Credit and Capital Markets, Volume 55, Issue 1, pp. 67 – 97
Scientific Papers

What Drives Financing Decisions of SMEs? A Survey of German Bank Advisers

Marco Goeck and Ursula Walther*

Abstract

This study explores companies' financing decisions from a new perspective, those of the bank advisers, who are deeply involved in the decision processes, but are nevertheless outsiders. In our survey, corporate advisers of a large German bank report their perception of clients' decisions. The survey covers both large companies and many SMEs. It confirms the relevance of company size, but also indicates strong heterogeneity within the SMEs. While some SMEs seem to resemble large companies, others differ noticeably. Our results confirm the relevance of strategy, management experience and decision makers' personalities, but give little support for capital structure theories. The current change in German companies' financing behavior towards more market-oriented instruments is clearly visible in the responses. The core motivations seem to be a desire for financial stability and flexibility. To secure this, companies tend to combine traditional bank financing with new instruments.

Keywords: Bank Advisors, Financing Decisions, Financing Goals, SME, Survey

JEL Classification: G32, G21

I. Introduction

Financing decisions have been studied intensively, both theoretically and empirically. The well-known capital structure theories, investigations of balance sheet data, and surveys of financial managers added to a long list of factors that potentially influence financing decisions (see *Graham*/*Leary*, 2011; *Kumar* et al., 2019; *Al-Zoubi* et al., 2018; *Moritz* et al., 2016; *Öztekin*, 2015; *Denis*, 2012). However, "despite decades of research, the determinants of capital structure dynamics remain elusive" states Peter deMarzo in his 2019 presidential address to the American Finance Association (see *deMarzo*, 2019).

* We appreciate and acknowledge an anonymous referee for helpful comments and suggestions.

Marco Goeck, University of Koblenz-Landau. Prof. Dr. Ursula Walther, Hochschule für Wirtschaft und Recht, Badensche Str. 52, 10825 Berlin, ursula.walther@hwr-berlin.de.

Understanding companies' financing strategies and decisions is not only theoretically interesting but important for capital providers in order to understand clients' needs and to design financing solutions. In the upcoming years, companies will need high amounts of capital for mastering the transformation towards a climate-neutral economy (see BCG/BDI, 2021). Parts of the necessary funds probably will be covered by new green financing products like green bonds, ESG-linked bonds, or syndicated loans. However, recent financing innovations could not always meet the high expectations. SME bonds, for example, promised easier access to capital markets for smaller German corporates, but high default rates destroyed investor confidence (see *Mietzner* et al., 2018; *Schueler*/*Aschauer*, 2017). Another new and promising financing option for SMEs is crowdfunding. But the majority of transactions currently is found in the US, UK, and Asia. Crowdfunding volumes in Germany with an amount of well below 100 million Euro in 2019 remain low (see *Crowdinvest* 2020; *Moritz*, et al., *Chervyakov*/*Rocholl*, 2019). Traditional debt providers such as the relationship bank as well as state subsidies most probably will remain necessary to meet financing needs, especially for SMEs.

Individual companies differ in financing motives and decision-making processes. This is especially true for the very heterogeneous group of small and medium-sized companies (SMEs). Due to data limitations, many empirical studies focus on large companies and the leverage decision only. However, understanding the financing behavior of companies requires a broader view. For example, mezzanine financing instruments often play an important role, but are neglected from a pure debt-equity perspective. Many different factors such as financial objectives, ownership types, firm life-cycle stages, and entrepreneurial cognition are known to influence financing decisions, but their importance and relation to company or owner characteristics are not fully understood so far (see *Wong* et al., 2018; *Moritz* et al., 2016). Empirical evidence for German SMEs is still limited.

This study investigates the determinants of companies' financing decisions from a new perspective by interviewing bank advisers. Bank advisers are deeply involved in financing decision-making but are nevertheless outsiders who can report about observations based on their experience with many clients. Additionally, they are less influenced by the company or person-specific situations. The 315 corporate consultants of a large German bank are asked questions about perceived influencing factors similar to existing survey studies, especially *Graham*/*Harvey*, 2001. Additionally, we ask for the role of specific financing forms. Due to the bank's customer segmentation and corresponding advisor specialization, we are able to differentiate responses by company size. Most consultants in our sample are responsible for SMEs with annual sales up to € 500 million (mn). However, other advisers specialize in large corporations.

With this, we are able to investigate specifics in the financing decisions of the so-called "German Mittelstand," which often serves as a role model for a successful SME segment (see *Pahnke/Welter*, 2018). Our focus on Germany comes along with a specific capital market environment. Historically, companies in Germany were primarily bank financed, while direct market financing was of low importance. However, some signs of change occurred in recent years. Hence, our results provide additional insight to the research on corporate financing in Germany (see *Bessler* and *Drobetz*, 2015; *Pahnke/Welter*, 2018).

Our results confirm, as expected, many findings from existing studies, which is interesting given the new perspective of bank advisers. However, our survey also reveals additional aspects. A company's strategic and financial goals appear to be particularly important for financing decisions. This result is supported by the prominent role of companies' desire for liquidity and financial flexibility, which is even more pronounced than in previous surveys. A possible explanation is that many small firms experienced the crucial role of financial flexibility during the 2008/09 financial crisis. Interestingly, capital market expectations are considerably less important than strategic and financial issues are. Companies pay little attention to market volatility, and only interest rate risk has a notable influence on decisions. Further interesting results refer to managers' personal characteristics. In contrast to previous studies, we find little support for the influence of age and education. Rather, respondents see experience and especially personal traits such as self-confidence and risk-taking behavior as relevant.

In the second part of our evaluation, we combine answers to complex, multivalued indicators, which allows us to study the interdependencies between factors and company-specific characteristics, as well as capital structure theories. We find four interesting patterns. First, SMEs appear to be heterogeneous in their financing decisions. For example, while leverage and financial flexibility are consistently seen as important for large companies, advisors report a mixed picture of SMEs' financial policies. Similarly, several small firm advisors also report a strong relationship between external factors and financial policy, which we primarily expected for large firms. Second, the results mostly reject factors constructed to indicate the trade-off or market timing theory. We find weak agreement only for large companies and the trade-off theory. Third, management experience is closely connected to a firm's financial decisions, especially financial flexibility, and financial independence. Finally, bank and market-oriented financing seems to be closely intertwined. Combining these sources may be the most promising approach to achieve the dominant financing goals liquidity, financial flexibility, and independence. The recent trend towards slightly more market-oriented financing in Germany corresponds well to the answering patterns of our sample of bank advisors.

The paper is organized as follows. The following section provides a literature review. Section III. describes the sample, questionnaire design, and data collection process. Afterwards, we present our results regarding the individual factors influencing financing decisions. We investigate the interactions between factors, especially internal and external factors, thereafter. The final section concludes.

II. Literature Review

Since the seminal results of *Modigliani*/*Miller* (1958, 1963), which postulate the irrelevance of capital structure in a world with perfect capital markets, academic finance has dealt extensively with companies' financing decisions (see *Denis*/*McKeon*, 2016). Efforts in model building under less restrictive market assumptions have led to a set of well-known capital structure theories, which highlight different influencing factors. Static trade-off models (see *Kraus*/*Litzenberger*, 1973; *Myers*, 1984) describe an optimal capital structure as a balance between the tax benefits of debt financing and distress costs. Considering agency costs, which exist for both debt and equity financing, enriches the trade-off argumentation, but also leads to an alternative theory. According to the pecking order model (see *Myers*/*Majluf*, 1984), companies minimize agency costs by using the least information-sensitive financing, i. e. internal financing, first but debt and equity merely with decreasing priority. A further explanation for financing decisions offers the market timing hypothesis (see *Baker*/*Wurgler*, 2002). Managers may use favorable market conditions for raising financing at low costs. As a result, capital structure does hardly reflect an optimization process but rather past market conditions. While offering a rich set of explanations, the models mentioned so far still failed to fully explain observed financing behavior (see *Denis*/*McKeon*, 2016). As a response, dynamic models have been developed. Dynamic trade-off models include adjustments costs to the trade-off theory what allows explaining slow adaptation to target leverage ratios (see *Leary*/*Roberts*, 2005). *DeMarzo*, 2019 assumes that investors anticipate shareholders' future behavior such that commitment becomes key for their valuations. The resulting dynamic model indicates that different leverage policies can be optimal what further contributes to explaining observed differences in companies' financing strategies.

