

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

by

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DEDICATION

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

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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

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CHAPTER 1: BACKGROUND AND INTRODUCTION.....	1
1.1 INTRODUCTION.....	1
1.1.1 Goal of this chapter.....	2
1.1.2 Layout of this chapter.....	2
1.2 THE FINANCIAL SECTOR IN SOUTH AFRICA.....	2
1.2.1 The evolution of the banking sector in South Africa.....	2
1.2.2 The evolution of the JSE.....	4
1.2.3 Financial liberalisation in South Africa.....	6
1.3 MOTIVATION FOR THIS STUDY.....	7
1.3.1 The economic and political imperative.....	8
1.3.2 The cost of equity capital imperative.....	8
1.3.3 The capital inflow imperative.....	9
1.4.4 The financial constraints imperative.....	9
1.5.5 Other imperatives	10
1.6.6 Why South Africa?	10
1.4 THE RESEARCH PROBLEM.....	12
1.4.1 The implications of stock market liberalisation	12
1.4.2 The implications of the lifting of international sanctions.....	14
1.4.3 The implications of domestic financial sector liberalisation.....	14
1.4.4 The implications of capital account liberalisation.....	15
1.4.5 The implications of market segmentation.....	15
1.4.6 The implications of transaction costs.....	16
1.4.7 Other unresolved issues.....	16
1.5 RESEARCH OBJECTIVES	17
1.6 DEFINITION OF KEY TERMS.....	18
1.7 STRUCTURE OF THE THESIS.....	21
1.8 CHAPTER SUMMARY.....	23

CHAPTER 2: THE THEORY OF CAPITAL STRUCTURE.....	25
2.1 INTRODUCTION.....	25
2.1.1 Goal of this chapter.....	25
2.1.2 Layout of this chapter.....	25
2.2 DOES CAPITAL STRUCTURE MATTER?.....	26
2.3 THEORETICAL DETERMINANTS OF CAPITAL STRUCTRE.....	28
2.3.1 The trade-off theory	28
2.3.2 The agency theory.....	31
2.3.3 Information costs theories	32
2.3.4 Contracting cost theories.....	36
2.3.5 The difficulties in testing the theories of capital structure.....	38
2.3.6 Summary of the origins and evidence of the main theories of capital Structure.....	38
2.4 EMPIRICAL EVIDENCE ON FACTORS AFFECTING CAPITAL STRUCTURE.....	40
2.4.1 Institutional, legal and financial factors.....	40
2.4.2 Size.....	41
2.4.3 Profitability.....	43
2.4.4 Asset tangibility.....	44
2.4.5 Age.....	46
2.4.6 Growth prospects.....	46
2.4.7 Corporate taxes.....	48
2.4.8 Non-debt tax shields.....	49
2.4.9 Dividend policies.....	50
2.4.10 Similarities in capital structure determinants.....	53
2.5 CORPORATE CAPITAL STRUCTURES AROUND THE WORLD.....	54
2.5.1 Corporate capital structures in the developed economies.....	54
2.5.2 Corporate capital structures in the developing economies.....	57
2.6 CHAPTER SUMMARY.....	59
CHAPTER 3: THE THEORY OF FINANCIAL LIBERALISATION.....	62
3.1 INTRODUCTION.....	62
3.1.1 Goal of this chapter.....	62
3.1.2 Layout of this chapter.....	62

