

Testing the Life Cycle Theory on the Capital Structure Dynamics of Trade-Off and Pecking Order Theories: A Case of Retail, Industrial and Mining Sectors

Authors : Freddy Munzhelele

Abstract : Setting: the empirical research has shown that the life cycle theory has an impact on the firms' financing decisions, particularly the dividend pay-outs. Accordingly, the life cycle theory posits that as a firm matures, it gets to a level and capacity where it distributes more cash as dividends. On the other hand, the young firms prioritise investment opportunities sets and their financing; thus, they pay little or no dividends. The research on firms' financing decisions also demonstrated, among others, the adoption of trade-off and pecking order theories on the dynamics of firms capital structure. The trade-off theory talks to firms holding a favourable position regarding debt structures particularly as to the cost and benefits thereof; and pecking order is concerned with firms preferring a hierarchical order as to choosing financing sources. The case of life cycle hypothesis explaining the financial managers' decisions as regards the firms' capital structure dynamics appears to be an interesting link, yet this link has been neglected in corporate finance research. If this link is to be explored as an empirical research, the financial decision-making alternatives will be enhanced immensely, since no conclusive evidence has been found yet as to the dynamics of capital structure. Aim: the aim of this study is to examine the impact of life cycle theory on the capital structure dynamics trade-off and pecking order theories of firms listed in retail, industrial and mining sectors of the JSE. These sectors are among the key contributors to the GDP in the South African economy. Design and methodology: following the postpositivist research paradigm, the study is quantitative in nature and utilises secondary data obtainable from the financial statements of sampled firm for the period 2010 - 2022. The firms' financial statements will be extracted from the IRESS database. Since the data will be in panel form, a combination of the static and dynamic panel data estimators will be used to analyse data. The overall data analyses will be done using STATA program. Value add: this study directly investigates the link between the life cycle theory and the dynamics of capital structure decisions, particularly the trade-off and pecking order theories.

Keywords : life cycle theory, trade-off theory, pecking order theory, capital structure, JSE listed firms

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