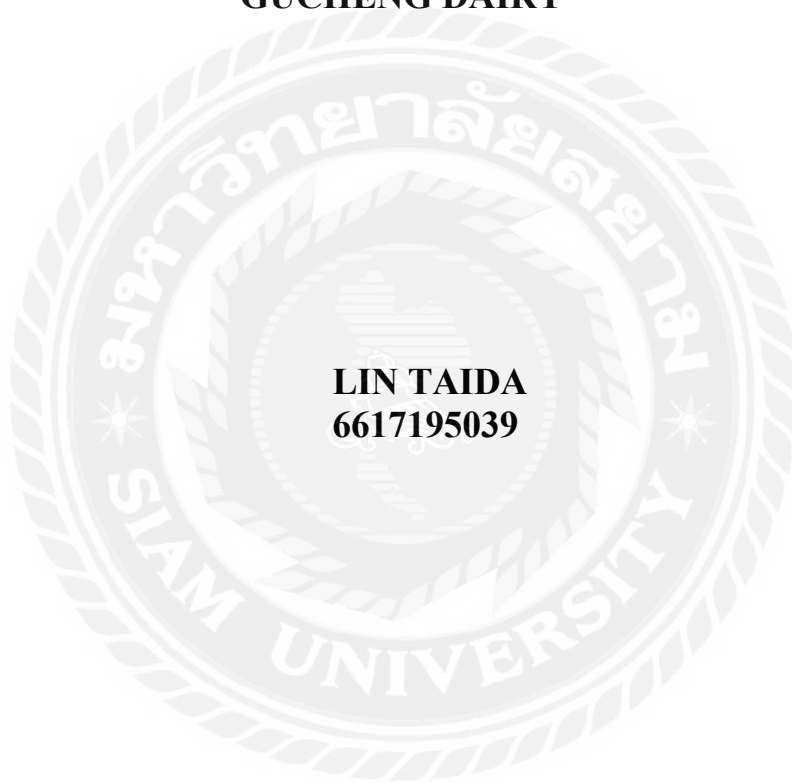




**THE FACTORS AFFECTING THE CAPITAL STRUCTURE OF
GUCHENG DAIRY**



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**AN INDEPENDENT STUDY SUBMITTED IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION
GRADUATE SCHOOL OF BUSINESS
SIAM UNIVERSITY
2024**



THE FACTORS AFFECTING THE CAPITAL STRUCTURE OF GUCHENG DAIRY

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This Independent Study Has Been Approved as a Partial Fulfillment of the
Requirements for the Degree of Master of Business Administration

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ABSTRACT

With the rise in purchasing power and shifts in consumption patterns, Chinese consumers are placing greater emphasis on dairy products. However, issues such as product homogenization and recurring food safety concerns in recent years have continued to undermine the international competitiveness of China's dairy industry. As a leading dairy brand in Shanxi Province, Gucheng Dairy faces several ongoing challenges, including suboptimal financial performance and obstacles in its expansion efforts. Capital structure largely determines an enterprise's ability to repay debts and refinance, influences its future profitability, and serves as a key indicator of its financial health. A well-structured financing model can reduce financing costs, leverage financial regulation, and allow the enterprise to achieve a higher return on its own capital. Therefore, the research objective of this study is to examine the effect of policy, industry characteristics, product market competition intensity and company characteristics on the capital structure of Gucheng Dairy.

By constructing a quantitative analysis framework, the study conducted an in-depth examination of Gucheng Dairy's capital structure, with empirical research data collected from 358 employees to gain a comprehensive understanding of how these factors affect the company's capital decision-making process. The study results indicated that the policy environment, industry characteristics, product market competition intensity, and company-specific characteristics all had a positive impact on Gucheng Dairy's capital structure. Together, these factors played a supportive role in optimizing the company's capital structure.

From the findings, Gucheng Dairy's capital structure could be improved by increasing policy guidance and support for the dairy industry, accelerating industry transformation and optimization to enhance profitability, and focusing on vigorously

developing the corporate bond market to broaden the financing channels for enterprises.

Keywords: capital structure, policy, industry characteristics, product market competition intensity, company characteristics, Gucheng Dairy

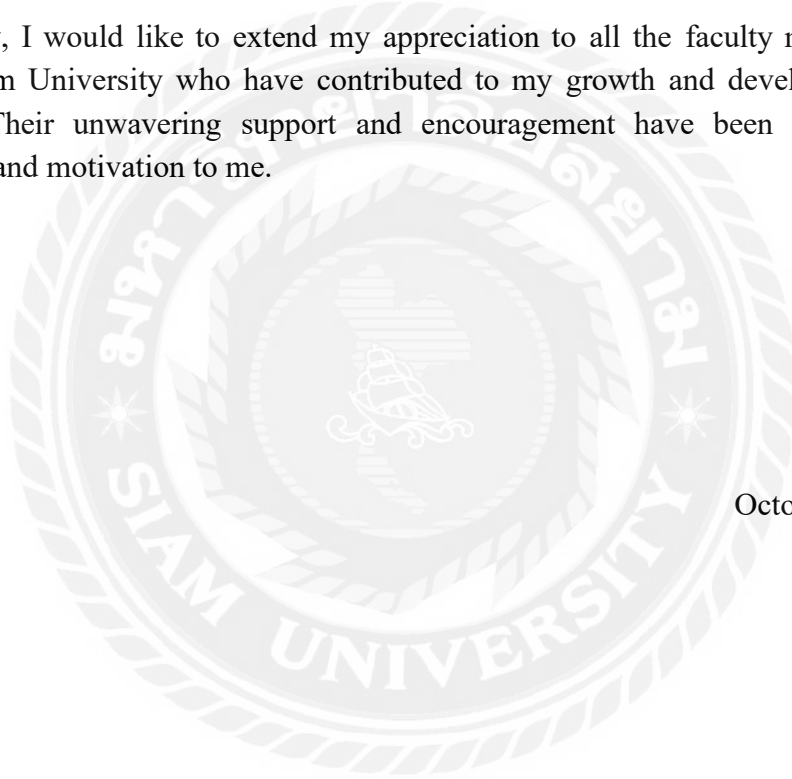


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Lin Taida
October 21, 2024

Declaration

I, Lin Taida, hereby certify that the work embodied in this independent study entitled “The Factors Affecting the Capital Structure of Gucheng Dairy” is result of original research and has not been submitted for a higher degree to any other university or institution.

