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Does corporate groups accrue higher leverage: Emerging Market Evidence?

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Abstracts

This article explores the capital structure composition of group-affiliated firms. We find that group member firms choose to accrue higher debt ratios compared to non-group counterparts. Further disentangling the higher debt ratios of group-affiliates, we find risk-sharing or co-insurance effect whereby business groups enable member firms to share risks through income-smoothing and intra-group reallocation of resources. Our results suggest that business groups act as internal capital markets, assist affiliated firms overcome financial constraints, and ease access to external capital. Lastly, our study shows that group affiliations positively contribute to firms' better financial performance relative to the non-group firms.

Keywords: corporate group, capital structure, ownership structure
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