Capital Structure Decision
A case study of SMEs in the road freight industry

Bachelor’s thesis within Business Administration
Author: Pernilla Franck
        Malin Jidéus
        Andreas Ritterfeldt
Tutor: Jan-Olof Müller
Jönköping June 2007
Abstract

Companies need capital in order to run their business, do necessary investments and grow larger. These actions are combined with high costs where both internal and external financing might be appropriate. Capital structure is the relation between debt and equity.

In this thesis we have focused on the decision behind the capital structure. We have focused on the road freight industry and we have tried to find out how management reason about their decision. The purpose of this thesis is therefore to describe and analyze SMEs’ decision of capital structure within the road freight sector in the Jönköping region. Emphasis is put on the different aspects that influence the capital structure decision and to what extent this is a strategic issue coloured by personal beliefs.

To fulfil the purpose mainly a qualitative approach with primary data from structured interviews has been used. The interviews were conducted face-to-face with six owner and/or managers. Further on, secondary data from the firms’ annual reports were used and analyzed.

The pecking order theory explains that firms, especially SMEs, prefer to finance their businesses with internally generated funds. Focus of the theoretical part are on theories of what factors that affects the capital structure decision, how this can be argued to be a strategic question for SMEs, how risk affects the capital structure decision and how this decision is made in a family business. These theories are presented to shed light on the capital structure decision making process of SMEs.

From this study it is found that the majority of the companies’ prefer internal financing i.e. reinvested earnings, and as a second alternative to use debt in form of bank loans. The study also shows that the reasons behind this preferred order are the will of being independent, previous experience and managements’ risk-taking propensity. We believe that these factors combined with beliefs about debt and realized need for debt works as a base for how a capital structure strategy is discussed, formed and developed. From this study it can also be concluded that risk indirect affects the capital structure decision and that a restrictive view on debt leads to a restrictive desire to grow since a fast growth in most cases needs to be financed by debt. Last, the study concludes that even though the studied firms prefer to finance with retained earnings they all use debt more or less.
# Table of Contents

1 Introduction ........................................................................................................ 1
   1.1 Background .................................................................................................. 1
   1.2 Problem ..................................................................................................... 3
   1.3 Purpose ...................................................................................................... 4
   1.4 Definitions ................................................................................................. 4

2 Method .............................................................................................................. 5
   2.1 Theory testing ............................................................................................ 5
   2.2 Qualitative and quantitative data ............................................................... 6
   2.3 Primary and secondary data ....................................................................... 6
      2.3.1 Structured interviews ....................................................................... 7
      2.3.2 Interview questions ......................................................................... 8
   2.4 Process of work ......................................................................................... 8
   2.5 Selected companies .................................................................................. 9
      2.5.1 Interview information ..................................................................... 9
   2.6 Reliability .................................................................................................. 10
   2.7 Validity ..................................................................................................... 11
   2.8 Method criticism ....................................................................................... 11
   2.9 Previous capital structure thesises ......................................................... 12

3 Capital Structure Theories ............................................................................. 13
   3.1 Foundation of capital structure decision theories .................................... 13
      3.1.1 M&M theorem ............................................................................. 13
      3.1.2 Information asymmetry ................................................................. 14
   3.2 Pecking order theory .............................................................................. 14
   3.3 SMEs strategic capital structure decision .............................................. 15
   3.4 Risk .......................................................................................................... 17
   3.5 Characteristics affecting capital structure .............................................. 17
      3.5.1 Special characteristics of family businesses .................................. 18

4 Empirical Background .................................................................................. 20
   4.1 The transport sector ............................................................................... 20
      4.1.1 VAT regulations for light vehicles ............................................... 20
      4.1.2 Credit rating ..................................................................................... 20
   4.2 Special terms ............................................................................................ 21
   4.3 Calculations ............................................................................................... 21
      4.3.1 The capital structure diagrams ...................................................... 21
      4.3.2 Ratio formulas ............................................................................... 22
      4.3.3 Merging the companies ................................................................. 22
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Empirical Findings</td>
<td>23</td>
</tr>
<tr>
<td>5.1</td>
<td>Overview of the companies</td>
<td>23</td>
</tr>
<tr>
<td>5.2</td>
<td>Claesson Transport</td>
<td>23</td>
</tr>
<tr>
<td>5.3</td>
<td>June Express</td>
<td>24</td>
</tr>
<tr>
<td>5.4</td>
<td>Expresstransport</td>
<td>26</td>
</tr>
<tr>
<td>5.5</td>
<td>Hit&amp;Dit</td>
<td>27</td>
</tr>
<tr>
<td>5.6</td>
<td>Alfa</td>
<td>28</td>
</tr>
<tr>
<td>5.7</td>
<td>Transflex</td>
<td>30</td>
</tr>
<tr>
<td>5.8</td>
<td>Financial ratios</td>
<td>32</td>
</tr>
<tr>
<td>5.9</td>
<td>Credit officer</td>
<td>33</td>
</tr>
<tr>
<td>6</td>
<td>Analysis</td>
<td>34</td>
</tr>
<tr>
<td>6.1</td>
<td>Analysis of capital structure</td>
<td>34</td>
</tr>
<tr>
<td>6.2</td>
<td>Analysis of M&amp;M theorem</td>
<td>34</td>
</tr>
<tr>
<td>6.3</td>
<td>Analysis of the pecking order theory</td>
<td>35</td>
</tr>
<tr>
<td>6.4</td>
<td>Analysis of SMEs strategic capital structure decision</td>
<td>36</td>
</tr>
<tr>
<td>6.5</td>
<td>Analysis of risk</td>
<td>37</td>
</tr>
<tr>
<td>6.6</td>
<td>Analysis of firm characteristics</td>
<td>38</td>
</tr>
<tr>
<td>6.6.1</td>
<td>Analysis of special characteristics of family businesses</td>
<td>40</td>
</tr>
<tr>
<td>7</td>
<td>Conclusion</td>
<td>41</td>
</tr>
<tr>
<td>7.1</td>
<td>Discussion and suggestions for further research</td>
<td>42</td>
</tr>
<tr>
<td>References</td>
<td></td>
<td>43</td>
</tr>
<tr>
<td>Appendecies</td>
<td></td>
<td>48</td>
</tr>
<tr>
<td>Appendix 1</td>
<td>Company interview questions</td>
<td>48</td>
</tr>
<tr>
<td>Appendix 2</td>
<td>Bank interview questions</td>
<td>49</td>
</tr>
<tr>
<td>Appendix 3</td>
<td>Data table</td>
<td>50</td>
</tr>
</tbody>
</table>
1 Introduction

The following chapter outlines the background to the study. Issues and problems in the decision of capital structure are highlighted. Last, the chapter gives the reader a formulation of the research questions as well as the purpose of this study.

In order for every company to grow and expand the business they have to invest money in different assets such as personnel, machinery and buildings. These investments are often combined with high costs and the cash-flows generated from previous years are rarely enough to finance all the investments needed (Chorafas, 2005).

For companies to finance larger investments like those for new premises, machineries or vehicles they can either issue new shares or turn to different banks or venture capitalists (Bodie, Kane & Marcus, 2004). Large corporations often obtain credit in the public debt markets, while small firms often have to rely on commercial banks (Berger & Udell, 1994). Capital structure, the subject of this thesis, is about the choice between the different financial alternatives that a company faces or the combination of debt and equity (McMenamin, 1999).

1.1 Background

The issue of capital structure, the relation between debt and equity, is constantly debated and never the less current (e.g. Harris & Raviv, 1991; Myers, 1984; Sogrob-Mira, 2005). Capital structure is a complex issue of financial research (Van der Wijst & Thurik, 1993). It is important to bear in mind that there are two different ways to finance the assets of the firm; through equity and debt. Furthermore there are several different kinds of equity and debts, such as common stock, preferred stock and retained earnings (untaxed reserves) as well as bank loans, bonds, accounts payable and line of credit (McMenamin, 1999; Ross, Westerfield & Jaffe, 2005). The relation between debt and equity, often measured with the debt proportion ratio, represents the capital structure of a firm (McMenamin, 1999).

Literature indicates that there is a complex array of factors that influences small and medium sized enterprise (SME) owner-managers’ financing decisions (Romano, Tanewski & Smyrnios, 2001). Numerous of authors have discussed the issue of capital structure; some of them are more prominent than other. Most applauded might be Modigliani and Miller’s propositions (1958) besides the so called pecking order theory, developed by Myers (1984).

The academic world has spent much effort in trying to generalize and come up with theories and models explaining and predicting the most appropriate capital structure (e.g. Myers, 1984; Myers & Majluf, 1984; Modigliani & Miller, 1958). The real world however, shows that there is no single theory or model applicable to all companies and their choice of capital structure (Mathews, Vasudevan, Barton & Apana, 1994; Barton & Mathews, 1989). There are theories explaining the advantages for certain mixtures of debt (Modigliani & Miller, 1958), theories explaining why some companies tend to avoid debts (Myers, 1984) and some theories pinpointing that some companies pays little attention to rational profit maximizing but rather to their strategic goals (Barton & Matthews, 1989).

Companies with larger proportions of equity can face downsides for some time without facing a risk of bankruptcy, since the company does not have to pay out dividends to shareholders during such situations (Finnerty & Emery, 2001). However, debt financed companies must, regardless to their result, pay interest on their debts (Kamsvåg, 2001). This im-
Introduction

plies that a downturn will be riskier for a company with proportionally much debt. On the other hand, during an upturn, the company with proportionally much debt will be more profitable than the company with proportionally much equity (Pike & Neal 1993, Wramsby & Österlund, 2004). As explained further in section 3.1.1, debt can function as an amplifier of the result. In good times debt financing will enlarge the profits but will also worsen a poorer outcome leading to a greater loss for a company.

There are many other factors influencing the decision on capital structure, some companies are not able to receive bank loans (Kamsvåg, 2001), some have enough retained earning to undertake their desired investments without taking any loans (Andersson, Wahlberg & Österlund, 2006), and some does not want to undertake any dept by principle (Andersson & Williamsson, 2001).

When we decided to write this thesis in the area of capital structure, the ability to receive a bank loan was important. We believe the transporting sector was suitable since they have vehicles and facilities that can serve as securities for a bank loan. Transport companies as well as manufacturing companies, apart from pure service companies, have fixed assets that can serve as securities for bank loan, they can more easily receive bank loans compared to service companies (McMenamin, 1999; Lumsden, 1995). We chose to focus on SMEs since Småland in general and Gnosjö in particular are known all over the country for their entrepreneurial spirit and for being a Mecca of SMEs (Wigren, 2003).

Another aspect of the choice of sector is that there exist many transporting companies in the Jönköping region. 80 % of Sweden’s population lives within a 350 km radius from Jönköping (Landstinget i Jönköping Län, 2007). The capital of Denmark, Copenhagen, also lies within this radius. Furthermore Norway’s capital, Oslo is only 420 km away. This implies that a huge proportion of the Scandinavian population can be reached and delivered to easily. Jönköping is located along to the E4 highway, which makes it easy to reach Stockholm and Malmö. Jönköping region is thus suitable for companies engaged in road freight transportation. Furthermore, there is a growing demand for transport services as international trade increases (Bolis & Maggi, 2003). The demands for road transports have increased by more than 50 % through the last 30 years (Statistiska Centralbyrån, 2006).


