International Journal of Global Economic Light (JGEL)
Volume: 9 | Issue: 9 | November 2023

FOREIGN EXPERIENCES OF MANAGING EFFICIENT CAPITAL STRUCTURE IN JOINT STOCK COMPANIES

Amirzoda Hamrayev
Senior Lecturer of Kimyo International University in Tashkent

ABSTRACT

This article delves into the vital role of capital structure in joint-stock companies, using theoretical frameworks like the Modigliani-Miller theorem and real-world examples from various regions, including Asian conglomerates and European firms. By analyzing strategies, risk management, and sustainability considerations, the study highlights the importance of tailoring capital structures to specific business contexts and market conditions. Through case studies of companies like Nestlé and Samsung, it underscores the necessity of aligning financial strategies with both economic uncertainties and evolving societal expectations. The article ultimately serves as a comprehensive guide for businesses striving to achieve balanced and resilient capital structures on a global scale.

KEYWORDS: *Capital structure, joint-stock companies, Modigliani-Miller theorem, international experiences, risk management, sustainability.*

INTRODUCTION

In the ever-evolving landscape of global finance and business, joint-stock companies play a pivotal role in driving economic growth and innovation. The efficient allocation of capital within these companies is a crucial determinant of their long-term success and competitiveness. Understanding how to structure the capital of a joint-stock company is a multifaceted challenge that has garnered significant attention from scholars, business leaders, and policymakers.

This article embarks on a journey to explore the experiences of foreign countries in shaping the capital structures of joint-stock companies. It delves into the intricate interplay of equity, debt, and retained earnings, dissecting the strategies employed by successful companies worldwide. By drawing lessons from diverse economic environments and cultural contexts, we aim to distill best practices and insights that can inform capital structure decisions for companies operating in an increasingly interconnected global marketplace.

The article not only examines theoretical frameworks and financial models but also investigates real-world case studies of companies that have effectively harnessed their capital structures to maximize value and resilience. Through this exploration, we endeavor to shed light on the dynamic relationship between capital structure, risk management, and sustainable growth.

As we embark on this journey through the foreign experiences of capital structure formation, we invite readers to consider the importance of adaptability, innovation, and prudent financial management. Ultimately, a well-structured capital base is the cornerstone upon which joint-stock companies can build a prosperous and enduring future.

LITERATURE REVIEW

The study of capital structure in joint-stock companies involves exploring various theoretical frameworks. Modigliani and Miller famously proposed the concept of capital structure irrelevance under specific assumptions. While these assumptions may not hold in reality, their work laid the foundation for capital structure research [1].

Subsequent theories include the Trade-Off Theory and the Pecking Order Theory [2] The Trade-Off Theory suggests that companies balance debt's tax advantages against the costs of financial distress, while the Pecking Order Theory posits that firms prefer internal financing due to information asymmetry.

Examining international experiences provides valuable insights into optimizing capital structures. For instance, Korean conglomerates (chaebols) have employed complex ownership structures to fund expansion, influenced by ownership concentration [3].

European firms have embraced hybrid instruments like convertible bonds and preferred stock to adapt to local regulations and investor preferences [4].

Real-world case studies offer practical illustrations of effective capital structure management. For instance, Nestlé, a Swiss multinational corporation, has consistently utilized retained earnings and moderate debt, reflecting a well-balanced capital structure strategy [5].

Another noteworthy case is Samsung, a South Korean conglomerate, which employs a variety of financing sources, including equity, bonds, and bank loans to meet diverse business needs [6].

Capital structure management also involves risk management and sustainability considerations. Chakrabarty emphasizes aligning capital structure with a company's risk profile to ensure resilience in the face of economic challenges [7].

Furthermore, sustainability principles are gaining importance in capital structure decisions, as companies evaluate the environmental and social implications of their financing choices [8].

METHODOLOGY

In the process of research, logical thinking, scientific observation, comparison, compilation of theoretical and practical materials, and systematic analysis methods were used in the study of information and theories related to the topic.

RESULTS AND ANALYSIS

During our research, a variety of studies on the capital structure effective management styles were analyzed in both of developing and developed nations and made a comprehensive comparison of them with one another in their key development trends.

U.S. joint-stock companies, being situated in one of the world's most dynamic and mature capital markets, have historically been inclined towards equity financing. The U.S. boasts a thriving equity market where raising capital through equity issuance is often more streamlined than in other regions. This is buoyed by strong investor protection laws that attract a diverse range of institutional and individual investors. The Securities and Exchange Commission (SEC) plays a pivotal role in ensuring that these laws are adhered to, providing a sense of trust to potential investors [9].

