

Diversification, Financing and Investment Decisions
多角化企業之投資策略與融資策略之探討

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Abstract

Prior literature has investigated the relationships between diversification and financing strategies, diversification and investment strategies, or financing and investment strategies in isolation. The debt capacity theory suggests that firms diversify to increase debt capacity; the underinvestment theory proposes that diversified firms may reduce the underinvestment problem; and the argument based on agency problem between shareholders and debt holders suggests a negative relationship between leverage and investment. However, as diversification, financing, and investment strategies considered simultaneously, we argue that the theoretical relationships between each strategy may change.

Results suggest that although firms may diversify to increase debt capacity, diversification may not increase capital expenditures simultaneously. Our findings also support the debt capacity theory that if firms engage in higher degree of diversification and undertake investment projects, their leverage will increase. Because diversified firms have the ability to issue more debt externally to pursue investment due to greater debt capacity. However, the increase of debt capacity due to diversification may not reduce the underinvestment problem. The finding is not consistent with the underinvestment theory. Overall, our empirical results suggest that appropriate diversification strategy will help firms undertake financing and investment decisions more successfully.

Key words : Diversification; Investment Strategy; Financing Strategy

關鍵字：多角化；投資策略；融資策略