1.2 Problem

How to finance and structure the capital of a company is a problematic and important question. Without capital the firm would be unable to run, grow and expand their business (Pike & Neale, 1993). In this thesis three financing alternatives are mainly be discussed; retained earnings, loans from credit institutions and capital from shareholders, since they are the most common ones in combination with financial incentives and grants from the government to finance a company according to Pike & Neale (1993). The road freight industry faces several options to finance vehicles and premises. We have described and analyzed the capital structure decision making in firms operating in the Jönköping region within the road freight industry. We have described and analyzed whether or to what extent the theories are applicable on these companies’ decision making process of capital structure.

There are theories discussing an optimal capital structure (e.g. Modigliani & Miller, 1958). However, the capital structure decision seems to be influenced by more factors than only pure financial. Myers (1984) introduced the pecking order theory which states that firms prefer internal finance, i.e. using previous years’ profits, hereafter bank loans and last, to issue new shares. However, in reality, companies might not always finance its assets in the way that they would have preferred instead they sometimes realize the need of debt due to strategic questions like growth. If a company chooses to finance a high percentage of their capital by debt they will face a higher risk of bankruptcy, this risk of bankruptcy is primary affecting small firms (Carter & Van Auken, 2006). How much risk owner/managers believe a company can bear is a strategic question, since risk propensity is a strategically related dilemma (Barton & Matthews, 1989).

We wanted to test if the managers reason about capital structure in financial terms with aim for certain debt proportions; if companies reason about debt as a cheaper alternative towards equity or if they neglect those academic concepts and simply let their personal values and beliefs affect the capital structure decision. We also wanted to test if Myers’ (1984) theory that claims that firms prefer to finance their businesses by internally generated funds is valid, and what factors affect this decision of internal financing.

We believe capital structure to be a financial complex issue. Copious of research have been done, but yet there is no magic combination of equity and debt for companies to apply (Modigliani & Miller 1958; Harris & Raviv, 1991 among others). This thesis makes no effort in trying to solve this issue, but instead trying to shed some light on the capital structure decision issue within a specific industry in order to find out how executives reason about the area under discussion.

The problem discussed lead to the formulation of the following research questions;

- What financial sources do the interviewed companies prefer and why?
- How is management’s risk-taking propensity affecting the capital structure decision?
- Is capital structure decision a strategic and/or a financial issue?
- What factors influence the capital structure decision?
Introduction

1.3 Purpose
The purpose of this thesis is to describe and analyze the decision of capital structure of SMEs within the road freight industry in the Jönköping region.

Emphasize is put on the different aspects that influence the capital structure decision and to what extent this is a strategic issue coloured by personal believes.

1.4 Definitions
This section explains some frequently used key terms in order to facilitate the reading process.

Capital structure is defined as the relation between debt and equity that is used to finance a firm’s assets (Moyer, McGuigan & Kretlow, 2001; McMenamin, 1999).

The optimal capital structure “is the mix of debt, preferred stock, and common equity that minimizes the weighted cost to the firm of its employed capital, the capital structure where the capital cost is minimized and the total value of the firm’s securities are maximized” (Moyer et al., 2001 p. 452).

SME is an abbreviation for small and medium sized enterprises. We used the term SME in this thesis according to the European Commissions definition from 1996 (Nutek, 2005):

“The category of micro, small and medium-sized enterprises is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million Euros, and/or an annual balance sheet total not exceeding 43 million Euros”.

Family business has no general definition but we have adhered the definition presented by Gallo and Sveen (1991) cited in Mustakallio (2002, p. 27):

“A business where a single family owns the majority of stock and has total control. Family members also form part of the management and make the most important decisions concerning the business”.

2 Method

In the following chapter the chosen method is discussed. We have described how the work proceeded in order to fulfil the purpose, the research methods used are presented and the decisions made throughout the study are explained.

As argued by Daymon and Holloway (2002) finding an interesting and feasible topic is not always a straightforward and rational process because good ideas consist of a mixture of theory, experience and prior research. Since it is a large project to write a bachelor thesis, we invested time to come up with a subject that interested the three of us. Capital structure is an interesting subject within the field of finance. Past project titles presented in section 3.6, served as a source of inspiration for us during the early stages of this thesis.

We have also used what Saunders, Lewis and Thornhill (2003) refer to as a funnel approach meaning that we started on a general level and then we have narrowed it down to finally end up with our specific objective. That is, we started by deciding that capital structure should be the theme of our work and then we step by step refined it to make it more focused and suitable for a bachelor thesis.

2.1 Theory testing

A deductive approach is according to Saunders et al. (2003) when theory is tested on reality. We used a deductive approach since we developed a theoretical framework as the initial stage of this thesis. The theories presented in the theoretical framework are later in the analysis tested to what extent they can relate to our findings. An inductive approach, on the other hand, is when one first gathers data and afterwards tries to develop a theory out of it (Saunders et al., 2003). We started to study the subject of capital structure and built a framework of what we believe was the most important and representative theories presented in academic literature. Emphasize was put on capital structure models and theories that best suits the special features of SMEs in particular but theories concerning special traits for family businesses are also applied. Naturally, this selection process of determining which researcher’s ideas to include in our theoretical framework and which to exclude, is biased by our own interests and tastes. We might have reached other conclusions if we had used other theories.

In order to get some influences and to get some inspiration about what theories that could be useful in our study, we started the process of building a theoretical framework by reading other theses about capital structure. Further, we tried to scan the field of research done within the same topic by reading journals, specialist literature and text books within finance. After we had developed a framework of relevant theories, we conducted interviews in order to gather empirical data. The questions were inspired by the theories and formulated in a way that the answers would include the information presented in the theories. Hence, our theory was developed to easier understand different phenomena on how capital structure is formed by the different businesses and what determines the decision making process.

Since our frame of reference was developed before we conducted the interviews the results from the interviews were coloured by this. We might have had a broader spectrum if we had chosen to perform the interviews before writing the theoretical part of the thesis. However, this is in line with our choice of a deductive approach were we narrowed our purpose down to a specific issue. By doing this we were able to make efficient interviews
because we knew exactly what information we were interested in. Also, it would have been harder for us to get companies to participate in our study if the interviews would have lasted for more than an hour. In addition, an increased amount of time spent on each interview (conducting, processing and analyzing) would reduce the number of possible observations which might have weakened our conclusion.

2.2 Qualitative and quantitative data

The empirical part of this thesis is mainly based upon qualitative data collected from interviews. According to Robson (2002), qualitative data are characterized by its richness and fullness related to the opportunity to explore a subject in its true sense. In distinction from quantitative data where the answers take form as a numerical value (Saunders et al., 2003). Quantitative data is somewhat thin whereas qualitative is more thick or thorough (Dey, 1993; Robson, 2002). The qualitative data, collected from our interviews, concerns the companies’ opinions and emotions rather than concrete numerical values. Moreover, qualitative studies are better to carry out by the use of interviews rather than questionnaires, since they are more flexible (Ghauri & Gronhaug, 2005).

The main reason for our choice of a qualitative method is, first of all, the fact that capital structure is a complex issue and not a scientific topic in the sense that there exists no right or wrong (Mathews et al., 1994; Barton & Mathews, 1989; Van der Wijst & Thurik, 1993). Second, we did not just want to know how companies choose to structure their capital but instead the decisions underlying these choices. We do not believe that this could be fully covered by making a quantitative research depicting the results in graphs or other quantitative measures. The information revealed during the interviews would also have been difficult to access through secondary information since we needed information about the managers/owners opinions and personal thoughts behind their decision of capital structure. The annual reports made it easier for us to get a whole picture of the organizations without having to ask questions during the interviews concerning information that is public in their annual reports. The quantitative data collected by deriving the information from annual reports was analyzed by the use of diagrams as suggested by Dey (1993).

If one uses a questionnaire it is easy to compare the results since the answers already are divided into different categories. Data collected from open-question interviews, as in our case, is not standardized in the same manner. Therefore the data first needs to be divided into categories and then analyzed by conceptualization (Saunders et al., 2003). We thus chose to present our empirical findings on the different companies in a similar way. This facilitates the reading process and smoothes the progress of the analysis of our findings.

2.3 Primary and secondary data

The interviews conducted for this research is our primary data and it was collected for our specific research only. The data collected is unique for our study. Interviews are good tools for collecting primary data since one can go into depth in every situation and every case can be adapted to the specific situation (Delmar & Davidsson, 1993).

The data needed for this study could not be found in any secondary data since it is based upon the thoughts, beliefs and values of the interviewees. Secondary data is data that is already collected for another purpose (Saunders et al., 2003).
As mentioned in the previous section, we have also used secondary data derived from the companies’ annual reports. Here, much information is available about the company such as, turnover, number of employees and constellation of board members etcetera. We used this data to make sure that our interview findings are valid as further discussed in section 2.5. We also used the annual reports to compare with industry index in order to have figures to relate this information to.

One should bear in mind that respondents are not fully objective and social desirability might make the persons interviewed trying to put them self in the best manner possible. Therefore, it is important to consider what remains unsaid during the interview. It is natural to highlight the positive aspects in an interview and not actively discuss drawbacks or negative aspects of the business (Delmar & Davidsson, 1993). This dilemma is most realized in our interview questions about drawbacks with existing capital structure and the companies’ relationships with bank. It is therefore important for us to not interpret the empirical findings literary. The question about drawbacks with existing capital structure provides us with a picture of how aware the companies’ are about alternative solutions to current decisions of capital structure rather than if there exists any downsides at all. None of the companies interviewed argued that they have bad relations to the bank. The industry index of the road freight industry gives us therefore valuable input to compare our findings with. Delmar and Davidsson (1993) stress the importance of comparing the results given from interviews to secondary data like annual reports.

Cross referencing the primary data with secondary data validates the answers given by the interviewees. A problem connected to this is the time span; sometimes it is more than a year between the end of the fiscal year in the annual reports and the date of the interviews. All interviews were conducted in April 2007 when the annual reports for 2006 were not available. We have used the latest annual report available from Bolagsverket (a public Swedish organization where all firms have to be registered). Furthermore, we have cross referenced some of the information collected for this study with Hans Guldstrand who works as a credit officer in the Jönköping region at SEB, one of Sweden’s largest banks. We contacted him about his view upon the road freight sector from the perspective of a debt issuer as well as some general comments about the road freight industry in the Jönköping region.

2.3.1 Structured interviews

This study is based upon structured or standardized face-to-face interviews where we have asked the same questions to all interviewees (Arbnor & Bjerke, 1994) in order to facilitate the comparison and analysis of the findings (Sekaran, 2000). This was mainly due to the fact that similar information was received. Structured interviews should be used when it is known on forehand what information that is needed (Sekaran, 2000). The interviews were conducted in Swedish and than translated to English. The reason behind this was that the interviewees did not speak English fluent enough.

According to Svenning (2003) personal contact with the interviewees gives the researcher a good reference to the answers which is why we decided to undertake all of our interviews face-to-face. As mentioned earlier, all companies in this study are situated in the surroundings of Jönköping which made it easy for us to visit the managers in person. We believe that this made the interviews more thorough and reliable. Collecting primary data might be expensive and time consuming (Saunders et al., 2003). Since we conducted all of our interviews in the Jönköping region no significant cost are associated with the collection of our
primary data. Personal interviews offer rich data that is given on impulse by the respondents (Sekaran, 2000). In a face-to-face interview the researcher can clarify doubts and rephrase questions if needed in order to make sure that the respondent clearly understands what information that is wanted (Sekaran, 2000). Sekaran (2000) adds that the interviewer can pick up nonverbal signals e.g. from body language. We hope that we signalled that we were interested in their businesses when we spent time to visit them all and that this provided the interviewed persons with a more positive picture of us and our study. We believe this enhanced their willingness to participate in our study.

