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Moderating Effects of Capital Intensity on the Relationship between Leverage and Financial Distress in U.S. Restaurant Industry

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MODERATING EFFECTS OF CAPITAL INTENSITY ON THE RELATIONSHIP BETWEEN LEVERAGE AND FINANCIAL DISTRESS IN U.S. RESTAURANT INDUSTRY

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ABSTRACT

The main purpose of the current study, therefore, is to examine a moderating effect of capital intensity on the relationship between leverage and financial distress for publicly traded U.S. restaurant firms during the period 1990 to 2008. Two specific research questions are: 1) Do a firm's leverage and capital intensity influence the firm's financial distress? 2) Does a firm's capital intensity moderate the effect of the firm's leverage on financial distress? The findings suggest that capital intensity shows a significant and positive moderating effect. While leverage increases the degree of financial distress, and capital intensity decreases the degree, independently, the magnitude of leverage's worsening impact on financial distress decreases as the level of capital intensity increases.