FINANCIAL STRUCTURE OF THE MANUFACTURING CORPORATE SECTOR OF THAILAND AROUND THE ECONOMIC CRISIS: A DECOMPOSITION MEASURE BASED APPROACH

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ABSTRACT

This paper describes an investigation into the financial structure of the manufacturing corporate sector of Thailand before and after the economic crisis. The structure is important for financial statement analysts who are often concerned with changes over time in the relative shares of the financial statement items. Decomposition analysis has been used for measuring the relative shares. It is found that the decomposition measures are higher after the economic crisis. The total liabilities decomposition measure was found higher as compared to the total assets decomposition measure before the crisis and lower in many cases after the crisis. Industry variations do not provide any systematic explanations for this variation.

Introduction

Studies on the Thai economic crisis have tended to conclude that it was due to the inability of the economy to effectively handle the macro level variables such as financial policies adopted for the industry, level of current accounts, extent of solvency of the financial institutions and amount of money supply (Tower, 1997). Micro level variables are not considered in the context of the crisis in most of the prior studies. This paper investigates the financial statement information to evaluate the manufacturing corporate sector around the economic crisis.

Financial statements provide information reflecting the result of financing and investing decisions made by a company. They reflect the allocation of corporate resources and deployment of these resources. Due to flow of resources within the company itself and between the company and its stakeholders, there is a constant change in the elements of financial statements. External environmental factors including demand of the customers, number of suppliers, global technological change, economic condition, social development and the like are responsible for these changes in the company. These changes could be expected or unexpected. Internal decisions of the company such as adding or dropping product lines, expansion or contraction, vertical or horizontal integration, investment or divestments are all associated with the changes of the environmental factors. Decisions in this regard are reflected in the income statements and the balance sheet of a company.

The impact of decisions changes the various items in the statements. Increase in market demand and consequent decision to extend production capacity of the company could result in acquiring new property, plant and equipment, hiring employees, raising resources from owners and lenders, which are reflected as changes in the financial statements. This composition in turn is associated with business risks and financial risks. A given fixed asset implies an investment that can not be retraced immediately. Holding a large quantity of property, plant, and equipment or fixed assets increase production capacity that can support higher sales. But, on the other hand, there is always a possibility of not achieving the full capacity for various reasons, such as wrong forecasting, poor management or economic downturns, causing a serious business risk. The investment in fixed assets also carries the risk of losing value if the technology changes.

Composition of cash, inventory, and accounts receivables are also subject to business risk. The current assets are held with the motive of exchange or transformation and hence carry with it a direct risk of transaction loss. Cash or near cash assets, which is held