Since our purpose of the interviews was to discover what influences the companies’ decision of capital structure which is coloured by personal beliefs and values. We think that we were able to better capture these personal opinions in a face-to-face interview compared to over the telephone. In addition, we believe that it increased our trustworthiness and that the companies felt more secure that we should use the information in a proper manner. Further on, the time spent on booking the interviews, transports, performing the interviews and the processing of the information is regarded to be time well spent considering the outcomes. If we instead would have chosen to conduct the interviews via telephone a broader audience could have been reached. When we had conducted six interviews we regarded them to be enough to draw proper and valid conclusions; more interviews would most probably have strengthen our ability to generalize but weaken our analysis of each company, since we had a restricted amount of time to undertake this study.

2.3.2 Interview questions

Except from one ranking question, which is to be regarded as a closed question, we used open questions during our interviews. Open questions allow the respondents to answer in any way they want. Closed questions indicate that the respondents are provided with several alternatives that they are asked to choose among (Arbnor & Bjerke, 1994). Due to the nature of our purpose, finding the companies underlying decisions of their capital structure, it would be difficult to cover all possible aspects in closed questions. Open questions seemed in our opinion to be a more suitable choice since it allows the respondents to elaborate freely on a certain question or field of interest. The questions can be found in Appendices 1 and 2.

2.4 Process of work

When we had decided that capital structure should be the theme of this thesis, several possibilities arose in the choice of business sector, size as well as geographical location, what companies to study and who at the company to interview. Harris and Raviv (1991) noted that firms within a particular industry have a similar capital structure compared to those in different industries. Therefore we chose to focus on one particular industry, the road freight industry, to compare and analyze the differences between companies in that specific industry instead of studying the issue of capital structure in different companies in different industries. The road freight industry was chosen because there is a growing demand for its services as consumption and the trade within EU increases (Bolis & Maggi, 2003) and also because most companies within this industry often have assets that can be used as a security for the bank loan e.g. premises and trucks.

There are a great number of companies within the road freight industry. The reasons for focusing on SMEs were mainly based upon two arguments. First, SMEs stand for the largest proportion of firms in almost every developed country (Sogrob-Mira, 2005). According
to the European Commission (2000) (in Sogrob-Mira, 2005), SMEs stand for 66 % of employment and 65 % total turnover among all companies in the European Union (EU). They create entrepreneurial spirit and innovation at the same time as they are an important source of jobs for the work force. These factors make the existence of SMEs a crucial factor for an economy to succeed (Sogrob-Mira, 2005). Second, we believed that large public companies to be complex, serving many different stakeholders, but also that it would be difficult both to get and further to analyze the data from such companies. On the other hand we believed that very small companies, sometimes referred to as micro companies, seldom have enough capital employed in order to make capital structure an important issue. Further on, to get as good and relevant answers from the interviews as possible we found it important to interview the chief executive officer (CEO). This would have been hard to accomplish if large public companies were chosen. Most certainly the CEOs in such companies would not have spend their time on our study. Instead being referred to the Chief Information Officer or the person responsible for the contact with students, would not give an exact picture of the firms underlying reasons when deciding upon the capital structure.

2.5 Selected companies

Since we made the decision to do our interviews in person it was of importance that the companies were located in an accessible distance. Eniro’s yellow pages gave us 529 matches (Eniro, 2007) when we searched for businesses within the transport industry in Jönköping. Many of these matches were rejected, mainly because of their size and location. Many companies were sorted out since they do not belong in the road freight industry. We focused on SMEs but did not want to include very small companies in our research and therefore companies with fewer than 10 employees and/or a turnover not higher than SEK 10 million (M) were excluded. We excluded companies that do not have their head-quarter in the Jönköping area and contacted the remaining ten companies/company groups and asked whether they would be interested in being part of our study. Only one company declined us, however the CEO said that he would like to help but just could not find the time for it. We decided not to interview the three remaining since we considered the already conducted ones to be enough. We chose to conduct six interviews because we believe it to be many enough to draw conclusions, but chose not to interview more due to limited amount of time and because we believed that we could perform a deeper analysis with fewer respondents.

We requested to meet the CEO. In most cases, the person most suitable as our interviewee turned out to be both owner and manager. How this affected our results is discussed in the analysis.

2.5.1 Interview information

We conducted our company interviews between April 11th and 24th at the companies’ offices. We recorded all interviews in addition to at least one of us taking notes. The interviews lasted approximately 30 to 40 minutes. We were three interviewers at two occasions and two persons at the other four occasions. We have interviewed the CEO, chief financial officer (CFO) and/or owner of the different companies depending on whom they believed were most suitable to answer our questions. All persons interviewed were able to answer our questions to our full satisfaction and we felt that they had a concrete and genuine awareness of how decisions are made, concerning the issue of capital structure.
Method

Our seventh interview, with the credit officer, was conducted by two of us on the May 15th and lasted for about 30 minutes at SEBs office in Jönköping. We were not permitted to record the interview due to banking secrecy, but we were permitted to take notes.

<table>
<thead>
<tr>
<th>Company</th>
<th>Person</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claessons Transport</td>
<td>Göte Claesson</td>
<td>Owner and CEO</td>
</tr>
<tr>
<td>June Express</td>
<td>Sven Lundahl</td>
<td>Owner and manager</td>
</tr>
<tr>
<td>Expressstransport</td>
<td>Magnus Bäverholt</td>
<td>Owner and manager</td>
</tr>
<tr>
<td>Hit&amp;Dit</td>
<td>Jörgen Svensson</td>
<td>CFO</td>
</tr>
<tr>
<td>Alfa</td>
<td>Christer Bosmyr</td>
<td>Owner and CEO</td>
</tr>
<tr>
<td>Transflex</td>
<td>Michael Grennard</td>
<td>Owner and CEO</td>
</tr>
<tr>
<td>SEB</td>
<td>Hans Guldstrand</td>
<td>Credit officer</td>
</tr>
</tbody>
</table>

2.6 Reliability

Saunders et al. (2003) discuss that reliability can roughly be divided into three different subcategories; (a) will the measures yield the same results on other occasions? (b) will similar observations show the same results? and (c) is it clear how sense was made from raw data?

It is most likely that we would have collected the same information if we performed the interviews once again since no single answer indicates any reference to a specific time period, all companies have had similar look upon capital structure throughout the history. Of course the companies have had different capital structures during different phases but the thought, values and beliefs behind the decision of capital structure have remained constant.

If we had chosen other companies in the same industry in the same region we believe we would have found similar results, since we have looked upon some very different companies in terms of turnover and number of employees, and can therefore assume that also others would have reasoned about capital structure in a similar manner. This question affects the ability to generalize our study and is discussed further under the section 2.8.

We chose to present our interviews separately, one company after the other, to make sure that we did not mix up the information retrieved and to make it easier for the reader to understand what the different companies’ capital structure decision were based upon. We have also chosen to present the companies’ debt and equity from the annual reports in graphs to clearly portrait their capital structure. Further, we have chosen to first present the companies in the empirical findings where the findings from the interviews are presented and then an analytical part are presented where we have interpreted the findings with the help of our theoretical framework. By keeping these two chapters apart we believe that it is easier for the reader to understand how logic was made from raw data.
2.7 Validity

It is important to make sure that you measure what is intended to measure and that the results really portrait what they were intended to in order not to avoid that the study comes out biased (Saunders et al., 2003). This is why researchers should ask themselves what this test is measuring? (Arbnor & Bjerke, 1994). It is important to distinguish between internal and external validity. External validity is about the whole project; its theories and empirical findings as well as the ability to generalize in a broader perspective (Svenning, 2003).

Information retrieved from our six interviews of road freight companies in the Jönköping region makes no effort in trying to explain the capital structure of companies in general. As stated by Harris and Raviv (1991) firms within a particular industry have a similar capital structure compared to those in different industries, these findings might be applicable on SMEs in the road freight industry but not on companies in general. However, our aim of this research was not to draw general applicable conclusions. As argued before, we believe that by making a qualitative research we enriched our answers and made them more valid since the values and beliefs would have been hard to depict in any statistical diagrams.

The internal validity is about if questions are asked to the right persons and to choose a measurement tool that is most relevant for the project’s different parts (Svenning, 2003). The internal validity, in our case, is about whether the interviewed persons were the most suitable to question and whether the annual reports are the most appropriate secondary data to use, which we believe they are.

2.8 Method criticism

Since we had a limited time available for making the interviews we were forced to reduce the number of observations which also is the number one delimitation of this study. A small number of observations lead to difficulties to generalize (McDaniels & Gates, 2005). The trends identified for the companies we investigated are probably not valid for the road freight industry as a whole and definitely not for companies in general. If we would have wanted to make our findings more suitable for generalizing we would have chose to perform a quantitative study instead. With a quantitative measure we would have used a larger sample and statistically been able to prove that our findings were normally distributed.

The companies participating in our study are all located in the Jönköping region which also makes it hard to generalize. There might be unknown reasons for decisions that only are valid for this region due to e.g. business climate. If we instead would have chosen to conduct the interviews via telephone, a broader audience could have been reached, but non verbal information could not be read (Sekaran, 2000). In order to make our findings more generalizeble we could have chosen to perform a quantitative study instead. With a quantitative measure we would have used a larger and broader sample and statistically been able to prove that our findings were normally distributed. However, we believe that by doing qualitative interviews face-to-face we got better and more in-depth answers of the true underlying aspects influencing the capital structure decision, compared to if we had used a quantitative questionnaire.

Delimitations can be seen in the choice of persons to interview. For all companies except one we got to meet a person who owned or partially owned the business in question. It is possible that their answers to our questions were biased since people probably are less likely to criticize their lifetime achievement.
Only one firm declined to participate in the study and the reason for that was the heavy work load they faced during that specific period of time but they commented that they happily would have helped us if they had more time. Therefore we believe that there are no underlying factors for non-responses for us to consider.

2.9 Previous capital structure thesises

Andersson and Williamsson (2001) concluded in their study on six family businesses that the choice of capital structure depends on many factors; not only pure financial decision but tradition, municipality, family goals etc. They chose to put their focus on family businesses only. Our focus is on the transporting sector since Harris and Raviv (1991) stated that firms within the same industry seem to have a similar capital structure. We believe it to be easier to compare and analyze the different companies because they operate in the same industry instead of because they are all run as family firms.

Another master thesis were we got some useful insight into the capital structure decision making field is Alvemyr and Arenblom (2003) who compared differences in capital structure in different sectors. They reached to the conclusion that what is an optimal capital structure varies from firm to firm and that optimal seems to mean two different things in theory compared to reality. This is why we chose to focus on a specific industry.

Finally, Wahlberg and Ekeroth (2006) discusses in their thesis if Swedish companies acts in accordance to the optimal capital structure theory and/or the pecking order theory. They came to the conclusion that none of them is followed and that Swedish companies prefer internal financing followed by equity and as a last choice debt.

Apart from the papers presented above, this thesis will focus on the decision behind the choice of capital structure and what aspects that influences the decision. The theories highlighted in this thesis are mainly dealing with strategic issues and risk awareness. Wahlberg and Ekeroth (2006) and Alvemyr and Arenblom (2003) emphasized more pure financial theories like the Modigliani and Miller propositions, the pecking order theory, agency cost and asymmetric information and signalling models.
3 Capital Structure Theories

This chapter starts by introducing some general theories of capital structure and then theories of relevant theories for SMEs capital structure decisions are presented.

3.1 Foundation of capital structure decision theories

According to the three of us, it would be unwise and remarkable not to start this theoretical framework with introducing the most cited publication as far as we are concerned; Modigliani and Miller’s (1958) theory of optimal capital structure and theories on information asymmetries. Therefore, before presenting the most important theories in this study, the optimal capital structure is presented. It serve as a base presenting how the capital structure ought to be according to pure financial issues in contrast to later presented theories explaining how, in reality, the capital is structured in most SMEs.