3.2 WHAT IS FINANCIAL LIBERALISATION?.....	63
3.3 DOES FINANCIAL LIBERALISATION MATTER?.....	63
3.4 THE PROCESS OF FINANCIAL LIBERALISATION.....	66
3.4.1 The multifaceted nature of financial liberalisation.....	66
3.4.2 Financial liberalisation and market integration.....	67
3.5 THE EFFECTS OF FINANCIAL LIBERALISATION.....	67
3.5.1 Financial liberalisation and capital flows.....	67
3.5.2 Financial liberalisation and financing constraints.....	68
3.5.3 Financial liberalisation and capital structure.....	70
3.5.4 Summary of the effects of financial liberalisation.....	72
3.6 THE DATING OF FINANCIAL LIBERALISATION.....	74
3.7 CHAPTER SUMMARY.....	78
CHAPTER 4: HYPOTHESIS DEVELOPMENT.....	80
4.1 INTRODUCTION.....	80
4.1.1 Goal of this chapter.....	80
4.1.2 Layout of this chapter.....	80
4.2 HYPOTHESES DEVELOPMENT.....	80
4.2.1 Hypothesis one.....	81
4.2.2 Hypothesis two.....	82
4.2.3 Hypothesis three.....	83
4.2.4 Hypothesis four.....	84
4.2.5 Hypothesis five.....	84
4.2.6 Hypothesis six.....	85
4.2.7 Hypothesis seven.....	87
4.2.8 Hypothesis eight.....	87
4.3 CHAPTER SUMMARY.....	88
CHAPTER 5: METHODOLOGICAL ISSUES.....	90
5.1 INTRODUCTION.....	90
5.1.1 Goal of this chapter.....	90

5.1.2 Layout of this chapter.....	90
5.2 THE DATING PROBLEM.....	91
5.2.1 Challenges in dating financial liberalisation.....	91
5.2.2 The techniques used to date financial liberalisation.....	92
5.2.3 The dating approach used in South African studies.....	93
5.2.4 The dating approach followed in this study.....	94
5.3 THE LEVERAGE MEASUREMENT PROBLEM.....	96
5.3.1 The objective of the analysis.....	97
5.3.2 Book versus market value ratios.....	98
5.3.3 The measures used in this study.....	99
5.4 VARIABLE DEFINITION.....	101
5.4.1 Dependent variables.....	101
5.4.2 Independent variables.....	102
5.5 CHAPTER SUMMARY.....	109
CHAPTER 6: RESEARCH DESIGN AND ECONOMETRIC APPROACH.....	110
6.1 INTRODUCTION.....	110
6.1.1 Goal of this chapter.....	110
6.1.2 Layout of this chapter.....	110
6.2 CHOICE OF FIRMS AND DATA.....	111
6.3 DATA ANALYSIS.....	113
6.3.1 Data analysis plan.....	113
6.3.2 Panel data analysis.....	113
6.4 MODEL SPECIFICATION TECHNIQUES.....	116
6.4.1 The static panel data model.....	116
6.4.2 Estimation technique for testing the impact of financial liberalisation on capital structure.....	117
6.4.3 The dynamic panel data model.....	118
6.1.4 Estimation technique for the determinants of the adjustment speed.....	121

6.5 TESTING FOR STRUCTURAL SHIFTS IN PARAMETER ESTIMATES.....	122
6.6.1 Tests for the equality of intercepts and slopes.....	123
6.6.2 The dummy variable approach.....	123
6.7 FORMAL TESTS OF SPECIFICATION IN PANEL DATA.....	124
6.7.1 Sargan test.....	124
6.7.2 Test for lack of first and second order autocorrelation.....	124
6.7.3 Wald test: Joint significance.....	124
6.7.4 Multicollinearity tests.....	125
6.7.5 Hausman specification test.....	125
6.8 CHAPTER SUMMARY.....	125
CHAPTER 7: EMPIRICAL RESULTS.....	127
7.1 INTRODUCTION.....	127
7.1.1 Goal of this chapter.....	127
7.1.2 Layout of this chapter.....	127
7.2 BASIC TESTS AND SUMMARY STATISTICS.....	127
7.2.1 Normality tests.....	127
7.2.2 Average values for leverage.....	128
7.2.3 Correlation matrices and variance inflation factors.....	131
7.2.4 Outlier diagnostics	135
7.3 THE CONTRASTING EFFECTS OF FINANCIAL LIBERALISATION ON CAPITAL STRUCTURE.....	135
7.3.1 Average leverage ratios for all firms (pre and post liberalisation).....	136
7.3.2 Average retained earnings and debt maturity structure ratios for all firms (pre and post liberalisation).....	137
7.3.3 Average leverage ratios for internationally and domestically financed firms.....	138
7.3.4 Average leverage ratios for internationally financed firms (pre and post liberalisation).....	139
7.3.5 Average retained earnings and debt maturity structure ratios for internationally financed firms (pre and post liberalisation).....	139
7.3.6 Average leverage ratios for domestically financed firms (pre and post liberalisation).....	141
7.3.7 Average retained earnings and debt maturity structure ratios for domestically financed firms (pre and post liberalisation).....	141
7.3.8 Average leverage ratios for small firms (pre and post liberalisation).....	142