Capital structure theories have been tested extensively. Review studies conclude that the models do contribute to understanding capital structure choice but also fall short of capturing all relevant influences (see *Martinez* et al., 2018; *Denis*/*McKeon*, 2016; *Graham*/*Leary*, 2011). Instead, empirical studies revealed a long list of additional factors, which have proven to be relevant – at least within the context of the respective study. *Frank*/*Goyal*, 2009, for example, consider company-specific factors (e. g. profitability, firm size, growth, industry, nature of

assets, taxes, risk, creditworthiness) but also external factors like the equity and debt market conditions and the macroeconomic environment. Further authors contributed additional factors including financial flexibility, debt maturity structure, company life cycle, ownership structure, management characteristics, or a country's legal and financial system (see e. g. *Bertrand*/*Schoar*, 2003; *Fan* et al., 2012; *Burgstaller*/*Wagner*, 2015; *Serrasqueiro* et al., 2016; *Kim* et al., 2016; *Díaz-Díaz* et al, 2016; *Moritz* et al., 2016, to just name a few). A long-term study by *Graham* et al., 2015, revealed large swings in US companies' leveraging through time. The meta study by *Schneider*, 2010, counts more than 1,200 individual contributions to the topic, many of which focus on specific aspects, countries, regions or industries. The growing complexity of results lead researchers to conclude that on the one hand future capital structure research should focus on determining the most important influences, and on the other hand that most likely firms differ in their decision making, such that a universal theory may not exist (see *Graham*/*Leary*, 2011).

Research on small and medium sized enterprise (SME) financing is often motivated by their important role for economic growth, innovation, and employment, which is potentially hindered by insufficient access to capital (see *Serrasqueiro* et al., 2021; *Kumar*/*Rao*, 2015). In principle, the list of factors influencing SME financing is similar to that of large companies (see *Kumar*/*Rao*, 2015). However, the level and relevance of many factors like age, risk, informational asymmetries, or available collateral differs greatly. SMEs have proven to differ not only from large ones with respect to their financing but also between each other (see *Moritz* et al., 2016; *Matias*/*Serrasqueiro*, 2017). The smaller firm size limits the use of market-oriented instruments, such that informal forms of capital like trade credit, leasing, factoring, and loans from families and friends play a greater role (see *Nguyen*/*Canh*, 2020; *Moritz* et al., 2016). Another especially important factor is the pronounced role of owners and their personal objectives and skills (see *Wong* et al., 2018).

With respect to the research design, most of the studies mentioned above are based on quantitative data as provided in annual reports or company databases. Surveys as an alternative method can add qualitative aspects by exploiting practitioners' knowledge and experience. They help getting insight into the financing decision-making process itself (see *Beattie* et al., 2006) and examining not only the existing but also the preferable capital structure as demanded by *Kumar*/*Rao*, 2015. Prominent survey studies in the field include *Pinegar*/*Wilbricht*, 1989; *Graham*/*Harvey*, 2001; *Bancel*/*Mittoo*, 2004; *Brounen* et al., 2006; *Beattie* et al., 2006, and *Lins* et al. (2010). The studies investigate the relevance of capital structure theories and other factors influencing financing decisions of top managers in the US and Europe. Results show diversity within the samples, but nevertheless reveal some common themes. Capital structure theories and agency

problems find only moderate support overall, but still there is some relevance of target leverage ratios, taxation, pecking order and market timing behavior. Prominent factors, on the other hand, are financial flexibility and practical, informal rules. More recent surveys focus on very small companies (see *Wong* et al., 2018) or the role of ownership (see *Molly* et al., 2019).

Our study is very similar to the survey studies mentioned above with respect to the research question, but significantly differs in the respondent group. We interview bank advisors instead of company managers. In our opinion, our respondents contribute valuable to the research question, because they are close observers of the decision-making processes under study, but nevertheless third parties with an outside view. Bank advisors speak regularly with their clients about financing, offer products, and observe decisions. In addition, they are capital market experts who understand current developments and relevant external circumstances. Hence, they get to know and are able to assess the influences on their clients' decisions. While not neutral with respect to the outcome, advisors should observe and be interested in the true behavior. In case managers are subject to distortions in their self-perceptions, the advisors' view should differ from managers' responses. With this, our study offers a cross-check for available results. To our knowledge, ours is the first study pursuing a bank advisors' perspective with respect to the factors influencing companies' financing decisions. The studies by *Lown* et al. (2000) and *Lown*/*Morgan* (2006), for example, interview bank advisors but investigate credit access and conditions. *Lehmann*/*Neuberger* (2001) study relationship lending.

III. Sample Composition and Questionnaire

In order to reach a suitable sample of bank advisors, we cooperated with a large German Landesbank that maintains business relationships with very many of Germany's large companies as well as medium and small sized firms. The bank's balance sheet total exceeded 275 billion EUR in 2020, corporate business contributed nearly 40 % to the bank's income. Conducting the study was supported by members of the top management what helped building trust and willingness to cooperate among the 315 corporate client advisors. At the time of the survey, the bank classified customers according to firm size into large corporates (sales above 500 million EUR) versus medium and small firms (SMEs). Advisors are specialized on one of these groups. Hence, this classification determines our differentiation of firm sizes.

Most questions in our questionnaire are similar to those in previous surveys (especially *Graham*/*Harvey*, 2001). Given our research focus, we added questions regarding specific financing products and managers' personalities. The questionnaire consists of several sections. A general part covers the characteris-

tics of the advisors and the firms in their respective client portfolios, including firms' age, legal form, and accounting standards. The section on corporations' financial policies explores the relevance of financial flexibility, target leverage ratios, liquidity, and adopted products (both equity and debt). As potential internal and external influencing factors, we suggest business cycle, market conditions, capital access, and industry trends. Further questions capture the role of the decision makers' personality and background. Finally, we inquire about the relationship between the bank and its clients. In an extensive pretest with eight bank employees and 20 professors from different areas, we improved the formulations, questionnaire design, and technical aspects and reduced the number of questions to 30.[1] The final questionnaire was sent via email to all 315 corporate advisers of a large German bank in August 2013 with a two-week time for responses. In a second email we extended the initial deadline for further two days.[2] The total number of completed (incomplete) answers was 155 (12), which is a satisfying response rate of 49 %. We include incomplete questionnaires in our evaluation if they provide the necessary answers. Hence, the total number of responses varies between 155 and 167. Many of the specific products we asked for in a series of questions were hardly used such that we do not evaluate these responses. Because of the bank's customer structure as well as some checks[3], we consider our data to be reliable and sufficiently representative.

Advisors, in our survey give answers not based on their experience with single clients, but average experience within their whole portfolio. This is a limiting factor for some interpretations. On the other hand, however, we may expect that this averaging also leads to crystallizing out the more important factors, which are seen more often. In this sense an advisor's portfolio may be regarded as one synthetic or representative corporate.

A large majority (82 %, or 127) of the queried consultants are responsible for SMEs with sales up to € 500 mn. This reflects the average size of German corporations; only about 10 % of which have sales above € 250 mn. The ownership structure within our sample is typical for German companies, too. Of the 155 consultants, 115 report that more than 40 % of their clients were family-owned. In particular, SME-consultants have a high proportion of family-owned companies in their portfolios. Accounting standards confirm the sample characteristics. In Germany, IFRS accounting especially is used by capital market oriented companies due to regulatory requirements, while a majority of SMEs use Ger-

[1] The questionnaire is available from the authors on request.

[2] A test for extension bias as in *Graham*/*Harvey*, 2001, did not show any indication. The survey was strictly anonymous. Given the results, we consider the risk of untruthful answers as very low.

[3] A check for consistency based on factors, which are contained in several questions, showed no signs of inconsistent answering behavior (see *Beattie* et al., 2006).

man GAAP (HGB). Furthermore, most smaller companies operate as personal companies, while larger ones are corporations. However, even corporations are mainly non-public. Overall, the portfolios of SME advisors clearly show the expected characteristics of SMEs while the larger client companies advised by large-company advisors differ by accounting standards and legal forms.

Regarding capital structure, our sample reflects a good capitalization on average. According to the respondents, all portfolios have an average equity ratio between 16 and 45 percent regardless, of the client group. This corresponds well to the 31 % German average (see *Deutsche Bundesbank*, 2019). Regarding industries, our sample includes a high proportion of industrial companies, including engineering, automotive, automotive suppliers, chemicals, and pharmaceuticals. Another important industry is the retail sector. Overall, the industry structure is similar to those of previous studies, providing a good basis for later comparison.