3.1.1 M&M theorem

The original ideas presented by Modigliani and Miller (1958) are very theoretical and assumes conditions that do not fit with the real world e.g. all firms have a constant cash-flow, there exist no taxes and all investors and businesses can borrow and invest to the same risk-free rate (Wramsby & Österlund, 2004). However, Modigliani and Miller’s famous theorem (M&M theorem) has made a great contribution to the field of finance as several authors have further developed their original theory. This has resulted in a formula showing why the proportion of debt financing is positively correlated with the return on equity (Pike & Neale, 1993). Today the formula is better known as the leveraging effect (Johansson, Johansson, Marton & Pautsch, 2004).

A firm that chooses to issue some debt e.g. take a bank loan, will increase its return on equity since the cost of lending money from a bank is cheaper than “lending” money from the shareholders (Pike & Neale, 1993). It is cheaper due to the fact that long-term debt normally has lower administrative/issuing costs, debt interests are normally tax deductible and the pre-tax interest rate on debt is invariably lower than the required return of shareholders since debt usually demands assets as securities (Pike & Neale, 1993). This implies that an increasing proportion of debt financing, to a lower interest rate than the required return of shareholders, will increase the return on equity and thereby the wealth of the shareholders.

An alternative way of looking at this phenomenon is to consider the weighted average cost of capital (WACC). In connection to the modified version of M&M proposition with corporate tax, one can derive that an increased proportion of debt financing, to a lower interest rate than the required return of shareholders, will either reduce the cost of capital (see Figure 3.1) or increase the return to shareholders (Pike & Neale, 1993). In the latter situation, the cost of capital remains constant as the benefits of using cheaper debt is exactly balanced by the increase in the

![Figure 3.1 - WACC vs. D/E (Marks, Robbins, Fernandez & Funkhouser, 2005 p. 23)](image-url)
cost of equity. This leaves a net tax advantage with the conclusion that firms should use as much debt as possible (Chittendale, Hall & Hutchinson, 1996). However, the debt interest rate is only lower than the return on equity to a certain point since creditors demand premiums for the risk they take when lending money (Marks et al., 2005).

### 3.1.2 Information asymmetry

Information asymmetries are frequently debated in capital structure literature (e.g. Myers, 1984; Myers & Majulf, 1984; Hutchinson, 1995). Information asymmetry means that the people inside the organization possess more information than what investors do. This can lead to the firm’s equity being incorrectly priced by the market and thus a greater risk for the business owners (Myers & Majulf, 1984). The asymmetric information problem is greater between small firms and the banks than for large companies and their external providers of capital. Lenders will be unwilling to lend long-term loans to owner-managed businesses due to the risk of asset substitution and small businesses therefore have to rely on short-term loans instead (Chittendale et al., 1996). According to Hutchinson (1995) information asymmetry are present within owner-managed firms because family and friends will find difficulties in trying to understand the problems with the investments.

### 3.2 Pecking order theory

The pecking order theory is about what firm’s management prefer; a pecking order of alternative sources of finance that firm faces (Myers, 1984; Wramsby & Österlund, 2004): First, firms chose internal finance, i.e. using profits from previous years. Second, if there is no internal finance available, will firms chose to lend money from credit institutions such as banks. Third, only as a last option will firms issue new shares. Basically, the pecking order theory says that management favours internal financing to external financing (Wramsby & Österlund, 2004).

Myers (1984) discusses in his article the capital structure puzzle why this pecking order is used by numerous firms, because it clearly goes against shareholder’s interests in returns. In a managerial view it has been stated that “professional managers avoid relying on external finance because it would subject them to the discipline of the capital market” (Myers, 1984, p. 582). Another important issue is transaction costs; internal financing is cheaper than external funding since the later is associated with great costs (Wramsby & Österlund, 2004).

The pecking order theory tries to explain why most profitable firms use internal financing; the easy reason for this is that they do not need to make use of external funding. The other extreme, less profitable businesses do not possess enough internal capital and have to seek for external funding (Myers, 1984). Hutchinson (1995) points out that profit retention has an opportunity cost. The more business owners are willing to risk, the higher the possible profits.

The pecking order approach is relevant for small businesses since costs associated with external financing are higher for small firms than for large businesses (Chittendale et al., 1996). Sogrob-Mira (2005) argues that the pecking order theory could easily be applied on SMEs since managers usually are at the same time shareholders and they do not want to lose control of their businesses. SMEs will prefer internal financing to external resources since it will allow them to continue to be independent. If SMEs need external funds, they will choose an alternative that do not diminish the managers/owners operability. Further, Sogrob-Mira (2005) concludes in his article How SME uniqueness affects capital structure that
companies use the pecking order theory are successful, since more profitable SMEs tend to use less debt when financing their businesses. Chittenden et al. (1996) argue that one of the reasons why small firms avoid the use of external funding is that it would lead to less control by the present owner/managers.

3.3 SMEs strategic capital structure decision

It is argued that capital structure is not just a financial question but also a strategically issue that the company faces. Barton and Matthews (1989) presented in their article "Small firm financing: implications from a strategic management perspective" a concept suggesting that corporate strategy plays an important role that might be more influential than a traditional finance perspective in explaining small firms financing decisions. Capital structure is not just a financial issue of trying to find the optimal level of debts and taxes (Modigliani & Miller, 1958) or a question that firms prefer internal financing due to shareholder's interest and transaction costs (Myers, 1984). Barton and Matthew (1989) instead argue that the most important factors affecting the capital structure is influenced by the company’s vision, risk aversion and internal constraints.

Barton and Matthews (1989) present five different propositions in their article on what affects SMEs financing decisions (pp. 3-5):

“Top management’s risk-taking propensity affects the firm’s capital structure”. The amount of debt that top managers feel is manageable affects the overall debt ratio of the firm since the owners most often have to personally guarantee the loan in order to acquire one (Barton & Matthews, 1989). McMenamin (1999) argue that owners attitude towards risk seem to influence the choice of capital structure. As debt increases the risk inflate, hence, a risk-averse organization will probably use debt to a less extent than a risk-willing organization. This proposal about top management’s risk awareness affecting capital structure is supported by Levin and Travis (1987) (cited in Barton & Matthews, 1989) who claim that SMEs’ equity level plays impact of their owners’ attitudes towards risk. In case SMEs need external financing they will prefer short-term debt before long-term debt since the latter reduce management’s operability and short-term debt do not include restrictive covenants (Sogrob-Mira, 2005).

“Top management’s goals for the firms will aﬀect the firm’s capital structure”. Not all managers strive for profit maximizing; growth can sometimes be considered more important (Barton & Matthews, 1989). This idea is strengthened by Levin and Travis (1987) (in Barton & Mathews, 1989) who argue that SMEs not follow the same patterns and policies as larger companies do. In fact, SMEs choose debt on personal and managerial preference than what larger firms are able to do. This is supported by Romano et al. (2001) who argue that capital structure processes should be analyzed by the impact of owner/manager’s personal reference and values of the firms’ characteristics.

“Top management would prefer to finance firm needs from internally generated funds rather than from external creditors or even new stockholder”. Top manangers have a preference to remain as free as possible and do not want to become restricted by debt agreements (Barton & Matthews, 1989). This idea goes in line with the pecking order theory (Myers, 1984). Hutchinson (1995) argues that this could lead to an under-investment problem where high-quality, low-risk project are rejected to be undertaken due to lack of equity and the unwillingness to external financing.
“The risk propensity of top management and financial characteristics of the firm affect the amount of debt lenders are willing to offer and on what terms”. Credit institution’s willingness to lend money to different organizations is risky from their point of view; they always estimate how well they consider the organization’s ability to pay back when providing a bank loan (McMenamin, 1999).

“Financial characteristics moderate the ability of top management to select a capital structure for the firm”. The financial risk and flexibility of a firm tend to affect what the management’s willingness change their capital structure (Barton & Matthews, 1989). The main incentive to increase the level of debt in a firm’s capital structure is when the interest costs are tax deductible (Hutchinson, 1995).

Matthews et al. (1994) argue similar to Barton and Matthews (1989) that capital structure is an issue of strategic choices and beyond what they refer to as the finance paradigm. Information asymmetry theories have contributed to our understanding of the capital structure issue but they do not address the details of analyzing the managerial choice of the capital structure decision. In order to understand privately held businesses’ capital structure we need to apply a strategic perspective. Business leaders in small privately held business are less likely to be challenged by others and their personal characteristics will play a more dominant role in the decision making phases (Matthews et al., 1994).

Beliefs about debt differs from attitudes towards debt in the way that a manager can dislike debt as a form of financing, but still possess the knowledge that debt might sometimes be needed as a part of the companies’ capital structure (Matthews et al., 1994).

Figure 3.2 - Capital structure decision in privately held firms using strategic choice and theory of reasoned action (Matthews et al., 1994, p. 358)
3.4 Risk

Barton and Matthews (1989) argue that the amount of risk a company could bear is one of the greatest explanations to how capital is structured. In general, when discussing risk there are two different forms; operational risk and financial risk. Operational risk is the uncertainty concerning decisions: on the market, prices, personal, organisation, business cycle and similar. Financial risk is the risk a company faces when choosing the amount of debt and equity; the capital structure of the firm (Delmar & Davidsson, 1993).

Cressy and Olofsson (1996) made a quantitative study were they measured financial conditions for SMEs in Sweden. They could see a tendency showing that larger firms are more diversified and exhibit a lower degree of financial risk. The debt proportion ratio tends to diminish with business size. Hence, financial risk declines with size.

Delmar and Davidsson (1993) argue that there are four major factors affecting what level of risk a business owner is willing to take:

i) Competence

The term refers to general knowledge within the field of business administration and the ability to understand the importance of analysing information about the firms’ economical status. How aware are they about the risk they are taking?

ii) Social skills

Social skills are often the same as a good contact net. Contacts gain access to external information and competence which can make the decisions easier.

iii) Motivation

The willingness to expand the business and need for achievement affects the amount of risk they are prepared to take.

iv) Self realization

Self realization about how well business owners realize how much risk they can bear and that they sometimes need external advice.

3.5 Characteristics affecting capital structure

There are several other factors influencing companies’ choice of capital structure. Petersen and Rajan (1994) argue that there are more relevant and suitable measures to use when analyzing the capital structure of an organization than those presented by Miller and Modigliani (1958). Business size, age and cash flow is according to Petersen and Rajan (1994) important factors.

- The larger the company is, normally the debts are too.
- The age of a company affects the capital structure. As the company matures debt decreases. Young companies are more or less forced to finance through bank loans while older have had possibilities to build capital from previous revenues.
• A company with a solid cash flow has fewer problems to pay interest and to amortize than a company with a volatile cash flow, due to these reasons they can handle a larger amount of debts.

Myers and Majluf (1984) refer to the rational holding of financial slack (which they define as cash, liquid assets and unused borrowing power) in order for the firms to be able to act fast and not to have to issue stocks on short notice to pursue a valuable investment opportunity. It is usually superior to issue safe securities than risky ones. “Firms should go to bond markets for external capital but raise equity be retention if possible, i.e. external financing using debt is better than financing by equity” (Myers & Majulf, 1984, p. 219).

Hutchinson (1995) presented an idea why small firms may not choose to increase its debt in capital in line with the capital structure that would maximize the value of the firm. He suggested that small firms move towards a more conservative look upon debt; an equity-ratio which decreases the effect from financial risk and, as a result, decreases the cost of equity. Hutchinson (1995) explains the phenomenon of owner/managers aversion to new equity capital to purely be due to the desire to remain independent and in total control over the business.

