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Corporate finance practice in Kuwait: a survey to confront theory with practice

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Keywords

Corporate, finance, practice, Kuwait, survey, confront, theory, practice

Disciplines

Business | Social and Behavioral Sciences

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Corporate Finance Practice in Kuwait: A Survey to Confront Theory with Practice

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Abstract

This study reports the results of a survey among 80 CFOs in Kuwaiti listed firms on current corporate finance practices namely, capital budgeting, costs of capital, capital structure, and dividend policy. This paper analyses specifically the survey responses according to the firm's attributes and CFO's characteristics such as firm size, sector, equity, CFO's education, ownership, tenure, age, and target debt ratio. The results of this survey-based analysis indicate that there is some evidence of the application of basic corporate finance tools that are inline with what is taught in classrooms. For example, we find that a surprising number of firms are widely using IRR now as a capital budgeting techniques for decisions making today despite its limitation. The CAPM is also in use now to estimate the cost of equity capital whereas WACC remains the most popular used method due the simplicity of the tax system in Kuwait. We find some support for the "Bird-In-Hand" dividend theory. We also find that firms do not have any particular source of capital structure choices when it comes to how best finance their projects as is the case in the US market. This finding reveals that finance theory is not yet fully implemented. The results also indicate that corporate finance practices vary depending on firm and management characteristics.

Keywords: Capital Budgeting, Cost of Capital, Capital Structure, Dividend policy, Kuwait

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1. Introduction

Over the last century there has been considerable academic interest in examining whether corporate finance theories are inline with actual industry practices. Graham and Harvey's (2001) comprehensive survey on capital budgeting, cost of capital and capital structure[1] is also a notable contribution. They find that management use techniques to value projects and estimate cost of capital that have been taught in business school for years, but in contrast, CFOs are less likely to follow the academic recommendations and theories when determining capital structure. Anand (2002) also surveys 81 CFOs in India by examining capital budgeting, cost of capital, capital structure, and dividend policy decisions. His study finds that the practitioners do use the basic corporate finance tools that have been taught in business school when determining capital budgeting, cost of capital and capital structure. Brounen, Jog and Koedijik (2004) present results of an international survey among 313 CFOs on capital budgeting, cost of capital, capital structure, and corporate governance in UK, the Netherlands, Germany, and France. Their findings indicate that there are not much remarkable differences across countries regarding the application of corporate finance practices.

There is a lack of evidence in corporate practice of emerging markets such as Kuwait. In this study, a comprehensive survey is conducted to describe the current corporate finance practice of corporate finance in Kuwait. This study attempts to reconcile the gap between theory and practice by measuring the extent to which theoretical concepts have been adopted by professionals from a broad range of listed firms in Kuwait. The objective of the survey is not only to complement prior studies but also to contribute to existing theories by identifying areas where academic recommendations have not been fully implemented (Graham and Harvey, 2001). The results of this research will be particularly useful in informing practitioners in markets in Gulf Cooperation Council (GCC)[2] such as Kuwaiti the importance of

[1] Graham and Harvey (2001) is the most famous survey study in the recent financial literature. The survey was awarded the Jensen Price for being the best corporate finance paper published in the Journal of Financial Economics in 2001.

[2] As evidenced from the developing countries, only one study is survey–based performed by Anand (2002) in India. While a study by Omet and Mashharawe (2003) focuses only on the empirical analysis of capital structure determinants of non-financial companies in Jordanian, Saudi, Kuwaiti, and Omani,

applying popular and suitable corporate finance techniques in the management of their companies[3].

We choose Kuwait for two reasons. Firstly, Kuwait provides a unique natural setting to test corporate finance theories because of the simplicity of its tax system – there are neither personal taxes nor corporate taxes on dividends and capital gain. This is markedly different from the western countries which are characterised by the complexity of the respective tax codes. Additionally, the dynamic nature of the treatment of tax shields in the American tax system makes it difficult to evaluate the quantitative importance of debt. Prior studies have found it difficult to evaluate the importance of debt. Thus, this will contribute to the capital structure puzzle in terms of quantifying the corporate tax rates and incentives. It may help us obtain clearer conclusion on firms' financing decisions.

Secondly, the fact that there are underdeveloped and inactive bond and mutual funds markets in Kuwait leaves room for banks to play an important role in financing firms listed on Kuwait Stock Exchange (KSE). Banks mainly provide short-term loans, which may explain the high reliance of Kuwaiti listed firms on this form of financing. Kuwait has unique financing arrangements that are characterised by high leverage and high reliance on bank debt.[4] The literature has often described banks have an advantage in collecting information but are potentially more expensive source of capital than the public debt markets. The cost of monitoring and imperfect financial contracting should raise the costs of debt for firms borrowing from banks, and hence lower their debt ratios (Faulkender and Petersen, 2006). The fact that Kuwait firms are highly levered seems surprising given the costs of obtaining debt in Kuwait.

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none of the research is devoted to study the financial policies and practices in the Gulf region. Hence, the evidence from Kuwaiti firms on corporate finance practices is non-existent.

[3] Due to lack of data availability, other GCC (Gulf Cooperation Council include Saudi Arabia, UAE, Oman, Qatar, and Bahrain) countries cannot be included at the time of writing this study. However, the results of this study can be conclusive and generalised to other GCC countries since they are closely connected and comparable countries.

[4] For example, Welch (2004) argues that long-term debt issuing activity is the most capital structure relevant activity in US.

The reminder of this paper is organised as follows: Section 2 provides a brief description of the methodology. We summarise information on firm and managers characteristics in section 3. Section 4 presents survey results. Section 5 summarises and concludes.

2. Methodology

Based on a comprehensive review of existing literature, a survey was developed to incorporate this important research question. The survey focuses primarily on the current corporate finance practices implemented by CFOs in listed companies of Kuwait. The target respondents are listed firms in Kuwaiti Stock Exchange (KSE). The survey includes questions on topics that are closely related to capital budgeting, capital structure, cost of capital, and dividend policy. For example, the survey asks the managers on how they estimate their cost of equity (CAPM or other methods) and whether the impact of the weighted average cost of equity is taken into consideration in their capital structure choices.

The survey contains 25 numbered questions in total. These questions, with few exceptions, are of "closed-end type" for easier and more efficient data organization and processing. The starting point of the questionnaire is based on the survey in Graham and Harvey (2001). To facilitate comparison, we ask questions similar to their survey concerning the questions about capital budgeting techniques, the characteristics of the firm and its CFOs and the firm's target debt range. Additionally, we ask questions similar to the survey in Brounen et al. (2004) on corporate goals and importance of stakeholders. The remaining questions that explore the capital structure mix, cost of capital, and dividend policy are relatively similar to the survey in Anand (2002). Further, we have modified some questions to fit the Kuwaiti context. For example, we have omitted questions on bonds option, as there is no bond market there.