IV. Factors Influencing Financing Decisions

Our evaluation starts with a one-dimensional perspective, where we report on the respondents' perception regarding which factors influence their clients' financial decisions. The questionnaire covers the most important potential influence factors as identified and discussed in the literature. We structure our evaluation according to the following areas: company characteristics, financial policy, external influence factors, and stakeholders and management.

1. Company Characteristics and Leverage

Table 1 shows our results for the relevance of several company characteristics on the proportion of debt financing. The most prominent factors are Size and Strategic goals followed by Assets/Collaterals. This is consistent with previous studies, which find that Size is more important than Company age (see *Titman*/*Wessels*, 1988; *Gosh*, 2007; *Hall* et al., 2004) and point toward event-driven and proactive financing behavior (see *Denis*/*McKeon*, 2016; *Al-Zoubi* et al., 2018; *Kochhar*/*Hitt*, 1998; *Jordan* et al., 1998). The asset structure is well known to have a strong influence on the amount of long-term debt because using assets as collateral facilitates borrowing (see *Hovakimian* et al., 2001). Against this background, the affirmation in our survey respondents seems even low.

Table 1

Company Characteristics

Answers to the question: "In your experience, how important are the following company-related factors on the proportion of debt financing?"

	Absolutely Important	*Important*	*Partially Important*	*Unimportant*	*Absolutely Unimportant*	*Don't know*	*Affirmation**
Size	15 (9.4 %)	82 (51.6 %)	44 (27.7 %)	15 (9.4 %)	0	3 (1.9 %)	97/ 61 %
Legal form	2 (1.3 %)	37 (23.3 %)	57 (35.8 %)	51 (32.1 %)	9 (5.7 %)	3 (1.9 %)	39/ 24.5 %
Company age	0	28 (17.6 %)	55 (34.6 %)	60 (37.7 %)	12 (7.5 %)	4 (2.5 %)	28/ 17.6 %
Controlling/ Accounting	6 (3.8 %)	42 (26.6 %)	70 (44.3 %)	30 (19 %)	2 (1.3 %)	8 (5.1 %)	48/ 30.4 %
Strategic goals	24 (15.3 %)	78 (49.7 %)	46 (29.3 %)	6 (3.8 %)	0	3 (1.9 %)	102/ 65 %
Assets/Collateral	7 (4.4 %)	72 (45.6 %)	57 (36.1 %)	15 (9.5 %)	2 (1.3 %)	5 (3.2 %)	79/ 50 %
Internal Organization	3 (1.9 %)	41 (25.9 %)	58 (36.7 %)	44 (27.8)	5 (3.2 %)	7 (4.4 %)	44/ 27.8 %

** Number of respondents who answered with "Important and absolutely important" [Total/Percent].*

Prior studies find that companies with poorer accounting quality favor private debt (see *Bharath* et al., 2008). A majority of our respondents confirms the relevance of Controlling/Accounting. The potential factors Legal form and Internal organization are experienced to have a lower but still noticeable relevance.

2. Financial Policy

Financial policy addresses the role of financing goals and guiding principles (see Table 2). Hardly surprising, the core function of any financing, Ensure Liquidity gets very strong support. Our results further confirm the well-known high importance of Financial Flexibility and Long-term Financing (*Denis*/*McKeon*, 2012; *Ferreira*/*Vilela*, 2004; *Arbogast*/*Kumar*, 2018).

Table 2

Financial Policy

Answers to the question: "Which factors or principles are relevant in the financing decision of your customers?"

	Absolutely Important	*Important*	*Partially Important*	*Uni*	*Absolutely Unimportant*	*Don't know*	*Affirmation**
Ensure Liquidity	105 (62.9 %)	53 (31.7 %)	9 (5.4 %)	0	0	0	158/ 94.6 %
Financial Flexibility	22 (13.2 %)	100 (59.9 %)	44 (26.3 %)	1 (0.6 %)	0	0	122/ 73.1 %
Long-term Financing	21 (12.6 %)	90 (53.9 %)	54 (32.3 %)	1 (0.6 %)	1 (0.6 %)	0	111/ 66.5 %
Financial Independence	19 (11.4 %)	75 (44.9 %)	61 (36.5 %)	9 (5.4 %)	2 (1.2 %)	1 (0.6 %)	94/ 56.3 %
Leverage target	1 (0.6 %)	20 (12 %)	83 (49.7 %)	52 (31.1 %)	10 (6.0 %)	1 (0.6 %)	21/ 12.6 %
Ownership	9 (5.4 %)	45 (26.9 %)	74 (44.3 %)	31 (18.6)	5 (3.0 %)	3 (1.8 %)	54/ 32.3 %
Taxation	2 (1.2 %)	26 (15.6 %)	88 (52.7 %)	41 (24.6 %)	9 (5.4 %)	1 (0.6 %)	28/ 16.8 %
Benchmarking (Competitors/Industry)	1 (0.6 %)	11 (6.9 %)	51 (31.9 %)	62 (38.8 %)	31 (19.4 %)	4 (2.5 %)	12/ 7.5 %
Total Cost of capital	8 (4.8 %)	52 (31.1 %)	69 (41.3 %)	29 (17.4 %)	8 (4.8 %)	1 (0.6 %)	60/ 35.9 %
Growth opportunities	14 (8.4 %)	106 (63.5 %)	42 (25.1 %)	4 (2.4 %)	1 (0.6 %)	0	120/ 71.9 %

** Number of respondents who answered with "Important and absolutely important" [Total/Percent].*

A good example for the relevance of Financial Flexibility is the German automotive manufacturer Daimler AG. When negotiating a syndicated loan in 2018, the company announced that this credit line "serves solely to secure sufficient financial flexibility at all times" (see *Daimler*, 2018;)". A further clear relation is seen between Growth opportunities and financing decisions (see *Purnanandam*/*Rajan*, 2018; *Al-Zoubi* et al., 2018; *Denis*/*Mc Keon*, 2016; *Harris*/*Raviv*, 1991). An interesting question is whether companies are influenced by the financing behavior of their competitors. *Chemmanur*/*He*, 2011, for example, re-

port that "even firms with sufficient internal capital to fund their investment may go public, driven by the possibility of their product market competitors going public". Our results do not provide particularly strong evidence for the influence of Benchmarking but still confirm partial importance.[4]

3. *External Factors*

Our survey covers a range of general macroeconomic indicators as external factors, with a special focus on capital markets. We investigated these aspects in two different forms. First, the advisors directly assess the importance (Table 3). Afterwards, the questionnaire asks for agreement with a series of formulated phrases (Table 4).

Table 3

External Factors

Answers to the question: "What roles do the following external factors have in the debt financing of your customer?"

	Absolutely Important	*Important*	*Partially Important*	*Unimportant*	*Absolutely Unimportant*	*Don't know*	*Affirmation**
Inflation	0	10 (6.1 %)	38 (23.3 %)	81 (49.7 %)	30 (18.4 %)	4 (2.5 %)	10/ 6.1 %
Competitive Environment	4 (2.5 %)	51 (31.5 %)	62 (38.3 %)	34 (21 %)	8 (4.9 %)	3 (1.9 %)	55/ 34 %
Financing Trends	2 (1.2 %)	22 (13.6 %)	72 (44.4 %)	52 (32.1 %)	11 (6.8 %)	3 (1.9 %)	24/ 14.8 %
Capital Market Volatility	8 (4.9 %)	38 (23.5 %)	68 (42 %)	38 (23.5 %)	9 (5.6 %)	1 (0.6 %)	46/ 28.4 %
Taxation	1 (0.7 %)	25 (16.3 %)	80 (52.3 %)	42 (27.5 %)	4 (2.6 %)	1 (0.7 %)	26/ 17 %
Interest Environment	38 (23.3 %)	93 (57.1 %)	31 (19 %)	1 (0.6 %)	0	0	131/ 80.4 %
Political Environment	2 (1.2 %)	28 (17.3 %)	69 (42.6 %)	46 (28.4 %)	15 (9.3 %)	2 (1.2 %)	30/ 18.5 %
Banking Environment	7 (4.3 %)	78 (48.1 %)	60 (37 %)	14 (8.6 %)	2 (1.2 %)	1 (0.6 %)	85/ 52.5 %

* *Number of surveyed advisors who answered with "Important and absolutely important" [Total/Percent].*

[4] We find comparable results in a similar question later in the questionnaire (see Table 3).