7.3.9 Average retained earnings and debt maturity structure ratios for small firms (pre and post liberalisation).....	142
7.3.10 Average leverage ratios for large firms (pre and post liberalisation).....	143
7.3.11 Average retained earnings and debt maturity structure ratios for large firms (pre and post liberalisation).....	144
7.3.12 Summary of the contrasting effects of financial liberalisation.....	144
7.4 REGRESSION OUTPUTS.....	145
7.4.1 Organisation of the regression outputs	145
7.4.2 Models reported for the full sample set	145
7.4.3 Models reported for small firms	146
7.4.4 Models reported for large firms.....	146
7.5 RESULTS AND PRESENTATION OF HYPOTHESES.....	153
7.5.1 Results and presentation of hypothesis one	153
7.5.2 Results and presentation of hypothesis two.....	156
7.5.3 Results and presentation of hypothesis three.....	158
7.5.4 Results and presentation of hypothesis four.....	159
7.5.5 Results and presentation of hypothesis five.....	162
7.5.6 Results and presentation of hypothesis six.....	163
7.5.7 Results and presentation of hypothesis seven.....	164
7.5.8 Results and presentation of hypothesis eight.....	167
7.5.9 Robustness checks	172
7.5.10 summary of the effects of financial liberalisation on capital structure.....	176
7.6 FIRM SPECIFIC DETERMINANTS OF LEVERAGE.....	177
7.6.1 Results for the dynamic panel data specification tests (pre and post liberalisation).....	177
7.6.2 The book value of the debt to equity ratio (pre and post liberalisation).....	178
7.6.3 The market value of the debt to equity ratio (pre and post liberalisation).....	183
7.6.4 The book value of the total debt ratio (pre and post liberalisation).....	186
7.6.5 The market value of the total debt ratio (pre and post liberalisation).....	190
7.6.6 Firm specific determinants of debt maturity (pre and post liberalisation).....	195
7.7 THE LONG RUN TARGET ADJUSTMENT MODEL AND TRANSACTION COSTS.....	198
7.7.1 Transaction costs for the book value of the debt to equity ratio.....	199
7.7.2 Transaction costs for the market value of the debt to equity ratio.....	199
7.7.3 Transaction costs for the book value of the total debt ratio.....	199

7.7.4 Transaction costs for the market value of the total debt ratio.....	200
7.7.5 Transaction costs for the short term debt ratio.....	200
7.7.6 A comparison of the adjustment costs for select countries.....	201
7.7.7 The determinants of the adjustment speed	203
7.7.8 Summary of the results presented by the dynamic model of capital structure.....	204
7.8 CHAPTER SUMMARY.....	205
CHAPTER 8: CONCLUSIONS AND IMPLICATIONS FOR FURTHER RESEARCH.....	208
8.1 INTRODUCTION	208
8.1.1 Goal of this chapter	208
8.1.2 Layout of this chapter.....	208
8.2 THE THEORETICAL CONCLUSIONS OF THE STUDY.....	209
8.2.1 The theoretical determinants of capital structure	209
8.2.2 Factors correlated with firm leverage.....	210
8.2.3 The theory of financial liberalisation.....	212
8.3 THE EMPIRICAL FINDINGS OF THE STUDY	212
8.4 THE CONTRIBUTIONS OF THE STUDY	214
8.4.1 The contribution to the knowledge gap.....	214
8.4.2 The methodological contribution of this study.....	216
8.4.3 Lessons that can be learnt from this study.....	217
8.5 SHORTCOMINGS AND SUGGESTIONS FOR FURTHER RESEACRH.....	218
LIST OF REFERENCES.....	220
APPENDIX.....	242

