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CAPITAL STRUCTURE DETERMINANTS – NEW EVIDENCE FROM LATIN AMERICA

VICENTE LIMA CRISÓSTOMO
UNIVERSIDADE FEDERAL DO CEARÁ (UFC)

BRUNO GOES PINHEIRO
UNIVERSIDADE FEDERAL DO CEARÁ (UFC)

PAOLO SAONA HOFFMANN
SAINT LOUIS UNIVERSITY — MADRID

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Introdução
Theories regarding capital structure have been classified in some strands - the inexistence of factors that influence capital structure, factors regarding tax issues, information asymmetry, agency conflicts, and firm exogenous factors. Among these, the agency costs and informational asymmetry are particularly relevant in financing decisions of firms located in countries with institutional fragility as in Latin America. Firm funding in these environments is mainly supported by bank credit due to still insipient capital markets.

Problema de Pesquisa e Objetivo
Research problem is capital structure determinants in Latin America, an environment characterized by institutional fragility and insipient capital markets which make bank credit a relevant funding source. This study aims to identify the capital structure determinants of the Latin American firm, following literature suggestion that points out the importance of such research in developing markets.

Fundamentação Teórica
Since the Modigliani & Miller's (1958) proposal on the irrelevance of capital structure decisions to create value, extant literature have found evidence in the opposite direction, showing that capital structure matters given that firm management tries to use it for value creation purposes. Under an agency approach and pecking order theory rationale, the study proposes different drivers on capital structure decisions in the context of Latin American companies: ownership concentration, profitability, firm size, tangibility, growth opportunities.

Metodologia
The sample is an unbalanced panel data composed by 5,715 observations of 887 non-financial firms from six Latin American countries (Argentina, Brazil, Chile, Colombia, Mexico, and Peru) in the period 1994-2015. This allows an average of 6.44 observations per company which is greater than the minimum of 4.00 usually required to efficiently run panel data specifications. Panel data technique is an efficient approach to deal with two econometric limitations: endogeneity and individual heterogeneity. Models are estimated using Generalized Least Squares for panel data.

Análise dos Resultados
Major results indicate that ownership concentration has asymmetric effects on capital structure across markets, suggesting that there seems to be specific institutional aspects that matter for agency costs regarding access to debt. Latin American firms seem to follow a pecking order behavior given that profitability is inversely related to debt, indicating firms use profit retention to finance investment. Additionally, firm size, tangibility and growth opportunities favor debt.

Conclusão
Results show that ownership concentration plays an asymmetric role on capital structure in Latin America, where the typical firm follows a pecking order behavior. The moderating effect of agency conflicts on capital structure points out to the need of better firm corporate governance that minimizes external financial constraints, firm value destroying and minority shareholders expropriation that may derive from highly concentrated ownership. Policymakers should foster institutional environment that favors good corporate governance practices able to ease firm access to external financing.

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