LIN TAIDA

(Lin Taida)

October 21, 2024



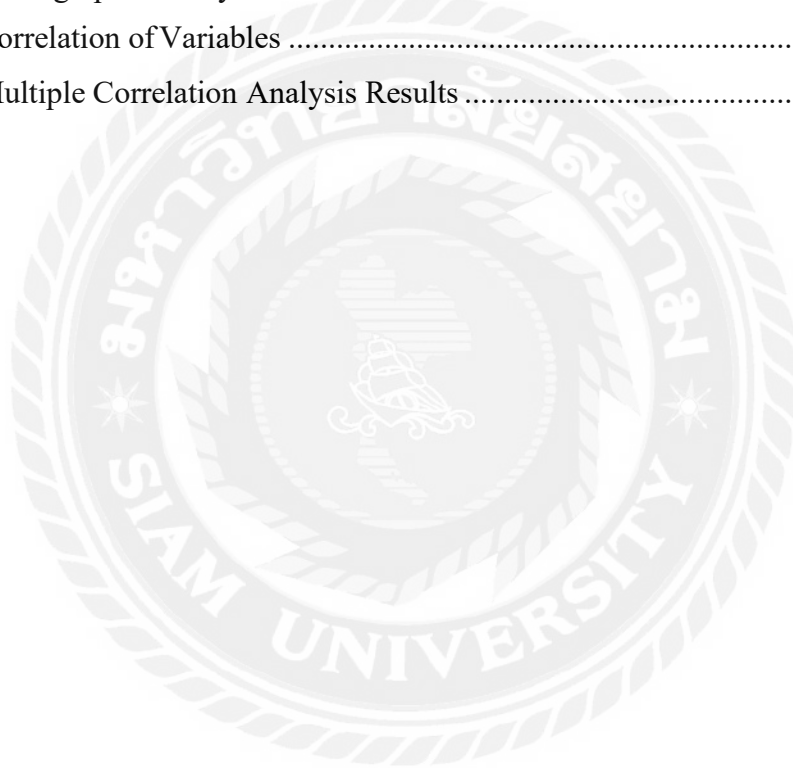
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Chapter 1 Introduction

1.1 Background of the Study

Since the Reform and Opening-up, China has made significant efforts to develop its economy, leading to a continuous rise in its international standing and a notable improvement in people's standard of living. Especially in the past two decades, with the innovation and upgrading of emerging technologies and the evolving quality demands of the people, the capital market has entered an unprecedented period of rapid growth (Wang & Hou, 2017). The market's scope has expanded, and the number of competitive, high-quality enterprises has increased exponentially.

With the rise in purchasing power and shifts in consumption patterns, Chinese consumers are placing greater emphasis on dairy products. The nation's dairy consumption has been steadily increasing, significantly driving the growth of the dairy industry. Dairy products have become a widely consumed and highly profitable sector, with several outstanding dairy companies emerging. In 2020, China's milk production reached 35.3 million tons, representing a 7.0% increase from 2019 and marking the highest milk production growth during the 13th Five-Year Plan period. The announcement of the "three-child" policy in May 2021 further revitalized the dairy market (Dong, 2019).

Over the past decade, China's total dairy output has increased more than tenfold, demonstrating strong growth on the global stage. However, due to the industry's relatively late development and differences in consumption habits, China's per capita dairy consumption still falls significantly below the global average (Wu, 2018). Meanwhile, domestic dairy companies are widening their competitive lead, with national giants such as Mengniu and Yili gaining market advantages (Yang, 2017). The entry of foreign dairy companies has further squeezed the market space for regional enterprises, intensifying competition in the domestic dairy market. Issues such as product homogenization and recurring food safety concerns in recent years have continued to undermine the international competitiveness of China's dairy industry.

Gucheng Dairy Group Co., Ltd. (hereinafter referred to as "Gucheng Dairy") is the largest dairy enterprise in Shanxi Province, integrating dairy farming, processing, sales, research, and commerce. With its commitment to quality assurance, the company has earned the trust of a broad consumer base and has consistently provided dairy products for major provincial events and cultural activities over the years (Zhang & Zhai, 2010). It has also actively pursued expansion strategies.

However, in recent years, Gucheng Dairy has faced challenges, including underwhelming financial performance and obstacles in its expansion efforts. These issues have, to varying degrees, increased the company's financial risk. Therefore, for Gucheng Dairy, in order to adapt to the development of the market and society, optimizing the capital structure of the company has become an important measure to enable its healthy development. It is a key factor in the development of the company and has a very significant impact on the core competitiveness of the company.

1.2 Questions of the Study

Currently, many domestic enterprises are adopting increasingly individualized business strategies. They often disregard the inherent value of the company and focus solely on aggressively expanding their operational and business scale, aiming to profit through participation in the capital markets. This approach not only undermines the security of the company's capital structure but also creates potential risks for its future development. When executed in this manner, a company's capital structure often faces significant risks and challenges, which can accelerate and exacerbate financial risks, ultimately hindering the company's growth and expansion (Liu, 2022).

However, capital structure largely determines an enterprise's ability to repay debts and refinance, influences its future profitability, and serves as a key indicator of its financial health. A well-structured financing model can reduce financing costs, leverage financial regulation, and allow the enterprise to achieve a higher return on its own capital (Wang & Mao, 2021). This, in turn, enhances the company's debt repayment capacity, optimizes its debt structure, controls operating costs, and reduces potential financial risks. As a result, it improves the efficiency of business operations, strengthens the competitiveness and survival ability of Shanxi Gucheng Dairy within the industry, and provides a valuable reference for the company's future development. Therefore, the specific research questions of this study are as follows:

- (1) Does policy affect the capital structure of Gucheng Dairy?
- (2) Do industry characteristics affect the capital structure of Gucheng Dairy?
- (3) Does product market competition intensity affect the capital structure of Gucheng Dairy?
- (4) Do company characteristics affect the capital structure of Gucheng Dairy?

1.3 Objectives of the Study

The capital structure of an enterprise is a crucial factor determining whether a company can sustain its development (Zhang, 2021). Although issues related to capital structure cannot be completely avoided, their negative impacts can be

minimized through scientific management measures. Therefore, it is essential to have a correct understanding of the factors influencing capital structure, as well as to comprehensively identify and scientifically assess these factors. This ensures that the enterprise's capital structure remains within an acceptable range, thereby protecting the company's financial resources and asset security.

Currently, China's dairy industry is at a crucial stage of development and prosperity. Enhancing the overall strength of the dairy sector is of significant importance for achieving economic transformation (Bi & Kang, 2023). Companies in the dairy industry should actively participate in market competition to establish a healthy competitive landscape. Therefore, conducting research on the capital structure of dairy companies is essential for their better development and healthy competition. Analyzing capital structure can provide insights into a company's profitability and operational status, helping to determine its future development direction.

Based on this, the aim of this study is to achieve the following research objectives:

- (1) To examine the effect of policy on the capital structure of Gucheng Dairy.
- (2) To examine the effect of industry characteristics on the capital structure of Gucheng Dairy.
- (3) To examine the effect of product market competition intensity on the capital structure of Gucheng Dairy.
- (4) To examine the effect of company characteristics on the capital structure of Gucheng Dairy.

1.4 Scope of the Study

This study was based on the MM Theory and the Agency Theory, integrating previous research findings to systematically identify the key factors influencing the capital structure of Gucheng Dairy. These factors included policy environment, industry characteristics, product market competition intensity, and company-specific characteristics.

By constructing a quantitative analysis framework, the study conducted an in-depth examination of Gucheng Dairy's capital structure, with empirical research data collected from 358 employees to gain a comprehensive understanding of how these factors affect the company's capital decision-making process. Through data processing and analysis, the study aimed to uncover potential pathways for optimizing Gucheng Dairy's capital structure within the current market environment and industry context, providing valuable insights for the company's management decisions.

1.5 Significance of the Study

1.5.1 Theoretical Significance

Capital structure has long been a hot topic in the field of financial management, with scholars both domestically and internationally employing various research methods to explore it. As researchers continue to delve into corporate capital structure, relevant theories have gradually matured, providing a theoretical foundation for further studies on this topic. In China, scholars have made some progress in researching capital structure issues; however, the current mainstream research primarily focuses on capital-intensive industries such as real estate and finance, while the traditional dairy manufacturing sector has received relatively little attention.

