RESEARCH ARTICLE | MARCH 09 2010

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

Larry D. Su

+ Author & Article Information

Management Decision (2010) 48 (2): 314–339.

https://doi.org/10.1108/00251741011022644

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 debtequity 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 financing and that government ownership weakens the positive relationship between unrelated diversification and leverage. The results are robust to different measures of capital structure.

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

© Emerald Group Publishing Limited

You do not currently have access to this content.
Sign in
Don't already have an account? Register
Client Account Email address / Username
Password
Reset password Register
ICE Member Sign In
Log in
Access through your institution
Purchased this content as a guest? Enter your email address to restore access.

We use cookies to optimize site functionality and targeting cookies to give you the best possible experience. Your experience, your choice. Learn more here: <u>Visit our cookie policy page</u>

Email Address

Pay-Per-View Access €38.00



Rental

This article is also available for rental through DeepDyve.

