

## Firm Size and Capital Structure Decisions: Evidence From Turkish Lodging Companies

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**ABSTRACT:** Aim of this study is to investigate the role of firm size on capital structure decisions of Turkish lodging companies. In this context, a survey questionnaire is developed and sent to unquoted Turkish lodging companies. 163 lodging companies answered the survey and they are classified according to their sizes. Empirical findings reveal that firm size is a significant factor for capital structure decisions of Turkish lodging companies. Firm size seems to affect lodging companies in using incentives, issuing common stock, using personal debt and determining target debt ratio. Most of the empirical findings seem to support pecking order theory.

**Keywords:** Firm Size, Capital Structure, Pecking Order Theory, Trade-off Theory; Lodging Companies.

**JEL Classifications:** G32, M20

### 1. INTRODUCTION

The relationship between capital structure decisions and firm value has been extensively investigated in the past few decades. Modigliani and Miller (1958), Modigliani and Miller (1963) are generally perceived as milestones among capital structure studies. They construct the role of taxes, market value of firm and cost of capital in capital structure decisions. Likewise, Jensen and Meckling (1976) and Myers (1977) introduce bankruptcy and financial distress costs and agency costs, respectively. These concepts are considered as the basics of trade-off theory. According to this theory, any increase in debt level causes an increase in bankruptcy, financial distress and agency costs, and hence decreases firm value. Thus, an optimal capital structure may be acquired by establishing equilibrium between tax advantages and financial distress and bankruptcy costs of debt. In order to establish this equilibrium firms should seek debt levels at which the costs of possible financial distress offset the tax advantages of additional debt (Karadeniz *et al.*, 2009).

Pecking order theory may be thought as an alternative to the trade-off theory. Myers and Majluf (1984) assume that there is an information asymmetry among investors. Since investors generally have less information than insiders do, common stocks would be undervalued by the market. Moreover, firms do not have target capital structures. The pecking order theory maintains that firms prefer internal to external financing sources. They use external financing only when internal funds are not sufficient.

Lodging companies are capital intensive, as they require huge capital at both investment and operating phases. Since assets of lodging companies mostly consist of fixed assets, share of long-term debt and owners' equity naturally increase. Furthermore, because of the structure of the industry, lodging companies are highly sensitive to systematic risks. Therefore, lodging companies face high levels of operating and financial risks (Andrew and Schmidgall, 1993). All these characteristics make it important to determine the composition of capital structure and the factors affecting leverage decisions.

Aim of this study is to investigate the role of firm size on capital structure decisions of unquoted Turkish lodging companies. Moreover, the roles of trade-off and pecking order theories in explaining the capital structures of the lodging companies are scrutinized. A survey is constructed according to the objectives of the study and sent to 619 lodging companies. 163 of the 619 lodging companies returned. First, the data is examined generally and frequency distributions are interpreted. Second, lodging companies are classified according to their sizes and it is examined whether there are differences in responds of the firms with diverse sizes. Finally, chi-square and Anova tests are employed to measure whether there are differences among the financing decisions of different size groups.

The rest of the paper is organized as follows: Section 2 reviews the literature. Section 3 explains data, methodology and research questions, respectively. Section 4 reports the empirical results. Section 5 presents the conclusions. Section 6 and Section 7 summarizes limitations and implications.

## 2. LITERATURE REVIEW

There is growing body of literature focusing on capital structures and the factors affecting the capital structures of the companies. Employing various econometric methods, several studies investigate capital structures of companies. In addition to econometric techniques, some other empirical studies employ survey methods. The studies that employ econometric methods report a positive relationship between firm size and leverage and they conclude that trade-off theory is valid (Chen and Hammes, 1997; Wiwattanakantang 1999; Colombo, 2001; Fama and French, 2002; Fattough *et al.*, 2003; Deesomsak *et al.*, 2004; Voulgaris *et al.*, 2004; Gaud *et al.*, 2005; Hol and Wijst, 2006; Huang and Song, 2006; Sayilgan *et al.*, 2006; Zou and Xiao, 2006; Feidakis and Rovolis, 2007; Qian *et al.*, 2007; Tortop, 2007; Daskalakis and Psillaki, 2008; Heyman *et al.*, 2008).