Moreover, existing empirical studies often consider only external or internal factors, with few scholars integrating both aspects into their research. Consequently, studies on optimizing the capital structure of the dairy industry remain insufficient. This study aims to identify the key factors that significantly impact the capital structure of dairy enterprises through empirical research, intending to establish a more ideal model of capital structure influencing factors. This will assist the dairy industry in making more rational and scientific financing decisions, promoting long-term and stable development.

1.5.2 Practical Significance

The dairy industry is a fundamental sector that is crucial to the health of the population, and its development has a significant impact on achieving the "Healthy China Dream." Gucheng Dairy is a well-known brand in Shanxi Province's dairy sector, but its development has faced challenges in recent years, leading to various financial issues. This study uses Gucheng Dairy as a case study to help the company recognize its existing capital structure problems, improve its operational strategies, and prevent further risk escalation. Additionally, it aims to better protect investors' interests and facilitate informed investment decisions. From the perspective of the dairy industry, the study summarized and analyzed the capital structure issues present in the sector, providing valuable insights for similar companies to enhance their capacity to respond to unexpected events and promote sustainable development.

1.6 Definition of Key Terms

Capital Structure: Capital structure refers to the proportionate relationship between a company's assets and liabilities over a specific period. It reflects the extent to which the company's assets and liabilities influence its equity during that time, essentially indicating the contribution of debt to equity.

Policy: Policy can be defined as a set of principles or guidelines used to direct decision-making and actions, typically established to achieve specific objectives.

Industry Characteristics: Industry characteristics refer to the unique factors that influence the capital structure choices of firms within a specific industry. By considering these industry characteristics, companies can more effectively formulate a capital structure that aligns with their specific environment, thereby optimizing financing decisions and enhancing financial performance.

Product Market Competition Intensity: Product market competition intensity refers to the degree of competition among firms within a specific industry as they vie for market share and consumer choice.

Company Characteristics: Company characteristics refer to the internal factors that influence a firm's capital structure decisions. These characteristics include the size of the company, the quality of management, and the stage of development, among others.



Chapter 2 Literature Review

2.1 Introduction

This chapter primarily introduces the traditional MM Theory and the Agency Theory, clarifies the concepts of capital structure, industry characteristics, product market competition intensity, and company characteristics. Additionally, it provides a detailed introduction to Shanxi Gucheng Dairy. By presenting these relevant theories and concepts, this chapter offers theoretical support for the subsequent research.

2.2 MM Theory

The MM theory, formulated by American scholars Modigliani and Miller (commonly referred to as MM), was first presented in their paper "The Cost of Capital, Corporation Finance, and the Theory of Investment," published in the June 1958 issue of *The American Economic Review* (Jia et al., 2013). MM theory was the first to quantitatively analyze capital structure, a contribution that earned them the Nobel Prize in Economics.

In the MM theory, it is assumed that operating risk can be measured by the variance of earnings before interest and taxes (EBIT), categorizing firms with similar operating risks into the same risk class. It also assumes that investors and other market participants have homogeneous expectations regarding the future returns and risks of companies, that the borrowing rates for individuals and investors are the same as those for companies, and that all debt is risk-free regardless of its amount (Tao, 2023). Additionally, it assumes that all cash flows are perpetual and that all earnings are distributed as dividends. Under these assumptions, the MM theory is further divided into two branches: MM theory without taxes and MM theory with taxes.

The MM theory without taxes posited that a company's value was independent of its level of debt, meaning the debt-to-equity ratio did not affect the firm's value (Chen & Ma, 2022). Since an increase in debt did not provide any tax shield benefits, it only amplified the firm's financial risk, which in turn raised investors' required return on equity. This increase in the cost of equity represented the risk premium.

Since in reality, there were virtually no countries that did not impose corporate income taxes, the no-tax scenario was difficult to achieve. Therefore, the original MM theory was revised to account for taxes, leading to the development of the MM theory with taxes. Under this theory, the value of a leveraged firm equaled the value of an unleveraged firm plus the present value of the tax shield from debt interest. At that point, the time value of money had to be considered (Zhang & Liu, 2023).

However, the MM theory with taxes still relied on several assumptions, many of which were difficult to realize in the real world. Nevertheless, it played a significant role in advancing the development of capital structure theory (He et al., 2019).

2.3 Agency Theory

Under the theoretical perspective of agency costs, considering the separation of ownership and control, thoroughly analyzing the relationship between the two. Economist Michael Jensen posited that the so-called agency relationship could be viewed as a contractual arrangement between the principal and the agent, aimed at maximizing utility while also incurring certain agency costs (Wang et al., 2011). The agency cost theory provides a comprehensive analysis of a company's management behavior, ownership structure, and financing structure, integrating these factors with the commonly understood optimal capital structure allocation to offer theoretical guidance for maximizing corporate value, demonstrating significant practical relevance.

The theory primarily introduces debt agency costs and debt agency benefits. When the owner and the manager are the same person, there is an incentive to invest in and manage the company to the best of their ability. However, general investors often lack time and resources to manage the business effectively, necessitating the hiring of managers (Jian & Wang, 2022). If the interests of the managers diverge significantly from those of the owners, actions may be taken that harm the investors' interests, resulting in agency costs. Examples include excessive investment driven by personal interests or insufficient investment in times of financial distress. Nevertheless, it has to be acknowledged that such situations can lead to debt agency benefits. For instance, investors may incentivize managers by granting them company stock, encouraging them to work harder for the company's success.

The Agency Theory effectively links corporate management behavior with capital structure, helping firms achieve value maximization while also providing in-depth guidance for their management activities (Sheng et al., 2021).

2.4 Literature Review

2.4.1 Capital Structure

The capital structure theory originated in the United States and was gradually accepted by other countries, becoming an important component of modern corporate finance. As market economies developed, capital structure issues increasingly attracted attention from both theoretical and practical circles. As a significant concept in financial theory, an appropriate capital structure played a crucial role in maximizing corporate value and optimizing corporate governance (Wang & Zhao, 2022).

Some scholars defined capital structure as the ratio of a company's total assets to its liabilities, specifically looking at the proportion of long-term debt relative to total assets or liabilities, thus treating capital structure as their focus of study (Gao, 2017). In contrast, other scholars argued that a company's capital structure should correspond to its total liabilities on the balance sheet, meaning that it should reflect the company's operational conditions over a specific period.

By that time, capital structure theory had matured significantly. With the acceleration of economic globalization and the development of capital markets, capital structure issues received increasing attention from both theoretical and practical perspectives. Researchers had varying interpretations of capital structure, defining it as the ratio of a company's assets to its liabilities over a specific period (Li et al., 2009). This ratio reflected the extent to which a company's assets and liabilities influenced its equity, essentially showing the contribution of debt to equity. A company's capital structure was determined by the proportional combination of various financing methods, with different companies selecting diverse financing combinations based on their characteristics and strategies to achieve optimal capital structure.

Capital structure exhibits distinct industry characteristics, as factors such as policies, industry features, product market competition intensity, and company characteristics can all influence a firm's capital structure (Shangguan, 2016). Therefore, conducting theoretical analysis and empirical research on capital structure from the perspective of influencing factors not only plays a positive role in optimizing industry capital structures but also holds significant importance for enriching capital structure theory and enhancing its applicability.