However, the advantage of interest tax shields, where firms can reduce their taxable income by the amount of interest paid on their debt, can't be ignored. This particular tax benefit makes debt financing an attractive proposition for many companies, even in an equity-favored environment. Despite the benefits of equity financing, the U.S. tax code provides incentives for companies to use debt in their capital structures.

Like the U.S., the UK also has a well-established equity market. The London Stock Exchange (LSE) is one of the world's oldest and largest stock exchanges. The presence of an active and sophisticated investor base, combined with strong corporate governance practices, often nudges firms towards equity financing. Yet, the UK's bond market is also quite robust. The country's legal and regulatory framework ensures that bonds are reliable financial instruments, making them a popular choice for companies looking for debt financing. Corporate governance in the UK, shaped by the Cadbury Report and its successors, places considerable emphasis on transparency, accountability, and shareholder rights [10]. This environment, where shareholders are both protected and empowered, can lead to more active shareholder involvement in corporate decisions, including those related to capital structure.

Japan's corporate landscape has been influenced heavily by its historical, economic, and cultural contexts. Japanese firms traditionally have intricate relationships with their banks, often leading to a debt-heavy capital structure. The main-bank system in Japan allows corporations to form close ties with a primary bank, which in many cases provides not just loans but also implicit guarantees and oversight [11]. While high debt ratios are a norm, it's also worth noting that the Japanese macroeconomic environment post-World War II, characterized by stability and growth, facilitated this debt-centric approach. The relatively passive stance of shareholders in Japan, contrasting sharply with the active shareholder environment in countries like the U.S. or UK, further reinforces the reliance on debt.

Table 1. Developed Countries' Capital Structure Analysis

Country	Primary Financing Preference	Influencing Factors
U.S.	Equity financing	- Vibrant and deep equity markets allowing for ease of capital access - Strong legal system promoting investor protection - Tax benefits associated with corporate debt financing, incentivizing a certain level of leverage
U.K.	Equity financing	- Strong bond and equity markets providing diverse financing avenues -Corporate governance structure emphasizing accountability and transparency -Active shareholder groups exerting influence on corporate decisions
Japan	Debt financing	- Historical ties and relationships between corporations and banks facilitating borrowing - Macroeconomic stability and government policies supportive of debt - Main-bank system providing implicit backing to borrower companies
Germany	Internal financing and bank loans	- Comprehensive system of universal banking easing the borrowing process - Prevalence of cross-shareholdings, reducing dependence on external markets - The culture and ethos of the Mittelstand emphasizing self-reliance and a preference for control
Australia	Balanced (equity and debt)	- Developed equity market encouraging companies to raise capital through share issuance - Favorable tax treatment of dividends reducing the cost of equity - Evolving legal environment and the notable presence of foreign investors influencing corporate finance decisions

(Source: prepared by the author)

The German corporate finance landscape is distinct. German firms, particularly the renowned Mittelstand (SME; German, kleine und mittlere Unternehmen or KMU) or medium-sized companies, are known for their reliance on internal financing and bank loans. These companies, often family-owned, prioritize control and long-term stability over rapid growth or expansion. Germany's banking system is characterized by universal banking, where banks provide a wide range of financial services, blurring the line between commercial and investment banking [12]. This system, combined with prevalent cross-shareholdings, often means that banks have a more significant influence over corporate decisions, leading to a reduced emphasis on external capital markets for financing.

Australia's corporate finance environment exhibits a blend of both equity and debt financing. The Australian Securities Exchange (ASX) provides a vibrant platform for equity financing, while the country's mature banking system supports debt financing. One distinctive feature of Australia's capital structure decisions is the dividend imputation system, which avoids the double taxation of dividends. This system incentivizes firms to distribute profits to shareholders, potentially affecting financing decisions [13].

Moreover, Australia's legal environment, influenced by both British common law and unique domestic conditions, combined with the presence of numerous foreign investors, ensures a dynamic interplay of factors shaping the capital structure of its joint-stock companies.

Developing nations' capital structure decisions are intensively different from the developed ones and some obstacles interfere joint stock companies' capital allocations process to make them difficult.

Brazil, a pivotal player in the Latin American economic arena, has companies that often grapple with high-interest rates, making borrowing an expensive proposition. The cost of debt in Brazil, exacerbated by macroeconomic instability in the past, has been a significant deterrent for companies considering leverage. However, the tax shield benefits associated with debt often counterbalance the high interest rates. Recent years have seen a more proactive push from the government to develop the bond market, aiming to provide firms with alternative debt instruments and reduce reliance on bank loans [14]. This evolution reflects a broader movement to mature and diversify the country's financial markets.

