

Research on the Influencing Factors and Optimization Strategies of Enterprise Capital Structure

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Abstract

At present's enterprise's financial Management System, The Capital Structure at the heart of its entire process and plays an essential role in Business Efficiency and Profitability. A reasonable capital Structure will be able to optimise resource allocation in an enterprise, lower financing expenses for enterprises, make full use of financial Leverage in practice to increase the Profit level of the enterprise. Given that changes in the economic Environment and an improved Capital Market have made it necessary to make scientific Adjustments to capital Structure as a means to ensure enterprise profitability. This paper combines the actual development of enterprises, discusses the problems in capital structure, analyzes common influencing factors, and makes scientific optimization strategies, so as to support the long-term healthy development of enterprises on the basis of controlling financial risk.

Keywords

enterprise capital structure, influencing factors, optimization strategies

1. Introduction

As the continuous development of the market economy has altered the Financing Environment and Competitive Pattern for Enterprises in their Business Process. In light of the new development Environment for enterprises, it is necessary to improve product Quality and Market Competitiveness while strengthening Operational Efficiency with scientific Financial Management means in place. The primary responsibility for financial decisions at companies; Capital Structure directly affects the efficiency of using corporate funds. In the actual operation of enterprises, there are still many problems in capital structure management. Many companies maintain an excessively conservative capital structure or fail to fully utilise the financial-leverage effect; as a result, their own-profit increase is not substantial enough. Scientifically adjusting capital structure and giving play to its positive role in improving profitability can give great help to optimizing the financing structure of enterprises and ensuring the efficiency of fund use [1, 2].

2. Problems in Enterprise Capital Structure

2.1 Imbalance Between Debt and Equity Financing Ratios

The unreasonable ratio of debt to equity capital in the enterprise's capital structure has become one of the most serious problems; It will also affect financial stability and profitability directly. Some enterprises overuse the tax shield effect brought by debt financing and ignore the matching relationship between debt scale and debt-paying ability. In a cycle of rising interest rates, financing costs rise quickly and further squeeze the profit space of enterprises. In addition, the capital structure's flexibility is weak. Because many enterprises are worried about maintaining control and equity dilution after reducing the proportion of equity financing and relying more heavily on internal accumulation and debt financing for development. At this time, due to a lack of funds, there will be limitations on investment size. There is also no system for dynamic adjustment available at present. For example, in the expansion stage, they fail to introduce equity investment in a reasonable way. The "static management" mode makes the capital structure out of line with the real development needs of the enterprise, makes it hard to achieve optimal allocation, and affects overall financial performance.

2.2 Relatively Single Financing Channels

Having a single financing channel is one of the common problems in the capital structure of some enterprises, and it is also a main factor restricting the ability to get funds and the level of risk diversification. First, some enterprises depend too much on traditional financing channels. When the credit policy of financial institutions becomes tighter and the credit limit is restricted, the financing ability of enterprises drops greatly, and problems of a tight capital chain can easily appear. At the same time, enterprises are in a passive position in interest rate negotiations, and it is hard to control financing costs. Second, the use of direct financing channels is not enough. Because of weak information disclosure ability, low credit ratings, and other factors, small and medium-sized enterprises cannot smoothly enter the capital market, which is not good for improving capital structure. Third, new financing methods are not used enough. In the new era, innovative financing tools such as supply chain finance and asset securitization are developing step by step, but many enterprises do not know these tools well and do not have enough ability to use them, so their advantages are hard to show. In addition, there is little coordination among different financing channels, and it is hard to build a financing system with a reasonable structure.

