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Corporate Financial Patterns in Industrializing Economies: A Comparative International Study

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Abstract

This study is a sequel to the Singh and Hamid's monograph (IFC Technical Paper No. 1) on corporate financing patterns and structures in nine industrializing economies. Singh and Hamid's was the first large scale research on this subject and it yielded quite unexpected results. The two authors found that developing country corporations rely in general very heavily (a) on external funds and (b) on new issues of shares to finance their growth of net assets. These results are extremely surprising as they are opposite to that which most economists would expect. They also suggest almost the reverse of the "pecking order" pattern of finance found in advanced economies whereby the latter mostly use retained profits to finance their investment needs; if more finance is required, they have recourse to bank or long-term debt, and only as a last resort go to the stock market.

The present study extends the Singh and Hamid analysis in three ways: (a) it establishes the robustness of their results on much bigger corporate samples for each country; (b) it provides a more systematic comparison of corporate financial patterns in industrial and semi-industrial countries; (c) it sets out a theory to explain why developing country corporations use equity capital so extensively to finance the growth of their net assets.

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