



**University of
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Capital Financing Decision Making in the Euro Area

Master's Thesis

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Abstract

In the developed world, small and medium enterprises (SMEs) are responsible for the majority of GDP contribution and employment (Small Business Facts & Data, 2012; SME Performance Review, 2015), but their assessment and use of capital markets is not well understood; efforts in government and academia have largely focused on bank financing. Beginning in 2009, the situation surrounding the financing of these enterprises has been the focus of the European Commission's Survey on the Access to Finance for Enterprises (SAFE). Using the data provided by the European Commission and two measures, credit spreads (vs. Germany) and banking concentration (Herfindell Index), as country control variables, this paper attempts to uncover characteristics related to, and changes in, the attitudes of SMEs toward capital market financing during the period from 2010 to 2015. Findings show that country, ownership, sample period, and to a lesser extent, size have an effect on expectations as well as a significant relationship with usage. Furthermore, multi-nominal logistic results show that country control variables and survey responses on Bank-Centered Financing experience have a significant effect on expectations of Capital Market Financing availability, with signs that Pecking Order Theory is present in SMEs' financing decision making. Lastly, using a matrix comparing access and assessment, evidence is found for unequal access to capital markets in Europe. Because little research is directly relatable, in terms of quantitative studies on SMEs and capital market financing, there is a broad range of topics discussed in order to stimulate critique and improvement within this field of study. This paper's analysis is unique and contributes to past literature by qualitatively examining access to capital markets and quantitatively analyzing reasons for unequal access to these markets.