Chaganti, DeCarolis & Deeds (1995) made a quantitative study of 14 different strategic factors which they believed affected the capital structure decision and concluded that the most important variable is owner’s goal-satisfaction of economic needs.

3.5.1 Special characteristics of family businesses

Businesses run by families are dissimilar to non-family businesses in many aspects. The aim for family businesses is stability compared to the non-family firms’ aim of maximizing future stock price. The goal for the family businesses is to care for the assets and the reputation of the family distinguished from non-family businesses’ goals of meeting investors’ expectations. The most vital stakeholders for family business are employees and customers (Ward, 2005). Family businesses account for a large proportion of all companies in Sweden, the exact number of depends on how different researchers define the term family business (Gandemo, 2000).

Romano et al. (2001) developed a model of what affects capital structure decision making process in family business SMEs. Following text are explanations to the model presented in “Capital structure decision making: a model for family business”:

**Size** – The M&M theorem implied that the size of a firm does not affect the capital structure of the same. Hutchinson (1995) claimed the opposite, that there is a link between firm size and capital structure.

**Industry** – As discussed in the background of this thesis Harris and Raviv (1991) stated that firms within the same industry are more alike than companies in different industries. Romano et al. (2001) presents several observations confirming Harris and Raviv’s findings.

**Age of the firm** – Developing firms tend to rely on equity because of difficulties in getting a bank loan, whereas mature businesses tend to raise debts since they are able to control assets (Romano et al. 2001; Peterson & Rajan 1994). On the other hand, Hutchinson (1995) argue the opposite; most owner-managed firms need to finance an expansion through bank loans since they do not posses enough equity in the early stages of development.
Family control – Entrepreneurs that have a strong will to stay independent tend to use retained profits and equity and as long as it is possible not to involve other participants. When owner/managers is considered risk averse and have a strong will to stay in full control of their business, the owner “may actively place limits on the use and growth of equity, not only in the small firm’s early, but in its later phases” (Hutchinson, 1995 p. 238).

Age of the CEO – Older entrepreneurs are less willing to involve outside participants and use less debt than younger entrepreneurs (Ward, 2004).

Business planning – Banks lay emphasis on the importance of a written business plan which they prove to be positively related to debt (Harvey & Evans, 1995 in Romano et al., 2001).

Business objectives – Smaller firms may use less long term-debt than large companies but also more short-term debt (Sogrob-Mira, 2005). Entrepreneurs who are stubborn about their businesses are more likely to use internal financing rather than debt financing (Chaganti et al., 1995).

Plans to achieve growth – For many business owners growth is not the purpose (Curran, 1986 in Romano et al., 2001), but those who run their businesses with the aim of growing it are more likely to use a larger percentage of debt financing (Van der Wijst & Thunik, 1993).

Family business owners typically reinvest most of their funds during the early stages of the business life cycle. As the firms grow, so do the financial demands of the family owning the businesses and that is why owners tend to use company profits rather than adding own capital for further growth (Ward, 2004). According to Sonnenfeld and Spencer (1989) family businesses have low debt proportions levels because in bad times, bank loans increases the risk of bankruptcy. Further, this would hurt the family’s reputation and is therefore avoided.
4 Empirical Background

This chapter introduces the road freight sector and some important background information that help the reader better understand the empirical findings in the next chapter.

4.1 The transport sector

Transport has an important function in the economic activity; it contributes to a share of the national output. Increased demand and growth in the transport industry follows the economic growth in the economy as a whole (Quinet & Vickerman, 2004). The total economy and society depends heavily on efficient road transports, e.g. 44% of the goods transported in the EU are moved by trucks (European Commission, 2007). The transport industry accounted for 20% of Sweden’s total industry production in 2002 which made it the largest branch in the country looking at production value. The production value increased 34% between 1998 and 2002 while employment within the sector only increased with 7% for the same period of time (Statistiska Centralbyrån, 2002).

The transport sector is similar to the service industry, but transport organizations in comparison to many pure service companies require large investments in vehicles in order to build a well functioning business (Lumsden, 1995). The transport industry can be divided into several subcategories: railways, pipelines, road passenger, road freight, inland waterway, air, travel agencies and tour operators as well as other auxiliary activities (Quinet & Vickerman, 2004). This thesis only focuses on road freight. In the European Union road transport (freight and passenger) accounts for 1.6% of the GDP and provide jobs to 4.5 million people (European Commission, 2007). In 1999, 30,631 transport enterprises were registered in Sweden where road freight comprised just over 50% (Quinet & Vickerman, 2004).

4.1.1 VAT regulations for light vehicles

According to existing Swedish laws it is not allowed to deduct the incoming value added tax (VAT) when acquiring certain vehicles. This applies for example on small trucks weighing less than 3,500 kilograms. The only possibility for a full deduction of the VAT is when the vehicle has an air duct between the driver’s cabin and the cargo room. This means that the spaces are two different entities, separated by two walls with air in between. The reason behind this regulation is that the regulator wants to eliminate the possibility that tax-deductible vehicles are used for private usage. Still, it is allowed to lease these vehicles and deduct the VAT from the leasing cost (Riksdagen, 2006).

4.1.2 Credit rating

Credit rating refers to a company’s ability to pay its short-term and long-term debts. Financial institutions, e.g. Dun & Bradstreet, Standard & Poor’s and Moody’s, rate companies. To get the highest rating companies must be well established and have notably better key ratios than the industry average and generally have no payment remarks on the company or its key persons (Dun & Bradstreet Sverige, 2007).
4.2 Special terms

The road freight industry will throughout this thesis refer to companies in business of road transportation of items from an origin to a destination. This can be further divided into several sub categories such as:

Express delivery is services where the customer has certain needs for quick transportation of a single or a few packages. This can be within cities, between cities but also world wide. UPS, DHL and Box Delivery are some main actors offering this service.

Haulage contractors are companies that have vehicles and drivers undertaking transporting orders for forwarding agent companies. The Swedish term for this is “Åkeri” which often appears in the companies names.

Forwarding agents are administrative office services where some staff keep track on all vehicles, routes and orders, ensuring that the transportation of the item(s) will run as smoothly as possible. A feature for this category is that it normally hires express delivery firms or haulage contractors to carry out the transportation. The Swedish term for this is “Spedition”.

4.3 Calculations

The quantitative part of this study is based upon the latest annual reports available for the different companies. This is the annual report for the fiscal year of 2005 for four of the companies. Expresstransport and Hit&Dit however, have a fiscal year apart from the calendar year and information from their fiscal year 2005/2006 is used.

4.3.1 The capital structure diagrams

According to Buckley, Ross, Westerfield and Jaffe (1998) the capital structure consists of three parts; Short-Term Debt, Long-Term Debt and Equity. We have calculated the different parts of the capital structure diagrams in chapter 5 by the formulas, used by UC AB, Sweden’s largest and leading business and credit information agency. UC AB is owned by the major Swedish banks (UC AB, 2007). Below is how the proportional weight of the company’s total capital is calculated.

\[
\text{ShortTermDebt\%} = \frac{\text{ShortTermDebt}}{\text{Debt + Equity}}
\]

Formula 4.1 - Short-term debt

Where short-term debt is current liabilities, expiring within one year, including: accounts payables, current tax-liabilities as well as accrued expenses and deferred revenues (Finnerty & Emery, 2001; UC AB, 2005).

\[
\text{LongTermDebt\%} = \frac{\text{LongTermDebt} + 0.28\times \text{Untaxed Reserves}}{\text{Debt + Equity}}
\]

Formula 4.2 - Long-term debt

Long-term debt is the intermediate and long-term liabilities, expiring after one year, such as bank loans added with 28 % of the untaxed reserves which will be taxed once they are used for investments (Finnerty & Emery, 2001; UC AB, 2005).
Empirical Background

\[ Equity\% = \frac{Equity + 0.72 \times Untaxed\ Reserves}{Debt + Equity} \]

Formula 4.3 - Equity

Equity is the total capital belonging to the owners such as; share capital and statutory reserve (restricted equity) as well as net profit added with 72% of the untaxed reserves (non-restricted equity) (Finnerty & Emery, 2001; UC AB, 2005).

4.3.2 Ratio formulas

In chapter 5 we will further compare data of the companies from their annual reports with the industry median from 2005 (see Appendix 3). The different formulas UC AB uses when calculating the raw data for the industry median are stated below.

The equity proportion is calculated according to the same formula as used in the capital structure diagrams (see Formula 4.3)

\[ r_A = \frac{Earnings\ Before\ Tax + Financial\ Expenses}{Asset} \]

Formula 4.4 - Return on asset

The return on asset \( r_A \) indicates the companies’ ability to generate earnings from its capital employed (Brealey, Myers & Marcus, 2004; UC AB, 2005).

\[ r_D = \frac{Financial\ Expenses}{Debt + 0.28 \times Untaxed\ Reserves} \]

Formula 4.5 - Debt interest rate

The debt interest rate (the subtracted part of the formula) is a ratio showing the average borrowing cost the company faces. It does not indicate the interest rate the companies pay for their bank loans/long-term debt but refers to the average interest rate of all debt, both long-term and short-term debt (UC AB, 2005).

\[ Risk\ Buffer = r_A - r_D \]

Formula 4.6 - Risk buffer

This ratio shows the amount of risk the companies take. In other words, how much of the generated earnings that is left after paying the average interest rate in debts. (UC AB, 2005).

4.3.3 Merging the companies

Some of the companies in this study carry out its business in one single company whereas others are a part of a group. That is, a parent company owning one or a few sub companies. We have merged the companies which are part of a group in order to get a more accurate picture. This is simply done by adding the different companies’ assets, turnover and number of employees respectively. Calculations are done according to the formulas presented above.
5 Empirical Findings

This chapter outlines the findings for the interviewed companies from the conducted interviews followed by financial ratios comparing the companies to the industry and finally an interview with a credit officer is presented.

5.1 Overview of the companies

Table 5.1 - Overview of the companies

<table>
<thead>
<tr>
<th></th>
<th>Express Delivery</th>
<th>Haulage Contractor</th>
<th>Forwarding Agent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claesson Transport</td>
<td>■</td>
<td>■</td>
<td>■</td>
</tr>
<tr>
<td>June Express</td>
<td>■</td>
<td>■</td>
<td>■</td>
</tr>
<tr>
<td>Expresstransport</td>
<td>■</td>
<td>■</td>
<td>■</td>
</tr>
<tr>
<td>Hit&amp;Dit</td>
<td>■</td>
<td>■</td>
<td>■</td>
</tr>
<tr>
<td>Alfa</td>
<td>■</td>
<td>■</td>
<td>■</td>
</tr>
<tr>
<td>Transflex</td>
<td>■</td>
<td>■</td>
<td>■</td>
</tr>
</tbody>
</table>

The company names in the table above represent the whole group if the company consists of more than one company. The columns, defined in section 4.2, refer to the different kinds of services the company/group offers. Claesson Transport and June Express offers all three services while Hit&Dit and Expresstransport offers express deliveries and operates as haulage contractors. Alfa and Transflex offer only forwarding agents services.

It is important to mention that all of the studied companies have built, bought or expanded their facilities during 2006 and 2007; none of these investments are included in the annual reports available. This implies that the graphs and figures vary from today’s levels. The figures in this thesis are gathered from either the fiscal year of 2005 or from 2005/2006.