LIST OF TABLES

Table 1.1: Abbreviations used in this document.....	20
Table 2.1: Summary of the origins and evidence of the main theories of capital structure.....	39
Table 3.1: Conditions for positive economic growth.....	65
Table 3.2: Summary of the effects of financial liberalisation.....	72
Table 3.3: A comparison of liberalisation dates for a sample of emerging economies.....	77
Table 5.1: Definitions of leverage.....	100
Table 5.2: Summary of suitable proxies for size.....	104
Table 5.3: Variables and expected signs.....	108
Table 7.1: Summary statistics for all the dependent and independent variables.....	128
Table 7.2: Average values for variables over the sample period.....	130
Table 7.3: Correlation matrix for the independent variables.....	132
Table 7.4: Variance inflation factors and Tolerance for the dependent variables.....	132
Table 7.5: Correlation matrix for all the variables.....	134
Table 7.6: Panel data regression results for all firms.....	147
Table 7.7: Panel data regression results for all firms.....	148
Table 7.8: Panel data regression results for small firms.....	149
Table 7.9: Panel data regression results for small firms.....	150
Table 7.10: Panel data regression results for large firms.....	151
Table 7.11: Panel data regression results for large firms.....	152
Table 7.12: Interactive dummy regression outputs for the debt to equity ratios.....	169
Table 7.13: Interactive dummy regression outputs for the total debt and short term debt ratios.....	171
Table 7.14: Instrumental variable results.....	174
Table 7.15: Arellano-Bond two-step GMM results.....	175
Table 7.17: GMM estimates of target capital structure (Book debt to equity ratio).....	179
Table 7.18: GMM estimates of target capital structure (Market debt to equity ratio).....	183
Table 7.19: GMM estimates of target capital structure (Book total debt ratio).....	187
Table 7.20: GMM estimates of target capital structure (Market total debt ratio).....	191
Table 7.21: GMM estimates of target capital structure (Short term debt ratio).....	195
Table 7.22: Summary of the coefficients of the lagged dependent variables.....	199
Table 7.23: A comparison of transaction costs for firms in selected countries	202
Table 7.2.4 Determinants of the adjustment speed.....	203

LIST OF FIGURES

Figure 1.1: Indicators of stock and banking sector development.....	4
Figure 1.2: JSE market profile.....	5
Figure 1.3: Net purchases of bonds and shares by non-residents.....	5
Figure 2.1: The trade-off theory of capital structure.....	29
Figure 2.2: Statutory and effective corporate tax rates in South Africa.....	30
Figure 2.3: A comparison of dividend payouts and Market value total debt ratios.....	52
Figure 2.4: Long term debt ratios for firms from select industrialised countries.....	57
Figure 2.5: Long term debt ratios for firms from select developing countries.....	59
Figure 2.6: Debt ratios for select African countries.....	59
Figure 4.1: The debt maturity structure for small firms.....	85
Figure 4.2: The debt maturity structure for the average firm.....	85
Figure 4.3: Average retained earnings ratio for the pre and post liberalisation regimes.....	86
Figure 7.1: Book and market value debt ratios for all firms (pre and post liberalisation).....	136
Figure 7.2: Internal finance and debt maturity structure ratios for all firms.....	137
Figure 7.3: Debt to equity ratios for internationally financed and domestically financed firms.....	138
Figure 7.4: The effects of financial liberalisation on debt to equity ratios of Internationally financed firms.....	139
Figure 7.5: The trend in the leverage ratios for internationally financed Firms.....	139
Figure 7.6: The effects of financial liberalisation on internal finance and debt maturity structure of internationally financed firms.....	140
Figure 7.7: The effects of financial liberalisation on debt equity ratios of firms with no access to international equity markets.....	141
Figure 7.8: The effects of financial liberalisation on internal finance and debt maturity structure of firms with no access to international equity markets.....	141
Figure 7.9: Book and market value ratios for small firms.....	142
Figure 7.10: Internal finance and debt maturity structure ratios for small firms.....	143
Figure 7.11: Book and market value debt to equity ratios for large firms.....	143
Figure 7.12: Internal finance and debt maturity structure ratios for large firms.....	144