Eighty surveys were completed from managers in the all sectors by the end of June 2008 (a response rate of 53 percent). Given the length of survey (5 pages) and depth

(25 questions) of our survey, this response rate compared favourably with other academic surveys.[5]

2. Firm Characteristics

Figure 1 presents summary information on the characteristics of the listed firms in the sample. The companies range from very small (7.5% of the sample firms have sales less than $34) to very large (1.2% have sales of at least $1,000 billion). Following Graham and Harvey (2001), we refer to firms with revenues of at least $1 billion as "large". Within the financial sector, around 34 percent of firms are investments, 10 percent of firms are banks, and around 4 percent are insurance firms. Within the non-financial sector, 19 percent of the firms are industry, 15 percent are real estate, and only 5 percent are food firms (see figure 1B).[6]

<INSERT FIGURE 1>

The next component of our summary statistic concerns the CFOs' background, which is presented in figure 2. Nearly 34 percent of CFOs are between the ages of 52 and 57 (figure 2A), a group we refer to as "mature". An additional group of 36.3 percent are between the ages of 46 and 51 and another 16.3 percent are between the ages of 40 and 46. Around 63 percent of CFOs have undergraduate degree (bachelor) as their highest level of educational achievement (figure 2B). Another 19 percent have an MBA degree while 9 percent have a doctorate degree. The survey reveals that executives do not change jobs frequently.[7]

<INSERT FIGURE 2>

Based on the results presented in Table 1, non-financial sectors (such as service, industry, and food) would have higher chance of being privately owned, have larger

[5] Graham and Harvey (2001) obtained 9 percent response rate in a survey mailed to 4,440 CFOs. Trahan and Gitman (1995) obtained a 12 percent response rate in a survey mailed to 700 CFOs. Brounen et al (2004) obtained a 5 percent response rate in a survey mailed to 313 CFOs, and Anand (2002) obtained a 15.43 percent response rate in a survey mailed to 500 CFOs.

[6] In order to save space, the rest of the figures for firm and managers characteristics are not reported in this research

sales revenues, and exhibit higher proportion of management ownership than financial sectors. Privately owned firms have a higher proportion of CFO ownership and educated CFOs. Larger firms are likely to have higher proportion of management ownership and older CFOs. In addition, very higher proportion of management ownership has stronger association with tenure (term of the service) and, in turn, longer tenure contract increases with the age of CFOs, and mature CFOs tend to use higher target debt ratios.

<INSERT TABLE 1>

3. Survey Results

3.1. Primary Objective of Corporate Management

Table 2 reports the results of the survey, and shows that Kuwaiti firms aim at (1) maximizing profits (100% of respondents), (2) maximizing sustainable growth (100%), (3) maintaining market position and service (97.5%), (4) controlling cost, productivity and efficiency (97.5%), (5) maintaining continuity (100%), and (6) maximizing shareholder wealth (92.5%). In contrast, dividend and leverage objectives are associated with lower priorities, with 70% and 71.2% of respondents regarding them as very important or important. It is also interesting to note that nearly 5 percent of the CFOs regard other corporate objectives as very important, including corporate image, expansion of the corporate service and product diversification. Our findings are consistent with the European study in Brounen et al. (2004).

<INSERT TABLE 2>

Table 3 presents our survey findings in regard to the importance of stakeholders to Kuwaiti firms. Almost 99 percent of CFOs consider management as important or very important followed by nearly 94 percent consider government and shareholders as important or very important, whereas 93 percent regard employees as important or very important. While 89 percents of the CFOs consider customers important or very important, only 54 percent and 41.2 percent consider suppliers of goods and services and debt as important. As we expected, given that our sample contains only

public listed firms, this may explain the high scores on management, government, and shareholders.

<INSERT TABLE 3>

3.2.Capital Budgeting

Table 4 reports the survey results on capital budgeting techniques used for decisions making. The response that had the highest average score when asked "how frequently did your firm use the following capital budgeting techniques when deciding which projects or acquisitions to pursue" was IRR on (97.4%) followed by NPV (96.3%). Non- DCF methods (such as Accounting Rate of Return (ARR) and PB) are less popular among listed firms in Kuwait. The pay back method is also popular (53.8%). Only 42.5 percent of the respondents use ARR as the most popular capital budgeting tools. The payback criterion is more popular among privately and publicly owned companies that are managed by CFO with non-MBA with medium tenure.

<INSERT TABLE 4>

The response that had the highest average score when asked the question "when valuing a project how did you assess your firm's project risk?" was sensitivity analysis (mean = 3.71). The results in Table 5 illustrates that sensitivity analysis, risk adjustment, and scenario are the most widely used techniques for assessing the project risk. Seventy three percent of the respondents use sensitivity analysis, sixty-five percent use risk adjustment, while fifty-seven percent employs scenario analysis. The scenario analysis is significantly used by industry sector (average = 2.67) whereas both sensitivity analysis and risk adjustment are used by the service sector to assess project risk. Additionally, mature CFOs are more likely to use scenario analysis, decision analysis, and probabilistic analysis (Monte Carol simulation) than younger CFOs. Large firms are more likely to use sensitivity analysis, scenario, decision analysis, and probabilistic than smaller firms. Overall, our findings confront our expectations by highlighting an evidence-based approach among firms in Kuwait in applying DCF (IRR and NPV).

<INSERT TABLE 5>

4.3 Cost of Capital

Table 6 reports the results of the survey on the methods used by Kuwaiti firms in the estimation of the cost of equity, and shows that WACC is the most popular method (92.4%) of estimating the cost of equity capital, with dividend yield and earnings yield (86%) coming second. The third most popular method is CAPM (61.3%). Few firms use average historical returns on common stock (30%), 'whatever our investor tell us' (12.4%), multifactor model (6.2%), and Gordon's Dividend Discount Model (23.7%). Additionally, CAPM is the method of choice for medium and larger sized companies. On the other hand, earnings yield method is preferred in the insurance sector (average score = 5), small, medium, and large firms as well as CFOs with longer tenure. The dividend yield method is significantly used by small, medium, and large firms as well as firms with high proportion of CFO ownership.