5.2 Claesson Transport

Claesson Transport is a family business founded in Sandhem. Transports are mainly done within Scandinavia and mostly to Norway. We have interviewed Göte Claesson who is founder, owner and CEO and he was born in the early 1940s. Göte Claesson had previous experience from the industry as a truck driver when he acquired the business. Through the years the company has grown steadily and it is now a group of three different companies. (G. Claesson, personal communication, 2007-04-12). A separate company owns the property, and the forwarding agent rents these facilities from the parent company. The latter is then owner of the sub company, a haulage contractor that also offers express delivery, hired to carry out the group’s transports and deliveries (G Claessons Fastighets AB 2006; Göte Claessons Transport Aktiebolag 2006).

<table>
<thead>
<tr>
<th>Turn over:</th>
<th>SEK 60 M (2005-12-31)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees:</td>
<td>35</td>
</tr>
<tr>
<td>Founded:</td>
<td>1965</td>
</tr>
<tr>
<td>Ownership:</td>
<td>1 owner</td>
</tr>
</tbody>
</table>

Figure 5.1 - Short facts of Claesson Transport
The diagram to the right shows that Claesson Transport has proportionally much long-term debt, even more than what it has short-term debt and equity together. Claesson Transport does not rent nor lease any of their trucks, all of them are owned. Previously Göte Claesson took bank loans or loans directly from Volvo or Scania to finance their trucks. Today, he has increased their line of credit in order to finance their trucks by short-term debt instead.

It is lower interest rate on the loan for properties compared to loans on vehicles and that is the major reason to why they have focused on amortizing the loans on the trucks and instead increase the loans on the premises. Another reason is of course that trucks decrease in value over time whereas the premises most certainly increase in value (G. Claesson, personal communication, 2007-04-12).

The owner prefers internal financing and as a second alternative bank loans. He has a long-term view of growth. Göte Claesson declares that he has no desire to expand the business as rapid as possible but instead he prefers the company to grow slowly in order to remain the control of the business which he means has to do with his risk awareness. He refers to the economical crisis in Norway in 1989 and the problems Sweden faced in 1991 and believes that the companies would not have been able to survive these fluctuations in the economy as good as they did if they would have been growing faster then what they have been doing. The crises have made Göte Claesson more careful towards the industry today. Göte Claesson makes the decisions of how to structure the capital solitary (G. Claesson, personal communication, 2007-04-12).

When the company recently invested in new properties Göte Claesson applied for a loan from the bank for the entire amount. However, he had to invest some internal capital later on as his calculations of the building costs were a bit optimistic. The dream is to be totally independent of the bank and Claesson Transport’s policy is to own all assets, and not to lease or rent anything. As far as it is possible he tries to finance without external financing from the bank (G. Claesson, personal communication, 2007-04-12).

UC AB awarded Claesson Transport with the highest possible credit rating which the CEO regards as a bonus for performing good business but nothing he actively have in mind when deciding the capital structure (G. Claesson, personal communication, 2007-04-12).

5.3 June Express

We interviewed Sven Lundahl, founder, owner and executive manager (June Express does not have a CEO). Sven Lundahl was born in the late 1940s. June Express is a family business that Sven Lundahl bought 30 years ago, by taking a bank loan. Sven Lundahl had experience from the industry when he acquired the business from other companies in the same sector. Today, Sven Lundahl is not the only owner since his children now has started the process of succeeding him and taking over the business. The board of directors con-
Empirical Findings

consists of Sven Lundahl, his three children and his former CFO, the five of them make the decision of capital structure together (S. Lundahl, personal communication, 2007-04-24).

June Express consists of a parent company functioning as a forwarding agent which owns three sub companies which are haulage contractors that also offer express delivery (Finnvedens Flytt AB 2006; June Express Aktiebolag 2006; June Expressbud AB 2006; Nässjö Expressbyrå Aktiebolag 2006).

The diagram to the right shows June Express’s capital structure, where equity accounts for approximately a third of total capital and short-term debt is almost twice as large as long-term debts.

Sven Lundahl desires a low debt ratio and hence does not regard it to be optimal to finance everything with equity. Sven Lundahl cannot see any disadvantages with the firm’s current capital structure. June Express owns all trucks and vehicles except the ones weighing less than 3500 kg; this is due to VAT regulations (S. Lundahl, personal communication, 2007-04-24).

June Express does not have any specific policy about capital structure, since Sven Lundahl has been the only owner for a long time; he has made all the decisions. He tries to have a reversed style and believe that all purchases should be well motivated. He even considers himself in his way of running the business to be a bit parsimonious (S. Lundahl, personal communication, 2007-04-24).

“It is a certain way of living always having liquid assets to be able to do good business with” (S. Lundahl, personal communication, 2007-04-24, translated into English).

Sven Lundahl claims that he is risk aware in the sense that he always makes two calculations or cost estimations; best and worst case scenario. He claims that a low amount of debts and a high liquidity holds over time (S. Lundahl, personal communication, 2007-04-24).

Sven Lundahl bought the property in 1982 and expanded the terminal in 2004 and will start to expand it even more by a new building in end of April 2007. They will finance this new building by debt through a bank loan (S. Lundahl, personal communication, 2007-04-24).

The company’s managers prefer to finance investments with a combination of re-invested profits and bank loans. Internal financing is preferred but bank loans are not avoided. A low rate of debt is solid to have. Except from bank loans and previous profits June Express also uses the financial organizations of the truck manufacturing companies since he regards

| Turn over: SEK 50 M (2005-12-31) |
| Employees: 49 |
| Founded: 1978 |
| Ownership: 4 owners (family) |

Figure 5.3 - Short facts of June Express

![Capital Structure](image)

Figure 5.4 - June Express’s capital structure
Empirical Findings

them to have fairly good interest rate and conditions (S. Lundahl, personal communication, 2007-04-24).

When June Express is going to undertake a bank loan the managers apply for a loan for how much they believe they will need. Sven Lundahl believes that they have a good contact with the bank, since the bank has said that they happily provide them with more loans when they need it (S. Lundahl, personal communication, 2007-04-24).

June Express used to receive the highest rating by Dun&Bradsstreet but lost it a few years ago due to low liquidity. Sven Lundahl believes that a good rating is important in the contact with suppliers. June Express does not actively strive to score the highest credit rating possible, but regards it more important not to score the lowest (S. Lundahl, personal communication, 2007-04-24).

5.4 Expresstransport

Expresstransport is a family owned transporting company based and founded in Huskvarna by the brothers Thomas and Magnus Bäverholt. They make all decisions together. We interviewed Thomas Bäverholt who is founder, owner and manager (Expresstransport does not have a CEO). Thomas Bäverholt was born in the late 1950s and his brother in the early 1960s (T. Bäverholt, personal communication, 2007-04-12). Expresstransport consists of two companies; one owning the property which is rented by the haulage contractor company that also offers express delivery (Expresstransport Thomas & Magnus Bäverholt AB, 2006; T. Bäverholt, personal communication, 2007-04-12).

The diagram shows that Expresstransport has proportionally more long-term debt than short-term debt. Equity and short-term debt accounts for approximately one third each.

The two brothers prefer to finance the company’s activities with internal financing as far as possible. However, Thomas Bäverholt regards Expresstransport not to face any problems being granted bank loans and to have a good contact with the bank. The last few years, bank loans have been used only to finance a few cars and the office facility. The strategic reason for financing a couple of cars with debt was to use their equity to partly finance the office facility. The current office facility was to 90 % financed with bank loans and 10 % equity. They aim to amortize this loan as quick as possible. The loan was taken three years ago and so far 50 % is paid off (T. Bäverholt, personal communication, 2007-04-12).
Thomas Bäverholt explains that they always have had a restricted behaviour towards debt and that it has to do with their risk aversion. He claims that you should take in consideration that business can decrease any time and when it does, it is not good to have large amount of loans. Therefore, he and his brother prefer to reinvest previous earnings above bank loans. They have never put money into the company themselves (T. Bäverholt, personal communication, 2007-04-12).

The tax advantages from having bank loans are not being considered. Thomas Bäverholt is not worried that the interest rate will increase drastically; the gas price is a bigger problem. Apart from the bank loan, Expresstransport also have a line of credit that normally only is being used a few days per month, in the gap between paying suppliers and receiving payments from customers (T. Bäverholt, personal communication, 2007-04-12).

Leasing is used to finance cars weighing less than 3 500 kg; this is due to tax advantages, (the outgoing VAT). When financing larger vehicles leasing is not an option (T. Bäverholt, personal communication, 2007-04-12).

None of the owners have a desire for the company to grow bigger. At several points in the history they have felt that the company was big enough. Even though, they have let the company grow and expand during the past couple of years (T. Bäverholt, personal communication, 2007-04-12).

A disadvantage they can see with their current capital structure is that they are not able to pay themselves as much salary as they maybe would have if they financed by loans to a greater extent (T. Bäverholt, personal communication, 2007-04-12).

According to Thomas Bäverholt, the company has the highest rating from Dun&Bradstreet which they considered cheerful to receive, but credit rating is nothing that they actively think about when deciding upon their capital structure. Customers do not comment on it while the gas supplier, which is an important creditor, considers it carefully. (T. Bäverholt, personal communication, 2007-04-12).

5.5 Hit&Dit

Hit&Dit is a small family business located in Habo, owned by Catrin Jalkander and Stig Jalkander where the latter is a passive owner (J. Svensson, personal communication, 2007-04-19). It is a single company which is a haulage contractor that also offers express deliveries (Hit&Dit Alltjänst Catrin Jalkander AB, 2006). We were recommended by the founder and CEO, Catrin Jalkander, to interview the CFO, Jörgen Svensson.

<table>
<thead>
<tr>
<th>Turn over:</th>
<th>SEK 15 M</th>
<th>(2006-06-30)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees:</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Founded:</td>
<td>1999</td>
<td></td>
</tr>
<tr>
<td>Ownership:</td>
<td>2 owners (family)</td>
<td></td>
</tr>
</tbody>
</table>

Catrin Jalkander had no previous experience of how to run a company when she bought the company, but she had insight in the industry since she has been working as a driver. Since Catrin Jalkander acquired the company it has grown rapidly and the number of cars has increased drastically. Deliveries are within Sweden and some parts of Europe. Haulage contracting is approximately 70% of their business while express deliveries stand for the remaining 30%. Catrin Jalkander and Jörgen Svensson make the decision of capital struc-
Empirical Findings

ture together and were born in the mid 1960s and late 1950s respectively (J. Svensson, personal communication, 2007-04-19).

The diagram shows Hit&Dit’s capital structure where equity, short-term debt and long-term debt account for approximately one third each.

The company have no written policy about their capital structure but they prefer to finance investments through bank loans, in second hand with reinvested earnings and last, with capital from owners (J. Svensson, personal communication, 2007-04-19).

Leasing is used when financing cars weighing less than 3 500 kg; due to the tax advantages. The larger trucks are all financed by bank loans. The property that was acquired a few months ago is also financed to 100 % trough debt. Jörgen Svensson claims that the reason for using bank loans to this extent is because they do not want to drain their liquid assets. The company also has line of credit that never has been used. It is just there for safety reasons (J. Svensson, personal communication, 2007-04-19).

Jörgen Svensson explains that his and Catrin Jalkander’s view of risk and growth somewhat differs. While she thinks they can bear a higher risk and grow faster he sometimes feels that he has to hold her back (J. Svensson, personal communication, 2007-04-19).

Jörgen Svensson does not see any disadvantages with their current capital structure. Risk and a possible increasing interest rate are not being considered when deciding upon the capital structure (J. Svensson, personal communication, 2007-04-19).