2.4.2 Policy

The influence of policy factors on capital structure mainly includes the institutional environment of different countries, the development level of capital markets, interest rates, tax rates, inflation levels, economic cycles, and credit markets (Wang & Zhang, 2014). These factors directly impact a company's capital structure. Policy can be defined as a set of principles or guidelines used to direct decision-making and actions, typically established to achieve specific objectives.

Kester (2020) was the first to study the differences in capital and equity structure between Japanese and American manufacturing firms. He found that for capital-intensive companies, the financial leverage of Japanese manufacturing firms is significantly higher than that of their American counterparts. Kester attributed this tendency of Japanese firms to rely more on debt financing to Japan's unique corporate equity and financial systems.

Booth (2017) analyzed data from companies in 10 developing countries to validate this claim. The study concluded that the impact of capital structure determinants differs significantly between developed and developing countries, indicating that specific macroeconomic and policy factors influence a company's choice of capital structure. In practice, macroeconomic factors such as real GDP growth rate, inflation rate, and the development level of capital markets systematically affect the capital structure of companies in developing and developed countries in different ways.

Xiao (2020) analyzed the role of institutional environments in corporate

financing decisions and concluded that in regions where the market played a more dominant role in resource allocation, the debt levels of listed companies tended to be lower. There was a significant positive correlation between the degree of government intervention and the debt-to-asset ratio, as greater government intervention lowered the cost of debt financing for companies. Additionally, the legal environment had a significant negative impact on corporate debt levels. Su and Jin (2022), through multiple regression analysis of listed companies on the Shanghai and Shenzhen stock exchanges, reached the same conclusion. This research indicated that policy factors, such as government intervention and the legal environment, had a direct impact on a company's capital structure, particularly in terms of influencing debt financing costs and debt levels.

2.4.3 Industry Characteristics

The theory of capital structure posits that there are significant differences in capital composition, industry lifecycle, operating risk, industry concentration, tax rates, and cash flow across different industries (Zhang et al., 2017). These factors can have a substantial impact on a firm's financing decisions. Industry characteristics refer to the unique factors that influence the capital structure choices of firms within a specific industry. By considering these industry characteristics, companies can more effectively formulate a capital structure that aligns with their specific environment, thereby optimizing financing decisions and enhancing financial performance.

Schwartz and Aronson (2018) found in their study of 32 firms across four different industries - electricity, gas, rail transport, and mining - that companies within the same industry tend to have similar financial leverage, while significant differences in capital structure exist between firms in different industries. Bowen (2015) also noted that industry characteristics significantly influence a firm's capital structure choices, concluding that approximately 27.5% of the variations in capital structure can be explained by these industry characteristics.

Lu and Xin (2021) conducted a statistical analysis of the debt ratios in 12 industries, including metallurgy, chemicals, and transportation equipment, on the Shanghai Stock Exchange. Their results indicated that companies in different industries exhibit significant differences in capital structure. Among the samples, the industry with the highest average debt level was "instrumentation and electronics," while the lowest was "transportation." Guo et al. (2017) explored capital structure choices among firms in different industries using long-term debt ratio as the dependent variable and reached a similar conclusion. Jiang et al. (2023) analyzed data from 43 industries over three years and found substantial variations in the capital structure of publicly listed companies across different industries. Furthermore, significant differences in capital structure were also observed among individual

companies within the same industry, primarily due to disparities in market competition and agency issues among different industries.

2.4.4 Product Market Competition Intensity

When a company operates in a public utility or monopoly industry, its operating risk is relatively low, and profitability tends to be stable. This choice reflects the company's rational decision-making in capital structure based on its development stage, market competition, and corporate strategy. Such an approach enables the company to reduce financing costs while optimizing its capital structure, thereby supporting long-term sustainable growth. Product market competition intensity refers to the degree of competition among firms within a specific industry as they vie for market share and consumer choice (Wu et al., 2019).

Brander and Lewis (2010) developed a "two-stage Cournot game model" and found that product market competition significantly influences a firm's capital structure. Under conditions of demand uncertainty, forward-looking firms anticipate an increase in the intensity of product competition, which leads them to raise their debt levels to secure a favorable position in the market. This established market competition strategy also affects the firm's capital composition.

Phillips (2016) conducted an empirical analysis of four manufacturing industries and found that a firm's capital structure is related to the intensity of product market competition. Furthermore, this influence varies in direction depending on the nature of the industry. The research data indicated that the competitive conditions in the four industries led to different outcomes. Phillips' study effectively validated the conclusions of the models proposed by Brander & Lewis (2010).

Zhu et al. (2018) found through model analysis that when firms anticipate increased competition within their industry in the future, they tend to opt for lower levels of debt. This conclusion was confirmed through a case study of Yanjing Beer. Chen and Wang (2022) conducted an empirical analysis of 756 publicly listed companies across various industries, taking into account the common preference for equity financing and agency issues among Chinese firms. They reached the same conclusion as Zhu (2018): in highly competitive industries, firms with high debt levels face greater operating risks and are often at a disadvantage during price wars or marketing battles. Therefore, the intensity of competition negatively impacts a firm's capital structure.

Zhang and Zhai (2010) utilized marginal utility theory to analyze the impact of market competition strategies on a firm's capital structure. The results indicated that when a firm implements a differentiated product strategy, there are fewer substitute competitive products in the market, giving the firm a competitive advantage and leading to a preference for lower financial leverage. Conversely, when a firm adopts a

cost leadership strategy, it must achieve economies of scale to generate profits. In this case, creditors are more willing to provide loans at a lower cost due to the increased availability of collateralizable assets. Therefore, firms with strong cost control capabilities exhibit a positive correlation between product competitiveness and capital structure.

2.4.5 Company Characteristics

Company characteristics have a significant impact on a firm's capital structure. Company characteristics refer to the internal factors that influence a firm's capital structure decisions (Zou, 2014). These characteristics include the size of the company, the quality of management, and the stage of development, among others. Company characteristics significantly determine a firm's risk preference and financing strategy when selecting its capital structure.

Gavin (2010) found that for 292 Australian startups, the amount of tangible assets owned by a company significantly affected the proportion of bank loans in its debt financing, thereby influencing the company's asset structure decisions. This conclusion was supported by researchers such as Galai and Masulis (2004). However, Grossman and Hart (2007) analyzed the agency conflict between shareholders and managers from an agency theory perspective, noting that firms with fewer collateralizable assets might have chosen higher levels of debt to limit managerial perks. This indicated that a company's capital structure decisions were influenced not only by asset characteristics but also by the constraints imposed by its internal governance structure.

Friend and Larry (2001) studied the impact of managers' self-interests on a firm's capital structure decisions. Their conclusion indicated that a firm's leverage level is a negative function of the shares held by the managers themselves. When a firm aims to maintain a low level of debt, the undiversifiable risk that managers face is greater than that of public investors. As a result, when the proportion of shares held by managers increases, the firm's debt level tends to decrease. However, when non-managerial principal stockholders are present in the firm, it becomes challenging for the firm to significantly increase its debt. In this case, the interests of managers and public investors tend to align (Li & Bin, 2013).

