

SMEs: Externally and Internally Constrained? Evidence from Argentina

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Abstract

This paper identifies three distinctive cases in small and medium enterprises (SME) financing decisions: trade-off behavior, pecking order behavior, and extreme aversion to debt. We compare the implications of these approaches with a dataset of firms from Bahía Blanca (Argentina) with the Multinomial Logit Model. We find that firm characteristics related to information asymmetries (firm age, size and legal form, as well as personal factors (owner's age and education, and perception of bankruptcy costs) are relevant variables in SME' financing behavior. These results show that both external and internal constraints contribute to explain SME' financing decisions in a developing country.

Key words: Financing decisions, Trade-off, Pecking order, Aversion to debt, SME, Multinomial Logit Model, Argentina

JEL: G32, C1, D89