EMERGING MARKETS AND FINANCIAL RESILIENCE

DECOUPLING GROWTH FROM TURBULENCE

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Emerging Markets and Financial Resilience

Decoupling Growth from Turbulence

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Preface and Acknowledgments

Emerging Markets and Financial Resilience: Decoupling Growth from Turbulence aims to present a picture of the current financial research on emerging markets as presented at the 14th Malaysian Finance Association (MFA) Conference held at the Pearl of the Orient, Penang, Malaysia, from 1–3 June 2012. The MFA conferences are annual events that provide an avenue for scholarly interaction among finance researchers, professionals, industry practitioners and policy regulators. The 2012 conference was jointly hosted by the MFA and Graduate School of Business of Universiti Sains Malaysia.

The conference provided a forum for both theoretical and empirical works to address the issue of financial resilience in emerging markets. This multi-contributor book is timely because emerging countries are faced with unique challenges as they continue to contribute and drive regional, as well as global economic growth. The biggest challenge is to find ways of sustaining its current trajectory, while taking a more decisive role in shaping the global financial architecture to ensure sustainable growth. Eleven of the presentations that best addressed these issues were selected and included in the book.

The target audience of this book includes researchers, postgraduate students, practitioners and regulators in finance-related areas. Topics include financial markets and development, international finance, foreign direct investment, portfolio management, corporate finance and banking. We hope that the book will serve as a source of new information as well as for further research.

We would like to convey our appreciation to all the contributors and to thank the reviewers whose insightful feedback and comments helped improve the book. In addition, our deepest appreciation goes to Professor Fauzias Mat Nor, former president of MFA, and Professor Datin Hasnah Haron, former Dean of Graduate School of Business, Universiti Sains Malaysia, for their support. Finally, our special thanks to Aimee Dibbens and Tom Earl from Palgrave Macmillan, for their kind support and effort in bringing this book to fruition.

Chee-Wooi Hooy, Ruhani Ali and S. Ghon Rhee
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Part V

Corporate Finance and Banking

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Capital Structure of Southeast Asian Firms

Razali Haron, Khairunisah Ibrahim, Fauzias Mat Nor and Izani Ibrahim

1 Introduction

The relationship between capital structure and firm value has been widely studied and analysed theoretically and empirically by researchers past and present. This is because a firm's financing behaviour will consequently affect the value of the firm. In tackling the issue of capital structure, two main questions have to be addressed: how firms choose their capital structure to finance their operation, and how the choice of capital structure financing affects the value of the firm.

Despite the extensive research done in the area of capital structure since Modigliani and Miller in 1958 and ever since Myers (1977) published his article on the determinants of corporate borrowing, understanding in the area is still inconclusive (Harris & Raviv, 1991; Gill et al., 2009; Sheikh & Wang, 2011; Al-Najjar & Hussainey, 2011; Gwatidzo & Ramjee, 2012). Empirical work in this area, according to Titman and Wessels (1988), has lagged behind the theoretical research. This is, perhaps, because the relevant firm attributes are expressed in terms of fairly abstract concepts that are not directly observable. Deesomsak et al. (2004) find that empirical evidence on the effect of determinants on leverage is mixed and inconsistent. A fairly recent work done by Beattie et al. (2006) documents the same results showing that understanding in the area remains incomplete. They further argue that neither theory is able, independently, to explain the complexity encountered in capital structure practice.