2.4 Gucheng Dairy

Shanxi Gucheng Dairy Group Co., Ltd. is a modern enterprise that integrates dairy cow breeding demonstration, product research and development, production, and sales. The company currently has total assets of 800 million yuan. It has eleven operational branches, including six dairy processing plants with a raw milk processing

capacity of 1,200 tons per day, and an annual production design capacity of 320,000 tons of various dairy products. Through continuous guidance and support, the company has established a stable milk supply base covering more than 20 counties and cities, involving over 100,000 dairy farmers and housing 120,000 dairy cows.

High-quality milk sources, first-class equipment, advanced processes, and strict process monitoring ensure the safety and reliability of Gucheng-branded dairy products. Since its establishment, the company has consistently adhered to the quality policy of "leading technology, continuous improvement, quality first, and customer satisfaction." It has increased investment in technological innovation to continuously improve product quality and optimize product structure. The company also innovates service concepts and expands market channels while leveraging its advantages in milk sources to highlight product differentiation and enhance the regional affinity of the Gucheng brand. The flagship product, Gucheng liquid milk, has been recognized as a "Chinese Famous Brand" and a "Shanxi Province Iconic Brand." Additionally, the Gucheng trademark is a well-known trademark in Shanxi Province.

Under the leadership of the new management team, the restructured Gucheng has instilled confidence and determination among its employees to pursue transformation and upgrades. In line with the company's actual development circumstances, a scientific summary and systematic analysis have been conducted to formulate the company's 14th Five-Year Development Plan. During this period, the company will further strengthen brand awareness, enhance quality management, innovate channel expansion, and increase demonstration initiatives, allowing more farmers to achieve prosperity with the support of Gucheng Dairy. Key measures will include optimizing product structure and extending market reach. Through the implementation of three strategic phases—revitalization, transformation, and upgrading—the company aims to achieve annual sales revenue of 3 billion yuan and taxes exceeding 200 million yuan by the end of the 14th Five-Year Plan.

2.5 Conceptual Framework

This study, based on a literature review that integrated the MM Theory and the Agency Theory, examined the factors that influenced the capital structure of Gucheng Dairy. These factors included policy, industry characteristics, product market competition intensity, and company characteristics.

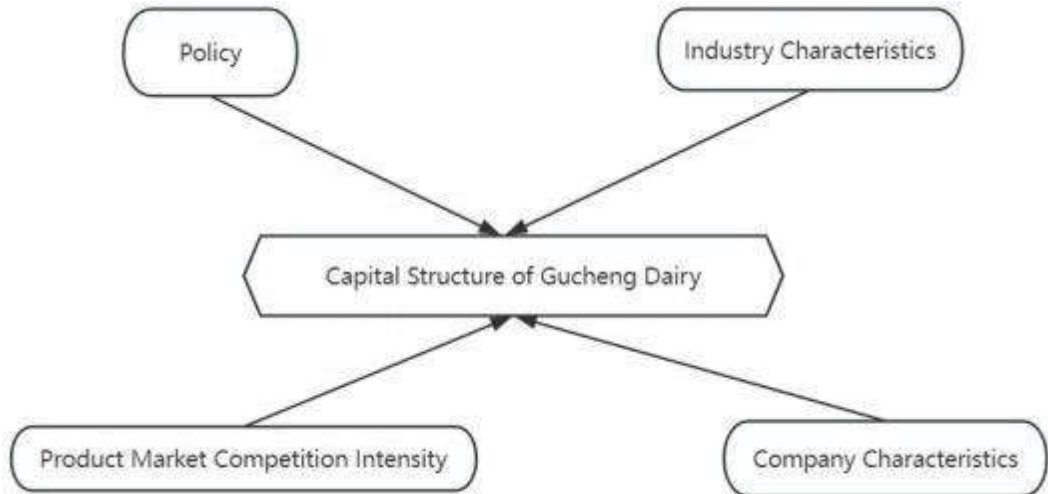
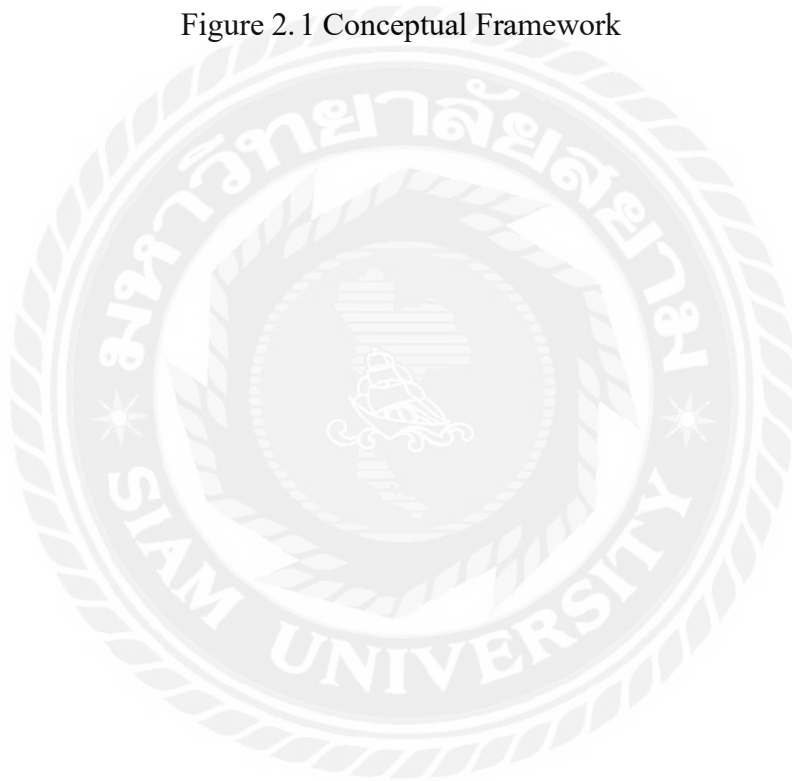


Figure 2.1 Conceptual Framework



Chapter 3 Research Methodology

3.1 Research Design

This study aimed to explore the specific impact of four factors: policy, industry characteristics, product market competition intensity and company characteristics on the capital structure of Gucheng Dairy, using a quantitative research approach for analysis. A questionnaire was designed to assess factors influencing capital structure, with reliability and validity tests conducted to ensure accuracy and consistency.

3.2 Questionnaire Design

This study designed a questionnaire on the capital structure of Gucheng Dairy, aiming to gain in-depth insights into various factors influencing capital structure. The questionnaire consists of five main sections: participant demographic information, policy, industry characteristics, product market competition intensity, company characteristics and capital structure.

For all sections except the demographic information section, responses are rated on a 5-point Likert scale, with options ranging from "1" (strongly disagree) to "5" (strongly agree), to gauge participants' levels of agreement with each factor.

3.2.1 Policy Scale

Policy factors are recognized as significant variables influencing corporate capital structure. These factors, encompassing taxation, financial market regulation, and industry policies, have a profound impact on capital structure decisions. Graham (2000) empirically found that tax incentives significantly affect capital structure decisions among U.S. firms. Rajan and Zingales (1995) argued that stricter financial regulation can curb high leverage among firms, reducing systemic risk, which aligns with firms' pursuit of financial stability. Moreover, industry-specific policy support or restrictions can significantly shape the capital structure choices of firms within that sector.

The Policy Scale comprises a total of six items, as shown in Table 3.1.