<INSERT TABLE 6>

Table 7 reports the survey results on the risk-free rate of return used by respondents who use the CAPM method. Nearly 44 percent of the respondents consider 90 day T-bill as risk free rate (mean = 2.05). Only 16 percent use 3-7 year T-bill as risk free rate while very few use 10 year T-bill as risk free rate (average = 3.7). All three rates of returns are significantly used by real estate, industry and large firms, and are preferred by CFOs without MBA or PhD qualification on a sliding scale. CFOs with medium and longer tenure are more likely to use both 3-7 year T-bill as risk-free rate. Firms with higher proportions of CFO ownership are likely to use 10 year T-bill (M= 2.5).

<INSERT TABLE 7>

Table 8 shows the survey results on how beta is estimated by respondents who utilise the CAPM. Nearly 49 percent of the respondents take beta from published sources as a measure the systematic risk. Industry average beta is the second most popular measure (39%), while the third and fourth popular sources are self-calculated (15%) and CFO's estimate (10%). Larger firms, firms in real estate and industry sectors are

more inclined to use all these four popular sources to measure their systematic risk than smaller firms and by CFOs without MBA or PhD qualification. Small firms use industry average and published sources (mean = 1.077 and 1.462, respectively). Self-calculated, industry average, and published sources are used significantly in medium and large firms where higher proportion of management ownership exists. Furthermore, industry average and published sources are used significantly by firms of all sizes, both privately and publicly owned, and by firms with higher proportion of CFO ownership.

<INSERT TABLE 8>

We also ask the respondents who use the CAPM to indicate what sample period they use to calculate beta, the results of which are presented in Table 9. Nearly 42 percent of the respondents rely on monthly share price data to estimate equity beta, while approximately 29 percent of respondents use weekly share price data. The use of weekly and monthly share price data to estimate security beta is significantly more popular among small, medium and large firms, firms with higher management ownership, both public and private firms, CFOs with PhDs and other qualifications, and real estate, industry, and services sectors. The use of monthly share price data to estimate security beta is significantly more popular among CFOs with longer tenure.

<INSERT TABLE 9>

Table 10 reports the survey results on what market premium are used in the CAPM model by CAPM users. The average market risk premium of 6 to 8 percent is most widely used by Kuwaiti firms. It is followed by CFO's estimate of average market risk premium as an input while using CAPM (15 percent). About 13 percent of respondents use 8 to 9 percent fixed rate as market risk-premium in the CAPM model. These three measurements are widely used among real estate, industry, and service sectors, medium and larger sales revenues firms, both publicly and privately owned companies, and firms managed by CFOs without MBA or PhD qualification. In addition, firms with higher proportion of CFO ownership prefer the average market

risk premium of 6 to 8 percent. A fixed rate of between 8 and 9 percent is used predominantly by firms with high management ownership. The average market risk premium of 6 to 8 percent is most widely used by small firms, medium management ownership, and CFOs with PhD.

<INSERT TABLE 10>

We then explore the tax rate used to calculate after-tax cost of debt as well as the weights used in the computation of weighted average cost of capital ("WACC") of the firm. Table 11 presents the survey responses. The minimum alternative tax (or *zakat*)[8] is widely used for calculating after-tax cost of debt. Nearly 95 percent of the respondents use the *zakat* while 90 percent of the respondents also use the current statutory tax rate (mean = 4.60 and 4.41, respectively). Kuwaiti firms use all possible weights in the computation of WACC. These weights are based on book and market values of the firm as well as target capital structure. The market value weights are widely used (44%) followed by target capital structure weights (26.3%). Only 11.3 percent of the respondents use book value weights. A few of the respondents use more than one basis to estimate the WACC. The investment and the insurance sectors, CFOs with medium tenure and firms with target debt ratio are significantly more likely to use *zakat* and current statutory tax rate for estimating the after-tax cost of debt.

<INSERT TABLE 11>

In summary, Kuwaiti firms rely on CAPM for estimating the cost of equity capital whereas WACC is the most favoured cost of capital model. Among CAPM users, T-bill is used as proxy for the risk-free rate; beta comes from published sources as a measure of systematic risk; and a market risk premium between 6 to 8 percent is commonly used as input in the CAPM model. Though our results are consistent with

[8] Law No.46 of 2006 concerning Zakat and contribution of Public and Closed Share holding Companies in the Kuwait state's budget has been issued on Nov 27, 2006. Accordingly, all Kuwaiti public and Closed Shareholding companies excluding government companies and foreign companies are liable to pay Zakat at the end of the financial year (December). Zakat is computed at 1 percent of annual net profit.

existing literature, we raise an important distinction on the tax rate used in estimating WACC by Kuwaiti firms. Since Kuwait offers a unique environment due to the simplicity of its tax regime, we found that managers who apply CAPM to estimate their cost of capital tend to use the minimum alternative tax (or *zakat*), while the current statutory tax rate is widely used for calculating after-tax cost of debt.

4.5 Capital Structure

The results in Table 12 indicate the sources of financing choices and rank them in order of their relative importance in terms of its use. The results in this table indicate that retained earnings are the most favoured source of finance among Kuwaiti firms. Nearly 95 percent of the respondents consider it very important or important source of finance. Retained earnings are significantly used by investment, insurance, industry, service, and food sectors and those firms that are managed by CFOs with higher portion of ownership, and CFOs with a PhD or other qualification. Loans from financial institutions are the next most widely used source of finance. Ninety percent of the respondents have indicated that loans from financial institutions as the most important or important source of finance. Firms in the investments, real estate, industry, service, and both privately and publicly owned are significantly more likely to opt for loans. Issue of equity capital stock as source of finance is one of the most preferred by the respondents (mean = 3.95). Nearly 84 percent of the respondents consider it as most preferred or preferred source of finance. There is no significant difference in the use of equity capital stock between firms classified based on firm size, equity, sector, and CFO's characteristics. Interestingly, this finding contradicts our expectations because it does not reveal a strong evidence of pecking-order theory of capital structure among firms in Kuwait, but suggests that firms do not have any particular source of choices when it comes to how best finance their projects.

<INSERT TABLE 12>

4.6 Dividend Policy

The results in Table 13 indicate that 96.2 percent of the respondents strongly agree or agree that their dividend payout ratio affects the market value of the firm in the stock market. These respondents are firms from the industry and food sectors as well as

private and public companies, and CFOs with PhD or other qualification. Ninety percent of the respondents strongly agree or agree that investors generally prefer cash dividends today to uncertain future price appreciation. Nearly eighty-nine percent of the respondents strongly agree or agree that dividends provide signalling mechanism of the future prospects of the firm. Only 27.5 percent of the respondents strongly agree or agree that dividend payments provide a bonding mechanism to encourage managers to act in best interest of the shareholders.

