	8.3%	75.0%	0.0%	4.25
2. Maintaining financial flexibility	2.8%	2.8%	16.7%	38.9%	27.8%	0.0%	3.53
3. Maintaining long-term relationships with banks	8.3%	5.6%	13.9%	25.0%	36.1%	0.0%	3.42
4. Maintaining financial independence	2.8%	8.3%	27.8%	13.9%	36.1%	0.0%	3.39
5. Maintaining a predictable source of funds	0.0%	5.6%	22.2%	19.4%	36.1%	5.6%	3.36
6. Maximizing prices of publicly traded securities	2.8%	11.1%	41.7%	5.6%	25.0%	2.8%	2.97
7. Maintaining comparability with firms in same industry	11.1%	13.9%	25.0%	11.1%	19.4%	8.3%	2.56

* *Mean ratings are calculated by multiplying the percentage in each category with values of 1 through 5 for ratings from "unimportant" to "important," respectively. A score of 0 is assigned when not rated.*

Table 5
Relative Importance of Various Financial Planning Principles in the Philippines

	Percentage of Responses Within Each Rating						
Planning Principle by Order of Importance	Unimportant	Second	Third	Fourth	Important	Not Rated	Mean*
1. Ensuring long-term survival of firm	0.0%	0.0%	0.0%	8.3%	88.9%	2.8%	4.78
2. Maintaining financial flexibility	0.0%	0.0%	2.8%	38.9%	55.6%	2.8%	4.42
3. Maintaining a predictable source of funds	0.0%	2.8%	30.6%	16.7%	50.0%	0.0%	4.14
4. Maintaining financial independence	2.8%	2.8%	16.7%	36.1%	38.9%	2.8%	3.97
5. Maximizing prices of publicly traded securities	13.9%	5.6%	19.4%	22.2%	38.9%	0.0%	3.67
6. Maintaining long-term relationships with banks	8.3%	8.3%	33.3%	30.6%	16.7%	2.8%	3.31
7. Maintaining comparability with firms in same industry	25.0%	25.0%	25.0%	11.1%	11.1%	2.8%	2.50

* *Mean ratings are calculated by multiplying the percentage in each category with values of 1 through 5 for ratings from "unimportant" to "important," respectively. A score of 0 is assigned when not rated.*

Relative Importance of Capital Structure

Another question examined the importance of capital structure decisions relative to other decisions. When presented with an attractive new growth opportunity that could not be taken without departing from the target capital structure or financing hierarchy, cutting the dividend, or selling off other assets, 67.3% of the respondents in Indonesia and 61% in the Philippines indicated that they would deviate from their target capital structure or financing hierarchy. Only 3.9% of executives in Indonesia and 12.2% in the Philippines would forgo the opportunity. Only 9.7% of the Philippine executives would cut dividends. A higher 19.2% of Indonesian executives indicated that they would cut dividends. 9.6% and 17.1% would sell other assets in Indonesia and the Philippines, respectively.

The preference for dividend continuity, especially among executives in the Philippines, is also consistent with the pecking order theory and the results of the dividend policy portion of the surveys.

Other Determinants of Capital Structure Policy

The capital structure portion of the questionnaires also included open-ended questions asking executives to identify the other determinants of their firm's capital structure policy.

By far, the most widely cited factors listed by Indonesian executives were the level of interest rates and the costs of various sources of funds, which suggest that financial timing is an important consideration in making financing decisions. The firm's debt-to-equity ratio was also cited as an important determinant of capital structure, even by those expressing a preference for following a financing hierarchy. Apparently, not all respondents view maintaining a target capital structure and following a financing hierarchy as being mutually exclusive. Over time, firms that follow a financing hierarchy may adjust towards a target capital structure.[4]

When presented with an attractive new growth opportunity that could not be taken without departing from the target capital structure or financing hierarchy, cutting the dividend, or selling off other assets, 67.3% of the respondents in Indonesia and 61% in the Philippines indicated that they would deviate from their target capital structure or financing hierarchy.

The questionnaire used in the Philippine survey asked respondents to rate, on a scale of 1 to 5 (where 1=unimportant and 5=important), specific determinants of capital structure policy. Ratings were elicited for factors internal and external to the firm. The results are shown in Tables 6 and 7. The most important internal factors were the financing requirements of future expansion plans, the percentage of control desired by stockholders, stability of income/revenues, and management's policy regarding the use of internally generated funds. The most important external factors were the availability of long-term funds, the firm's investment opportunities,

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[4] Myers [1984] points out that, although there is some evidence that firms adjust toward a target capital structure, models based upon this partial adjustment process explain only a small part of actual firm behavior.

and the level of domestic interest rates. Although the questionnaire used in the Philippines provided blanks for open-ended responses, very few respondents offered any; none seemed especially unique to the Philippines.