However, since survey is constructed and used in this study, our focus will be on the studies that employ surveys. Ang *et al.* (1997) determine bank credits, retained earnings and trade credits as the main sources of financing for publicly traded Indonesian firms. Graham and Harvey (2001) find that financial managers take into account 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. As a result, both pecking order and trade-off theories seem valid for US firms. Bancel and Mitto (2004) determine financial flexibility, credit rating and tax advantage of debt as the major variables that affect debt policy of companies in 16 European countries. Brounen *et al.* (2005) find that financial managers in Netherlands, UK, France and Germany establish a target debt ratio. In this context, they assert that tradeoff theory is valid for these countries. Frielinghaus *et al.* (2005) maintain 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. Beattie *et al.* (2006) find 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. Grundströmer and Gustafsson (2007) report financial flexibility, long-term capacity and credit rating as the most important factors that affect capital structure decisions of publicly traded Swedish companies.

Although the determinants of capital structure are well documented, there is little work on the capital structure of firms in the tourism industry. Kwansa and Cho (1995) investigate the impact of the trade-off between financial distress costs and tax earnings in the US restaurant industry. They report a significant bankruptcy cost effect on capital structure and firm value. Upneja and Dalbor (1999) detect a positive relationship between before and after tax rates of US restaurant companies and their leasing activities. Özer and Yamak (2000) examine financial sources used by lodging companies with less than 100 rooms located in Istanbul. They find that lodging companies appear to use internal funds and

debt, respectively, in their investment stage. Retained earnings appear to be the major source of funds in the operating stage. Upneja and Dalbor (2001) indicate that debt ratio is positively related to growth opportunities, firm quality, and share of fixed assets for publicly traded US lodging companies. On the contrary, non-debt expenses and debt ratio seem to be negatively related. Moreover, firm size and debt ratio do not seem to share a significant relationship. Nuri and Archer (2001) report higher debt ratios for UK lodging industry than the debt ratios for UK retail industry. They point out that the trade-off theory rather than the pecking order theory is more consistent with the lodging and retail industries in the UK. Dalbor and Upneja (2002) suggest that long-term debt usage shares a positive relationship with risk and firm size in publicly traded US restaurant firms. Furthermore, firm quality and growth opportunities, are found to be related negatively with long-term debt usage. Elgonemy (2002) reports advantages and disadvantages of debt financing and debt alternatives in the lodging companies. Phillips and Sipahioğlu (2004) present evidence on the independence of financial performance and capital structure for publicly traded UK lodging companies. Moreover, lodging companies seem to prefer external sources, since capital return is at a low level. Tang and Jang (2007) find that long-term debt level is positively related to fixed-assets level and growth opportunities for the US lodging companies. However, they cannot find evidence of relationship among, leverage ratio, volatility of earnings, firm size, profitability, and free cash flow. Karadeniz *et al.* (2009), report a negative linkage among debt ratio and effective tax rates, tangibility of assets, return on assets of publicly traded Turkish lodging companies, whereas free cash flow, non-debt tax shields, growth opportunities, net commercial credit position, and firm size do not appear to be related with the debt ratio. They conclude that these findings support neither pecking order theory nor the trade-off theory exactly.

### 3. DATA AND METHODOLOGY

The survey, which had been constructed according to the objectives of the study, was sent by e-mail and mail. The survey had been constructed and pre-tests had been performed in the period between February 2007 and April 2007. By May 2007, surveys were sent to the lodging companies and 163 of them responded by September 2007.

