FINANCIAL LIBERALISATION AND THE CAPITAL STRUCTURE OF FIRMS LISTED ON THE JOHANNESBURG STOCK EXCHANGE

by

CHIMWEMWE CHIPETA

Thesis submitted in fulfilment of the requirements for the degree

Ph.D. (FINANCIAL MANAGEMENT SCIENCES)

in the

FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES

at the

UNIVERSITY OF PRETORIA

JANUARY 2012

DEDICATION

I dedicate this thesis to my late father, Professor Donald Phatiswayo Chipeta.

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

ACKNOWLEDGEMENTS

I would like to thank the Lord God Almighty for allowing me to complete this thesis. Furthermore, my sincere appreciation goes to the following:

- My supervisors, Professor Hendrik, P. Wolmarans and Professor Frans, N.S. Vermaak who provided the guidance throughout the period of the study,

- The Head of Department, at the University of the Witwatersrand, Professor Christo Auret, who provided an enabling and stimulating environment for the execution of the research,

- Participants of the 20th Southern African Finance Association conference held in Cape Town, South Africa, and the 8th African Finance Journal conference held in Windhoek, Namibia, for the useful comments on some aspects of the thesis,

- Ms Nqobile Mazibane, for assisting with the data collection,

- My wife, Meda for her support and motivation during the research,

- My two daughters, Ruth, Jemima, Joy, Chipeta (4), and Zoe, Muwemi, Chipeta (1) for their love which kept me encouraged and motivated.

ABSTRACT

This thesis examines the impact of financial liberalisation on the capital structure of non-financial firms listed on the Johannesburg Stock Exchange (JSE). The research hypotheses have been formulated and tested by using various econometric estimation procedures. The empirical assessment begins by resolving some methodological issues relating to the dating of financial liberalisation and the measurement of leverage. Next, a panel of 100 non-financial firms is constructed for the period 1989 to 2007.

The pooled Ordinary Least Squares, fixed (within), and random effects (Generalised Least Squares) models are used to estimate the impact of various aspects of financial liberalisation on firm capital structure. Robustness checks are performed by using the instrumental variable technique and the Arellano and Bond (1991: 277) two-step Generalised Method of Moments (GMM) procedure. Irrespective of the procedure used, the lifting of international sanctions and stock market liberalisation is associated with a reduction in leverage for all sets of firms. Capital account liberalisation causes firms to access more debt, and there is mild support for domestic financial sector liberalisation. Stock market liberalisation provides avenues for firms to increase their debt maturity structure. The size of the stock market is positively associated with leverage, and banking sector development is negatively correlated to leverage. The effect of financial liberalisation is more pronounced for larger firms, suggesting that the process of financial liberalisation causes a wedge between small and large firms.

Furthermore, regime dummies are interacted with firm specific determinants of capital structure. The notable facts arising out of the interactive dummy variable exercise reveal that the lifting of international sanctions and stock market liberalisation cause significant structural shifts in the profitability, growth and tax rate variables. This is evident for the book and market value of the debt to equity ratio.

The results of the dynamic model of capital structure document evidence of transaction costs for both the pre and post liberalisation regime. However, it appears that transaction costs reduce dramatically in the post liberalisation regime. The associated coefficient of adjustment increases accordingly. This suggests that a developed financial system promotes competition amongst the issuers of capital, thereby lowering borrowing and transaction costs. The empirical significance of firm specific determinants in a closed economy appears to be weaker than that of the post liberalised regime. Furthermore, firm size speeds up the adjustment to the target level of leverage for firms operating in both the pre and post liberalisation regimes. Finally, the results confirm most of the theoretical predictions of capital structure theories.

KEYWORDS: Financial liberalisation, Capital structure, Lifting of international sanctions Domestic financial sector liberalisation, Stock market liberalisation, Capital account liberalisation

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES

University of Pretoria

Declaration Regarding Plagiarism

The Faculty of Economic and Management Sciences emphasises integrity and ethical behaviour with regard to the preparation of all written assignments.

Although the lecturer will provide you with information regarding reference techniques, as well as ways to avoid plagiarism, you also have a responsibility to fulfil in this regard. Should you at any time feel unsure about the requirements, you must consult the lecturer concerned before submitting an assignment.

You are guilty of plagiarism when you extract information from a book, article, web page or any other information source without acknowledging the source and pretend that it is your own work. This does not only apply to cases where you quote the source directly, but also when you present someone else's work in a somewhat amended (paraphrased) format or when you use someone else's arguments or ideas without the necessary acknowledgement. You are also guilty of plagiarism if you copy and paste information directly from an electronic source (e.g., a web site, e-mail message, electronic journal article, or CD-ROM) without paraphrasing it or placing it in quotation marks, even if you acknowledge the source.

You are not allowed to submit another student's previous work as your own. You are furthermore not allowed to let anyone copy or use your work with the intention of presenting it as his/her own.

Students who are guilty of plagiarism will forfeit all credits for the work concerned. In addition, the matter will be referred to the Committee for Discipline (Students) for a ruling. Plagiarism is considered a serious violation of the University's regulations and may lead to your suspension from the University. The University's policy regarding plagiarism is available on the Internet at *http://www.library.up.ac.za/plagiarism/index.htm.*

For the period that you are a student in the Faculty of Economic and Management Sciences, the following declaration must accompany **all** written work that is submitted for evaluation. No written work will be accepted unless the declaration has been completed and is included in the particular assignment.

I (full names & surname):	Chimwemwe Chipeta
Student number:	28472862

Declare the following:

1. I understand what plagiarism entails and am aware of the University's policy in this regard.
2. I declare that this assignment is my own, original work. Where someone else's work was used (whether from a printed source, the Internet or any other source) due acknowledgement was given and reference was made according to departmental requirements.
3. I did not copy and paste any information directly from an electronic source (e.g., a web page, electronic journal article or CD ROM) into this document.
4. I did not make use of another student's previous work and submitted it as my own.
5. I did not allow and will not allow anyone to copy my work with the intention of presenting it as his/her own work.

Chimwemwe Chipeta — 2011-12-13

Signature — Date

LIST OF TABLES

LIST OF FIGURES