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Analysis of Factors Influencing Corporate Finance Decisions: A Critical Review of the Literature

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ABSTRACT

Corporate finance decisions are influenced by both internal and external factors. Researches analyzing influencing factors of corporate fiance decisions so far have discussed firm-level determinants in terms of management and business strategies, and researches that have mentioned the effect of business environment on corporate finance decisions mainly focus on the relationship between government policies or economic conditions and corporate finance decisions. However, there are still certain issues such as the mutual influencing and integrated influencing of these mentioned factors not been answered yet.

KEYWORDS

Corporate finance; Business strategies; Financial affairs

Corporate finance decisions, by which a firm seeks to keep itself financially healthy and efficient to support its sustainable development, are influenced by both internal and external factors (Lee & Lee & Xiao, 2021). Researches analyzing influencing factors of corporate fiance decisions so far have discussed firm-level determinants in terms of management and business strategies, and researches that have mentioned the effect of business environment on corporate finance decisions mainly focus on the relationship between government policies or economic conditions and corporate finance decisions.

The influence of managers on corporate finance decisions has been being a largely discussed topic by researchers. Managers' psychological and social background are considered as essential elements influencing corporate finance decisions (Luo & Ye, 2015). Managers' attitude towards risk is bound up with the financial decisions they make. Lambrecht and Myers (2016) compared risk-neutral and risk-averse managers and found that risk-neutral managers have a better performance in investment activities than risk-averse managers. Gong (2020) also argued that risk-averse managers tend to lower the corporate leverage level when facing high short selling threats. There are also other influencing psychological factors, for example, Liu and Mu (2016) pointed out that cognition bias of managers has a negative influence on the efficiency of their investment decisions. Managers' social experience plays an important part in the decision making process as well. According to the research of Hao and Huang (2021), managers' experience in their early lives has a significant impact on the way they decide the capital structure of the firm. Besides, the work of Boubaker and Chourou (2017) found that firms controlled by investors with a long-term institutional horizon show a preference on debt financing and slow adjustment on capital structure. Otherwise, the manager's finance decision is also believed to be influenced by the relationship between the manager and other stakeholders. Luo and Ye (2015) considered the conflict between managers and controlling shareholders a hinder of ideal investment decision making process, and their finding is followed by Inoa (2019), who pointed out that agency conflicts between misaligned managers and shareholders drives a less efficient and more costly finance decision. A recent work by Comino-Jurado and Sanchez-Andujar (2021) explored the research of issue to family firms, and found out that the degree to which family members involve in management is positively related to the debt level in the firm's financing decisions.

In terms of business strategies, Benlemish (2017) argued that firms with high CSR involvements tend to design their capital structures with a higher proportion of equity and public debt, and Zhang and Sun (2017) believed that it would be easier for small and medium sized firms which had established strategic cooperative partnership with large companies on the up and downstream of their supply chain to collect capital by indirect financing.

Government policies are believed by several researchers to have effect on corporate finance decisions. According to the work of Xu (2020), macro monetary policies affect the way firms allocate assets both directly and indirectly. Lee, Lee and Chen (2021) also pointed out that policies can lead to several risks, which cause firms prefer debts over equities. Besides, Zhang and Sun (2017) argued that the E-commerce Finance Policy by China's government provides small and medium sized firms with new ways of financing.

Although as a part of an economy, microeconomics elements such as the microstructure of capital market does provide opportunities for firms to improve their financial conditions (Cheung, Fung, and Tam, 2016), more researches pay attention to how corporate finance process is tightly bound up with macroeconomic environments (Gupta, 2017; Vega-Gutierrez and Lopez-Iturviaga, 2021). Economic environment issues considered as influencing factors of corporate finance decisions mainly include labor market issues and uncertainties of the environment. Vega-Gutierrez and Lopez-Iturviaga (2021) found that unemployment influences firms' financial leverage, and Liu, Liu, Zhang, and Zhu (2021) found that labor market frictions and labor intensity decrease the proportion of debt in firms' capital structures. As for market uncertainty, Cam and Ozer (2021) argued that a powerful governance and steady market environment promote firms' confidence on long-term financing. By contrast, according to Agliardi, Agliardi, and Spanjers (2021)'s research, ambiguity to future economic conditions is considered as a driving factor of firms' entering financial distress and preference to debts. Li, Xia, Chen, Ding and Wang (2021) also found out that economic uncertainty can hinder corporate investment activities. Acknowledged the existence and influence of uncertainty, Gutpa (2017) believed that the core issue in developing tools to help make corporate finance decision is to link ideal decision making process and uncertainties in the reality.

Previous researches provide us with insights of how factors inside and outside the firm influence a firm's finance decisions. However, there are still certain questions not been answered yet. For example, do these factors influence each other and finally have an integrated effect on corporate finance decision? Further more, since 2020, the COVID-19 has led a great change on the global economic condition, and it is valuable to examine whether it has changed the corporate finance decision process by changing the supply and demand in the labor market, the government policy of various economies, and thus the business strategies of firms. Hopefully there will be researches regarding interaction of present recognized influencing factors and the changes in the new condition under COVID-19.

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