Hit&Dit has the highest possible credit rating. Jörgen Svensson and Catrin Jalkander have just started to compare the company to industry indexes, and so far it has not affected their capital structure (J. Svensson, personal communication, 2007-04-19).

5.6 Alfa

Alfa Quality Moving (Alfa) is a company specializing in international moves; they are represented in Gothenburg, Malmö, Stockholm and Jönköping. It was founded by four former colleagues at another moving company who saw the possibility of starting their own business. Alfa has local representatives in Sweden, Norway, Finland and Denmark that helps mainly companies to move their personal belongings for their over seas stationing. We interviewed Christer Bosmyr who is founder, owner and CEO of the company. Christer Bosmyr was born in the late 1960s. (C. Bosmyr, personal communication, 2007-04-12). Alfa consists of one company owning the property and another functioning as a forward-
Empirical Findings

Alfa’s capital structure is shown in the diagram to the right. Alfa does not have any long-term debt in form of a bank loan or similar, the 5% shown in the graph are due to the 28% of the untaxed reserves. Alfa has a high proportion of short-term debt which accounts for just over two thirds of their total capital structure.

Alfa finance most of their business through short-term liabilities. This is due to the fact that Alfa functions as a forwarding agent selling services that are hired from a third party. The company has no long-term loans but have a high line of credit that is used to a greater extend at certain times of the year since the business faces heavily seasonal fluctuations. The decision of capital structure is made at the board level (C. Bosmyr, personal communication, 2007-04-12).

At a point in time, ALMI-företagspartner served as a lender to the company financing an investment, which Christer Bosmyr believed turned out to be an expensive source of capital. Alfa borrowed money from the bank several times during the first years and are thankful for them and the very good relation they have had through out the entire company history. The bank has never refused to lend any money to Alfa but there have been times where different amounts of persuasion have been needed, which lead to slightly higher interest rates (C. Bosmyr, personal communication, 2007-04-12).

The current capital structure is not based on any written policy but there is a philosophy, based on the board members knowledge, that internal capital should be used as a primary source of finance for investments. Furthermore, Alfa would prefer to use bank loans before of asking the shareholders to add own capital and only as a last option ALMI företagspartner would be considered. In addition, C. Bosmyr claims that “It would be ideally if we did not need to borrow any money at all” (personal communication, 2007-04-12, translated into English).

The operational part of the group barely has any bank loans whereas the property company has relative much borrowed capital. According to Christer Bosmyr borrowing for the operations can be very risky but property management is less risky and especially in Alfa’s case where it is divided into different companies (C. Bosmyr, personal communication, 2007-04-12).

Christer Bosmyr argues that from the company’s perspective it might have been preferred to use a greater amount of debt since that capital should be considered cheaper. The owners, however, do not consider their invested capital as a short-term investment where a high dividend pay-out is a main target. Instead, aligned with their strategic goals of growing slow and steady, with a long-term view and careful investments, the board members find the present capital structure suitable. Possibly Alfa is too careful and ought to undertake more investments than what they do considering the development they have had (C. Bosmyr, personal communication, 2007-04-12).
The company has the highest credit rating even though this never has been a goal and no actions have been taken to reach this rating. The bank has served as an active part during the building of the company and the amount of borrowings is a result from a dialogue between them (C. Bosmyr, personal communication, 2007-04-12).

5.7 Transflex

Transflex is a forwarding agent with road transports in the Nordic countries and Europe. 90% of all transports are made abroad. The founders of Transflex worked until 1998 for Schenker Transport AB when they decided to start their own business. Today, the group consists of five independent companies in five Swedish cities. This study only focuses on the Jönköping companies. Transflex does not have any employed drivers; instead, they hire all personnel through outside haulage contractors. We interviewed Michael Grennard who is founder, owner and CEO. Michael Grennard was born in the early 1950s (M. Grennard, personal communication, 2007-04-11).

Transflex in Jönköping consists of a parent company owning a property that it rents to the forwarding agent (TF i Jönköping AB, 2006; Transflex i Jönköping AB, 2006). The founders were able to start the business without taking an initial bank loan. This was possible since they managed to get their customers to pay them before they had to pay their suppliers (M. Grennard, personal communication, 2007-04-11).

The diagram to the right shows that Transflex has approximately half of their capital in equity and half of its capital as short-term debt. The long-term debt only accounts for 5% which is solely due to the taxable amount of the untaxed reserves.

Transflex has no well defined, written or stated policy for their capital structure. There are three owners who also function as board members and managers. The three of them make the decision of how to structure the capital together. Transflex have never considered tax-relieves as an advantage of bank loans, but rather the simplicity of handling financing without another actor. They have never felt that they have had any problems to receive a bank loan due to their high level liquidity and profitability. The operational part of Transflex does not have any bank loans at all, simply because they see no need for it. Their policy is to finance the business as far as possible without any bank loans (M. Grennard, personal communication, 2007-04-11).

“The less dependent you are of the bank - the better” (M. Grennard, personal communication, 2007-04-11, translated into English).
Empirical Findings

Even though Transflex prefers internal financing they are not actively avoiding borrowing money from banks. Last year they chose to undertake a bank loan to invest in new properties. Since the land lots were about to be sold out, however, if they were able to, they would have preferred to use their own capital. They want to amortize these loans as soon as possible by large dividends from the operational company in order to, again, be independent of the banks (M. Grennard, personal communication, 2007-04-11).

According to Michael Grennard, the most important advantage with their current capital structure is that it gives them an ability to act immediately without having e.g. the banks approval before making a decision. On the other hand, he has never felt that they have faced any drawbacks with their current capital structure. Transflex have a yearning to grow slow and steady and has what Michael Grennard refers to as an "industrial way of thinking" and compares to the information technology sector where everything has to be done immediately. In the short-term, of course, he claims that there exist economical advantages if one chose to issue debt, but it the long run he believes that their way of thinking is superior for this industry (M. Grennard, personal communication, 2007-04-11).

When Transflex borrow money it is the need that decides the amount borrowed, risk is not a factor affecting this decision. Michael Grennard has the point of view that a service company does not need to take bank loans since they can rent everything (M. Grennard, personal communication, 2007-04-11).

Transflex prefers to use internal financing and as a second alternative to use debt. Leasing is not something that Transflex uses and clearly prefers to invest money and buy forklift trucks and other equipment needed (M. Grennard, personal communication, 2007-04-11).

UC AB awarded them with the highest rating but the CEO argues that this high credit rating is of course pleasurable to receive but nothing that the company takes certain actions to receive. Their capital structure is based upon other parameters than external credit institutions (M. Grennard, personal communication).
5.8 Financial ratios

In the figures below, the data is collected from the companies’ annual reports and further calculated by the formulas in section 4.3.2. To facilitate the comparison, the mean for the studied companies (purple line) and UCs industry median (yellow line) for companies in the road freight industry with at least 20 employees are presented in the figures below (see data table in Appendix 3). Here, it must be said that Hit&Dit and Transflex do not have 20 employees but we choose to use this index since we considered it to be the most suitable category.

![Debt Proportions](image)

Figure 5.13 - Debt proportion

The companies in this study have notably lower debt, both short-term and long-term debt proportions than the industry median from the same year. Inline with the expressed dislike towards debt from all companies except Hit&Dit, these six companies have less debt proportions than similar companies in Sweden.

![Return on Asset](image)

Figure 5.14 - Return on asset

Five of the studied companies are more efficient and profitable than the industry median since they are able to generate a better return in proportion to the capital employed. From a capital structure perspective, this is an important financial ratio since it reveals how much money that is generated by the business.
Empirical Findings

Figure 5.15 - Risk buffer

This figure illustrates the companies’ buffer, or margin, for how much debt a company can bear. If a company would have a low value in this ratio, it would imply that the company barely could meet the cost of debt with the returns generated by the firm. A high value implies that the company could handle more debt.

5.9 Credit officer

Hans Guldstrand, credit officer at SEB, told us that the bank mainly consider three things before giving companies credit; whether they can trust the management/owner, if they understand the business idea and if the company has a solid cash-flow. The level of debt for a company is highly affected by the firm’s turnover. Companies with approximately less than SEK 50 M tend to only use a line of credit and possibly finance e.g. trucks that can work as a security with a loan. For these companies no certain capital structure is required. For larger companies on the other hand, which normally issue more debt, the bank has special credit agreements which require certain levels of e.g. profitability and equity. Hans Guldstrand also commented that the bank usually not affect the amount of debt a company issues. He also explains that companies owning their trucks probably have more debt issued than forwarding agent companies (H. Guldstrand, personal communication, 2007-05-15).

According to Hans Guldstrand there is a huge competition from the rest of Europe within the road freight industry. Road freight companies follow the business cycle and therefore he thinks they have to be more risk aware. They have to be able to survive a recession with existing number of cars; one can not sell them just because they face slower times. He also pointed out that the owners in this branch normally have many years of experience from e.g. the crisis during the 1990s which probably increases the risk aversion (H. Guldstrand, personal communication, 2007-05-15).

Further on we told him that the companies studied all performed better than industry median. He elaborated on this fact to be due to Jönköping’s location. Because of the good location trucks should be able to carry goods in both directions which in turn lead more incomes (H. Guldstrand, personal communication, 2007-05-15).
6 Analysis

The following chapter analyzes the capital structure decisions of the companies presented in chapter 5 based on the theories described in chapter 3.

6.1 Analysis of capital structure

The diagram above shows the capital structure data presented in the empirical findings from each company together in one graph clearly showing the differences between the six of them. The proportion of equity in the companies we have studied ranges from 26.6 % to 44.9 % with an average of 31.5 %. Compared to the industry index that has a median of 21.7 %, all of our observations have higher equity proportions (see Figure 5.11). Due to the limited number of observations in our study, we cannot claim that the road freight companies in the Jönköping area have a higher equity proportion than similar companies in Sweden. However, we clearly see that the median road freight company, according to the industry index, has a higher debt proportion than the studied firms.

6.2 Analysis of M&M theorem

None of the companies in our study seem to consider such an optimal capital structure presented by Modigliani and Miller (1958) but rather follow the theory presented by Barton and Matthews (1989) which suggest that SMEs do not seek to maximize the owners’ wealth.

Hit&Dit prefers long-term debt issued through bank loans before internal financing. The reason for this is not due to the facts presented by Modigliani and Miller (1958) but rather in order to have liquid assets available. Expresstransport, on the other hand, wants to be as independent from the bank as possible. However, Figure 6.1 makes it obvious that Expresstransport have a higher percentage of long-term debt than Hit&Dit. This is according to Matthews et al. (1994) the difference between beliefs about debt and attitudes towards debt as further analyzed in section 6.4.
None of the interviewees care about the fact that debt is a cheaper alternative of financing. Some agreed that there are advantages with debt financing referring to the tax-deductibility, adding that it would come at the cost of increased risk, reduced independency and the diminished ability to operate fast. All companies except Hit&Dit have clearly stressed that the strategy of a slow, steady and less risky growth is preferred, and therefore, debt financing should be avoided. Hit&Dit are less averse to bank loans but nor do they choose debt on the basis that debt is cheaper than equity.

Figure 5.13 shows that all companies but Expresstransport lie above the industry median which indicates that they could issue more debt without facing the risk of bankruptcy. The companies should be able to increase their debt proportions and in line with M&M theorem make greater profits. Though, the companies do not seem to consider these pure financial aspects of their capital structure decision. Rather, they seem to follow the pecking order theory.

6.3 Analysis of the pecking order theory

In our study management of all firms but Hit&Dit prefer internally generated funds before issuing debt from banks. These findings go hand in hand with the pecking order theory (Myers, 1984). In line with Barton and Matthews’ (1989) findings, all of our observations indicate that internal financing could be based upon the idea of being independent and remaining control of the firm.

