

CAPITAL STRUCTURE AND THE LEVELS OF CASH FLOW AMONG LISTED BANKS IN EMERGING ECONOMIES IN AFRICA

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Abstract

We explore the effect capital structure has on the levels of cash flow of listed banks in Emerging Economies in Africa. Stakeholders' theory was adopted in explaining the need for empirically verifying the relationship between capital structure and the operating, financing and investing level of cash flow respectively. Data was collated from financial statements and a multiple regression analysis was conducted, using STATA software. A significant relationship was discovered between both capital structure and the levels of cash flow. The study recommends that capital structure should continue to be employed in Emerging Economies as a corporate strategy. This is because it increases cash flow.

Keywords: Capital Structure, Cash flow, Emerging Economies.

1. INTRODUCTION

Corporate strategies and dynamics are an important aspect of every organisation because flexible strategies are being required of any organisation or institution that seeks to remain relevant in today's world. The popular slogan 'innovate or die' was birthed as a result of the study of the recent trends in the business world (Stevens, 2017).

Management is expected to constantly make decisions that would elongate the life span of the firm and increase the productivity, viability and liquidity through each financial year. Corporate dynamics are simply the methods, strategies, processes, and models, basic or complex structures, by which organisations and institutions are birthed, grown, succeed, fail, or die (Oyewale, 2011; African Development Bank, 2019). Simply put, corporate dynamics means corporate flexibility, that is, the flexible methods, strategies or non-conventional methods management employs to increase revenue, cash flow and profit. It explains how an organisation is able to make and implement decisions that would aid organisational growth.

This study has identified capital structure as one of the methods organisations and listed banks increase their liquidity and investment port-folio. Various listed banks and organisations engage in acquisition and

various investment schemes, which expands customer base and is expected to increase profits, dividends and increase capital. Companies and listed banks sometimes borrow funds to aid the running of the business, this includes buying of assets, patent rights, and equipment, etc. This has become the norm, as funds needed by an organisation might sometimes not be available hence, various funding options are explored. Some researchers have discovered that the use of debt financing has way more benefits than equity financing (Rezaei and Jafari, 2017; Mohammad, Rahman and Rahman 2017). In their opinion, borrowing aids the organisation in achieving her going concern objective. This has become a risky road well toured by many organisations and institutions.

The study employs the operating, financing and investing level of cash flow as our dependent variables, mainly because the net profit figure is prone to various form of creative accounting practices (Ijeoma 2014: Oyewale, 2011). Hence savvy investors pay more attention to the cash flow figures as it reveals the true financial health of a given institution (Graduate Tutor, 2018 and Osagie 2018).

2.1. Statement of Research Problem

Capital structure is simply the act of increasing liabilities by borrowing funds to run a given organisation. The popular quote that supports debt over equity finance simply states 'you need money to make more money', hence management borrow from time to time to expand their operations. It is believed that the return of investment would outweigh the cost, but how true is this saying? Have organisations in time past not borrowed funds and gone into debt? Have organisations and listed banks not had to part with their collateral because they were unable to fulfil their own part of the loan agreement? How does capital structure increase the amount of money that is generated by listed banks? Oyewale (2011) states that in Nigeria, AMCON put in some money to help save some banks in the year 2008 from winding up. Some of the listed banks that fell into that category survived (Keystone Bank and Mainstream bank). Also in recent times the CBN announced that they put in some money to help resuscitate Skye bank but the operations of the bank still had to be taken over because financial stability was still not achieved. It is against these observations that this study intends to examine the relationship capital structure has on the levels of cash flow.

2.2. Research Hypotheses

H₀: There is no significant relationship between capital structure and the operating level of cash flow in listed banks of Emerging Economies in Africa.

H₀: There is no significant relationship between capital structure and the financing level of cash flow in listed banks of Emerging Economies in Africa.

H₀: There is no significant relationship between capital structure and the investing level of cash flow in listed banks of Emerging Economies in Africa.

2.3. Literature Review

Modigliani and Miller (1958) explained their theory by stating that interest rate reduces tax hence the organisation that employs the use of debt financing enjoys more benefits forgetting that the perfect scenario may never exist in certain industries. Elena, Georgeta, and Stefan (2018) concluded that debt structure has a different impact on company performance and financial leverage is positively correlated with share price volatility and firm size. Vătavu (2015) finalised that companies in Romania performed better when they employed the use of equity to finance their operation than when they increased their liabilities.

Addae, Baasi, and Hughes (2013) examined the effect capital structure has on profitability, their sample size was limited to firms listed on the Ghanaian Stock exchange Market and concluded that total debts and profits have a negative relationship this result negates what Abor (2005) study revealed as a statistically significant positive relationship between profitability and short term debt was obtained when both variables were regressed and a significantly negative relationship between profitability and long term debt. Pratheepkanth (2011) also obtained a negative association between capital structure and company performance using companies listed in Sri Lanka Stock Exchange.

