

The Research Centre of the Faculty of Economics
cordially invites you to a research seminar
on **Wednesday, 3rd June 2015 at 12 p.m.** in room **P-109** at the
Faculty of Economics, University of Ljubljana

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will present the article:

**"The Effect of Financial Constraints on Firm Exit:
Discriminating among Alternative Exit Modes"**

“The recent financial and economic crisis has brought back the attention to firm failure and to the role of financial constraints for firm market exit. The literature recognises the heterogeneity of firm exit decisions but provides limited understanding of the role of financial constraints for alternative market exit routes. We aim to investigate the potential heterogeneity in the impact of financial constraints on different modes of firm’s exit while at the same time control for other firm, industry and time-specific determinants.

A multi-dimensional instrument for measuring of financial constraints is proposed, one that accounts for the possibility of the differences between financially and economically distressed firms. The measurement of the latent variable of financial constraints is based on the exploratory factor analysis (EFA) that releases the limitation of the number of aspects considered and at the same time enables us to reduce the number of the considered dimensions of the latent variable, i.e. financial constraints. The described approach is tested on the population of Slovenian manufacturing and service firms in the period 2006-2012, based on data from firms’ financial statements database and data on firm exit from the Business Registry of the Republic of Slovenia. We apply the standard multinomial logit/probit model and distinguish between the independent firm survival and the following four exit modes in a manner of competing risk model: (1) court driven exit as a result of bankruptcy or forced liquidation; (2) voluntary liquidation, (3) disappearances from the dataset as a result of mergers and acquisitions, and (4) termination based on a resolution/decision of the registration agency or according to the law. We consider financial constraints as antecedent to an exit event, which allows us to understand how firm exit relates to different levels of financial constraints.

Results show that the EFA based financial constraints' measure is best described based on three dimensions of firm performance, i.e. liquidity, operational efficiency and profitability. Results of the multinomial model confirm that the application of such generally applicable multiple dimension financial constraint measure provides valuable information in explaining the decisions of firm market exit via different exit modes because it allows us to capture various aspects of firm performance relevant for financial constraints and to discriminate between exit modes that are a result of financial distress and those that come from economic distress.”

You can register for the free seminar by phone (01) 58-92-490, or via e-mail:
research.seminars@ef.uni-lj.si by Tuesday, 2nd June 2015.

We look forward to seeing you!