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Debt financing and importance of fixed assets and goodwill assets as collateral: dynamic panel evidence

Bolaji Tunde Matemilola & Rubi Ahmad

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Abstract

This article analyses the effect of fixed assets and goodwill assets on South African firms' debt ratios. The difference and system generalized method of moment estimation results reveal that fixed assets and goodwill assets have significant and positive relationship with firms' debt ratios. To secure long-term debt, fixed assets and goodwill assets are required as collateral by creditors. Our results show firms' adjust to long-run optimal debt level, but at a slow adjustment rate. Our results suggest there are costs preventing South African firms from adjusting faster to their long-run optimal debt level. The practical implication of the paper is that policy makers should promote policies that encourage further development of the capital market. Moreover, firms need both fixed assets and goodwill assets as collateral to raise the desired optimal debt that maximizes firm value.

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capital structure | debt ratio | trade-off theory | fixed assets | goodwill assets | panel GMM

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Additional information

Notes on contributors

Bolaji Tunde Matemilola

Bolaji Tunde MATEMILOLA is currently a PhD candidate at University Putra Malaysia and teaches corporate finance courses. He also works for Distance Learning College & Training, UK as assessor of Business Management courses. He has taught corporate finance at University of Malaya, and has worked in the financial services industry before joining academics. He holds a Master of Arts in Finance and Investment degree from Nottingham University and Master of Science in Economics from University Putra Malaysia. His papers have been published in Transition Studies Review, Managerial Finance, and Procedia Economics and Finance.

Rubi Ahmad

Rubi AHMAD is an Associate Professor at University of Malaya and teaches in undergraduate and postgraduate programmes as well as supervising several doctoral students. She holds a MBA level degree specialization in finance from University of Memphis, TN, USA and a PhD in finance at Monash University, Australia. She co-authored in several chapters of four books and journal articles such as Journal of International Money and Finance, Investment Management and Financial Innovations, and Asian Academy of Management Journal.

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