Table 3. 1 Policy Scale

Policy Scale	
1	I believe the company is more inclined to increase debt financing when tax policies are lenient.
2	I believe that tax incentives play a crucial role in the company's capital structure decisions.
3	I believe that strict financial market regulation helps reduce the risk of high leverage for the company.
4	I think that market entry barriers influence the company's choice of financing channels.
5	I believe that government subsidies and support policies for the industry influence the company's choice between equity and debt financing.
6	I think the company adjusts its capital structure based on government policy support for the industry.

3.2.2 Industry Characteristics Scale

Different industry characteristics can lead to variations in corporate capital structures. Aggarwal (2014) conducted a study on the differences in capital structures of large companies in Asia and similarly found that industry is a significant influencing factor among the 74 companies selected from 20 countries.

The Industry Characteristics Scale comprises a total of five items, as shown in Table 3.2.

Table 3.2 Industry Characteristics Scale

Industry Characteristics Scale	
7	I believe that the stage of the industry's lifecycle significantly affects the company's adjustments to its capital structure.
8	I think that the characteristics of different industries influence the financing channels the company chooses.
9	I believe that the rapid changes in the industry make the company more inclined to adjust its capital structure.
10	I think that industry characteristics lead the company to place greater emphasis on risk management in its capital structure decisions.
11	I believe that the capital intensity of our industry encourages the company to rely more on debt financing.

3.2.3 Product Market Competition Intensity Scale

When facing varying levels of market competition, companies often adjust their capital structure based on changes in the external environment. In the product market, companies either engage in price competition or quantity competition. Therefore, characteristics of the product market, such as the substitutability of products and demand volatility, significantly influence a company's choice of capital structure. When formulating financing strategies, companies consider the potential responses of competing firms. The intensity of product competition has a significant positive impact on a company's capital structure decisions.

The Product Market Competition Scale comprises a total of five items, as shown in Table 3.3.

Table 3.3 Product Market Competition Intensity Scale

Product Market Competition Intensity Scale	
12	I believe that when formulating capital structure strategies, our company considers the potential price responses of competitors.
13	I think that quantity competition encourages our company to rely more on debt financing to expand market share.
14	I believe that the substitutability of products significantly influences our company's capital structure decisions.
15	I think that changes in industry regulations affect our company's strategy for responding to competitors when adjusting capital structure.
16	I believe that demand volatility prompts our company to be more cautious in developing capital structure strategies.

3.2.4 Company Characteristics Scale

In the study of corporate capital structure, company characteristics are widely regarded as key factors influencing financing decisions. Factors such as company size, profitability, and management characteristics can positively impact capital structure choices. Frank and Goyal (2003) point out that larger companies tend to prefer debt financing because they can benefit from economies of scale. Additionally, large firms have a more solid asset base, which allows them to provide more collateral, thereby reducing financing costs. At the same time, highly profitable companies often possess strong internal financing capabilities, allowing them to prioritize the use of their own funds for investment and reduce reliance on external financing. Furthermore, management teams with extensive experience and expertise play a crucial role in corporate capital structure; they typically adopt more aggressive financing strategies

to achieve the company's long-term development goals.

The Company Characteristics Scale comprises a total of five items, as shown in Table 3.4.

Table 3.4 Company Characteristics Scale

Company Characteristics Scale	
17	I believe that the characteristics of our company, such as size and profitability, enhance our competitive advantage in optimizing the capital structure.
18	I think that the company's management emphasizes risk management in the capital structure, which influences financing decisions.
19	I believe that our management takes an active approach to financing strategies to support the company's long-term development goals.
20	I think that a management team with extensive experience actively promotes the adoption of more flexible capital structure strategies.
21	I believe that our company benefits from economies of scale, which encourages the use of debt financing.

3.2.5 Capital Structure Scale

The capital structure is not only related to the financial health and operational efficiency of a company but also directly affects its competitive position in the market and long-term development potential. A well-structured capital arrangement can enhance a company's ability to withstand risks and improve financing flexibility, allowing it to respond more swiftly to market changes and seize opportunities. By optimizing the capital structure, a company can lower financing costs and increase profitability, thereby providing ample funding support for future investments and expansions. Therefore, when formulating capital structure strategies, companies need to consider various factors comprehensively to achieve optimal financing decisions, ensuring sustainable development and the maintenance of competitive advantages.

The Capital Structure Scale comprises a total of five items, as shown in Table 3.5.

Table 3.5 Capital Structure Scale

Capital Structure Scale	
22	I believe that the company's capital structure can effectively diversify financial risks.
23	I think that our capital structure helps reduce the company's overall financing costs.

24	I believe that a reasonable capital structure is crucial for the company's long-term sustainable development.
25	I believe that a reasonable capital structure is crucial for the rapid growth of the enterprise.
26	I think that our capital structure is flexible enough to adapt to changes in the market environment.

3.3 Hypothesis

Based on the research questions and objectives of this study, the following hypotheses were proposed:

H1: Policy positively influences the capital structure of Gucheng Dairy.

H2: Industry characteristics positively influence the capital structure of Gucheng Dairy.

H3: Product market competition intensity positively influences the capital structure of Gucheng Dairy.

H4 : Company characteristics positively influence the capital structure of Gucheng Dairy.

3.4 Population and Sampling Method

The target population for this study was 358 employees of Gucheng Dairy, distributed across five key functional departments: Human Resources and Administration, Finance, Production and Research, Marketing Channels, and Event Planning. These departments represent essential functions within different areas of the company, providing critical support to its capital structure and operational processes. Although the number of employees in each department varies, all contribute specialized knowledge and skills in capital management, resource allocation, and core operations. By studying employees across these departments, this research aimed to gain deeper insights into each department's role and impact within the capital structure, offering data-driven support for optimizing capital allocation, reducing financial risk, and enhancing capital efficiency. The whole population of 358 employees was used in the study.

3.5 Data Collection

This study primarily utilized an online survey method, distributing and collecting questionnaires through WeChat groups to maximize employee participation. As a widely used communication platform, WeChat allowed employees to participate

in the survey conveniently and quickly, helping to minimize the limitations posed by time and location. This approach also enhanced the efficiency and accuracy of data collection, supporting reliable data for subsequent analysis and research.

A total of 358 questionnaires were distributed in this study. After screening, 7 questionnaires were deemed invalid due to incomplete responses, logical inconsistencies, or duplicate submissions. These invalid questionnaires were excluded from the data analysis, resulting in a final count of 351 valid questionnaires, with an effective response rate of 98.04%. This high response rate reflects the active participation and cooperation of employees, ensuring data completeness and reliability for the subsequent analysis.

3.6 Data Analysis

This study conducted a comprehensive analysis of the collected data using SPSS software. Through the descriptive statistics analysis, this study summarized the basic characteristics of the employees statistics to understand the overall distribution of the sample and the fundamental statistical features of each variable. Subsequently, this study performed correlation analysis to explore the relationships between variables and identify potential influencing factors. Finally, regression analysis was conducted to examine the degree and direction of the influence of independent variables on the dependent variable.

3.6.1 Questionnaire Reliability Analysis

By analyzing the internal consistency of the scale, we found that the removal of any variable did not significantly improve its reliability. Additionally, the internal consistency of all variables exceeded 0.7, indicating good internal consistency within the scale. The results for reliability analysis is shown in Tables 3.6 below.