2.3 Relatively Weak Financial Risk Control Mechanism

In the process of capital structure management, the imperfect financial risk prevention and control mechanism makes enterprises lack response ability when facing market fluctuations, and this increases the uncertainty in operation. First, the ability to identify and monitor debt risk is not enough, and there is no full analysis of debt scale, maturity structure, and debt-paying ability. At the same time, not enough attention is paid to the problem of an overly high share of short-term debt, and breaks in cash turnover can easily happen. Second, the ability to manage interest rate risk and market risk is weak. Enterprises fail to properly use interest rate derivatives to lock financing costs, which causes unstable financial expenses. Their sensitivity to macroeconomic changes and policy adjustments is also not enough, so it is hard for them to adjust financing strategies. Third, the internal control and budget management system is still not perfect, and the building of related constraints and supervision mechanisms is relatively lagging behind, so the efficiency of fund use is low. In addition, the low transparency of financial information can also affect later decisions of managers.

2.4 Weak Coordination Between Capital Structure and Strategic Investment

Capital structure is also closely related to enterprise development strategy, but from the view of specific management work, the problem of weak coordination is quite clear. First, there is a serious mismatch between fund allocation and development direction. After finishing financing work, some enterprises cannot get funds back in a short time, and the funds are spread over many low-efficiency projects and non-core businesses. The efficiency of resource allocation is low, and the lack of clear investment priorities also adds risk factors in development. Second, the building of evaluation mechanisms is relatively lagging behind. It mainly depends on experience judgment and short-term return expectations, which can easily lead to deviation in investment decisions. Third, financial flexibility is not enough. A highly leveraged structure limits the room for refinancing, and in a market downturn it is hard to quickly adjust investment strategies.

Enterprises face big obstacles in strategy implementation, which is not good for the improvement of long-term value.

3. Influencing Factors of Enterprise Capital Structure

3.1 Financing Channels

As an important way for enterprises to obtain funds, financing channels have an important influence on capital structure. First, whether financing channels are easy to get will affect the choice of capital structure. In the real environment, enterprises with higher credit ratings and larger information disclosure are more likely to get low-cost loans, which greatly raises the share of debt financing. Enterprises with limited financing channels usually rely on internal accumulation and equity financing, and this difference causes clear division in capital structure among different enterprises. Second, the difference in financing costs guides the allocation of capital structure. In later decisions, enterprises mostly compare the capital costs of several channels and look for a balance point between optimal cost and controllable risk. The cost feature is an important variable affecting capital structure. Third, the institutional environment of financing channels is closely connected with the level of market development. In an environment with a sound financial system and a developed capital market, enterprises can choose from many financing methods, which is good for building a diversified capital structure. In addition, regulatory policies, information disclosure, and market access conditions also indirectly affect capital structure.

3.2 Enterprise Size

Enterprise size is one of the internal factors affecting capital structure. Because of differences in financing ability, risk-bearing level, and other conditions, enterprises of different sizes show different capital structure features. First, larger enterprises usually have stronger financing ability and can get long-term funds at a lower cost. At the same time, these enterprises can also enter the capital market more easily and use share issuance or bond issuance for diversified financing. Second, it is related to risk-bearing ability. Large enterprises have stable cash flow and stronger ability to resist risk, so they can bear a higher financial leverage. Small and medium-sized enterprises have larger operating fluctuations. In financing decisions, they are usually more careful and tend to control debt size in order to reduce financial risk. Third, management and governance structure also change with enterprise size. Large enterprises have relatively sound internal control systems and professional financial management teams, which makes the dynamic adjustment and scientific planning of financing structure easier. Small enterprises are a bit weaker in this aspect, and the forward-looking nature of capital structure decisions lacks strong support.

3.3 Financial Risk

Financial risk is a key factor that enterprises should focus on in capital structure decisions. First, debt-paying ability directly limits the level of capital structure. If debt-paying ability is weak, the proportion of debt financing should be reduced to avoid the accumulation of financial risk. When profitability is high and cash flow is stable, the debt ratio can be properly increased to use financial leverage to raise returns. Second, cash flow liquidity affects the choice of financing methods. Enterprises with large cash flow fluctuations usually prefer equity financing and keep a lower debt level, so as to further improve financial flexibility, which makes the financial structure show features highly related to operating conditions. Third, external economic risk cannot be ignored. Under economic cycle fluctuations and interest rate changes, the level of financial risk faced by enterprises will also change. In later decisions, enterprises should look at the whole situation, fully consider the macro environment, and scientifically adjust the financing ratio and structure.

