Abstract
We show that SME capital structure behavior demonstrates [substantial] financial contentment (Vos, et al, 2007), rather than evidence of a finance gap (Ang (1992), Storey (1994)) in a ‘growth cycle’ model (Berger and Udall, 1998). On a three-year sample of 626 New Zealand SMEs, while we find consistency with the pecking order theory - profitability being negatively related to debt levels; older and profitable firms lowering debt levels as they accumulate sufficient funds and have more financial choice; high growth firms adding debt when needed; and smaller, not larger, firms adding debt as needed - we also show how the same results support the contentment hypothesis in that, given more financial choices, SMEs reduce debt levels; there is no relationship between growth and debt levels for SMEs with more choices - except for the high-growth firms who do indeed fund growth with increased levels of debt; and age has a negative relationship to debt levels. These findings describe a capital structure theory which is not a by-product of the ‘wealth maximization’ imperative, but rather a ‘window’ (or ‘reflection’) of peace-seeking [financial] behavior.

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