<INSERT TABLE 13>

5 Conclusion

The results of our survey on Kuwaiti corporate finance practices are generally consistent with existing studies. For example, NPV is widely used now as a capital budgeting techniques for decisions making today more than in the previous times. The IRR remains popular despite its limitations. The CAPM is also in use now to estimate the cost of equity capital whereas WACC remains the most popularly used method in the estimation of cost of capital.

A substantial number of Kuwaiti firms rarely use book value weights to compute their WACC, instead relying on all possible weights. These weights are based on book value of the firm, market value of the firm and target capital structure. This practice is not on line with corporate finance theory. This implies that corporate practitioners may not apply the NPV or CAPM rule correctly (as in Graham and Harvey, 2001 and Anand, 2002). In fact most firms rely on the minimum alternative tax (or *zakat*) and current statutory tax rate to determine their WACC due to the simplicity of tax system in Kuwait.

In regards to dividend policy, Kuwaiti management agree that a cash dividend in hand today is more preferred than uncertain future price appreciation. This affirms the "Bird-In-Hand" dividend theory. This finding needs further research and investigation as it measures the belief of financial executives and not necessarily their actions.

In our analysis of preferred capital structure, our findings suggest that firms do not have any preference when it comes to how best finance their projects. Interestingly,

managements are much less likely to follow academically taught theories when determining capital structure. This finding may suggest that business school are better in teaching capital budgeting, cost of capital and dividend policy than teaching capital structure theories. This finding is in line with Graham and Harvey (2001). Therefore, additional research is needed to further investigate these issues by identifying and addressing the gap theory and practice. It is also interesting to investigate how the corporate finance decisions may affect firms' performance in Kuwait.

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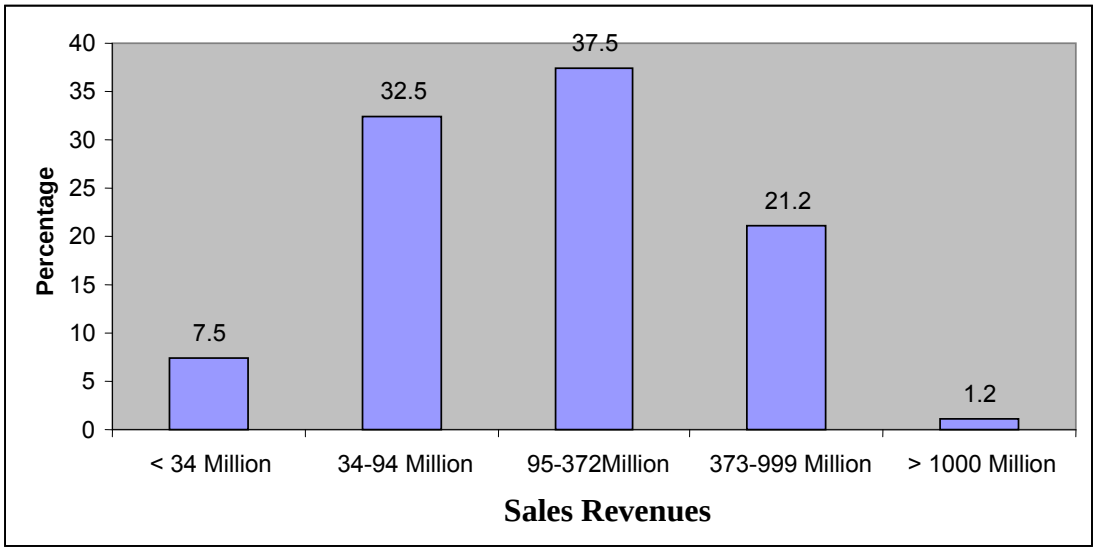
Figure 1

Panel A: Sales Revenues ($ millions)



Panel B: Sectors in Kuwait Stock Market

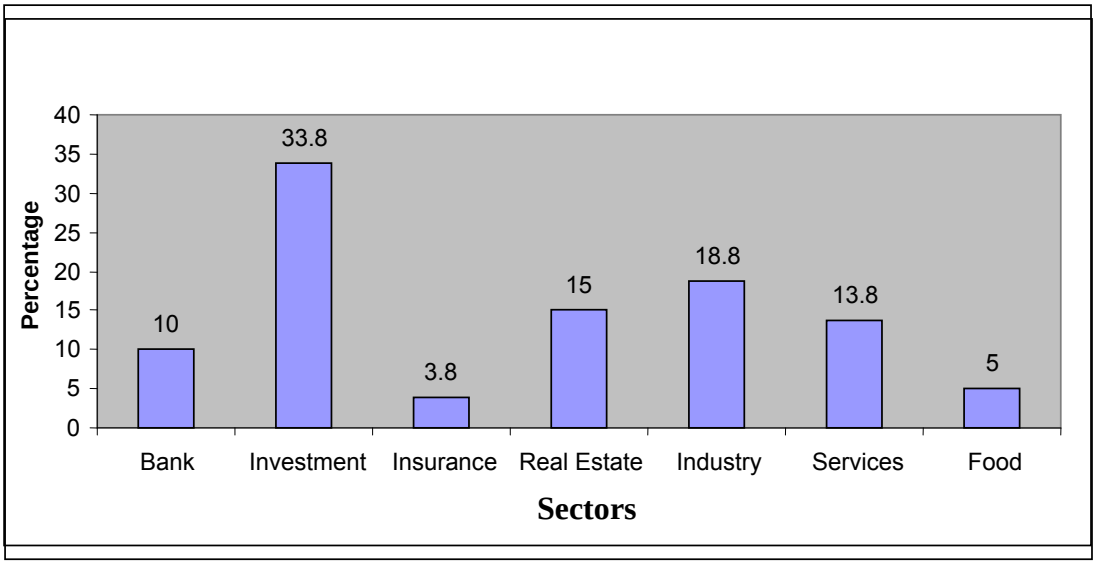
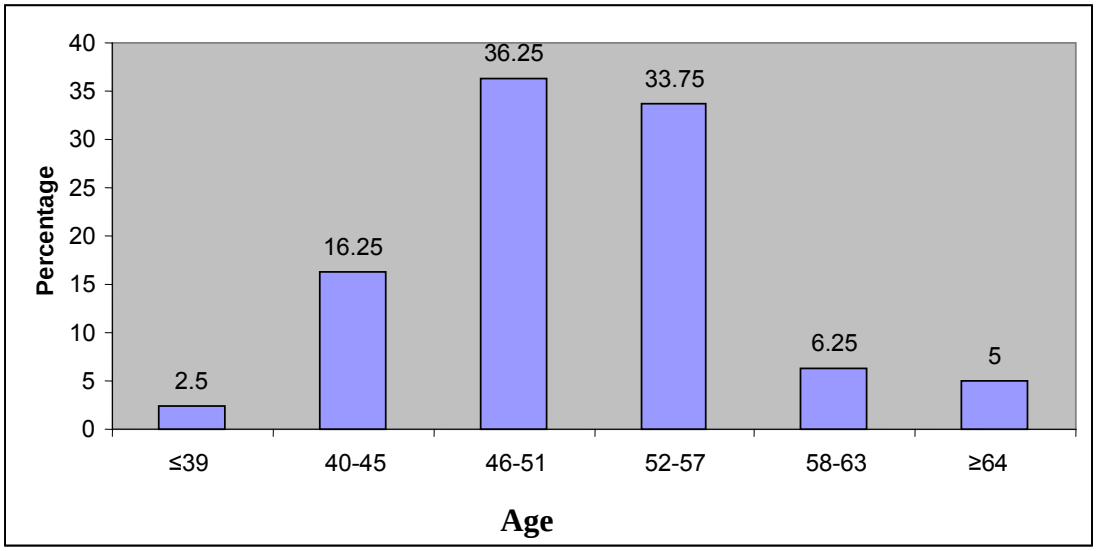


