Ownership structure, corporate diversification and capital structure: Evidence from China's publicly listed firms

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Abstract

Purpose

The purpose of this paper is to investigate whether, and to what extent, corporate diversification into related and unrelated businesses affects capital structure choices, and whether ownership structure is germane to the understanding of corporate diversification strategies and debt-equity financing choices.

Design/methodology/approach

Univariate approaches include the parametric two-sample t-test, non-parametric Kolmogorov-Smirnov test and Kruskal-Wallis rank test, and cluster analysis. Multivariate approaches include panel data regressions to identify the sign and magnitude of the effect of diversification on capital structure, after controlling for a number of industry and firm characteristics as suggested in the literature.

Findings

Corporate diversification into related or unrelated industries has opposite effects on capital structure, after controlling for ownership structure and corporate governance mechanisms. Consistent with the prediction of organizational economics, an increase in the degree of business relatedness is associated with a reduction in debt while an increase in business unrelatedness is associated with an increase in debt. In addition, there is strong evidence that government-controlled firms use less debt

Originality/value

Traditional finance literature has not been able to provide conclusive evidence on what affects corporate capital structure decisions. This paper shows that a corporate strategy perspective, with its emphasis on a managerial decision-making process, can provide a behavioral basis for understanding capital structure choices.

Keywords

Corporate strategy
Corporate finances
Corporate governance
Corporate ownership
Public sector organizations
China

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