Table 3.6 Reliability Analysis Results

Scale	Cronbach's α	N
Policy Scale	0.791	6
Industry Characteristics	0.824	5
Product Market Competition Intensity Scale	0.745	5
Company Characteristics Scale	0.769	5
Capital Structure Scale	0.817	5

The scales demonstrate good reliability, with Cronbach's α values ranging

from 0.745 to 0.824. All scales fall within an acceptable to very good reliability range, indicating that these scales have high consistency.

3.6.2 Questionnaire Validity Analysis

Validity refers to the assessment of a questionnaire's effectiveness, aimed at determining whether it accurately measures the content for which it was designed. In this study, we employed Bartlett's test of sphericity and the KMO test to evaluate the validity of the questionnaire. Bartlett's test is used to examine the correlation among variables; if the test results are significant, it indicates sufficient correlation among the variables, making them suitable for further analysis. The KMO test measures the adequacy of the sample, with values ranging from 0 to 1, where values closer to 1 indicate better sample adequacy.

The results for validity analysis are shown in Tables 3.7 below.

Table 3.7 Validity Analysis Results

Scale	Number of KMO Sampling Suitability Quantities	The Sphericity Test of the Bartlett		
		Approximate chi-square	df	Sig.
Policy Scale	0.912	1947.514	215	0.000
Industry Characteristics	0.864	2143.721	147	0.000
Product Market Competition Intensity Scale	0.843	1672.498	132	0.000
Company Characteristics Scale	0.877	2112.239	214	0.000
Capital Structure Scale	0.842	894.136	146	0.000

All scales meet the requirements for KMO test and Bartlett's sphericity test, indicating that each scale has a reliable structure and is suitable for further data analysis.

Chapter 4 Findings

4.1 Introduction

This chapter presents an empirical analysis of the factors influencing the capital structure of Gucheng Dairy. Through correlation analysis and multiple linear regression, this study tested the hypotheses proposed in this study regarding the determinants of Gucheng Dairy's capital structure.

4.2 Demographic Analysis

Based on the collected data, a descriptive analysis of GuCheng Dairy's employee demographics is shown in Table 4.1:

Table 4.1 Demographic Analysis Results

Name	Options	Frequency	Percentage (%)
Gender	Male	142	39.7
	Female	216	60.3
Education	Junior High School	214	59.8
	Bachelor's Degree	92	25.7
	Master's Degree and above	52	14.5
Age	Below 25	79	22.1
	26-35	144	40.2
	36-45	112	31.3
	Over 46	23	6.4
Respective Department	Human Resources and Administration	32	8.9
	Finance	25	7.0
	Production and Research	179	50
	Marketing Channels	92	25.7
	Event Planning	30	8.4
Total		358	100

Gender: Among the employees, females constitute the majority, with 216 individuals (60.3%), while males total 142 individuals (39.7%).

Education: The educational distribution indicates that most employees have a junior high school education (214 individuals, 59.8%), followed by those with a bachelor's degree (92 individuals, 25.7%).

Age: The age distribution shows that the largest group of employees is between 26 and 35 years old, accounting for 40.2% (144 individuals). This is

followed by employees aged 36 to 45 (112 individuals, 31.3%).

Respective Department: In terms of departmental affiliation, the majority of employees work in the Production and Research department, with 179 employees (50%). This is followed by the Marketing Channels department, which has 92 employees (25.7%). Other departments, such as Human Resources and Administration, Finance, and Event Planning, comprise smaller proportions, with 32 employees (8.9%), 25 employees (7%), and 30 employees (8.4%), respectively.

This data provides a clear overview of the employee structure at GuCheng Dairy, highlighting a workforce predominantly composed of younger female employees with lower levels of formal education, primarily concentrated in the Production and Research department.

4.3 Correlation Analysis

Table 4.2 Correlation of Variables

Variable	Policy	Industry Characteristics	Product Market Competition Intensity	Company Characteristics	Capital Structure
Policy	1				
Industry Characteristics	0.624**	1			
Product Market Competition Intensity	0.517**	0.539**	1		
Company Characteristics	0.712**	0.796**	0.735**	1	
Capital Structure	0.639**	0.681**	0.561**	.674**	1

Note: *P<0.05, **P<0.01, ***P<0.001

Based on the correlation matrix presented in Table 4.2, the following results can be drawn:

There is a significant positive correlation between policy and capital structure ($r = 0.639$, $p < 0.01$). Additionally, industry characteristics show a significant correlation with capital structure ($r = 0.681$, $p < 0.01$). The intensity of product market competition is also positively correlated with capital structure ($r = 0.561$, $p < 0.01$), although its impact is weaker compared to the other variables. Furthermore, company characteristics exhibit a significant positive correlation with capital structure ($r =$

0.674, $p < 0.01$).

4.4 Multiple Regression Analysis

Table 4.3 Multiple Correlation Analysis Results

	Non-Standardized Coefficient		Standardized coefficient	Sig.	VIF	F	D W
	B	Standard Error	Beta				
(Constant)	0.147	0.059	-	0.102	-	67.4 23* *	1.8 34
Policy	0.423	0.126	0.213	0.004	1.314		
Industry Characteristics	0.387	0.078	0.201	0.014	1.191		
Product Market Competition Intensity	0.321	0.095	0.312	0.002	1.174		
Company Characteristics	0.312	0.103	0.374	0.008	1.211		
R ²				0.532			
Adjusting R ²				0.524			

In the case of policy, the non-standardized coefficient (B) is 0.423, the standardized coefficient (Beta) is 0.213, and the significance level (Sig.) is 0.004. This indicates a significant positive effect between policy and capital structure.

In the case of industry characteristics, B = 0.387, Beta = 0.201, and Sig. = 0.014. This indicates a significant positive effect of industry characteristics on capital structure.

In the case of product market competition intensity, B = 0.321, Beta = 0.312, and Sig. = 0.002. This indicates a significant positive effect of product market competition intensity on capital structure.

For company characteristics, B = 0.312, Beta = 0.374, and Sig. = 0.008. This suggests that company characteristics also have a significant positive effect on capital structure.

In this study, the variance inflation factor (VIF) values for all independent variables are below the common threshold of 10, indicating that there is no multicollinearity issue in the model.

Chapter 5 Conclusion and Recommendation

5.1 Conclusion

5.1.1 Policy Positively Influences the Capital Structure of Gucheng Dairy

The non-standardized coefficient ($B = 0.423$) and standardized coefficient ($\text{Beta} = 0.213$), with a significance level of 0.004, clearly indicate that policy plays a positive and significant role in the capital structure of Gucheng Dairy. Therefore, H1 is supported. Specifically, policies exert a direct and positive impact on the optimization and adjustment of the capital structure. Such supportive policies can guide the company in effectively allocating funding sources, improving capital utilization efficiency, and optimizing the debt-to-equity ratio. This, in turn, enhances the company's financial stability and competitiveness, ensuring sustainable development and the achievement of strategic objectives in the market.

5.1.2 Industry Characteristics Positively Influence the Capital Structure of Gucheng Dairy

The non-standardized coefficient ($B = 0.387$) and standardized coefficient ($\text{Beta} = 0.201$), with a significance level of 0.014, indicate that industry characteristics have a significant impact on the capital structure of Gucheng Dairy. Therefore, H2 is supported. This means that accurate recognition and in-depth understanding of industry characteristics are crucial for strategic decision-making regarding a company's capital structure. Industry characteristics can influence a company's choices in financing methods and capital allocation. By thoroughly analyzing and adapting to these characteristics, the company can develop more effective financial strategies.