Table 6
Determinants of Capital Structure Policy in the Philippines: Factors Internal to the Firm

Internal Factor by Order of Importance	Percentage of Responses Within Each Rating						
	Unimportant	Second	Third	Fourth	Important	Not Ranked	Mean*
1. Financing requirements of future expansion plans	0.0%	0.0%	2.4%	19.5%	75.6%	2.4%	4.63
2. Percentage of control desired by stockholders	2.4%	4.9%	19.5%	12.2%	61.0%	0.0%	4.34
3. Stability of income/revenues	0.0%	0.0%	22.0%	29.3%	46.3%	2.4%	4.15
4. Management policy of using internally generated funds	0.0%	0.0%	22.0%	34.1%	41.5%	2.4%	4.10
5. Tax deductibility of interest	12.2%	2.4%	31.7%	29.3%	24.4%	0.0%	4.00
6. Size of company (total assets)	0.0%	7.3%	19.5%	43.9%	26.8%	2.4%	3.83
7. Dividend policy	2.4%	12.2%	24.4%	31.7%	26.8%	2.4%	3.71
8. Collateral properties owned by the firm	12.2%	7.3%	41.5%	17.1%	19.5%	2.4%	3.66
9. Financing requirements of subsidiaries/affiliates	12.2%	12.2%	22.0%	29.3%	19.5%	4.9%	3.66
10. Revenues from export sales	24.4%	12.2%	7.3%	24.4%	14.6%	17.1%	3.39

* *Mean ratings are calculated by multiplying the percentage in each category with values of 1 through 5 for ratings from "unimportant" to "important," respectively. A score of 0 is assigned when not rated.*

Table 7
Determinants of Capital Structure Policy in the Philippines: Factors External to the Firm

External Factor by Order of Importance	Percentage of Responses Within Each Rating						
	Unimportant	Second	Third	Fourth	Important	Not Rated	Mean*
1. Availability of long-term loans	0.0%	2.4%	9.8%	41.5%	46.3%	0.0%	4.32
2 .Investment opportunities	2.4%	7.3%	17.1%	29.3%	43.9%	0.0%	4.15
3. Domestic interest rate level	0.0%	2.4%	9.8%	51.2%	34.1%	2.4%	4.10
4. Stock market conditions	9.8%	9.8%	34.1%	19.5%	26.8%	0.0%	3.83
5. Lenders' attitudes	2.4%	9.8%	19.5%	48.8%	17.1%	2.4%	3.71
6. Foreign exchange rate	0.0%	17.1%	14.6%	26.8%	36.6%	4.9%	3.68
7. Rating agency attitudes	7.3%	9.8%	31.7%	34.1%	14.6%	2.4%	3.61
8. Availability of short-term loans with favorable terms for long-term investments	9.8%	12.2%	17.1%	39.0%	14.6%	7.3%	3.54

* *Mean ratings are calculated by multiplying the percentage in each category with values of 1 through 5 for ratings from "unimportant" to "important," respectively. A score of 0 is assigned when not rated.*

Perceived Market Efficiency

Executives were also asked "approximately what percent of the time would you estimate that your firm's outstanding securities are priced fairly by the market?" Table 8 presents the results. Only 18.9% of the executives in Indonesia and 17.9% in the Philippines believed that their firm's securities were priced fairly by the market "more than 80 percent of the time." Pinegar and Wilbricht [1989] reported that 47.2% of U.S. executives believed that their firm's securities were priced fairly by the market "more than 80 percent of the time." Conversely, 28.3% of executives in Indonesia and 30.8% in the Philippines indicated that their securities were correctly priced less than 50% of the time, as compared to the 11.9% of U.S. executives reported by Pinegar and Wilbricht [1989]. According to these results, a significant proportion of Indonesian and Philippine executives are skeptical regarding the level of market efficiency in their countries.

According to these results, a significant proportion of Indonesian and Philippine executives are skeptical regarding the level of market efficiency in their countries.

Table 8
Perceived Market Efficiency

Percent of Time Firm's Securities are Believed to be Fairly Priced	Indonesia	Philippines
More than 80 percent of the time	18.9%	17.9%
Between 50 and 80 percent of the time	52.8%	51.3%
Less than 50 percent of the time	28.3%	30.8%

Conclusions

The survey responses on dividend policy are consistent with the survey results of Baker, Farrelly and Edelman [1985] in the U.S. and Kester, Chang and Tsui [1994] in Hongkong and Singapore.

The responses of executives in Indonesia and the Philippines to the survey questions on capital structure policy, which are generally consistent with the previously reported attitudes of executives in the U.S. reported by Pinegar and Wilbricht [1989], Hongkong and Singapore reported by Kester, Chang and Tsui [1994], and Malaysia reported by Kester and Isa [1994], indicate a preference for following a financing hierarcy rather than adhering to a target capital structure. Executives in all six countries ranked internal equity as their first choice for long-term financing, a result that is consistent with the pecking order hypothesis.

Despite the cultural, political and size differences, the foregoing results suggest a generally high level of agreement among executives in Indonesia and the Philippines with their counterparts in the U.S. and the other Pacific Basin countries on most issues related to dividend and capital structure policy. Further research is needed, perhaps using qualitative methods, to discover whether there are other significant issues related to corporate financial policy that are unique to Indonesia and the Philippines.

Executives in Indonesia and the Philippines considered financial flexibility as the most important consideration affecting a firm's financing decisions. Maintaining comparability with firms in the same industry was ranked least important in all six countries.

Executives in both countries appear to believe that a firm's investment and dividend decisions are more binding than capital structure decisions.

Despite the cultural, political and size differences, the foregoing results suggest a generally high level of agreement among executives in Indonesia and the Philippines with their counterparts in the U.S. and the other Pacific Basin countries on most issues related to dividend and capital structure policy. However, it must be again be pointed out that the survey questionnaires used in this study were inherently limited in scope, adapted from surveys based upon Western models of corporate financial policy, which are in turn based upon stringent underlying assumptions about market conditions and firm behavior. While such an approach lends itself to comparisons among executives in different countries, it implies a level of universality that may not exist. Further research is needed, perhaps using qualitative methods, to discover whether there are other significant issues related to corporate financial policy that are unique to Indonesia and the Philippines.[5]

[5] See McGoun and Kester [1994] for a commentary on the focus of Asia Pacific financial research and the universality of Western financial models.

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