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Debt Financing and Firm Performance Among Belgian SMEs: Does Firm Size Matter?
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Universitas Gadjah Mada, 2026 | Diunduh dari http://etd.repository.ugm.ac.id/

ABSTRACT

This study examines whether debt financing has a negative impact on firm profitability in the context of Belgian small and medium-sized enterprises (SMEs). It replicates the study by Yazdanfar and Öhman (2015) in a new institutional setting and tests whether the effect differs across the EU-defined firm size tiers. Panel data fixed effects ordinary least squares (OLS) with firm and year fixed effects is applied to 197,923 firm-year observations of Belgian non-financial SMEs drawn from the Bureau van Dijk Orbis database over 2014-2024. The regression sample used for estimation is smaller, at 151,853 observations, because the sales growth control requires a prior-year turnover figure, which drops each firm's first year in the panel. The results show that trade credit, short-term debt and long-term debt each have a negative and significant effect on ROA, in line with agency cost theory. However, the negative effect is much stronger for micro firms than for small and medium ones, while small and medium firms are indistinguishable from each other. Lagged debt regressions reveal evidence of reverse causality in the contemporaneous specification. The main finding is robust to using EBIT margin as an alternative performance measure, while results for return on equity are statistically insignificant, reflecting a mechanical offset between lower ROA and a higher equity multiplier under leverage. This study is one of the first to examine the debt-performance relationship for private Belgian SMEs and the first formal test of whether firm size moderates this relationship within the SME category.

Keywords: debt financing, firm performance, SMEs, Belgium, capital structure