Research population consists of Turkish lodging companies that have tourism operation license. According to the Republic of Turkey Ministry of Culture and Tourism data for the year 2006, 2475 lodging companies have tourism operation license. The size of the sample should be at least 25% of the population in order for sample to proxy the population (Churchill, 1991). At 95% confidence level and aiming for 25% of the population, sample size was calculated as 619 lodging companies according to absolute precision criterion. Out of the 619 lodging companies, 163 lodging companies agreed to participate the survey, resulting in 26,3% response rate. In the literature, response rates vary between 1,7% and 86,3% (Ang *et al.*, 1997; Özer and Yamak, 2000; Graham and Harvey, 2001; Brounen *et al.*, 2005; Frielinghaus *et al.*, 2005; Beattie *et al.*, 2006; Grundströmer and Gustafsson, 2007).

The survey package included a questionnaire for the financial or accounting managers of unquoted lodging companies. The questionnaire in the survey package is constructed in light of Graham and Harvey (2001), Özer and Yamak (2000). There are totally 18 questions in the survey. The first 5 questions in the survey are designed to identify the lodging company. Other questions are related with financial sources used to finance setup investments ongoing operations and future investments. Moreover, some questions are related with basic financial problems of the lodging companies and the factors that affect the maturity and amount of financial sources. Nevertheless, in order to be compatible with the objectives of the study, we analyze the questions related with identifying the company and the linkage between firm size and choice of financial sources.

We obtain data from 163 lodging companies. First, the data is examined generally and frequency distributions are interpreted. Second, lodging companies are classified according to their sizes and it is examined whether there are differences in responses of firms with diverse sizes. The size groups are constructed according to the number of personnel. Finally, chi-square and anova analyses are employed to measure whether there are differences among the financing decisions of different size groups. The criteria used for classifying lodging companies come from the small and medium size enterprises definition of European Union Commission. According to this definition, the companies that employ 0-49 personnel are classified as small sized companies. The companies that employ

between 50 and 249 personnel are defined as middle-sized companies. The companies that employ more than 250 personnel are referred to as big companies (Yılmaz, 2003).

*Research Questions:*

Toward the objectives of the study, several research questions are constructed. These research questions are presented below.

1) Do the financial source preferences of Turkish lodging companies for financing initial investments differ according to the firm size?

According to trade-off theory, as big companies better diversify risk and have lower level of default risk, they tend to use debt in financing setup investments (Rajan and Zingales, 1995; Jaggi and Gül, 1999). On the other hand, according to pecking order theory, as companies become bigger, they provide more information and face less asymmetric information problem. Thus, cost of equity of big companies is less than that of smaller companies. As a result, pecking order theory suggests that as companies get bigger they tend to depend on equity rather than debt (Frank and Goyal, 2003).

2) Do the financial source preferences of Turkish lodging companies for financing ongoing operations differ according to the firm size?

Trade-off theory conjectures that as big companies are credible in money markets and they have lower levels of agency cost, they depend on debt in financing their ongoing operations (Jaggi and Gül, 1999; Bhaduri, 2002). However, pecking order theory asserts that since big companies have sufficient levels of internal sources, they tend to use internal sources at the first place. Debt takes the second place and issuing common stock is the last resort (Petersen and Rajan, 1994; Akhtar and Oliver, 2005).

3) Do the financial source preferences of Turkish lodging companies for financing future investments differ according to the firm size?

According to trade-off theory, as default risk of big companies is smaller, big companies tend to use debt in financing their future investments (Jaggi and Gül, 1999; Bhaduri, 2002). However, pecking order theory assigns internal sources a priority in financing future investment opportunities (Myers and Majluf, 1984).

4) Do the ranking of financial source preferences of Turkish lodging companies differ according to the firm size?

Trade-off theory maintains a positive relationship between firm size and leverage. Big companies are credible in money markets and their agency cost of debt is at a lower level. Thus, big companies are expected to intensively use debt (Rajan and Zingales, 1995; Jaggi and Gül, 1999; Bhaduri, 2002; Brierly and Bunn, 2005). On the other hand, pecking order theory suggests that big companies have sufficient levels of internal sources and lower cost of equity. As results, they incline to use retained earnings as the primary financing source. Any excess financial needs are met by debt and they issue common stocks at the last step (Frank and Goyal, 2003; Mira and Gracia, 2003; Daskalakis and Psillaki, 2008).