Figure 2: CEO Characteristics

Panel A: CFOs' Age



Panel B: CFOs' Level of Education

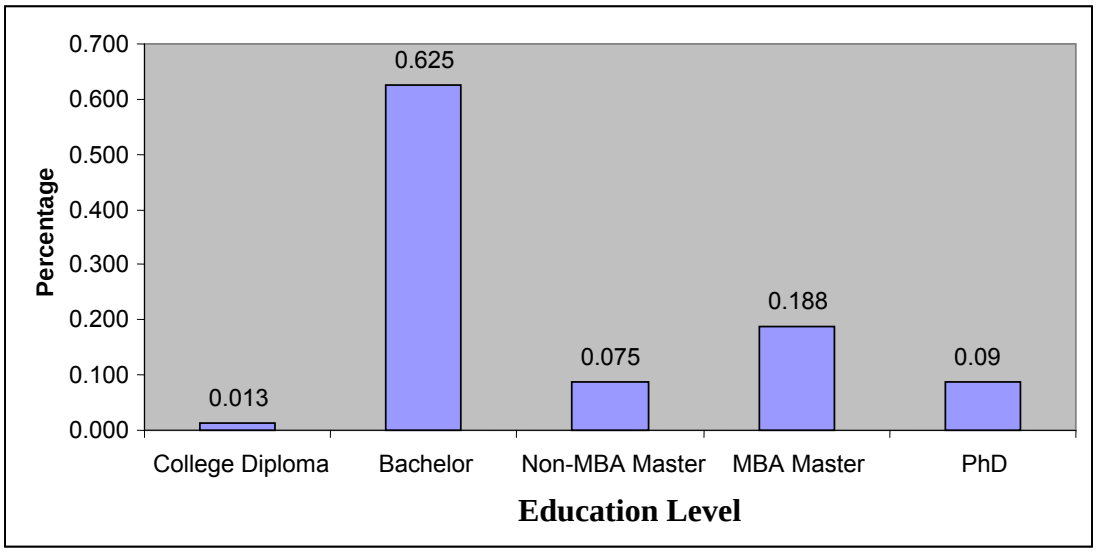


Table 1: Demographic correlations of control variables

	Firm's Sector (Bank to Food)	Equity (Public to Private)	Size (Very Small to Very Large)	CFO Ownership (Low to Very High)	Education (MBA to others)	Tenure (Short to Long)	Age (Young to Mature)	Target Debt Ratio (No to Yes)
Firm's Sector	1							
Equity	.430**	1						
Size	.672**	.323	1					
CFO Ownership	.528*	.339*	.527**	1				
Education	.442	.326**	.397	.286	1			
Tenure	.356	.015	.310	.393*	.140	1		
Age	.184	.162	.329*	.237	.130	.282*	1	
Target Debt Ratio	.228	.052	.144	.061	.085	.169	.301**	1

Note: ** $p < .01$ and * $p < .05$, Mean square contingency coefficients were calculated for each of the variables in the study.

Table 2: Survey responses for question: "Which of the following primary corporate objectives were important for your firm?"

Primary Objectives of Corporate Management	Very Important/ Important
To maximize profits	100%
To maximize sustainable growth	100%
To maintain the market position and service quality	97.5%
to control cost, productivity, and Efficiency	97.5%
To maintain continuity	100%
To Maximize shareholder wealth	92.5%
To maximize dividends	70%
to optimize leverage	71.2%
Others	5%

Table 3: Survey responses for question: "How important were the following stakeholders to your firm?"

Stakeholders	Very Important/ Important
Customers	89%
Employees	92.5%
Management	98.7%
Shareholders	93.8%
Suppliers of Goods/Services	41.2%
Suppliers of Debt	53.8%
Government	93.7%

Table 4: Survey responses for question: "How frequently did your firm use the following capital budgeting techniques when deciding which projects or acquisitions to pursue?"

	% (Always or Almost)	Mean (M)	Firm's Sector						
			Bank	Investment	Insurance	Real Estate	Industry	Services	Food
1.NPV	96.3	4.59	4.875	4.74	5	4.33**	4.6	4.45	3.75*
2.ARR	42.5	3.00	4	2.89**	3.67	2.17*	3.13	2.73**	4
3.Payback	53.8	3.32	3.5	3.19	3.67	3.25	3.53	3.45	2.75
4.IRR	97.4	4.73	4.5	4.93**	4.67	4.58	4.73	4.82	4

	% (Always or Almost)	M	Equity		Size					CFO Ownership			
			Private	Both	Very Small	Small	Medium	Large	Very Large	Low	Medium	High	Very High
1.NPV	96.3	4.59	4.59	4.57	4.17	4.5	4.6	4.82	5	4.53	4.75	4.75	4.5
2.ARR	42.5	3.00	2.89	3.5	3.5	2.80	2.7**	3.53	5	3.02	3.08	2.75	2.5
3.Payback	53.8	3.32	3.20	3.93**	3	3.27	3.13	3.82	4	3.27	3.5	3.5	3.5
4.IRR	97.4	4.73	4.73	4.71	4.17	4.73	4.83	4.71	5	4.76	4.67	4.5	4.5

	%		Education			Tenure			Age		TDR	
			MBA	PhD	Other	Short	Medium	Long	Young	Mature	No	Yes
1.NPV	96.3	4.59	4.82	4.71	4.478**	4.45	4.56	4.71	4.56	4.78	4	4.59
2.ARR	42.5	3.00	3.14	4	2.80**	3.55	2.96	2.83	3.04	2.67	3	3
3.Payback	53.8	3.32	3.5	4.14	3.12**	4	3.18***	3.29	3.25	3.89	5	3.30
4.IRR	97.4	4.73	4.73	4.86	4.71	4.91	4.71	4.67	4.72	4.78	4	4.73

Note. * $p < .01$, ** $p < .05$, *** $p < .10$

Table 5: Survey responses for question: "When valuing a project how did you assess your firm's project risk?"