Table 4

Market Conditions

Answers to the question: "Which market conditions affect the financing decisions of your customers?"

	Total	*SMEs*	*Large*
Equity Market Volatility	7 (4.2 %)	2 (1.4 %)	5 (17.9 %)
Debt Market Volatility	40 (24.1 %)	24 (17.4 %)	16 (57.1 %)
Bank Loan Conditions	111 (68.1 %)	91 (67.4 %)	20 (71.43 %)
Business Cycle	121 (72.5 %)	101 (72.7 %)	20 (71.4 %)
Interest environment	141 (84.4 %)	114 (82 %)	27 (96.4 %)
Level of Inflation	9 (5.4 %)	6 (4.3 %)	3 (10.7 %)
None of the Factors	3 (1.8 %)	3 (2.2 %)	0
Don't know	0	0	0

The Interest Environment and the Banking Environment are seen as the most important external factors, which clearly reflects the strong bank orientation in Germany. In contrast, general Capital Market Volatility is of comparably low relevance. The very low importance attributed to the factors Inflation and Taxation is surprising, given their direct impact on cash flows and values. Even more important seems to be the behavior of others (see the factors Competitive Environment and Financing Trends), which supports our previous findings regarding Benchmarking (see Table 2). The low relevance of Political Environment presumably reflects the comparably very stable political situation in Germany.

When we differentiate the answers according to size of the client companies, we see a clear indication that size plays an important role. Only 19.4 % of the SME advisors rate Capital Market Volatility as (absolutely) important, while the large corporation consultants agree at a rate of 71.4 % or even 96.4 % when including the answer "partially important" (results not stated in the table). Table 4 presents more results differentiated by company size. The Interest Environment and Bank Loan Conditions are key external factors for all companies, but clearly more important for the large ones. The large companies also care much more for market volatilities with a much more prominent role of Debt Market Volatility compared to Equity Market Volatility (see *Datta* et al, 2000; *Hale*/*Santos*, 2008). All advisors agree regarding the importance of the Business Cycle. This matches the prominent role of growth opportunities (see Table 2) and can be further explained by the connection between GDP growth and credit standards, and thus the difficulty for corporations to get bank loans. (see *Apostoaie*/*Percic*,

2014; *Lown* et al., 2000; *Lown*/*Morgan*, 2006; *Erel* et al., 2012; *Covas*/*Den Haan*, 2012; *Karabarbounis* et al., 2014. Inflation is unanimously seen as unimportant.

4. Stakeholders and Management

Besides the market environment, the Ownership structure may influence a company's financing decisions (see *Serrasqueiro* et al., 2012; *Brailsford* et al., 2002). However, only a minority of 32.3 % of our respondents observe this relationship (see Table 2). In a further question we asked the advisors to rank stakeholder groups according to their influence on financing decisions(see Table 5). Owners are in second place behind Management. The advisors also indicate that a decision-maker's relationship with the company matters (see Table 6). Presumably, Owners and Management coincide in most SMEs, and therefore in many of our advisors' client companies. Unfortunately, we do not have detailed information to further investigate this question.

Table 5

Stakeholder/Management Influence on Financing Decisions

Answers to the question: "In your experience, who has the biggest influence on the financing decisions of your customers?"

Rank	*1*	*2*	*3*	*4*	*5*	*6*	*7*
Management	88 (56.8 %)	62 (40 %)	8 (5.2 %)	1 (0.6 %)	0	0	1 (0.6 %)
Owner	61 (39.4 %)	63 (40.6 %)	21 (13.5 %)	7 (4.5 %)	1 (0.6 %)	1 (0.6 %)	1 (0.6 %)
Banks	0	15 (9.7 %)	56 (36.1 %)	66 (42.6 %)	13 (8.4 %)	4 (2.6 %)	1 (0.6 %)
(Tax) Auditor	2 (1.3 %)	12 (7.7 %)	59 (38.1 %)	54 (34.8 %)	12 (7.8 %)	7 (4.5 %)	4 (2.6 %)
Suppliers	0	0	2 (1.3 %)	9 (58 %)	42 (27.3 %)	61 (39.4 %)	41 (26.5 %)
Customers	4 (2.6 %)	1 (0.6 %)	8 (5.2 %)	5 (3.2 %)	44 (28.6 %)	59 (38.1 %)	33 (21.3 %)
Competitors	0	2 (1.3 %)	1 (0.6 %)	13 (8.4 %)	42 (27.3 %)	23 (14.8 %)	74 (47.7 %)

Previous studies also investigate the role and importance of management characteristics on financing and investment behavior (see *Yang* et al., 2011; *Peni*, 2014; *Bertrand*/*Schoar*, 2003; *Malmendier* et al., 2011; *Belghitar*/*Clark*, 2012). Compared to other works, our study has the advantage of asking third persons, the bank advisors, to assess the relevance of manager characteristics. Our respondents do confirm a high influence (see Table 6). Especially Risk-taking, Personality, and Experience find confirmation. Age, however, receives little support, contrary to prior results in the literature. This indicates that age is not necessarily synonymous with experience.

Table 6

Management Characteristics

Answers to the question: "In your opinion, how important are the following characteristics of management in matters of corporate finance?"

	Very high	*High*	*Partially*	*Low*	*No*	*Don't know*	*Affirmation**
Personality	37 (24 %)	86 (55.8 %)	24 (15.6 %)	6 (3.9 %)	0	1 (0.6 %)	123/ 79.9 %
Experience	18 (11.7 %)	98 (63.6 %)	28 (18.2 %)	8 (5.2 %)	0	2 (1.3 %)	116/ 75.3 %
Education	5 (3.2 %)	49 (31.8 %)	67 (43.5 %)	28 (18.2 %)	2 (1.3 %)	3 (1.9 %)	54/ 35.1 %
Self-confidence	15 (9.7 %)	76 (49.4 %)	53 (34.4 %)	6 (3.9 %)	0	4 (2.6 %)	91/ 59.1 %
Risk-taking	16 (10.4 %)	85 (55.2 %)	44 (28.6 %)	7 (4.5 %)	0	2 (1.3 %)	101/ 65.6 %
Age	9 (5.8 %)	48 (31.2 %)	68 (44.2 %)	26 (16.9 %)	1 (0.6 %)	2 (1.3 %)	57/ 37 %
Relationship with the company	27 (17.5 %)	81 (52.6 %)	38 (24.7 %)	6 (3.9 %)	0	2 (1.3 %)	108/ 70.1 %

** Number of respondents who answered with "Important and absolutely important" [Total/Percent].*

V. Relationships and Dependencies among the Influencing Factors

The second part of our evaluation studies mutual dependencies between the factors. We aim to distinguish different types of companies and to study how the relevance of specific factors varies with company-specific characteristics. Given our research design, interpretation always refers to the "average" company of an advisor's portfolio.

1. Methodology

The selection criterion to determine the factors worth studying in more detail is that the factor is neither clearly rejected nor clearly confirmed by the respondents but divides the sample into two groups of reasonable size. Table 7 lists the selected internal and external factors and the size of the respective sub-samples. As differentiating factors, we find the company characteristics Size, Equity Ratio, and Ownership, and the management characteristics Personality (Pers), Experience (Exp), Education (Edu), Self-Confidence (Self), Risk-Taking (Risk), and Age (Age). The following external factors meet the selection criteria: competitive environment (CompEnv), capital market volatility (CapMVol), banking environment (BankEnv), bank loan conditions (BankCond), debt market volatility (DebtMVol), and economic environment (EcoEnv).

Our second group of differentiating factors is based on answers regarding financing decisions (Table 8). The questions on the target leverage ratio and several financing decision characteristics (Financial Flexibility, Long-term Financing, and Financial Independence) meet the selection criterion. The leverage ratio shows up twice based on two different questions. First, we asked if clients pursue a leverage target (Leverage I) and in a second question, whether it plays an important role in financing decisions (Leverage II).

Table 7

Internal and External Factors for the Differentiated Evaluation

Presented are the name of the factor, the underlying question in the questionnaire with its answer choices, the criteria for defining the two subgroups of responses, and the sizes of these subgroups.

