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Debt Maturity: A Review of The Literature

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ABSTRACT

Background. Financial crises and rollover risk are closely associated with short-term debt, which impacts a company's ability to undertake long-term investments and affects the state of the economy. Short-term debt reduces asset volatility and increases the distance to default compared to long-term debt. A significant factor influencing decisions on debt maturity is borrowers' awareness of their default risk.

Purpose. The study aims to identify the variables that influence and are influenced by debt maturity. It focuses on understanding the relationship between debt maturity, disproportional control rights, capital age, and asset life.

Method. This research employs a theoretical literature review to analyze the relationships between the identified variables. By synthesizing existing theories, the study develops a conceptual framework to explore the impact of disproportional control rights on debt maturity and its downstream effects on financial management.

Results. The findings reveal that disproportional control rights significantly influence debt maturity. Companies with longer-term debt structures are better positioned to manage capital age and asset life effectively. Conversely, short-term debt structures tend to align with younger capital and shorter asset lifespans, often limiting long-term operational sustainability.

Conclusion. The study concludes that companies must carefully consider debt maturity in their financial strategies to ensure stability and sustainable growth. Disproportional control rights, capital age, and asset life are crucial factors to manage. Further empirical research is recommended to validate and expand the findings, providing practical insights into optimizing debt maturity in diverse organizational contexts.

KEYWORDS

Company, Debt Maturity, Theoretical Review

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INTRODUCTION

A key idea in finance is debt maturity, which is the amount of time before a debt obligation—like a loan or bond—becomes due for repayment. This idea is essential to the financial well-being of people, companies, and governments. Interest rates, risk, and liquidity can all be strongly impacted by the debt's maturity.

Previous research articles examine several facets of debt maturity and how it affects governments and businesses. Benmelech et al. (2006) highlight the agency problem in debt maturity choice by arguing that established

management favor long-term debt in order to avoid liquidation. Shorter-term debt usually imposes smaller overhang for immediate investments, according to Diamond & He's (2012) analysis of the relationship between debt maturity and debt overhang. Kim (2015) shows that because long-term debt has an inherent advantage in pricing future upside potential, a government's debt limit rises with a longer debt maturity. The best maturity structure is suggested by Dangl & Zechner (2016) based on the trade-off between short-term debt's higher transaction costs and its dedication to lowering leverage in periods of low profitability.

Financial crises and rollover risk are linked to short-term debt and the ability of businesses to undertake long-term investments and the state of the economy can both be impacted by debt maturity (Kleczyk, 2012). In contrast to long-term debt problems, short-term debt issuance causes borrowers' asset volatility to decrease and their distance to default to increase and one significant factor influencing borrowers' decisions regarding debt maturity is their personal knowledge of their default risk (Goyal & Wang, 2011).

Businesses must choose between the greater expenses of not committing to long-term debt and incurring long-term debt to reduce liquidity risk and due to the high agency costs involved in issuing long-term debt, businesses frequently decide that shortening their loan maturity structure is the best course of action (Crouzet, 2016). The investment dynamics of firms can be significantly impacted by the debt maturity decisions they make (Crouzet, 2016). The welfare and liquidity of the secondary market can be enhanced by regulations that compel companies to issue longer-term debt (Bruche & Segura, 2016). Businesses fail to understand how their maturity decisions impact trade gains and purchasers' admission into the secondary market, which leads to inefficiencies, because they fail to take into account the beneficial impact of longer maturities on interest rates and secondary market liquidity, firms choose for inefficiently short debt maturities (Bruche & Segura, 2016). While distressed borrowers only employ short-term debt to control risk, borrowers that are far from default use both long-term and short-term debt (Hu et al, 2021).

To optimize the pricing of new debt and lessen adverse selection, shareholders may decide to delay the issuance of new debt and zero-leverage businesses eventually issue debt as the advantages of postponing debt issuance diminish over time (Geelen, 2019). A life-cycle theory of debt maturity results from the fact that mature organizations issue longer-term debt, whereas younger enterprises issue shorter-term debt to mitigate adverse selection (Geelen, 2019).

Gao et al. (2023) found that that the negative relation between insiders' disproportional control rights and debt maturity establishes only among the firms with credit ratings, consistent with the argument that information friction and related risks prevent dual-class firms' access to long-term debt. Firms with high ability managers tend to undertake more short-term debt financing and the positive association is stronger for firms facing severe information asymmetry (Khoo & Cheung, 2022). The purpose of this study is to determine variables that affect and affected bu debt maturity.

RESEARCH METHODOLOGY

To accomplish the aims and objectives of the research, a theoretical literature assessment is carried out, and a conceptual framework for further investigation is provided. The research methodology that was used by earlier researchers (Vasiljeva et al., 2017; Torkayesh et al., 2023) was presented by us.

RESULT AND DISCUSSION

In the current research, the authors consider debt maturity as main variable that affect capital age and asset life, and affected by disproportional control rigts. The conceptual model of the research is given at the Figure 1.