3.4 Industry Characteristics

Industry characteristics are an external factor influencing enterprise capital structure. First, the asset structure of an industry affects the choice of financing methods. For capital-intensive industries such as manufacturing and electric power, assets have higher collateral value, so it is easier to get support from debt financing. Light-asset industries such as the internet and services mostly rely on intangible assets and human capital, so they more often choose equity financing. Second, the profit model of an industry also has an

opposite effect on capital structure. In most cases, industries that are in a mature stage and have stable demand have smaller income fluctuations and more stable cash flow, which can support a higher level of debt financing. Third, the level of industry competition and the policy environment also play an important role. In many industries, competition keeps increasing, and enterprises need to continue technical input and market expansion. This requires high flexibility of funds and also affects the choice of financing methods. Some industries are under strong policy regulation, such as the energy field, and their financing channels and capital structure will also be influenced by policy. Overall, under the joint effect of industry environment and policy factors, the main features of enterprise capital structure are shaped [3].

4. Optimization Strategies for Enterprise Capital Structure

4.1 Optimizing the Ratio of Debt and Equity Financing

The first task in optimizing enterprise capital structure is to reasonably allocate the ratio of debt and equity financing and fully bring out the effect of financial leverage. First, improve the decision-making mechanism for the proportion of debt financing. The suitable debt level is quite different across industries and enterprises, so differentiated management plans should be adopted. Capital-intensive enterprises can use the tax shield effect to reduce financing costs. For high-tech and innovative enterprises, the debt ratio should be strictly controlled and equity financing should be the main choice, so as to avoid risks caused by too much financial pressure. Take an artificial intelligence technology enterprise as an example. This enterprise is in a development stage with high investment in technology research and development and a long profit cycle. If it depends too much on debt financing, it will face large cash flow pressure. Therefore, in the design of its capital structure, this enterprise mainly uses equity financing, and brings in venture capital and strategic investors to obtain research and development funds. Its asset-liability ratio is controlled below 30%. The enterprise only introduces low-cost bank loans in a moderate way when cash flow is relatively stable, and uses them to expand computing power infrastructure, so as to achieve a good match between capital structure and innovative development. Second, optimize equity financing. On the premise of keeping space for profit growth, moderately increasing equity capital helps ease the debt burden and ensure the stability of enterprise operation. It can also help the enterprise build a good image in the capital market, improve the shareholder structure, attract more long-term strategic investors, and promote the long-term healthy development of the enterprise. Third, improve the dynamic adjustment mechanism for optimizing the ratio of debt and equity. Evaluate the ratio of debt and equity according to a reasonable cycle, and flexibly adjust it with profit targets, investment plans, and market environment. During the process of maintaining profitability, enterprises should take flexible strategic policies.

4.2 Promoting the Building of Diversified Financing Channels

A single financing channel can very easily cause concentration of capital risk and limit the flexibility of enterprise financing. Developing diversified financing channels can further reduce financing costs and keep a stable supply of funds under different market environments. First, broaden traditional debt financing channels, including bank loans, corporate bonds, and the issuance of short-term notes. At the same time, combine them with innovative financing methods such as supply chain finance and financial leasing. A manufacturing enterprise, during equipment upgrading, used supply chain finance and financial leasing together for financing. With the credit support of core enterprises, it obtained supply chain finance support and got working capital at a lower interest rate. It also introduced advanced production equipment through financial leasing, turning a one-time large expenditure into installment payments and relieving capital pressure. Together with bank loans and short-term notes, this formed a financing mix and made the sources of funds more diversified. Second, enrich the ways of equity investment. When capital market conditions allow, raise funds through listing, additional share issuance, and the introduction of strategic investors. For non-listed enterprises, explore private equity financing, angel investment, or venture capital channels to get enough funds. These methods can also bring in management experience and industry resources and greatly strengthen the overall competitiveness of enterprises. Third, channel construction should work together with internal governance and risk control systems. Different financing channels involve different financial risks in use, such as interest rate fluctuations, equity dilution, and liquidity pressure. Enterprises should build

scientific fund budgets and debt repayment plans, complete the best combination of financing channels, and ensure a long-term improvement in enterprise profitability.