Factor	*Question*	*Answer Choice*	*Definition*	*Number*
Size (SME)	For which group of customers are you responsible?		Advisor specialization	139
Size (Large)				28
Equity Ratio (–)	What is the average equity ratio in your customer portfolio?		Responses "16–30 %"	96
Equity Ratio (+)			Responses "31–45 %"	67
Pers	In your opinion, how important are the following characteristics of management in matters of corporate finance?	Personality	Responses "High" and "Very high"	123
Exp		Experience		116
Edu		Education		54
Self		Self-confidence		91
Risk		Risk-taking		101
Age		Age		57
Family (+)	In your portfolio, what is the approximate proportion of family-owned companies?	Percentage between 0 %–100 % (in steps of 20)	At least 61 % family-owned firms	91
Family (–)			Less than 41 % family-owned firms	39
CompEnv	What role do the following external factors have in the debt financing of your customers?	Competitive environment	Responses "Important" and "Absolutely important"	55
CapMVol		Capital market volatility		46
BankEnv		Banking environment		85
BankCond	Which market conditions affect the financing decisions of your customers?	Bank loan conditions		111
DebtMVol		Debt market volatility		40
EcoEnv		Economic environment		121

Table 8

Factors in Financing Decisions for the Differentiated Evaluation

Presented are the name of the factor, the underlying question in the questionnaire with its answer choices, the criteria for defining the two subgroups of responses, and the size of these subgroups.

Factor	*Question*	*Answer Choice*	*Definition*	*Number*
Leverage I	Do your clients pursue a specific target leverage ratio?		Responses "Yes" and "Partially"	117
Flex	Which factors or principles are relevant in the financing decisions of your customers?	Financial flexibility	Responses "Important" and "Absolutely important"	122
LongT		Long-term financing		111
Indep		Financial independence		94
Leverage II		Orientation on leverage target	Responses "Partially important," "Important," and "Absolutely important"	104

Finally, we construct factors for the relevance of the cost of capital and compliance with a specific capital structure theory. To reflect trade-off theory, we use the pursuit of a leverage target in combination with the relevance of taxation and total cost of capital as a proxy. Given the rather weak coincidence of these criteria, we test several different combinations, but report only the best two (see Table 9). To reflect market timing theory, we combine the relevance of Capital Market Volatility and Interest Environment.

Table 9

Factors Indicating Compliance with Capital Structure Theories

Presented are the name of the factor, the underlying question in the questionnaire with its answer choices, the criteria for defining the two subgroups of responses, and the size of these subgroups.

Factor	*Question*	*Answer Choice*	*Definition*	*Number*
TotCoC	Which factors or principles are relevant in the financing decisions of your customers?	Total Cost of Capital	Responses "Partially important," "Important" and "Absolutely important"	118
TradeOff I		Leverage Target AND Total Cost of Capital		118
TradeOff II		Leverage target AND Total Cost of Capital AND Taxation		58
MarketTiming	What role do the following external factors have in the debt financing of your customer?	Capital Market Volatility AND Interest Environment	Responses "Important" and "Absolutely important"	39

Each differentiating factor splits the sample into two sub-samples. Our goal is to explore if these subgroups differ by other characteristics as well. Hence, we calculate the pairwise cross tabulations. Table 10 shows the example Size versus Leverage I. Size splits the sample into 138 advisors responsible for SMEs, and 28 advisors responsible for large corporations. Leverage I creates two subgroups of 117 advisors who confirm that their clients pursue a target leverage ratio and 49 who negate this. The cross tabulation reveals that 90 out of the 138 (65.2 %) SME advisors also confirm the pursuit of a leverage target. If the pursuit of a leverage target was independent of being small, then the expected number of 97 SME advisors should have agreed with the leverage target. With significance levels of 0.001 and 0.000 well below 0.05, the difference is significant according to Pearson chi-square and Fisher's exact tests[5]. In the following, we report this result as: 65.2 % (90) and 0.001/0.000.

[5] Pearson-Chi-Square measures asymptotic significance, 2-sided, and Fisher's Exact Test examines the exact significance, 2-sided.

Table 10

Example Cross Tabulations

Size versus Leverage I		
	Count	*Expected Count*
Combination of "Yes_Yes" responsible for SMEs and confirmation of a target debt ratio	90 (of 138 or 65.2 %)	97.3
Combination of "Yes_No" responsible for SMEs but denial of a target debt ratio	48	40.7
Result: significant difference according to the Pearson chi-square and Fisher's exact test as the significance levels of 0.001 and 0.000 are well below 0.05.		

2. Internal Factors, Financing Decisions, and Capital Structure (Theories)

Firm size plays an important role in debt financing, as shown above. In the following, we explore how size influences financing decisions. Table 11 summarizes our detailed results. Interestingly, we find some clear patterns for large company portfolios, while SMEs seem to be heterogeneous. Only a few factors seem to influence smaller companies. The following main results are worth mentioning:

a) A vast majority (96.4 %) of the large company advisors report that their clients pursue a target debt ratio (Leverage I), and that the leverage target has a high impact on financing decisions (Leverage II). For smaller companies, agreement is significantly weaker. Only 62.2 % of the SME advisors state that their clients pursue a leverage target, indicating a weaker relevance, and differences between companies. Similarly, agreement with Leverage II is significantly lower among SME advisors.

b) For large companies, Financial Flexibility plays a significantly more important role (93 %) than it does for smaller firms (69.1 %).

c) Among large companies, the factors related to capital structure theories tend to have much higher agreement than for smaller companies. We find significant differences for nearly all indicators, especially those that combine several aspects. While market timing finds hardly any agreement among SME advisors, the trade-off indicators seem to be partially agreeable. In particular, the total cost of capital and the indicator TradeOff I receive perceptible agreement by SME advisors.

Table 11

Relations between Company Characteristics and Financing Decisions

	Size		*Family*		*Equity Ratio*	
	SME	*Large*	*(+)*	*(–)*	*(+)*	*(–)*
Leverage I	*65.2 % (90)* *0.001/0.000*	*96.4 % (27)*	67.5 % (61) 0.213/0.279	76.9 % (30) 0.395/0.538	68.4 % (65) 0.501/0.606	71.6 % (48) 0.788/0.863
Leverage II	*55.4 % (77)* *0.000/0.000*	*96.4 % (27)*	*53.8 % (49)* *0.019/0.021*	*76.9 % (30)* *0.023/0.024*	61.5 % (59) 0.800/0.872	62.7 % (42) 0.929/1.00
Flex	*69.1 % (96)* *0.010/0.009*	*92.9 % (26)*	69.2 % (63) 0.132/0.144	82.1 % (32) 0.172/0.210	70.8 % (68) 0.452/0.485	76.1 % (51) 0.465/0.483
LongT	65.5 % (91) 0.542/0.663	71.4 % (20)	68.1 % (62) 0.954/1.000	66.7 % (26) 0.843/0.845	61.5 % (59) 0.111/0.136	74.6 % (50) 0.068/0.094
Indep	53.2 % (74) 0.077/0.096	71.4 % (20)	56.0 % (51) 0.913/1.000	56.4 % (22) 1.000/1.000	53.1 % (51) 0.338/0.349	58.2 % (39) 0.682/0.751
CostCoC	*73.4 % (102)* *0.008/0.006*	*96.4 % (27)*	70.3 % (64) 0.067/0.088	84.6 % (33) 0.132/0.195		
TradeOff I	*52.5 % (73)* *0.000/0.000*	*96.4 % (27)*	*51.6 % (47)* *0.028/0.032*	*71.8 % (28)* *0.060/0.064*		
TradeOff II	*32.4 % (45)* *0.000/0.000*	*71.4 % (20)*	30.8 % (28) 0.050/0.065	51.3 % (20) 0.035/0.055		
MarketTiming	*17.2 % (23)* *0.000/0.000*	*60.7 % (17)*	*17.6 % (16)* *0.011/0.015*	*41.0 % (16)* *0.008/0.011*		

Numbers in brackets (x) indicate the absolute number of respondents who affirm both factors. The percentage value x.x % relates this number to the total number of responses with respect to the chosen company characteristics (size and ownership structure). Significance was determined using the Pearson chi-square/Fisher's Exact Test using SPSS.

Family-owned companies in Germany tend to have lower leverage (see *Ampenberger* et al., 2013). In our survey, we find a significant dependence between ownership (Family (+/–)) and the relevance of leverage, indicating that leverage is less important for family-owned firms. Both the pursuit of a leverage target and relevance of leverage for financing decisions are more often reported by advisors with portfolios containing fewer family-owned firms (67.5 % vs. 76.9 % and 53.8 % vs. 76.9 %). This might be explained by the different financing goals and lower external payout expectations in family-owned businesses. However, the absolute agreement levels are rather low, such that interpretation must be cautious. The relations between average leverage in the portfolios (Equity Ratio (+/–)) and the companies' financial policy are insignificant. We assume that our measure does not differentiate well enough.