5) Do Turkish lodging companies' composition of debt differ according to the firm size?

Either trade-off or pecking order theory suggests a pervasive impact of firm size on composition of debt.

6) Do Turkish lodging companies' target debt-to-asset ratio for the following three years differ according to the firm size?

Trade-off theory asserts the existence of a target debt ratio. Accordingly, companies should determine an optimal target capital structure in order to balance benefits and costs of using extra debt. Moreover, big companies are assumed to determine target debt ratio more often than small companies do. In this sense, Graham and Harvey (2001) find that big companies have more rigid target debt ratios than small and medium sized companies. However, pecking order theory conjectures that shifts in the debt levels of companies are independent of predetermined capital structures. In other words, companies do not have target leverage and realized leverage ratios are determined by the difference between investments and retained earnings (Myers and Majluf, 1984; Rajan and Zingales, 1995).

#### 4. EMPIRICAL RESULTS

Among the 163 respondents of the survey, 140 are hotel, 1 is motel, 8 are boutique hotel, 8 are holiday village and 1 is pension. 5 respondents do not specify the kind of the lodging company. The majority of the respondents are hotel companies with an 88,6%. The number of the other type of lodging companies is rather small. According to the geographic region, 31 lodging companies operate in the Mediterranean Region, whereas 49 lodging companies operate in each of the Aegean and Marmara regions. There are 34 lodging companies in central Anatolia region. 160 of the lodging companies submit their human resources information. Among those companies, 45 of them are classified as small sized, while there are 85 medium sized and 30 big sized lodging companies, respectively.

##### *The Financing Preferences of Lodging Companies During the Initial Stage According to Their Sizes.*

Among the 160 lodging companies that submit their personnel information, 45 are small-sized, 85 are medium-sized and 30 are big-sized companies. We test the relationship between size of the companies and financing preferences during the initial stage. Thus, we expect to learn whether financing preferences during initial stage shows variability due to firm size. Independent of the size of the company, equity is the major source of funds during initial stage. Bank credit and incentive takes the second and third places, respectively. This finding suggests that financing source preferences of lodging companies during the initial stage is not affected by the size of the lodging company. Since investments are primarily financed by internal sources and secondary by external sources, financing initial stage seem to obey pecking order theory.

Table 1 summarizes the Chi-Square test that is designed to examine the relationship between firm size and the financing preferences during the initial stage. The large p values in Table 1 reveal that we cannot observe statistically significant linkages between firm size and financing initial investments by bank credit, equity, trade credit, industrial development bank loan and common stock issue. On the contrary, there is a statistically significant relationship between firm size and using incentives in financing initial investments. We conclude that big-sized lodging companies use incentives more than small-sized lodging companies.

**Table 1. Analyzing The Relationship Between Firm Size And Financing Preferences For Initial Investments By Chi Squared Test**

| Financing Preferences                                 | X <sup>2</sup> value | d.f. | p value |
|---|----------------------|------|---------|
| Bank Credit   | 1,148                | 2    | 0,563   |
| Incentive   | 9,314                | 2    | 0,009*  |
| Equity  | 0,857                | 2    | 0,651   |
| Trade Credit  | 1,811                | 2    | 0,404   |
| Industrial Development Bank Loan                      | 1,747                | 2    | 0,417   |
| Common Stock Issue                                    | 2,511                | 2    | 0,285   |
| *Significant at 0,01 level. d.f., degrees of freedom. |                      |      |         |

##### *The Financing Preferences of Lodging Companies for Their Ongoing Operations According to Their Sizes.*

Retained earnings are the primary financing source for ongoing operations. Bank credit and trade credit come in the second and third places, respectively. Financing options for ongoing operations show similarity between big and small sized lodging companies. However, bank credit is the most important financing source for medium-sized lodging companies. Retained earnings are the secondary sources, whereas trade credits take the third place. Since internal sources are opted for external sources, big and small sized lodging companies seem to obey pecking order theory in financing their ongoing operations.

