Capital Structure, Firm’s Performance, Financial Crisis: Evidence from The Subprime Crisis

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Abstract

The study explores the impact of a firm's capital structure on its performance, utilizing a dataset encompassing 2,780 non-financial firms in France. Applying a fixed effect model and a comparative approach between listed and unlisted firms, we aim to uncover the causal relationship between capital structure and firm performance. Our results validate the assumptions of the pecking order theory concerning the impact of capital structure on performance for both listed and unlisted firms. They highlight that firms with lower leverage ratios tend to outperform those heavily reliant on external and debt financing. Furthermore, our study reveals a consistent and bidirectional causality between firm performance and capital structure, signifying the existence of a reverse causality from a firm's capital structure to its performance.

Keywords: financial crisis; firm’s performance; capital structure; leverage ratio; listed firms; unlisted firms; panel approach.