	% (Always or Almost)	Mean (M)	Firm's Sector						
			Bank	Investment	Insurance	Real Estate	Industry	Services	Food
1.Sensitivity	72.6	3.71	4.25	4.22	2.33*	3.5***	3.73	3.27**	2*
2.Scenario	57.4	3.35	4.38	4.04	2.33**	2.5*	2.67*	3.64	1.75*
3.Decision	31.2	2.17	2.38	2.33	2	2.08	2	2.09	2
4.Probabilistic	11.2	2.19	3	2.44	1.33	1.92	2.13	1.64	2
5.RiskAdjustment	65	3.52	4.13	3.70	4	2.58*	3.87	2.91**	4

	% (Always or Almost)	M	Equity		Size					CFO Ownership			
			Private	Both	Very Small	Small	Medium	Large	Very Large	Low	Medium	High	Very High
1.Sensitivity	72.6	3.71	3.73	3.64	2.83	3.19	4.13*	4**	5*	3.68	3.67	4.5**	3.5
2.Scenario	57.4	3.35	3.24	3.86	2.83	2.76	3.5*	4.06*	5*	3.21	3.67	4.5**	3.5
3.Decision	31.2	2.17	2.12	2.43	1.83	1.81	2.37	2.53**	2	2.16	2	2.75	2.5
4.Probabilistic	11.2	2.19	2.20	2.14	2.17	1.77	2.36*	2.35*	5*	2.16	2.17	2.5	2.5
5.Risk Adjustment	65	3.52	3.62	3.07	3.17	3.31	3.63	3.76	4	3.47	3.67	4.25	3

	% (Always or Almost)	M	Education			Tenure			Age		TDR	
			MBA	PhD	Other	Short	Medium	Long	Young	Mature	No	Yes
1.Sensitivity	72.6	3.71	4	3.71	3.59	4.09	3.6	3.75	3.65	4.22	4	3.71
2.Scenario	57.4	3.35	4.05	3.29	3.06*	3.8	3.18	3.46	3.211	4.44**	2	3.37
3.Decision	31.2	2.17	2.41	2	2.10	2.45	2.11	2.17	2.11	2.67**	3	2.16
4.Probabilistic	11.2	2.19	2.14	2	2.24	2.82	1.98*	2.29	2.11	2.78**	3	2.18
5.Risk Adjustment	65	3.52	3.82	3.29	3.43	3.45	3.38	3.83	3.56	3.22	4	3.52

Note. * *p* < .01, ** *p* < .05, * *p* < .10**

Table 6: Survey responses for question: "How did you determine your firm's cost of capital?"

	% (Always or Almost)	Mean (M)	Firm's Sector						
			Bank	Investment	Insurance	Real Estate	Industry	Services	Food
1.CAPM	61.3	3.45	4.5	4.37	4.33	2.25*	2.2*	3.27*	3.25**
2.Historical Returns	30	2.55	3.63	2.85	3.33	2.83	1.8*	1.81*	1.75*
3.Investor	12.4	2.1	3	2.33	3.33	1.5*	1.67*	1.45*	3
4.Dividend	86.2	3.99	3.88	4.07	5	4.08	3.67	3.72	4.5
5.Earning	86.3	4.05	3.75	4.15	5**	4.42	3.67	3.73	4.5
6.Multi-Factor	6.2	2.01	2.38	2.37	2.33	1.83	1.67	1.55	1.75
7.GDDM	23.7	2.29	3.5	2.78	2.33	1.67*	1.93*	1.55*	1.75**
8.WACC	92.4	4.49	4.25	4.41	4	4.92	4.47	4.55	4.5

	% (Always or Almost)	M	Equity		Size					CFO Ownership			
			Private	Both	Very Small	Small	Medium	Large	Very Large	Low	Medium	High	Very High
1.CAPM	61.3	3.45	3.36	3.86	2.17	3	3.67*	4.18*	4	3.16	4.33**	4.75*	4.5
2.Historical Returns	30	2.55	2.55	2.57	0.67	2.54*	2.433*	3.35*	4	2.5	2.83	2.25	3
3.Investor	12.4	2.1	2.05	2.36	1.33	1.92	2	2.77	3	1.95	2.75**	2	3
4.Dividend	86.2	3.99	4.02	3.86	2.83	4.19*	4.1*	3.88*	4	4.05	4.08	3**	3.5
5.Earning	86.3	4.05	4.09	3.86	2.83	4.27*	4.1*	4.06*	4	4.05	4.17	4	3.5
6.Multi-Factor	6.2	2.013	2.03	1.93	1	1.77***	2.17*	2.47*	2	1.92	2.25	3**	1.5
7.GDDM	23.7	2.29	2.30	2.21	1	1.92**	2.47*	2.88*	4	2.15	3.08**	2	2.5
8.WACC	92.4	4.49	4.52	4.36	3.17	4.85	4.6	4.23	4	4.47	4.5	4.75	4.5

	% (Always or Almost)	M	Education			Tenure			Age		TDR	
			MBA	PhD	Other	Short	Medium	Long	Young	Mature	No	Yes
1.CAPM	61.3	3.45	3.95	3.14	3.27	3.36	3.18	4	3.45	3.56	2	3.47
2.Historical Returns	30	2.55	2.63	2.14	2.57	2.90	2.49	2.5	2.54	2.67	1	2.57
3.Investor	12.4	2.1	2.23	2.29	2.02	2.55	2.02	2.04	2.09	2.22	1	2.117

4.Dividend	86.2	3.99	4.09	3.43	4.02	3.45	4.13	3.96	4.03	3.67	5	3.97
5.Earning	86.3	4.05	4.23	3.43	4.06	3.36	4.16**	4.17**	4.014085	4.333333	5	4.037975
6.Multi-Factor	6.2	2.01	2.36	1.7	1.90	2.27	1.91	2.08	1.96	2.44	1	2.03
7.GDDM	23.7	2.29	2.59	2.29	2.16	2.45	2.16	2.46	2.28	2.33	1	2.30
8.WACC	92.4	4.49	4.64	3.86	4.51	4	4.62***	4.46	4.51	4.33	5	4.48

Note. * *p* < .01, ** *p* < .05, * *p* < .10**

Table 7: Survey responses for question: "What did you use for risk-free rate?"