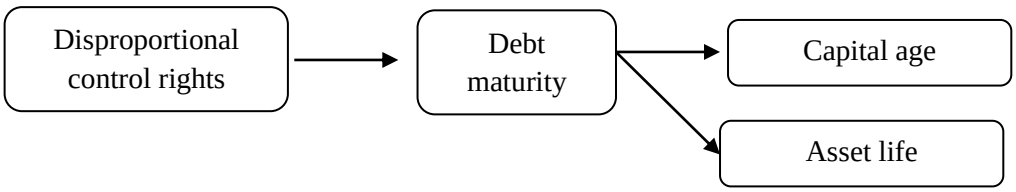

Figure 1. Conceptual model of the research

Based on the conceptual model, authors stated the following research questions:

- RQ1: How does the degree of disproportional control rights influence a firm's debt maturity structure?
- RQ2: Do firms with higher levels of disproportional control tend to issue longer-term debt?
- RQ3: How does debt maturity influence a firm's capital investment decisions and asset replacement policies?
- RQ4: Do firms with longer debt maturities tend to invest in longer-lived assets?

In this research, authors analyze based on existing theory that disproportional control rights affect debt maturity, and further debt maturity affect capital age, finally debt maturity affect asset life.

Companies must pay attention to debt maturity in their financial management.

Here is the translation of the provided text into English:

The research results show a significant relationship between disproportionate control rights and the corporate debt maturity structure. Companies with greater control rights tend to issue long-term debt to reduce liquidity risks. However, the findings also reveal that companies with information constraints are more likely to utilize short-term debt to mitigate higher default risks. In this context, managing the debt structure becomes a crucial strategy to maintain the financial stability of the company.

The influence of debt maturity on capital investment decisions and asset replacement policies is also significant. Companies utilizing long-term debt are more inclined to invest in assets with a longer economic lifespan. This is because longer debt maturities provide financial flexibility for companies to make more comprehensive long-term investment planning.

The analysis reveals that the age of capital and the lifespan of assets are two main variables affected by the debt maturity structure. Companies with a short-term debt structure tend to have younger capital, as liquidity pressures push them to manage assets with shorter lifespans. Conversely, companies with long-term debt have the capacity to manage assets with longer lifespans, which can support long-term operational sustainability.

In the context of the life cycle theory, this study supports the view that more mature companies tend to utilize long-term debt, while younger companies opt for short-term debt to reduce adverse selection risks. These findings emphasize the importance for companies to align their financing strategies with their stage of organizational development and market conditions.

Based on these findings, it is recommended that companies enhance transparency and information management to broaden access to long-term debt markets. Regulations supporting the issuance of long-term debt can help create a more liquid and efficient secondary market, thereby supporting overall economic stability. Further research is suggested to empirically test this conceptual model to strengthen the validity and applicability of the findings. Managing the debt maturity structure also has strategic implications for a company's competitiveness. Companies with the ability to manage long-term debt can allocate their resources more effectively to support innovation and product diversification. On the other hand, reliance on short-term debt can limit strategic flexibility and increase the risk of default during periods of economic uncertainty. Therefore, companies need to consider market dynamics and their investment needs when determining the debt maturity structure.

The factor of disproportionate control rights plays a significant role in management decisions regarding debt maturity. Greater control rights enable managers to make decisions that are more long-term-oriented, despite higher risks. However, this can also create power imbalances that need to be carefully managed to ensure that the decisions made align with the interests of other stakeholders, such as minority shareholders.

Furthermore, this research provides insights into the importance of integrating funding strategies with operational policies. Companies with long-lived assets should consider long-term financing to match cash flows with the economic lifespan of their assets. This approach can minimize maturity mismatch, which could endanger business continuity, especially in unstable market conditions.

Additionally, this study supports previous literature highlighting that debt maturity has an indirect impact on investment policies. With a long-term debt structure, companies are more likely to prioritize investment projects that provide long-term benefits, such as infrastructure or new technologies. On the other hand, short-term debt can limit access to such projects due to the need to meet immediate payment obligations.

Overall, these findings underline the importance of strategic debt management to improve operational efficiency and support long-term growth. In practice, companies are advised to focus not only on funding costs but also on the impact of debt maturity on liquidity, strategic flexibility, and operational sustainability. This research opens opportunities for further empirical studies to examine the implementation of these concepts in different contexts, such as small and medium-sized enterprises or specific sectors.

CONCLUSION

Based on the conceptual research, authors conclude that disproportional control rights affect debt maturity, capital age affected debt maturity, and debt maturity affect asset life. Xompanies should pay attention to their debt maturity. Suggestions for further research are to conduct empirical research on the concept of this research.

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AUTHORS' CONTRIBUTION

Author 1: Conceptualization; Project administration

Author 2: Conceptualization; Data curation; In-vestigation.
Author 3: Data curation; Investigation.
Author 4: Validation; Writing - review and editing.

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