3. Financial Policy, Leverage, and Management

Table 12 reports our findings regarding the mutual dependencies between management characteristics and financing decisions. We evaluate the cross-tabulations for the factors Leverage I and Leverage II, Flex, LongT, and Indep. Interestingly, we find a relationship only between Experience and financial policy, especially with Flexibility. Nearly 80 % of respondents who believe that Experience affects financing decisions also observe that Flexibility plays an important role. The dependency between Exp and Indep is also significant, but with an agreement of 61 % less clear.

Table 12

Overview: Management Characteristics

	Pers	*Exp*	*Edu*	*Self*	*Risk*	*Age*
Leverage I	68,9 % (84) 0.195/0.267	78 % (85) 0.204/0.220	36.7 % (40) 0.568/0.709	54.1 % (59) 0.063/0.072	65.1 % (71) 0.928/1.00	33 % (36) 0.149/0.194
Leverage II	61.0 % (75) 0.487/0.539	61.2 % (71) 0.613/0.701	63.0 % (34) 0.906/1.00	57.1 % (52) 0.11/0.129	61.4 % (62) 0.737/0.861	56.1 % (32) 0.224/0.233
Flex	73.2 % (90) 0.63/0.819	79.3 % (92) 0.009/0.018	79.6 % (43) 0.244/0.336	75.8 % (69) 0.541/0.578	74.3 % (75) 0.928/1.00	77.2 % (44) 0.492/0.570
LongT	67.5 % (83) 0.709/0.830	70.7 % (82) 0.243/0.316	72.2 % (39) 0.429/0.472	70.3 % (64) 0.492/0.598	70.3 % (71) 0.437/0.470	68.4 % (39) 0.961/1.00
Indep	54.5 % (67) 0.494/0.548	61.2 % (71) 0.019/0.024	57.4 % (31) 0.774/0.865	60.4 % (55) 0.168/0.189	54.5 % (55) 0.632/0.733	61.4 % (35) 0.287/0.317

Numbers in brackets (x) indicate the absolute number of respondents who affirm both factors. The percentage value x.x % relates this number to the total number of responses with respect to management characteristics. Significance was determined using the Pearson chi-square/Fisher's Exact Test using SPSS.

4. External Environment, Leverage, and Financial Policy

Table 13 reports our detailed results regarding the relationships between external factors, leverage targets, and financial policy. The detected relationships reveal very interesting, but also complex, connections. Regarding leverage, we find significant relationships between CapMVol (82,6 %) and BankEnv (87,1 %) for Leverage I (pursuit of a leverage target) and with DebtMVol (77.5 %) for Leverage II (decisions based on a leverage target). The difference between the two leverage indicators is hard to interpret and may be a result of the qualitative nature of our study. The relationship to the relevance of the banking environment seems natural, given that indebtedness is crucial for creditworthiness. A relationship between capital market orientation and leverage makes sense; companies considering market-oriented financing benefit from high creditworthiness, especially with respect to debt markets. Additionally, higher public visibility and reporting may lead to a closer orientation toward prominent key ratios, such as leverage. This would match well with our finding above that capital structure theories are only prominent within large companies and a subgroup of smaller companies. It may well be that these are also more market-oriented firms. Especially interesting is that we find a significant relationship between leverage and market volatility and the banking environment simultaneously. This is the first indication that bank and market-oriented financing is not seen as exclusive, but closely intertwined. We find further support for this idea in the relationship between market orientation and financial policy factors.

First, a high focus on market volatility (CapMVol, DebtMVol) seems to be related to a strong desire for financial flexibility (Flex). This is especially true for Debt Market Volatility (92.5 %). Second, according to the advisors, many debt market-sensitive corporations also strive for Financial Independence (72.5 %) and Long-term Financing (82.5 %). Finally, the relationship with Flexibility holds not only for Capital Market Volatility, but also for the Banking Environment (83.5 %), and to a lesser extent, for Bank Conditions.

The interpretation of these findings should consider the special relationship between German companies and their banks, as well as recent developments in the German capital market (see *Bessler* and *Drobetz*, 2015). The connection between market volatility and financial flexibility may indicate that companies in the traditionally bank-oriented German market discovered the capital market as a means to increase their financial flexibility by diversifying instruments and releasing bank credit lines. During the 2008/09 financial crisis, corporations experienced difficulties when banks tightened credit conditions and reduced their credit supply (see *Goldbach*/*Nitsch*, 2015). Consequently, companies started looking for alternative forms of financing. However, which financing instruments came into focus? While especially SMEs' equity ratios increased in Ger-

Table 13

Overview: External Factors

	Comp	*CapMVol*	*BankEnv*	*BankCond*	*DebtMVol*	*EcoEnv*
Leverage I	70.4% (38) 0.971/1.00	*82.6% (38)* *0.029/0.036*	*87.1% (74)* *0.000/0.000*	71.8% (79) 0.735/0.853	77.5% (31) 0.252/0.321	72.5% (87) 0.357/0.447
Leverage II	67.3% (37) 0.353/0.395	71.7% (33) 0.120/0.151	69.4% (59) 0.051/0.054	58.6% (65) 0.121/0.164	*77.5% (31)* *0.021/0.025*	64.5% (78) 0.344/0.375
Flex	80.0% (44) 0.142/0.191	*87.0% (40)* *0.011/0.011*	*83.5% (71)* *0.001/0.001*	78.4% (87) 0.044/0.057	*92.5% (37)* *0.001/0.001*	76.0% (92) 0.159/0.175
LongT	72.7% (40) 0.346/0.379	78.3% (36) 0.075/0.093	64.7% (55) 0.360/0.402	69.4% (77) 0.322/0.373	*82.5% (33)* *0.013/0.013*	69.4% (84) 0.190/0.203
Indep	56.4% (31) 0.972/1.00	67.4% (31) 0.07/0.081	58.8% (50) 0.475/0.527	60.4% (67) 0.213/0.237	*72.5% (29)* *0.016/0.018*	54.5% (66) 0.462/0.490

Numbers in brackets (x) indicate the absolute number of respondents who affirm both factors. The percentage value x.x% relates this number to the total number of responses with respect to external factors. Significance was determined using the Pearson chi-square/Fisher's Exact Test using SPSS.

many – not at least driven by the Basel requirements, our survey still points to a preference for debt capital markets. This is well in line with the rather small average company size in our sample, as well as German financing traditions. The finding that debt market-sensitive corporations also strive for financial independence further supports this interpretation, as the use of market-based financing instruments naturally reduces bank dependency. The same is true for the relationship between Debt Market Volatility and Long-term Financing (82.5 %). For example, issuing bonds allows for maturities of 7 years and longer, while bank loans usually have shorter maturities.

It is interesting to ask whether the detected relationship between capital market volatility (CapMVol) and financial flexibility (Flex) is driven by large companies, while smaller companies still predominantly focus on the banking sector. Of our respondents, 40 believed that both capital market volatility and financial flexibility are important for their clients, of which 19 (47.5 %) were responsible for large companies and the rest for SMEs. This is 68 % of the large company advisors and 15 % of the SME advisors, indicating that at least some of the smaller companies try to increase financial flexibility by using capital markets.

Market-oriented debt financing for SMEs is limited. A segment of SME bonds has been established at several German exchanges between 2009 and 2010, allowing issuance volumes as low as € 10 mn. and reduced disclosure standards (see *Feihle*/*Lawrenz*, 2017). However, the segment suffered from many defaults. Between 2010 and 2014, at least 20 % of the bonds issued in the so-called "bondm segment" defaulted, ultimately leading to the end of this financing segment (see *Mietzner* et al., 2018). At the same time, private placements in Germany became more prominent, especially for companies with a turnover of less than € 500 mn (see *Ambrus*, 2020). Products such as promissory notes offer the advantage of capital market instruments with long maturities and new debt investors, but do not require full public disclosure, as corporate bonds do. The total issue volume in 2019 was € 27 billion, with one-third of the issues below € 200 mn. Many medium-sized companies issued between € 50 and 100 mn, and about 85 % of the issues had a maturity above 5 years. Promissory notes also play a role in some of the portfolios in our sample. At least 27 of the 167 advisors who confirmed that both debt market volatility and financial flexibility are important for their clients, indicated promissory notes as an important financing product for their customers. As the motive for using promissory notes, the respondents often mentioned diversifying lenders, followed by securing liquidity.