5.1.3 Product Market Competition Intensity Positively Influences the Capital Structure of Gucheng Dairy

The unstandardized coefficient ($B = 0.321$) and standardized coefficient ($\text{Beta} = 0.312$), with a significance level of 0.002, indicate that the intensity of product market competition significantly influences the capital structure of Gucheng Dairy. Therefore, H3 is supported. This result suggests that the level of market competition plays an important role in the company's capital structure decisions. When market competition intensifies, the company may need to adjust its capital structure to enhance financial flexibility and competitiveness, thereby maintaining a competitive edge in the market. The intensity of competition affects the company's financing strategies, the balance between debt and equity, and considerations of risk

management.

5.1.4 Company Characteristics Positively Influence the Capital Structure of Gucheng Dairy

The non-standardized coefficient ($B = 0.312$) and standardized coefficient ($\text{Beta} = 0.374$), with a significance level of 0.008, indicate that company characteristics significantly affect the capital structure of Gucheng Dairy. Therefore, H4 is supported. This result shows that the internal characteristics of the company play an important role in capital structure decisions. When the company faces different market environments and economic conditions, changes in these characteristics can directly influence adjustments to its capital structure.

5.2 Recommendation

5.2.1 Increasing Policy Guidance and Support for the Dairy Industry

Currently, China's dairy market is transitioning from basic consumption to diversified demand for health-focused and nutritious products. However, industry growth remains constrained by resources, technology, and funding. In light of the ongoing economic restructuring, this paper suggests that the state should prioritize supply-side structural reforms within the dairy sector. This would support optimizing the industry's structure, encourage enterprises to align production with market and consumer demands, shift their focus toward high-quality dairy products, and identify new profit growth opportunities to enhance the internal revenue-generating capacity of dairy enterprises.

On the policy front, targeted strategic support should be extended to innovative, financially stable, exemplary dairy companies within each region. This could include assistance in sourcing production elements, distribution, promotion, and marketing channels. Additionally, by leveraging local agricultural strengths, the government can facilitate the development of unique dairy industry sectors, accelerate the consolidation of dispersed resources, encourage healthy mergers within the industry, promote industrial clustering, and foster regional dairy brands, thereby enhancing economies of scale within the dairy sector.

In terms of funding, the government should increase investment in advanced technology and product innovation projects within dairy enterprises. Support could also include subsidized loans and selective tax reductions for high-tech dairy R&D firms. Finally, allowing companies to leverage intangible assets, such as patents and trademarks, as collateral for bank loans would provide greater financial support for dairy enterprises.

5.2.2 Accelerating the Transformation and Optimization of the Dairy Industry to Enhance Profitability

Currently, the growth rate of profitability in the dairy industry has slowed significantly. Given the challenges posed by a slowing macroeconomy and shifting consumption patterns, the dairy sector must expedite industrial transformation and upgrades to remain competitive and identify new sources of profit. Therefore, it is recommended that dairy companies focus on driving industrial upgrades by leveraging product differentiation and technological innovation. Through technical upgrades, companies can improve the efficiency of production factors and promote intensive production.

In addition, dairy companies should enhance traditional production models by extending and expanding the industry chain, shifting from primary to refined and deep processing, thereby increasing product added value and boosting profitability. Dairy companies should also actively pursue resource integration and mergers with other companies. By ensuring product quality and production efficiency, they can enhance brand influence and explore diversified business operations to achieve sustainable growth.

5.2.3 Focusing on Vigorously Developing the Corporate Bond Market to Broaden Financing Channels for Enterprises

The government should gradually ease entry requirements for the corporate bond market, expand the range of eligible bond issuers, and simplify the issuance and approval processes. Efforts should also be made to promote market-based interest rate pricing for corporate bonds. Additionally, establishing a scientific, systematic, and credible rating standard is crucial, along with improving the entry and exit mechanisms for credit rating agencies. External regulatory bodies should independently inspect and assess the credit ratings provided by rating agencies, with the results made public. Rating agencies should also be held accountable for disclosing information on both the issuers and themselves.

Through these measures, investor confidence and participation in corporate bond products and related activities will increase, supporting the healthy development of the corporate bond market and further broadening financing channels for enterprises.

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Appendix

Dear Sir/Madam,

This survey aims to gather your opinions on the capital structure of our company. Your feedback is very important for this research. The survey is conducted anonymously, and the data collected will not infringe upon your privacy, so please feel confident in your responses. In the following descriptions, each question has only one option; please check the option or number that you believe is applicable. Thank you for your participation and support in this survey!

Part 1: Your Basic Information

1. Your gender:
 - Male Female
2. Your educational background:
 - Junior High School Bachelor's Degree
 - Master's Degree and above
3. Your age:
 - Below 25 26-35 36-45 Over46
4. Your respective department:
 - Human Resources and Administration Finance Production and Research
 - Marketing Channels Event Planning

Part 2: The scale ranges from 1 to 5, where 1 represents very disagree, 2 represents disagree, 3 represents not sure, 4 represents agree, and 5 represents very agree.

Items	1	2	3	4	5
Policy					
1. I believe the company is more inclined to increase debt financing when tax policies are lenient.					
2. I believe that tax incentives play a crucial role in the company's capital structure decisions.					
3. I believe that strict financial market regulation helps reduce the risk of high leverage for the company.					
4. I think that market entry barriers influence the company's					

choice of financing channels.					
5. I believe that government subsidies and support policies for the industry influence the company's choice between equity and debt financing.					
6. I think the company adjusts its capital structure based on government policy support for the industry.					
Industry Characteristics					
7. I believe that the stage of the industry's lifecycle significantly affects the company's adjustments to its capital structure.					
8. I think that the characteristics of different industries influence the financing channels the company chooses.					
9. I believe that the rapid changes in the industry make the company more inclined to adjust its capital structure.					
10. I think that industry characteristics lead the company to place greater emphasis on risk management in its capital structure decisions.					
11. I believe that the capital intensity of our industry encourages the company to rely more on debt financing.					
Product Market Competition Intensity					
12. I believe that when formulating capital structure strategies, our company considers the potential price responses of competitors.					
13. I think that quantity competition encourages our company to rely more on debt financing to expand market share.					
14. I believe that the substitutability of products significantly influences our company's capital structure decisions.					
15. I think that changes in industry regulations affect our company's strategy for responding to competitors when adjusting capital structure.					
16. I believe that demand volatility prompts our company to be more cautious in developing capital structure strategies.					
Company Characteristics					
17. I believe that the characteristics of our company, such as size and profitability, enhance our competitive advantage in optimizing the capital structure.					
18. I think that the company's management emphasizes risk management in the capital structure, which influences financing					

decisions.					
19. I believe that our management takes an active approach to financing strategies to support the company's long-term development goals.					
20. I think that a management team with extensive experience actively promotes the adoption of more flexible capital structure strategies.					
21. I believe that our company benefits from economies of scale, which encourages the use of debt financing.					
Capital Structure					
22. I believe that the company's capital structure can effectively diversify financial risks.					
23. I think that our capital structure helps reduce the company's overall financing costs.					
24. I believe that a reasonable capital structure is crucial for the company's long-term sustainable development.					
25. I believe that a reasonable capital structure is crucial for the rapid growth of the enterprise.					
26. I think that our capital structure is flexible enough to adapt to changes in the market environment.					