Table 2 indicates that there is not any statistically significant relationship among firm size and financing ongoing operations by retained earnings, bank credit, factoring, incentives and trade credit. Nevertheless, we detect a statistically significant relationship between firm size and common stock issue. Likewise, we observe a significant linkage between firm size and personal debt. In this manner, as companies become bigger, they tend to use financial sources obtained by issuing common stock and from personal debt in financing ongoing operations.

**Table 2. Analyzing The Relationship Between Firm Size And Financing Preferences For Ongoing Operations By Chi Squared Test**

|                    | % <sup>2</sup> value | d.f. | p value |
|--------------------|----------------------|------|---------|
| Retained Earnings  | 0,468                | 2    | 0,792   |
| Common Stock Issue | 26,494               | 2    | 0,000*  |
| Bank Credit        | 3,701                | 2    | 0,157   |
| Leasing            | 3,245                | 2    | 0,197   |
| Factoring          | 1,274                | 2    | 0,529   |
| Personal debt      | 5,103                | 2    | 0,078** |
| Incentive          | 3,421                | 2    | 0,181   |
| Trade Credit       | 1,044                | 2    | 0,593   |

\*0,01 Significance level.  
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d.f., degrees of freedom.

*The Financing Preferences of Lodging Companies for Future Investments According to Size.*

Table 3 demonstrates that independent of firm size, majority of lodging companies tend to finance future investments by internal sources. Debt takes the second place. This finding seems to support pecking order theory.

**Table 3. Distribution Of Financing Preferences Of Lodging Companies For Their Future Investments According To Size**

| Lodging Companies | Internal Sources |      | Debt    |      | Common Stock Issue |      |
|-------------------|------------------|------|---------|------|--------------------|------|
|                   | Nonuser          | User | Nonuser | User | Nonuser            | User |
| Small             | 3                | 20   | 19      | 4    | 23                 | 0    |
| Medium            | 5                | 47   | 30      | 22   | 51                 | 1    |
| Big               | 5                | 17   | 10      | 12   | 22                 | 0    |
| Total             | 13               | 84   | 59      | 38   | 96                 | 1    |

The p values in Table 4 reveal that there is no relationship between firm size and using internal sources or issuing common stock in financing future investments. Nevertheless, we detect a statistically significant relationship between firm size and using debt in financing future investments.

**Table 4. Analyzing The Relationship Between Firm Size And Financing Preferences For Future Investments By Chi Squared Test**

|                    | X <sup>2</sup> value | d.f. | p value |
|--------------------|----------------------|------|---------|
| Internal Sources   | 2,293                | 2    | 0,318   |
| Debt               | 6,976                | 2    | 0,031*  |
| Common Stock Issue | 0,874                | 2    | 0,646   |

\*0,05 Significance level.  
d.f., degrees of freedom.

*Ranking Financial Sources Used for Meeting Fund Requirements Due to Sizes of Lodging Companies.*

The relationship between firm size and ranking of financial sources is analyzed by ANOVAs test. Table 5 depicts that lodging companies prefer internal sources as the primary financing source. Debt and issuing common stock are the following financing alternatives. This finding is robust among different firm sizes and consistent with pecking order theory.

Table 6 summarizes the Anova test results which is performed to test whether the ranking of financing preferences change due to firm size. Large p values indicate that financing preferences are not impacted by firm size.

*The Distribution of Debt Maturity Preferences of Lodging Companies due to Firm Size*

Table 7 examines the preferences for composition of debt according to the firm sizes. Findings reveal that lodging companies with different sizes have similar preferences toward not using debt. Moreover, medium-sized lodging companies tend to use long-term debt. On the contrary, big-sized lodging companies seem to prefer short-term debt.

