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Debt maturity across firm types: Evidence from a major developing economy[☆]



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ABSTRACT

Existing literature provides little guidance on whether various debt maturity theories are useful in understanding the debt maturity choices of firms that are privately-held, small, and/or outside the manufacturing industry in developing economies. This paper conducts a comparative test of the major debt maturity theories using a firm-level dataset that covers a wide variety of firm types in a major developing economy, Turkey. Our findings provide considerable support for the liquidity risk, agency, and maturity-matching theories. The macroeconomic environment also has an important impact on debt maturity. The evidence for the signaling and tax theories, however, is weak at best.

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1. Introduction

The choice of debt maturity can have an important effect on firm value and risk. Inappropriate maturity choices might expose firms to potential rollover difficulties and interest rate fluctuations and might also make it difficult to pursue valuable growth opportunities. In light of these considerations, a

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large number of studies, both theoretical and empirical, have been conducted in the past few decades to understand how firms choose the maturity of their debt. Despite considerable progress, however, there is still a lot that needs to be understood about firms' debt maturity choices. Moreover, the overwhelming majority of these studies focus on publicly-traded firms in advanced economies, predominantly the US. As a result, we know very little about how debt maturity decisions are made by firms that are not publicly-traded and firms in less advanced economies.

In this paper, we aim to contribute to the existing literature on debt maturity choice in two important ways. First, we focus on the debt maturity choices of firms in a developing economy, namely, Turkey. Apart from being a rarely studied country, Turkey differs from many of the advanced economies in terms of economic and financial development as well as the quality and structure of the institutional environment (see, for example, [LaPorta et al., 1998](#); [Booth et al., 2001](#); [Fan et al., 2012](#)). In particular, Turkey is a middle-income country with relatively weak investor rights, low transparency, high ownership concentration, and a financial system dominated by banks. These features might have implications for the levels of agency and information asymmetry problems, expected costs of possible bankruptcy, and the potential for tax evasion, all of which can impact upon firms' debt maturity choices. Studying the case of a developing economy is also interesting because previous research has shown that unfavorable debt maturity structures in the private sector can have dire consequences for macro-financial stability in developing economies (see, for example, [Schmukler and Vesperoni, 2006](#); [BCBS, 2011](#)).

Second, we use a comprehensive firm-level dataset that is considerably more representative of the mix of firm types in the actual population of firms than in most studies. Specifically, our dataset provides financial information on a wide variety of firm types distinguished by their legal form of organization (public and private), industry (manufacturing and service), and size (microenterprises, small and medium enterprises (SMEs), and large firms). The comprehensiveness of our dataset enables us to carry out a number of interesting but very rarely conducted analyses in the debt maturity literature. First, we are able to provide a much more accurate analysis of the debt maturity choices of the "average firm" in an economy than most previous studies, including those on advanced economies. Given that the average firm is a privately-held SME, this type of analysis contributes greatly to our understanding of the debt maturity choices of firms that represent a significant portion of the production base in any economy.¹ Second, we are able to systematically investigate the debt maturity choice differences between public and private firms, large and small firms, and manufacturing and service firms. This sort of comparative analysis is important because taxability, ownership, flexibility, economies of scale, financial market access, and level of agency conflicts and information asymmetry can differ across firm types (see, for example, [Ang, 1992](#); [Scherr and Hulburt, 2001](#); [Brav, 2009](#)), with potential implications for debt maturity choices.

To give a structure to our empirical investigation, we build our analyses on the major theories of debt maturity, namely, agency theory, tax-based theory, signaling theory, liquidity risk theory, and maturity-matching theory. These theories generally emphasize the importance of firm-level factors such as information asymmetry and agency problems, taxability, and bankruptcy risk for debt maturity decisions. However, previous literature has provided ample evidence that economy-wide factors are among important determinants of firms' debt maturity choices as well (see, among others, [Demirguc-Kunt and Maksimovic, 1999](#); [Fan et al., 2012](#); [Kirch and Terra, 2012](#); [Aris, 2016](#)). Accordingly, we also investigate the debt maturity implications of variables such as inflation and economic growth which represent the state of the general economic environment as well as variables such as the quality of public governance which proxy for the institutional environment.

Our strongest and most robust finding is that firms that have high leverage also have long debt maturity. This holds regardless of a firm's size, industry, and whether it is listed on the stock exchange or not. Leverage is also the most economically significant determinant of debt maturity choice. These findings provide strong evidence that leverage and debt maturity decisions are made simultaneously (rather than sequentially) to minimize the expected costs of financial distress due to possible bankruptcy or premature liquidation by lenders, as suggested primarily by the liquidity risk perspective.

¹ According to the Turkish Statistical Institute, at the end of our sample period (in 2013), private SMEs constituted nearly 99.8% of all firms in Turkey and were responsible for 74% of employment, 64% of sales, 55% of wages and salaries, 54% of investment, and 53% of value-added. See [Altman et al. \(2016\)](#) for evidence on the fact that SMEs constitute the dominant population of firms in most countries around the world.

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