

Capital Market Financing, Firm Growth, and Firm Size Distribution

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Summary

In this paper, we address three interrelated questions. (1) How many and which firms issue equity and bonds in domestic and international markets? (2) What happens to the assets, sales, and number of employees of firms that issue debt and equity relative to non-issuers? (3) How does the comparative performance of issuers and non-issuers differ across the firm size distribution (FSD)?

To address these questions, we assemble a new dataset on firm-level domestic and international issuances of equities and bonds during 1991-2011 and match this information with balance sheet information on 45,527 publicly listed firms from 51 countries during 2003-2011.

Three main findings emerge from the analysis. First, only a small number of large firms issue securities in the typical country, and among these issuing firms a small subset has raised an increasing amount of funds during the 1990s and 2000s. That is, the growth in capital markets over this period has been associated mainly with growth in the intensive margin. In the median country, only about 20 listed firms per year issue securities in either their domestic capital market or in an international financial center; and this number has not varied significantly over time. Bond issuers are much larger than equity issuers. Of the few debt and equity issuers, the top firms receive most of the funds raised. Issuers of equity and bonds are larger than non-issuers at every decile of the FSD.

Second, despite being larger, issuers grow faster than non-issuers in terms of assets, sales, and employment, and they experience a significant boost in these different characteristics in the year that they sell securities. The median issuer by size experiences asset growth of 12% per annum, while the median non-issuer grows at 4.5%. Because issuers perform better than non-issuers, the FSD of issuing firms moves more to the right over time than that of non-issuing firms.

Third, the relation between firm growth and firm size is downward sloping for issuing firms and upward sloping for non-issuing firms. Thus, the FSD of issuers evolves differently from that of non-issuers: smaller issuing firms grow faster than larger ones, so that the FSD of issuing firms tightens; but, larger non-issuing firms grow faster than smaller ones, so that their FSD widens. Moreover, when comparing issuing and non-issuing firms, we find that the positive growth gap between issuers and non-issuers is largest among smaller firms and declines with firm size.