Marzieh, Zukarnain, and Annuar (2017) examined the impact of capital structure on firm performance using firms in the Malaysian Stock Exchange market. They concluded that financial leverage has a strong negative impact on company's performance. Abeywardhana (2015) examined the relationship between capital structure and the profitability of nonfinancial SMEs in the United Kingdom (UK) for the period of 1998-2008. Using the Two-Stage Least Squares, (2SLS) the results show a significant relationship with capital structure and profitability which is negatively related.

2. METHODOLOGY

Expo-facto research design was employed, a panel data multiple regression analysis was utilised to generate results. Secondary data was used to empirically validate this work as data was collated from the financial statements of the selected listed banks.

2.1 Population

The Population of this study consists of all listed banks in Emerging Economies in Africa 2019, (IMF, 2019: Africa business, 2019) and they include: Nigeria, Uganda, Zambia Ghana, Botswana, Kenya and Tanzania (Africa Business, 2019). These countries were ranked up by IMF and are included in the Emerging Markets. South-Africa was added to the sample size of this study because it is the only African country ranked among the BRICS emerging economies in the world (BRICS, 2019).

2.2 Sample size and Sampling Technique

The countries selected include Ghana, Nigeria, South-Africa, Botswana, Kenya and Tanzania. The countries were selected based on the availability of the financial statements for the time frame (2013-2018) of the study and also because they made the Emerging Economy list in year 2019. This study employs data from only listed banks in these regions majorly because the Stock Exchange Markets are regulated and data obtained from there have at least been validated by external auditors. The study also employed control variables such as board size (BS), business complexities (BC) and financial leverage (FL).

2.3. Research Models

$$OPCF = \beta_0 + \beta_1 CS_{it} + \beta_2 BS_{it} + \beta_3 FL_{it} + \beta_4 BC_{it} + U_{it} \dots\dots\dots \text{Model 1}$$

$$FINCF = \beta_0 + \beta_1 CS_{it} + \beta_2 BS_{it} + \beta_3 FL_{it} + \beta_4 BC_{it} + U_{it} \dots\dots\dots \text{Model 2}$$

$$INVCF = \beta_0 + \beta_1 CS_{it} + \beta_2 BS_{it} + \beta_3 FL_{it} + \beta_4 BC_{it} + U_{it} \dots\dots\dots \text{Model 3}$$

Where:

β_0 is the intercept

β_{1-4} is the coefficients of the explanatory variables

U_{it} is the error or disturbing term that absorb the influence of omitted variables in proxies used.

3. REGRESSION RESULTS

3.1. Test of Hypothesis

A. There is no significant relationship between Capital Structure and the operating level of cash flow in listed banks of Emerging Economies in Africa.

B. There is no significant relationship between Capital Structure and the financing level of cash flow in listed banks of Emerging Economies in Africa.

C. There is no significant relationship between Capital Structure and the investing level of cash flow in listed banks of Emerging Economies

Table 1 Regression Table for hypothesis (A)

Prob >F = 0.000 (Random Result).

Operating cash flow	Coefficient	Standard error	t	Probability
Capital structure	.0085993	.0007217	11.92	0.0000
Board Size	-.4619609	4.894192	-0.09	0.925
Business Comp	-26.39136	80.68142	-0.33	0.744
Leverage	1.87049	3.357467	0.44	0.658

Source: Author's Computation (2019).

Table 2 Regression Table for hypothesis (B)

Prob >F = 0.000 (Random Result).

Financing cash flow	Coefficient	Standard error	t	Probability
Capital Structure	0.0010347	.000108	22.31	0.000
Board Size	-.2696776	.6646187	-0.18	0.854
Business Comp.	11.5916	.1094819	2.05	0.042
Leverage	1962555	.4455594	0.07	0.013

Source: Author's Computation (2019).

Table 3 Regression Table for hypothesis (C)

Prob >F = 0.000 (Random Result).

Investing cash flow	Coefficient	Standard error	t	Probability
Capital Structure	-.0100209	.0003882	-25.81	0.000
Board Size	2.491479	6.6222229	0.38	0.707
Business Comp	120.142	108.9231	1.10	0.270
Leverage	-9.319803	8.723505	-1.07	0.285

Source: Author's computation (2019).

4. DISCUSSION AND FINDINGS

The independent variable cash flow produced a P value of 0.000 when regressed with the operating level of cash flow. It was further discovered that a 1% increase in total debts would yield a 0.009% in operating cash flow. A 1% increase in financing cash flow would produce a 0.001% in the capital structure and an inverse relationship of 0.01% and significant relationship of 0.000 was observed with investment cash flow. A significant relationship was obtained with all three levels of cash flow were regressed. This means the access to external funds has a significant effect with the financial performance of listed banks in emerging economies in Africa.

In contrast to the result above, Logavathani & Lingesiya (2018) recommended that organizations should utilize the internal funding method rather than the debt structure method. Rezaei and Jafari, (2015) and Marzieh Zukarnain & Annuar (2017) had a negative and significant relationship. Similarly, Gordon, Henry, Jorgensen and Linthicum (2017) obtained a significant relationship with total debt and operating level of cash flow.

Decision: Accept Alternate hypothesis: There is a significant relationship between capital structure and the levels of cash flow of listed banks in Emerging Economies in Africa.

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