4.3 Improving the Financial Risk Prevention and Control System

In capital structure optimization and the improvement of profitability, financial risk prevention and control is an important task. It helps ensure stable revenue and avoid common risks such as interest rate risk, liquidity risk, and leverage risk. First, improve the debt risk supervision system. In different situations, use methods such as financial analysis, cash flow forecasting, and interest coverage ratio calculation to grasp the debt level and debt-paying ability, so as to avoid excessive debt and prevent crises such as breaks in the capital chain. Make diversified debt response strategies. For example, in an economic downturn, arrange debt refinancing in advance to further reduce the impact of risk. Second, strengthen interest rate and market risk management. Give play to the role of derivative tools such as interest rate swaps, options, and forward contracts, promote risk hedging, and help enterprises lock the cost of funds. In addition, diversify financing regions and introduce multi-currency financing tools, so as to avoid too much concentration of market risk. Third, increase efforts in internal control and budget management, improve financial systems and related control mechanisms, greatly raise the efficiency of fund use and financial transparency, provide strong support in optimizing capital structure, and ensure overall profitability.

4.4 Increasing Support for Strategic Investment

Capital structure adjustment can affect financial indicators, and it can also support strategic investment through optimized resource allocation, further improving enterprise profitability and market competitiveness. First, allocate funds reasonably and pay attention to high-return projects, such as technological innovation, market expansion, and strategic mergers and acquisitions. This can ensure investment returns and also increase the long-term benefits of the enterprise. An electronic information enterprise, in the process of optimizing capital structure, shifted the focus of financing toward technological innovation and market expansion. The enterprise first increased capital input into a core chip research and development project to improve product technology barriers, and then acquired a regional enterprise with channel advantages to quickly open a new market and complete the expansion of market share. At the same time, in investment decisions, it introduced the net present value and internal rate of return models to strictly screen different kinds of projects, making sure that funds went to high-return areas. When the industry was in an upward boom stage, the enterprise moderately increased leverage to expand investment size. During market fluctuations, it kept a relatively high cash reserve to strengthen risk resistance. Second, optimize the investment decision process and build a scientific project evaluation system, including indicators such as cash flow forecasting, investment payback period, net present value, and internal rate of return. The close coordination between funds and investment decisions helps avoid blind expansion and waste of resources, and it is a core measure for improving the overall profit level. When high-quality investment opportunities appear, enterprises should move funds quickly and carry out merger, acquisition, and expansion plans. Third, strengthen enterprise strategic flexibility, improve financial flexibility, and enhance the ability to respond to the market. For example, in a market downturn, enterprises can reduce high-risk investment and increase working capital reserves; in a rising market, they can expand investment size and seize development opportunities. The continuous improvement of enterprise financial flexibility enables capital structure optimization to support the rise of profitability and also ensures the long-term steady development of enterprises [4, 5, 6].

5. Conclusion

Capital structure adjustment has a deep influence on enterprise profitability. A reasonable capital structure is a strong measure for optimizing resource allocation, and it is also important for enhancing the core competitiveness of enterprises. Managers of related enterprises should give full play to their own initiative, focus on the front line of industry development, and start from the actual development situation of the enterprise. They should reasonably choose measures and strategies such as optimizing the ratio of debt and equity financing, promoting the building of diversified financing channels, and improving the financial risk prevention and control system. In this way, they can strengthen the ability of enterprises to respond to market fluctuations, grasp the internal link between capital structure and profitability, keep improving the

financial management system, and promote the double improvement of economic benefits and social value of enterprises.

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