China's ascent as an economic powerhouse has been accompanied by a unique blend of state-driven capitalism and market liberalization. State-owned enterprises (SOEs) have been significant beneficiaries of this environment, enjoying easy access to bank loans, often at favorable terms, due to their strategic importance and implicit government backing. Their high leverage ratios are thus an outcome of both policy direction and financial privilege. On the other hand, with the meteoric rise of stock exchanges in cities like Shanghai and Shenzhen, private firms have been eyeing equity as an alternative or supplementary financing tool. The allure of tapping into a vast pool of domestic and international investors, combined with greater transparency requirements, has shaped the capital structure of many new-age Chinese corporations [15].

India's corporate finance landscape is profoundly influenced by its socio-cultural fabric. A significant portion of businesses is family-controlled, which implies an inherent aversion to diluting ownership control. Consequently, equity financing, especially from external investors, is approached with caution.

Nevertheless, the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) have grown rapidly, offering firms access to a robust platform for raising equity capital. India's banking system, governed by the Reserve Bank of India (RBI), has historically been risk-averse, making borrowing a stringent process. This cautious approach, combined with the growth of stock markets, nudges many firms towards equity financing [16]

South Africa boasts one of the most sophisticated financial systems in the African continent. The country's banking system, which is robust and well-regulated, often becomes the primary source of financing for corporations. Debt instruments, both short-term and long-term, are widely used to finance business operations and expansions.

Yet, the Johannesburg Stock Exchange (JSE) stands out as one of the world's top stock exchanges and offers firms a dynamic platform to raise equity. The interplay of a mature banking system and a vibrant equity market ensures that South African firms have multiple avenues to structure their capital optimally [17].

Table 2. Developing Countries' Capital Structure Analysis

Country	Primary Financing Preference	Influencing Factors
Brazil	Debt financing (evolving)	- Traditionally high-interest rates making borrowing expensive - The attractive tax shield benefits of debt, despite cost considerations - Government initiatives to foster a more developed bond market
China	Debt for SOEs; Diversified for private firms	- Policy support and favorable conditions for SOEs enabling high leverage - Expansion and internationalization of Chinese stock markets, drawing in both domestic and foreign investors for private firms
India	Equity financing	- Strict banking regulations, historically making borrowing more cumbersome - Flourishing stock markets, especially in metropolitan hubs, providing equity finance avenues - Cultural inclination of family-owned businesses to maintain ownership and control
South Africa	Debt financing	- Strong and regulated banking system facilitating borrowing - Johannesburg Stock Exchange as a prominent platform for equity financing, enabling companies to tap into large investor pools
Mexico	Internal financing (evolving)	- Economic history leading to an underdeveloped external capital market - Recent economic and financial reforms aiming to diversify and strengthen the nation's financial landscape

(Source: prepared by the author)

Mexico's journey has been one of gradual transformation. Historically, Mexican firms heavily depended on internal financing due to a combination of underdeveloped capital markets and economic instability. However, the latter part of the 20th century and the early 21st century witnessed significant reforms aimed at strengthening the country's financial markets.

These reforms, coupled with initiatives to encourage foreign investment, have led to a more diversified financial ecosystem. While internal financing remains popular, especially among family-owned businesses, there is an increasing trend towards leveraging both debt and equity markets to optimize capital structure [18]

CONCLUSION

The quest for an optimal capital structure in joint-stock companies is not limited by national borders but transcends the global arena. As we conclude our exploration of foreign countries' experiences, we uncover a rich tapestry of insights that can guide companies in crafting effective and resilient capital structures.

Capital structure theories, including the seminal work of Modigliani and Miller, provide the theoretical underpinnings. These theories, although built on simplifications, remain fundamental to understanding the dynamics of capital formation.

International experiences reveal a fascinating diversity in capital structure choices. Korean chaebols' complex ownership structures and European firms' embrace of innovative instruments underscore the adaptability of capital structures in response to local nuances and investor preferences.

Real-world case studies from companies like Nestlé and Samsung exemplify the significance of tailoring capital structures to individual business needs. These companies have adeptly navigated the complexities of financing to achieve sustainable growth and profitability.

Risk management and sustainability considerations further elevate the discourse on capital structure. Aligning capital choices with a company's risk profile ensures resilience in the face of economic uncertainties. Simultaneously, the integration of sustainability principles aligns companies with evolving societal and regulatory expectations.

In a globalized world where market dynamics are ever-evolving, the lessons from foreign countries' experiences underscore the importance of adaptability, innovation, and a holistic approach to capital structure formation. It is evident that an optimal capital structure is not a static concept but a dynamic, evolving strategy that responds to the unique needs of a company and the ever-changing landscape in which it operates.

As companies chart their course through the complexities of capital structure, they are encouraged to draw from this rich mosaic of experiences. In the pursuit of a balanced, resilient, and sustainable capital structure, we find the true essence of financial success in the world of joint-stock companies.

The foreign lessons we have explored serve as a compass, guiding companies in their quest for an optimal capital structure, transcending borders and enriching global business practices.

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