The relevance of the debt capital market in the client portfolios comes with the simultaneous importance of the banking market. In particular, the survey reveals a relationship between Financial Flexibility and the Banking Environment

(83.5 %). For smaller companies, which are restricted to bank financing, the relation is hardly surprising. Indeed, 50 of 71 (70 %) SME-advisors observe this connection in their portfolios. However, 75 % of the large company consultants affirmed this relationship. In our opinion, this result indicates that the relationship banks in Germany may still be seen as stable financing partners and provide a kind of liquidity insurance, even for market-oriented corporations (see *Elsas*/*Krahnen*, 1998). Capital market and bank financing are closely intertwined. For example, rating agencies expect a minimum degree of liquidity per rating category, such that unused bank credit lines are important for bond issuers (see S&P, 2014). One reason for this requirement is the risk of limited capital market access. Therefore, firms have to monitor market volatility because high volatility can limit financial market access, and consequently, financial flexibility. Hence, the banking sector is, in addition to the bond market, an important factor to ensure the financial flexibility of larger firms (see *Altunbaş* et al., 2010).

VI. Conclusion

This study investigates influences on financing decisions from a new perspective by interviewing corporate advisors of a large German bank instead of top managers. The new respondents group reports about observed behavior instead of self-perception, what allows cross-checking existing results. According to the advisors' specializations we are able to distinguish SMEs and large corporations. Regarding relevant company characteristics, strategic goals are found to be most important, even surpassing company size and collateral. This is supported by the prominent role of growth opportunities as a driver of financing decisions. Further dominant factors – besides the basic goal of safeguarding liquidity – are financial flexibility, financial independence, and a long-term perspective. Manager characteristics also appear to play a noticeable role. Overall, financing decisions seem to be driven more by managerial necessities than by the well-known factors from capital structure theories.

An important finding is that companies differ in their financing behavior, especially within the group of SMEs. We find a subgroup of SME advisors reporting about behavior similar to the observations of large corporate advisors, but others with deviating impressions. Therefore, SMEs appear to be very heterogeneous and probably differ more in their behavior than large companies do.

The current change in financing behavior towards more market-oriented instruments clearly shows up in the responses. Still, more market-oriented financing does not mean that bank financing loses relevance. Instead, bank and market financing are closely intertwined and mutually dependent. Combining both sources seems to provide the best support for financial flexibility and independence for both large and small companies.

References

Altunbaş, Y./*Kara,* A./*Marqués-Ibáñez,* D. (2010): Large debt financing: syndicated loans versus corporate bonds, The European Journal of Finance 16, 437 – 458.

Al-Zoubi, H. A./*O'Sullivan*, J. A./*Alwathnani*, A. M. (2018): Business cycles, financial cycles and capital structure, Annals of Finance 14, 105 – 123.

Ambrus, B. (2020): Schuldscheinmarkt 2019 auf Rekordniveau (Promissory Notes Debt market in 2019 at record level), LBBW Corporate Finance Focus.

Ampenberger, M./*Schmid*, T./*Achleitner*, A. K./*Kaserer*, C. (2013): Capital structure decisions in family firms: empirical evidence from a bank-based economy, Review of Managerial Science 7, 247 – 275.

Apostoaie, C. M./*Percic*, S. (2014): Credit Cycles and Business Cycles in Twenty EU Economies, Procedia Economics and Finance 15, 1055 – 1064.

Arbogast, S./*Kumar*, P. (2018): Financial Flexibility and Opportunity Capture: Bridging the Gap Between Finance and Strategy, Journal of Applied Corporate Finance 30, 23 – 30.

Baker, M./*Wurgler*, J. (2002): Market timing and capital structure. The Journal of Finance 57(1), 1 – 32.

Bancel, F./*Mittoo*, U. R. (2004): Cross-country determinants of capital structure choice: a survey of European firms, Financial Management, 103 – 132.

Beattie, V./*Goodacre*, A./*Thomson*, S. J. (2006): Corporate financing decisions: UK survey evidence, Journal of Business Finance & Accounting 33, 1402 – 1434.

Belghitar, Y./*Clark*, E. A. (2012): The Effect of CEO Risk Appetite on Firm Volatility: An Empirical Analysis of Financial Firms, International Journal of the Economics of Business 19, 195 – 211.

Bertrand, M./*Schoar*, A. (2003): Managing with Style: The Effect of Managers on Firm Policies, The Quarterly Journal of Economics 118, 1169 – 1208.

Bessler, W./*Drobetz*, W. (2015): Corporate Finance in Germany: Structural Adjustments and Current Developments, Journal of Applied Corporate Finance 27, 44 – 58.

BCG/BDI, 2021, Climate Paths 2.0, A Program for Climate and Germany's Future Development, Boston Consulting Group expert report for BDI, October 2021.

Bharath, S. T./*Sunder*, J./*Sunder*, S. V. (2008): Accounting quality and debt contracting, The Accounting Review 83, 1 – 28.

Brailsford, T. J./*Oliver*, B. R./*Pua,* S. L. (2002): On the relation between ownership structure and capital structure, Accounting & Finance 42, 1 – 26.

Brounen, D./*De Jong*, A./*Koedijk*, K. (2006): Capital structure policies in Europe: Survey evidence, Journal of Banking & Finance 30, 1409 – 1442.

Burgstaller, J./*Wagner*, E. (2015): How do family ownership and founder management affect capital structure decisions and adjustment of SMEs? Evidence from a bank-based economy. The Journal of Risk Finance 16(1), 73 – 101.

Chemmanur, T. J./*He*, J. (2011): IPO waves, product market competition, and the going public decision: Theory and evidence, Journal of Financial Economics 101, 382 – 412.

Chervyakov, D./*Rocholl*, J. (2019): How to make crowdfunding work in Europe, Bruegel Policy Contribution, No. 2019/6, Bruegel, Brussels.

Covas, F./*Den Haan*, W. J. (2012): The Role of Debt and Equity Finance Over the Business Cycle, The Economic Journal 122, 1262 – 1286.

Crowdinvest, 2020, Crowdinvest Marktreport 2020 Deutschland, https://www.crowdinvest.de/Crowdinvest_Marktreport_2020_Deutschland_crowdinvest.de.pdf.

Daimler 2018, Daimler signs agreement on €11 billion credit line, press information, July 24, 2018.

Datta, S./*Iskandar-Datta*, M./*Patel*, A. (2000): Some evidence on the uniqueness of initial public debt offerings, The Journal of Finance 55, 715 – 743.

DeAngelo, H./*Roll*, R. (2016): Capital Structure Instability, Journal of Applied Corporate Finance 28, 38 – 53.

DeMarzo, P. M. (2019): Presidential Address: Collateral and Commitment, The Journal of Finance 74, 1587 – 1618.

Denis, D. J. (2012): The persistent puzzle of corporate capital structure: Current challenges and new directions, Financial Review 47, 631 – 643.

Denis, D. J./*McKeon*, S. B. (2012): Debt financing and financial flexibility evidence from proactive leverage increases, Review of Financial Studies 25, 1897 – 1929.

Denis, D. J./*McKeon*, S. B. (2016): Proactive Leverage Increases and The Value of Financial Flexibility, Journal of Applied Corporate Finance 28, 17 – 29.

Deutsche Bundesbank. (2019): German enterprises' profitability and financing in 2018. Monthly report (Vol. 71, No. 12), 37 – 51.

Díaz-Díaz, N. L./*García-Teruel*, P. J./*Martínez-Solano*, P. (2016): Debt maturity structure in private firms: Does the family control matter?, Journal of Corporate Finance, 1954 – 1969.

Elsas, R./*Krahnen*, J. P. (1998): Is relationship lending special? Evidence from credit-file data in Germany, Journal of Banking & Finance 22, 1283 – 1316.

Erel, I./*Julio*, B./*Kim*, W./*Weisbach*, M. S. (2012): Macroeconomic conditions and capital raising, The Review of Financial Studies 25, 341 – 376.

Fan, J./*Titman*, S./*Twite*, G. (2012): An International Comparison of Capital Structure and Debt Maturity Choices, Journal of Financial and Quantitative Analysis 47, 23 – 56.

Feihle, P. C./*Lawrenz*, J. (2017): The Issuance of German SME Bonds and its Impact on Operating Performance, Schmalenbach Business Review 18, 227 – 259.

