

Financing decisions along a firm's life-cycle: debt as a commitment device

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Abstract

We analyze the life-cycle patterns of a firm's financing decisions and their interaction with future growth and development decisions. The framework derives three different financing sequences (debt-debt, equity-debt, equity-equity financing) which we link to existing empirical research. Furthermore, by adopting a life-cycle approach we are able to go one step beyond existing empirical research and derive testable hypotheses with respect to differences in the financing decisions of firms due to project, firm, market and country characteristics as well as the impact of a possible lack of start-up financing possibilities on firm dynamics.

Keywords: financing decisions, life-cycle, firm growth, path-dependencies

JEL classification: D92, G32