**Table 5. Ranking Financial Sources Used For Meeting Fund Requirements Due To Sizes Of Lodging Companies**

|        |             | Internal source | Debt  | Common Stock Issue |
|--------|-------------|-----------------|-------|--------------------|
| Small  | Mean        | 1,13            | 1,89  | 2,94               |
|        | Observation | 45              | 36    | 35                 |
|        | Std. Dev.   | 0,344           | 0,465 | 0,236              |
| Medium | Mean        | 1,09            | 2,01  | 2,85               |
|        | Observation | 80              | 70    | 65                 |
|        | Std. Dev.   | 0,284           | 0,525 | 0,364              |
| Big    | Mean        | 1,17            | 1,82  | 2,77               |
|        | Observation | 24              | 28    | 22                 |
|        | Std. Dev.   | 0,381           | 0,723 | 0,429              |

**Table 6. Analyzing The Impact Of Firm Size On Rank Of Financial Source Preference By Anova Test**

| Financial Source   | Sum of Squares | d.f. | Mean of Squares | F Stat. | p value |
|--------------------|----------------|------|-----------------|---------|---------|
| Internal source    | 0,140          | 2    | 0,070           | 0,683   | 0,507   |
| Debt               | 0,874          | 2    | 0,437           | 1,408   | 0,248   |
| Common Stock Issue | 0,420          | 2    | 0,210           | 1,760   | 0,177   |

**Table 7. The Distribution Of Debt Maturity Preferences Of Lodging Companies Due To Firm Size**

| Lodging Companies | Long-term and short-term debt are used equally | Debt is not used | Short-term debt is preferred | Long-term debt is preferred |
|-------------------|--|------------------|------------------------------|-----------------------------|
| Small             | 4  | 24               | 8                            | 4                           |
| Medium            | 11   | 31               | 13                           | 23                          |
| Big               | 0  | 11               | 11                           | 7                           |
| Total             | 15   | 66               | 32                           | 34                          |

Table 8 summarizes the results of chi square test that analyzes the relationship between firm size and the preference for the composition of debt. Low p value specifies no relationship between firm size and composition of debt. Thus, we observe the existence of a statistically significant relationship between firm size and composition of debt.

**Table 8. Analyzing The Relationship Between Firm Size And Composition Of Debt**

|   | X <sup>2</sup> value | d.f. | p value |
|---|----------------------|------|---------|
| Composition of debt                                 | 15,757               | 6    | 0,015*  |
| *0,05 Significance level, d.f., degrees of freedom. |                      |      |         |

#### *Distribution of Attitudes toward Target Ratio According To Sizes of Lodging Companies*

When we examine the attitudes of lodging companies toward target debt ratio, 10 big sized and 13 medium-sized lodging companies seem to have a target debt ratio. The number of small-sized lodging companies, which accept to have a target debt ratio, is only three. Table 9 presents the distribution of lodging companies' attitudes toward target debt ratio. Findings indicate that majority of the lodging companies do not determine a target debt ratio. We observe a similarity between these findings and pecking order theory.

**Table 9. Distribution of Attitudes toward Target Debt Ratio According To Firm Size**

| Lodging Companies | Determining Target Debt Ratio | Not Determining Target Debt Ratio |
|-------------------|-------------------------------|-----------------------------------|
| Small             | 3                             | 40                                |
| Medium            | 13                            | 68                                |
| Big               | 10                            | 20                                |
| Total             | 26                            | 128                               |

For the 26 lodging companies that have target debt ratios, the target debt ratio is determined as 43, 08%. Among the 23 lodging companies that specify their target debt ratios, 10 of them are classified as big-sized and 13 of them are classified as medium and small sized company. The average target debt ratio of big-sized lodging companies is computed as 31%, whereas the same ratio is 52, 38% for medium and small sized lodging companies. These figures show that big-sized lodging companies have lower target debt ratios than medium and small sized lodging companies. This finding supports trade-off theory and it is compatible with Graham and Harvey (2001).