Ferreira, M. A./*Vilela*, A. S. (2004): Why do firms hold cash? Evidence from EMU countries, European Financial Management 10, 295 – 319.

Frank, M. Z./*Goyal*, V. K. (2009): Capital structure decisions: which factors are reliably important?, Financial Management 38(1), 1 – 37.

Goldbach, S./*Nitsch*, V. (2015): Cutting the Credit Line: Evidence from Germany, Discussion Paper, Deutsche Bundesbank, 25/2015.

Gosh, S. (2007): Bank debt use and firm size: Indian evidence, Small Business Economics 29, 15 – 23.

Graham, J. R./*Harvey*, C. R. (2001): The theory and practice of corporate finance: Evidence from the field, Journal of Financial Economics 60, 187 – 243.

Graham, J. R./*Leary*, M. (2011): A Review of Empirical Capital Structure Research and Directions for the Future, Annual Review of Financial Economics 3, 309 – 345.

Graham, J. R./*Leary*, M. T./*Roberts*, M. R. (2015): A century of capital structure: The leveraging of corporate America, Journal of Financial Economics 118, 658 – 683.

Hale, G./*Santos*, J. A. (2008): The decision to first enter the public bond market: The role of firm reputation, funding choices, and bank relationships, Journal of Banking & Finance 32, 1928 – 1940.

Hall, G. C./*Hutchinson*, P. J./*Michaelas*, N. (2004): Determinants of the capital structures of European SMEs, Journal of Business Finance & Accounting 31, 711 – 728.

Harris, M./*Raviv*, A. (1991): The theory of capital structure, The Journal of Finance 46, 297 – 355.

Hovakimian, A./*Opler*, T./*Titman*, S. (2001): The debt-equity choice, Journal of Financial and Quantitative Analysis 36, 1 – 24.

Jordan, J./*Lowe*, J./*Taylor*, P. (1998): Strategy and financial policy in UK small firms, Journal of Business Finance & Accounting 25, 1 – 27.

Karabarbounis, M./*Macnamara*, P./*McCord*, R. (2014): A Business Cycle Analysis of Debt and Equity Financing, Economic Quarterly (Q1), 51 – 85.

Kim, D. H./*Lin*, S. C./*Chen*, T. C. (2016): Financial structure, firm size and industry growth. International Review of Economics & Finance 41, 23 – 39.

Kochhar, R./*Hitt*, M. A. (1998): Linking corporate strategy to capital structure: diversification strategy, type and source of financing, Strategic Management Journal 19, 601 – 610.

Kraus, A./*Litzenberger*, R. H. (1973): A state-preference model of optimal financial leverage. The Journal of Finance 28(4), 911 – 922.

Kumar, S./*Rao*, P. (2015): A conceptual framework for identifying financing preferences of SMEs, Small Enterprise Research 22(1), 99 – 112.

Kumar, S./*Sureka*, R./*Colombage*, S. (2019): Capital structure of SMEs: a systematic literature review and bibliometric analysis, Management Review Quarterly.

Leary, M. T./*Roberts*, M. R. (2005): Do firms rebalance their capital structures? The Journal of Finance 60(6), 2575 – 2619.

Lehmann, E./*Neuberger*, D. (2001): Do lending relationships matter?: Evidence from bank survey data in Germany. Journal of Economic Behavior & Organization 45(4), 339 – 359.

Lins, K. V./*Servaes*, H./*Tufano*, P. (2010): What drives corporate liquidity? An international survey of cash holdings and lines of credit, Journal of Financial Economics 98, 160 – 176.

Lown, C./*Morgan*, D. P. (2006): The credit cycle and the business cycle: new findings using the loan officer opinion survey, Journal of Money, Credit and Banking 38(6), 1575 – 1597.

Lown, C. S./*Morgan*, D. P./*Rohatgi*, S. (2000): Listening to loan officers: The impact of commercial credit standards on lending and output, Economic Policy Review 6(2).

Malmendier, U./*Tate*, G./*Yan*, J. (2011): Overconfidence and early-life experiences: the effect of managerial traits on corporate financial policies, The Journal of Finance 66, 1687 – 1733.

Martinez, L./*Scherger*, V./*Guercio*, M. B. (2019): SMEs capital structure: Trade-off or pecking order theory: a systematic review, Journal of Small Business and Enterprise Development 26(1), 105 – 132.

Matias, F./*Serrasqueiro*, Z. (2017): Are there reliable determinant factors of capital structure decisions? Empirical study of SMEs in different regions of Portugal, Research in International Business and Finance 40(C), 19 – 33.

Mietzner, M./*Proelss*, J./*Schweizer*, D. (2018): Hidden champions or black sheep? The role of underpricing in the German mini-bond market. Small Business Economics 50, 375 – 395.

Modigliani, F./*Miller*, M. H. (1958): The cost of capital, corporation finance and the theory of investment. The American Economic Review, 261 – 297.

Modigliani, F./*Miller*, M. H. (1965): The cost of capital, corporation finance, and the theory of investment: Reply. The American Economic Review, 524 – 527.

Molly, V./*Uhlaner*, L. M./*De Massis*, A./*Laveren*, E. (2019): Family-centered goals, family board representation, and debt financing, Small Business Economics 53(1), 269 – 286.

Moritz, A./*Block*, J./*Heinz*, A. (2016): Financing patterns of European SMEs – an empirical taxonomy, Venture Capital 18(2), 115 – 148.

Myers, S. C. (1984): The capital structure puzzle. The Journal of Finance 39(3), 574 – 592.

Myers, S. C./*Majluf*, S. M. (1984): Corporate financing and investment decisions when firms have information that investors do not have, Journal of Financial Economics 13(2), 187 – 221.

Nguyen, B./*Canh*, N. P. (2020): Formal and informal financing decisions of small businesses, Small Business Economics 57, 1545 – 1567.

Öztekin, Ö. (2015): Capital Structure Decisions around the World: Which Factors Are Reliably Important?, Journal of Financial and Quantitative Analysis 50, 301 – 323.

Pahnke, A./*Welter*, F. (2018): The German Mittelstand: antithesis to Silicon Valley entrepreneurship?, Small Business Economics 52, 345 – 358.

Peni, E. (2014): CEO and Chairperson characteristics and firm performance, Journal of Management & Governance 18, 185 – 205.

Pinegar, J. M./*Wilbricht*, L. (1989): What managers think of capital structure theory: a survey, Financial Management, 82 – 91.

Purnanandam, A./*Rajan*, U. (2018): Growth Option Exercise and Capital Structure, Review of Finance 22, 177 – 206.

S&P, 2014, Methodology and Assumptions: Liquidity Descriptors for Global Corporate Issuers, 1 – 12.

Schneider, H. (2010): Determinanten der Kapitalstruktur. Eine meta-analytische Studie der empirischen Literatur, Gabler Research.

Schueler, A./*Aschauer*, F. (2017): Der Markt für Mittelstandsanleihen – eine Diagnose, Zeitschrift für Bankrecht und Bankwirtschaft 29(4), 206 – 221.

Serrasqueiro, Z./*Leitao*, J./*Smallbone*, D. (2021): Small- and medium-sized enterprises (SME) growth and financing sources: Before and after the financial crisis. Journal of Management & Organization 27, 6 – 21.

Serrasqueiro, Z./*Nunes*, P. M./*da Rocha Armada*, M. (2016): Capital structure decisions: old issues, new insights from high-tech small-and medium-sized enterprises. The European Journal of Finance, 22(1), 59 – 79.

Serrasqueiro, Z./*Nunes*, P. M./*da Silva*, J. V. (2012): Are financing decisions of family-owned SMEs different? Empirical evidence using panel data, Journal of Management & Organization 18(3), 363 – 382.

Titman, S./*Wessels*, R. (1988): The determinants of capital structure choice, The Journal of Finance 43, 1 – 19.

Vanacker, T. R./*Manigart*, S. (2010): Pecking order and debt capacity considerations for high-growth companies seeking financing, Small Business Economics 35, 53 – 69.

Wong, A./*Holmes*, S./*Schaper*, M. T. (2018): How do small business owners actually make their financial decisions? Understanding SME financial behaviour using a case-based approach, Small Enterprise Research 25(1), 36 – 51.

Yang, Q./*Zimmerman*, M./*Jiang¸* C. (2011): An Empirical Study of the Impact of CEO Characteristics on New Firms' Time to IPO, Journal of Small Business Management 49, 163 – 184.