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# Empirical Evidence on the Relationship between Capital Structure and Organizational Life Cycle

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## Abstract

The paper investigates the capital structure of companies listed on the Bucharest Stock Exchange (BSE) from an organizational life cycle perspective, seen as a determinant of the decisions to finance operations and growth. For this purpose, the life cycle is measured according to the cash flows patterns. Motivated by the pecking-order theory (POT) and carried out on a sample of 59 companies in the period 2010-2020, the study uses a Least Squares Dummy Variable (LSDV) panel data model and shows that listed Romanian companies resort more to bank financing in the initial stages of their life cycle. As they reach the maturity and shake-out stages, companies reorient towards internal financial resources and equity issuance, which is in line with the POT. Furthermore, the age of companies has a rather weak effect on the financial leverage, and its effect diminishes as firms age. The results also confirm the importance of having a high level of tangible fixed assets as collateral for bank loans, but also the significant role of the industry and geographical positioning on the degree of external financing.

**Key words:** capital structure; life cycle; financial leverage; cash flows; external financing;

**JEL Classification:** M41, M10, G30

### To cite this article:

Huian, M. C., Mironiuc, M. (2023), Empirical Evidence on the Relationship between Capital Structure and Organizational Life Cycle, *Audit Financiar*, vol. XXI, no. 1(169)/2023, pp. 124-137, DOI: 10.20869/AUDITF/2023/169/002

### To link this article:

<http://dx.doi.org/10.20869/AUDITF/2023/169/002>

Received: 12.12.2022

Revised: 16.12.2022

Accepted: 20.12.2022