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Abstract
Utilizing a panel data, I examined herd behavior in capital structure of firms for four major US industries (Manufacturing, Construction, Wholesale and Services), specifically regarding their propensity to exhibit herd behavior around industry median capital structure and industry-leader capital structure respectively. I followed existing methodology in the extant literature by using cross-sectional absolute dispersion (CSAD) to detect industry-wide herding and industry leader-follower herding, as well as the herding behavior during economic expansion and contraction during the sample period 1996–2015. Using industry median capital structure measurement, statistically significant evidence of herding in Services industry is found in the bear market, whilst statistically significant evidence of herding in the bull market is found in Manufacturing industry when industry-leader capital structure measurement is used. Given the relatively high procyclical nature of services industry, it is not all surprising that corporate financial managers may herd around industry median capital structure during economic contraction for reasons such as indemnity against suboptimal performance and reputational costs. On the other hand, in a bull market coupled with information asymmetry, firms may engage in free-riding and this might explain herd behavior exhibited by manufacturing industry. Regarding inter-industry herd behavior, all three industries are found to herd around the Wholesale industry; two are found to herd around manufacturing and construction industries. With the exception of manufacturing industry, none of the other three industries exhibit within-industry herding behavior using both industry median and industry leader capital structure measurements. © 2017 Elsevier Inc.

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