

FINANCING DECISIONS AND TARGET BEHAVIOR

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⟨SUMMARY⟩

This study investigates whether firms rebalance their capital structures toward an established target. Using data for listed Japanese companies from 1971-2008, we find that firms on average are more likely to rebalance when the deviation from the target is larger. Target-directed financing behavior is asymmetrical between firms with financial surpluses (above-target debt) and those with financial deficits (below-target debt). We find that firms with above-target debt and financial deficits issue debt and deviate further from established targets. Rebalancing by debt retirement is more likely to occur when firms have financial surpluses than when they have financial deficits.