**Table 10. Analyzing The Relationship Between Firm Size And Target Debt Ratio By Chi Square Test**

|   | X <sup>2</sup> value | d.f. | p value |
|---|----------------------|------|---------|
| Target Debt Ratio                                     | 8,833                | 2    | 0,012*  |
| *0,05 Significance level<br>d.f., degrees of freedom. |                      |      |         |

A chi square test is employed to analyze the relationship between firm size and target debt ratio and findings are summarized in Table 10. We can conclude that there is a statistically significant relationship between firm size and target debt ratio.

## 5. CONCLUSIONS

Aim of this study is to investigate the role of firm size on capital structure decisions of unquoted Turkish lodging companies. Furthermore, validity of trade-off and pecking order theories in explaining the capital structures of the lodging companies are examined. A survey is constructed in the light of the recent literature and sent to 619 lodging companies. 163 of the 619 lodging companies returned at September 2007.

The survey results suggest that there is a statistically significant relationship between firm size and using incentives in financing setup investments. Furthermore, we detect a statistically significant relationship between firm size and common stock issues. Likewise, we 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. Three points call for pecking order theory. First, lodging companies prefer internal sources in financing their investments. Second, we cannot observe a pervasive target debt ratio among lodging companies. Third, among the minority that have target debt ratios, big sized lodging companies determine lower target debt ratios. Moreover, big lodging companies appear to depend on short-term debt. The reason is that short-term debt does not require collateral and contract. This finding is in line with pecking order theory. On the other hand, we observe a statistically significant relationship between firm size and determining a target debt ratio. This finding supports trade-off theory. Since big 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.

The characteristics of lodging companies require a high level of fixed asset investments. Thus, we expect equity and long-term debt intensive capital structures for lodging companies. The responds we receive by the survey are in line with this expectation. Turkish lodging companies seem to prefer equity and long-term debt in a sequence. This sequential order may be the result of lodging companies' financing habits of not using capital markets. First, lodging companies are not inclined to issue common stock.

Equity is generally obtained by retaining income. Besides, the priority of retained earnings may arise from the difficulties in obtaining long-term debt. The reason lying behind this difficulty would be related with the unique feature of Turkish capital market. Corporate bond is not a popular debt instrument in Turkish capital market. However, there is a dynamic Treasury bill and government bond markets. The latter debt instruments may be crowding out corporate bonds and limit financing



opportunities for companies. The only available long-term debt instrument for Turkish lodging companies is the bank credits. There may be some arrangements and incentives in the capital markets for facilitating lodging companies' issuing long-term securities. This would relieve the problem of depending highly on retained earnings and bank credits.

## 6. LIMITATIONS

We confront some constraints during the survey sending and collecting period. First, accounting registers do not seem to be smooth due to concerns related with tax issues. Moreover, many lodging companies do not have finance departments. In these companies, accounting departments try to handle responsibilities of finance department. Natural result of this malfunction is that accounting managers lack critical financial information of the lodging company. Another problem arises from the content of the survey questions. Some of the questions cannot be comprehended by the respondents. In addition, some numeric questions are not replied due to privacy concerns. Source of the last limitation is the high level of employee turnover in lodging companies. Since accounting and financial managers of lodging companies frequently alter their employers, they may not know the previous practices of the lodging company.

## 7. IMPLICATIONS FOR FUTURE STUDIES

Although determinants of capital structure have been studied intensively for manufacturing or financial companies, there is limited number of studies for the tourism industry. Moreover, considerable portion of these studies employ econometric methods and test validity of several capital structure theories. Naturally, these studies depend on the availability of the data. Data requirements enforce focusing on publicly traded tourism companies. New survey-based studies would enlarge the scope by covering unquoted tourism companies. Future studies may also compare capital structure of unquoted tourism companies in various countries.

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