			Firm's Sector						
	% (Always or Almost)	Mean (M)	Bank	Investment	Insurance	Real Estate	Industry	Services	Food
1.90 Day T-bill	43.8	2.05	3.375	3.59	0*	0.17*	0.8*	2.36	0*
2.3-7 Year T-bill	16.2	1.14	2.375	2	0*	0.17*	0.4*	0.90	0*
3.10 Year T-bill	3.7	1.05	1.375	2.07	0*	0.08*	0.53*	0.73	0*

			Equity		Size					CFO Ownership			
	% (Always or Almost)	M	Private	Both	Very Small	Small	Medium	Large	Very Large	Low	Medium	High	Very High
1.90 Day T-bill	43.8	2.05	1.77	3.36*	0	1.19*	2.7*	2.82*	4	1.76	3***	3.5	2.5
2.3-7 Year T-bill	16.2	1.14	1.05	1.57	0	0.5	1.53*	1.82*	1	1.10	1.33	1.25	1
3.10 Year T-bill	3.7	1.05	1	1.29	0	0.62	1.37*	1.53*	1	0.95	1.08	2.5**	1

			Education			Tenure			Age		TDR	
	% (Always or Almost)	M	MBA	PhD	Other	Short	Medium	Long	Young	Mature	No	Yes
1.90 Day T-bill	43.8	2.05	2.95	1.71	1.71**	2	1.76	2.63	2.18	1	0	2.08
2.3-7 Year T-bill	16.2	1.14	1.86	0.863	0.86*	2.09	0.8*	1.33***	1.21	0.56	0	1.15
3.10 Year T-bill	3.7	1.05	1.68	0.86	0.80*	1.54	0.78***	1.33	1.08	0.78	0	1.06

Note. * *p* < .01, ** *p* < .05, * *p* < .10**

Table 8: Survey responses for question: "What did you use as your volatility or beta factor?"

			Firm's Sector						
	%	Mean	Bank	Investment	Insurance	Real Estate	Industry	Services	Food
1.CFO	10	1.19	2.13	1.89	0*	0.33*	0.4*	1.55	0*
2.Self	15	1.37	2.88	2.48	0*	0.17*	0.53*	0.91*	0*
3.Industry	38.7	1.97	4	3.15	0*	0.33*	0.73*	2.36	0*
4.Published	48.7	2.35	4.25	3.81	0*	0.42*	0.93*	2.90	0*

			Equity		Size					CFO Ownership			
	%				Very	Small	Medium	Large	Very	Low	Medium	High	
1.CFO	10	1.19	0.90	2.5*	0	0.58	1.4**	2.12*	2	1.097	1.58	1.5	1
2.Self	15	1.37	1.28	1.93	0	0.65	1.77*	2.18*	3	1.21	1.75	3**	1
3.Industry	38.7	1.97	1.70	3.29*	0	1.08**	2.43*	3.12*	4	1.73	2.5	4.25**	2
4.Published	48.7	2.35	2.06	3.71**	0	1.46**	2.97*	3.35*	4	2.02	3.33	4.5**	2.5

			Education			Tenure			Age		TDR	
	%		MBA	PhD	Other	Short	Medium	Long	Young	Mature	No	Yes
1.CFO	10	1.19	2.09	1.43	0.76*	1.82	1.02***	1.21	1.27	0.56	0	1.20
2.Self	15	1.37	2.14	1	1.09**	2.27	1.13**	1.42	1.41	1.11	0	1.39
3.Industry	38.7	1.97	3.32	1.29**	1.49*	2.55	1.44	2.71	2.06	1.33	0	2
4.Published	48.7	2.35	3.82	1.43*	1.84*	2.45	1.96	3.04	2.48	1.33	0	2.38

Note. * *p* < .01, ** *p* < .05, * *p* < .10**

Table 9: Survey responses for question: "What period did you study to calculate beta of your firm?"

			Firm's Sector						
	%	Mean	Bank	Investment	Insurance	Real Estate	Industry	Services	Food
1.Weekly	28.7	1.76	4.125	2.89**	0*	0.17*	0.67*	1.64*	0*
2.Monthly	42.4	2.14	4.125	3.44	0*	0.17*	0.87*	2.73***	0*

			Equity		Size					CFO Ownership			
	%				Very Small	Small	Medium	Large	Very	Low	Medium	High	
1.Weekly	28.7	1.76	1.55	2.79**	0	1.077**	1.97*	2.94*	4	1.56	2.17	4**	1
2.Monthly	42.4	2.14	1.89	3.29**	0	1.31**	2.63*	3.18*	4	1.89	2.58	4.5**	2.5

			Education			Tenure			Age		TDR	
	%		MBA	PhD	Other	Short	Medium	Long	Young	Mature	No	Yes
1.Weekly	28.7	1.76	3.09	0.714286*	1.33*	2.090909	1.56	2	1.80	1.44	0	1.78
2.Monthly	42.4	2.14	3.64	1*	1.65*	2.272727	1.76	2.79***	2.23	1.44	0	2.17

Note. * *p* < .01, ** *p* < .05, * *p* < .10**

Table 10: Survey responses for question: "what did you use as measurement for market risk premium in a CAPM model?"

			Firm's Sector						
	%	Mean	Bank	Investment	Insurance	Real Estate	Industry	Services	Food
1.Fixed Rate	42.4	2.19	3.88	3.48	0*	0.33*	0.87*	3	0*
2. Fixed Rate	12.5	1.11	2.63	1.85**	0*	0.17*	0.33*	1*	0*
3.CFO	15	1.30	3.13	2.11**	0*	0.33*	0.2*	1.36*	0*

			Equity		Size					CFO Ownership			
	%				Very Small	Small	Medium	Large	Very	Low	Medium	High	
1.Fixed	42.4	2.19	1.92	3.43**	0	1.42*	2.6*	3.24*	5	1.82	3.25**	4.5**	2
2. Fixed	12.5	1.11	0.94	1.931*	0	0.54	1.23*	2.12*	2	0.94	1.42	3**	1
3.CFO	15	1.30	1.05	2.5*	0	0.5	1.53*	2.41*	4	1.16	1.83	2.25	0.5

			Education			Tenure			Age		TDR	
	%		MBA	PhD	Other	Short	Medium	Long	Young	Mature	No	Yes
1.Fixed Rate	42.4	2.19	3.59	1.57**	1.67*	2.27	1.76	2.96	2.25	1.67	0	2.23
2. Fixed	12.5	1.11	1.86	1	0.80*	1.72	0.87**	1.29	1.14	0.89	0	1.13
3.CFO	15	1.30	2.14	1.43	0.92*	2.09	1.02**	1.46	1.37	0.78	0	1.32

Note. * *p* < .01, ** *p* < .05, * *p* < .10**

Table 11: Survey responses for question: "What tax rate was used to calculate after tax cost of debt and the weights you use in the computation of weighted average cost of capital "WACC" of the firm?"

