Journal of Developmental Entrepreneurship
Vol. 11, No. 4 (2006) 277–296

World Scientific
www.worldscientific.com

DETERMINANTS OF CAPITAL STRUCTURE IN NEW VENTURES: EVIDENCE FROM SWEDISH LONGITUDINAL DATA

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Received January 2006
Revised June 2006

The early years are seen as a crucial period for the survival of ventures and yet only a limited number of studies have focused on successful new ventures when studying capital structure. Furthermore, only a few studies have included longitudinal data, tracking ventures over time, or have elaborated on the difference between short-term and long-term debt ratios when studying capital structure. In this paper, hypotheses are developed, based on capital structure theories and literature on new venture financing, and are tested on longitudinal empirical data. Results of multivariate analysis, through structural equation modeling, reveals that: (1) asset structure assists in explaining the variance in capital structure; (2) explained variance in dependent variables is decreasing for each of the four years studied; and (3) multi-group analysis reveals that the determinants influence short-term and long-term debt differently in the first four years of venture existence. Implications of this study suggest that determinants of capital structure in new ventures require theorizing of its own and demand special attention in entrepreneurial policy-making.

Keywords: Capital structure; new ventures; entrepreneurship; financing; longitudinal study.

1. Introduction

In this research, we extend the study of capital structure determinants to new business ventures (henceforth "new ventures"). Such an exercise will help us better understand the contextual difference and vulnerability of new ventures. Specifically, the determinants of capital structure in successful new ventures are studied. This is done in three ways. First, the study is based on a comprehensive sample of new ventures (i.e., geographically diverse within one country and across a multitude of different industries). Secondly, this study also includes empirical data on how capital structure evolves with new ventures as they