			Firm's Sector						
	%	Mean	Bank	Investment	Insurance	Real Estate	Industry	Services	Food
1.Current	90	4.41	4.5	4.19***	3.67	4.5	4.4	4.82	5
2.Minimum	95	4.60	4.88	4.41	4.67***	4.5	4.6	4.82	5
3.Book Value	11.3	2.40	2.13	2.44	3.33***	2.75	2.47	1.82	2.25
4.Market	43.8	3.12	3	3.22	3.33	2.25	3.93***	2.91	2.75
5.Target	26.3	2.60	2.5	2.96	3	2.42	2.27	2.09	3.25

			Equity		Size					CFO Ownership			
	%				Very Small	Small	Medium	Large	Very	Low	Medium	High	
1.Current	90	4.41	4.35	4.71	4.67	4.73	4.2	4.18	5	4.39	4.58	4	5
2.Minimum	95	4.60	4.56	4.79	4.67	4.77	4.33	4.76	5	4.52	4.83	5	5
3.Book	11.3	2.40	2.47	2.07	1.83	2.65	2.37	2.24	3	2.44	2.67	1.25**	2
4.Market	43.8	3.12	3.21	2.71	3	3.077	3.23	3	4	3.08	3.33	3.75	2
5.Target	26.3	2.60	2.68	2.21	2.67	2.54	2.47	2.82	4	2.58	2.58	3.25	2

			Education			Tenure			Age		TDR	
	%		MBA	PhD	Other	Short	Medium	Long	Young	Mature	No	Yes
1.Current	90	4.41	4.32	5	4.37	3.82	4.58**	4.38	4.45	4.11	2	4.44**
2.Minimum	95	4.60	4.73	5	4.49	4.09	4.62**	4.79*	4.58	4.78	4	4.61
3.Book	11.3	2.40	2.18	1.86	2.57	2.73	2.35	2.33	2.44	2.11	2	2.41
4.Market	43.8	3.12	2.81	3	3.27	3.18	2.93	3.46	3.04	3.78***	5	3.10
5.Target	26.3	2.60	2.86	2.43	2.51	2.73	2.38	2.96	2.55	3	2	2.61

Table 12: Survey Responses for question: "What were the sources of finance you choose when funding your firm's project?"

			Firm's Sector						
	%	Mean	Bank	Investment	Insurance	Real Estate	Industry	Services	Food
1.Loans	91.3	4.50	3.75	4.48**	4.33	5*	4.67*	4.55**	4
2. Earnings	95	4.39	3.75	4.37**	4.67*	4.08	4.8*	4.45**	4.75**
3.Stock	83.8	3.95	3.875	3.78	4.33	4.25	4.2	3.82	3.5

			Equity		Size					CFO Ownership			
	%				Very Small	Small	Medium	Large	Very	Low	Medium	High	
1.Loans	91.3	4.50	4.62	3.923*	4.33	4.73	4.57	4.06	5	4.55	4.33	4	5
2. Earnings	95	4.39	4.42	4.2	4.83	4.46	4.47	4	4	4.45	4.33	3.75**	4
3.Stock	83.8	3.95	3.98	3.79	4	4	4	3.71	5	3.90	4.25	3.75	4

			Education			Tenure			Age		TDR	
	%		MBA	PhD	Other	Short	Medium	Long	Young	Mature	No	Yes
1.Loans	91.3	4.50	4.41	4	4.61	4.36	4.6	4.38	4.46	4.78	4	4.51
2. Earnings	95	4.39	4.05	4.71**	4.49*	4.27	4.49	4.25	4.38	4.44	5	4.38
3.Stock	83.8	3.95	3.77	4.29	3.98	3.90	4	3.88	3.96	3.89	4	3.95

Note. * *p* < .01, ** *p* < .05, * *p* < .1**

Table 13: Survey Responses for question: "How far do you agree on the following decisions on why your firm pay dividends?"

			Firm's Sector						
	%	Mean	Bank	Investment	Insurance	Real Estate	Industry	Services	Food
1.Market	96.2	4.51	4.25	4.44	4.67	4.58	4.67***	4.3	5**
2.Future	88.5	4.05	3.875	3.85	4.33	4.08	4.2	4.18	4.5
3.Bonding	27.5	2.54	2.5	2.78	2.33	2.67	2.27	2.09	3
4.Investors	90	4.38	4	4.44	4.33	4.33	4.47	4.36	4.5

			Equity		Size					CFO Ownership			
	%				Very Small	Small	Medium	Large	Very	Low	Medium	High	
1.Market	96.2	4.51	4.58	4.22**	4.83	4.54	4.53	4.29	5	4.55	4.33	4.5	4.5
2.Future	88.5	4.05	4.03	4.14	4.17	4.12	3.93	4.12	4	4.03	3.92	4.5	4.5
3.Bonding	27.5	2.54	2.53	2.57	2.83	2.39	2.47	2.82	2	2.55	2.25	3	3
4.Investors	90	4.38	4.36	4.43	4. 67	4.42	4.37	4.24	4	4.39	4.25	4.5	4.5

			Education			Tenure			Age		TDR	
	%		MBA	PhD	Other	Short	Medium	Long	Young	Mature	No	Yes
1.Market	96.2	4.51	4.23	4.71**	4.61*	4.3	4.6	4.42	4.51	4.56	4	4.52
2.Future	88.5	4.05	4.27	4	3.96	4	4	4.17	4.13	3.44**	3	4.06
3.Bonding	27.5	2.54	2.68	2.43	2.49	2.45	2.73	2.21	2.42	3.44**	3	2.53
4.Investors	90	4.38	4.27	3.86	4.49	4.45	4.42	4.25	4.38	4.33	4	4.38

Note. * *p* < .01, ** *p* < .05, * *p* < .10**