Alfa, Transflex, Claesson Transport and June Express actively choose to finance with internal capital in order to be able to act fast which is perfectly in line with Myers and Majulf (1984) ideas. Hutchinson (1995) argues that the pecking order theory is valid for SMEs since they have a more restrictive approach towards debt. This was clearly confirmed by Transflex which saves funds for future investments. According to the pecking order theory firm management will only as a last alternative issue new shares (Wramsby & Österlund, 2004). This was exactly the case in our empirical findings where all firms owners/managers claimed that they did not considered any other alternatives to finance investments than through retained earnings or by taking loans from creditors.

Figure 5.11 clearly indicates that our studied companies use less debt and hence more equity than the industry median. This can be due to the pecking order of financial sources a company chooses to use. The industry median captures all companies in the road freight industry with at least 20 employees, this also includes large businesses. Therefore, it is natural that the six SMEs in our study have a proportion of debt that is lower than the industry median, since Hutchinson (1995) argues that the pecking order theory is well applicable on SMEs.
6.4 Analysis of SMEs strategic capital structure decision

We could clearly identify Barton and Matthews (1989) ideas about capital structure decision being a strategic rather than a financial issue. The goals of the firms reflect from a strategic point of view the firms’ capital structure (Barton & Matthews, 1989). Pursuing profit maximizing in a short-term perspective, which all of our observations discarded, would in line with Pike and Neal (1993) had generated higher debt proportions ratios. Once again the industry median indicates that this is not the case for the observed companies. Frequent larger investments cannot be solely financed by reinvested capital unless the firm is extremely profitable, and therefore debt would have been used to a greater extend if the companies were willing to grow faster than what they have done throughout the history.

The risk-taking propensity and financial characteristics of the firm affect lenders willingness to offer credits (Barton & Matthews, 1989). Hans Guldstrand argues that the characteristics of the management are as important as having a solid cash flow. Financial characteristics of the firm moderate the ability of top management to select a capital structure for the firm (Barton & Matthews, 1989). June Express, Expresstranspot, Hit&Dit and Transflex seems to have no difficulties choosing their capital structure since the bank has granted them bank loans at all times, according to the managers. This is an issue that should be critically interpreted since the interviewees, according to Delmar and Davidsson (1993), naturally not brings up drawbacks and weaknesses of the company. Perhaps the interviewees are completely truthful but it is likely that the interviewees not choose to be equally honest as Alfa’s CEO who said that they have had some difficulties to receive bank loans and that different amounts of persuasion have been needed. The companies in our study have a higher equity proportion, return on assets and risk buffer compared to the industry median. This indicates that the bank would be willing to lend them money. This is what Peterson and Rajan (1994) refer to as management’s ability to affect the capital structure decision depending on the ability of the company to generate a solid cash flow. But, again the final decision on whether the companies are granted loans depends on the banks’ perception on the risk they engage themselves to when lending money. As Hans Guldstrand argues, managerial characteristics are important.

Mattews et al. (1994) argues that there is a difference between beliefs about debt and attitudes towards debt. Companies vision about debt does not always go hand in hand with reality, attitudes towards debt can be interpreted as realized needs for debt. Claesson Transpot has the proportionally largest percentage of long-term debt of all companies studied. They have more than twice as much long-term debt proportion compared to June Express, even though we argue that they are similar in many ways and have similar beliefs of capital structure.

All companies interviewed bought, built or extended properties during 2006, mostly financed through debt. This shows that the demand for services in the road freight industry is ballooning. Most of the interviewees desired to only finance with internally generated funds from previous years profits, but all of them used debt more or less. This realized demand for external financing is greatest in the current economic boom, is a feature for the road freight industry indicated by Quinet and Vickerman (2004) and credit officer Hans Guldstrand. Hence, we argue that the entire economic cycle is affecting these six SMEs capital structure decisions since they would not have chosen to undertake large bank loans during the last year if the demand for their services not followed the economic cycle.

Our empirical findings appear to confirm Matthews et al. (1994) and Romano et al. (2001) ideas that the personal characteristics of the managers and owners play a dominant role in
the decision of the capital structure. Hence, capital structure decisions should be analyzed by the impact of owner/manager’s personal reference and values of the firms’ characteristics. Expresstransport, Transflex, Alfa and Claesson Transport all strive for total independence from the bank and appreciate to be debt free, whereas Hit&Dit and June Express recognize advantages with certain levels of debt. This is what Matthews et al. (1994) refers to as beliefs about debt. Even though four of the interviewed companies prefer to not issue any debt at all, none of them is financing solely through internally generated funds. All of the companies have chosen to undertake a bank loan to finance their new properties although they would have preferred to finance by internally generated funds. This is what Matthews et al. (1994) refers to as attitudes towards debt. Even if the managers/owners are negative towards external financing compared to internal financing they still use external capital in some situations. Their capital structure decision is thus affected by their managerial and personal beliefs about debt to certain level, but not hindering them to undertake larger debt financed projects. We can see a difference in size and equity proportion of comparing the studied companies, but their beliefs and realized needs of long-term debt is similar.

Expresstransport and Transflex beliefs about debt strongly colour their attitudes towards debt making their capital structure decision heavily affected by their personal view of debt. Their unwillingness to use debt as a form of financing, together with their willingness to be independent from the bank, affect their pace of amortizing their bank loans. Both wish to amortize their loans as fast as possible to revert to their preferred capital structure.

We had an idea that credit rating might affect the companies’ capital structure decision. This idea was to some extent supported when we scanned the market for companies to interview and noticed that Expresstransport’s webpage told the readers that they were AAA rated by Dun&Bradstreet. This made us curious about whether firms deliberately decide on their capital structure in order to reach a certain credit rating. However, we were surprised to find out that this was not the case. None of the companies even mentioned a relation between their credit rating and their capital structure but rather saw it as a bonus. Only one company stressed that it is important not to be rated in any of the lower categories since that might affect the suppliers willingness to deliver and banks willingness to give them credits.

6.5 Analysis of risk

There are four factors argued by Delmar and Davidsson (1993) that affects the level of risk a company is willing to bear. One is social skills. They argue that if the CEO and owner of a company listen to other companies’ experiences and are open for information they will be more positive towards risk. This socializing behaviour or lack of the same might be a strong reason for our companies’ decision of capital structure, but it is hard for us to get a deep understanding of the business leaders social skills during interviews lasting less than an hour. Hence, we have chosen not to focus upon this subcategory.

The desire and willingness to let the business grow, and management’s need for achievement is considered to affect the risk level a company chooses (Delmar & Davidsson, 1993). All companies but Hit&Dit prefer a slow and organic, internally funded, growth over a rapid and externally funded growth. Hence, it seems to be a clear connection between slow growth and management’s risk-taking propensity.
According to Delmar and Davidsson (1993) the risk level a company take on is affected by competence of managers and the awareness of present risk taken, this goes very close with self realization about how much risk they can bear. We argue that a high degree of competence strongly affects the self realization, since the interviewed managers are experienced business men and women with knowledge about the industry and its opportunities and threats. We think that it can be compared with beliefs about debt and attitude towards debt (Matthews et al., 1994). At the same time the owner/managers recognize that they could not function and grow without it. This kind of self realization is most probably affected by the competence level of top management.

In Figure 5.11 we can see that the interviewed companies have a lower debt proportion compared to the industry which suggests that management’s risk-taking propensity is lower in our cases compared to the industry median. Since increased proportions of debt increases the risk (Chittendale et al., 1996) and all of our observations have a significantly lower proportion of debt financing than similar companies all over Sweden, we have reasons to believe that the studied firms are risk averse.

Claesson Transport, June Express and Expresstransport are all founded before the big economic crisis that Sweden faced in the beginning of the last decade. Today, they all believe that careful investments and slow growth is a superior strategy compared to rapid externally financed growth. In our opinion, the experiences they possess from the recession make them more restrictive towards the risk of undertaking bank loans. Transflex, Alfa and Hit&Dit were founded in the late 90s and these companies were hence not affected by the recession. However, all managers were active in the industry during this period and therefore experienced the harsh times and possibly developed a restrictive approach towards risk. This was confirmed by Hans Guldstrand who believes that this kind of experiences affect the companies’ capital structure decision since it makes the managers more restrictive towards debt as a source of finance.

6.6 Analysis of firm characteristics

The theory of Romano et al. (2001) suggests that older businesses tend to issue more debt since they are able to control more assets. This theory is not fully applicable since the youngest company, Hit&Dit, issue proportionally more debt than the second oldest firm, June Express. On the other hand, Peterson and Rajan (1994) argue that matured companies tend to use less debt since they have had possibilities to raise debt by previous revenues, which might be true for June Express but certainly not for Claesson Transport. Transflex were able to start doing business without an initial bank loan. This might suggest that business age is not an equally strong factor for Transflex as for the other companies where a mature age means that the company have had a chance to pay off debts and raise own capital. Alfa started with debt as the primary source of finance and they have due to a boosting turnover a similar capital structure as Transflex today, which also suggests that age of firm, is not a vital element affecting the capital structure.

Chittendale et al. (1996) argue that smaller businesses to a greater extent have to rely on short-term debt. This is supported by Figure 6.1 which shows that the studied companies generally use short-term debt to a greater extend then long-term debt. However, the interviewed companies have made the decision to actively avoid bank loans and not as argued by Chittendale et al. (1996) because they face difficulties to receive bank loans. As claimed by Sogrob-Mira (2005), our study shows that several of the companies prefer short-term
debt before long-term debt in order to be able to operate fast and be able to accept a project without the intervention of a bank. This supports the ideas presented by Chittendale et al. (1996) since a line of credit can be used at any time for any reason without the permission from creditors. Alfa and Transflex have large proportions of short-term debt since they serve as the link between the costumer and the haulage contractors/express delivery firms and therefore most services sold appear to some extend in the accounts payables, i.e. the short-term debt. Forwarding agents do not need to possess assets such as vehicles. Haulage contractors and express deliveries need cars and trucks to be able to carry out its business and hence have a stronger need for external financing.

According to Ward (2004) the age of the CEO affects the decision of capital structure; older entrepreneurs are less willing to take bank loans than what younger entrepreneurs are. Our study does not support this idea since Göte Claesson, who is the oldest manager, has proportionally much more debt then the youngest manager, Catrin Jalkander. Admittedly, Sven Lundahl, the second oldest manager, has proportionally low levels of debt, but our study does not show any clear trends to support Ward’s (2004) findings. It is important to bear in mind that this discussion can be pure coincidences rather than a connection. Our sample is too small to draw general conclusions of how age of firm, age of CEO and size of business affects the capital structure. This is most obvious when discussing the firm size where none of the theories presented seem to be applicable on none of our studied firms.

Expresstransport declared that they at several points in time decided that they did not want to expand their business further. Hit&Dit has grown rapidly through bank loans as its primary source of finance ever since Catrin Jalkander bought the firm. Businesses which are run with the purpose of expanding the business are more likely to use debt as a source of finance as argued by Van der Wijst and Thurik (1993). In line with Hutchinson’s (1995) theory that profitable low risk project might be rejected due to a conservative view upon debt, Expresstransport, Alfa and Transflex all argue that they would have been able to grow faster at certain times but refused to undertake some projects due to the unwillingness to obtain external financing.

None of the six companies interviewed claimed they had a plan or written policy about how to structure their capital. It is hard to analyze whether this affects their amount of debt but we believe that they use less planning since they rely on previous experiences and personal beliefs which is something you normally not put in print.

As clearly illustrated in Figure 5.11 – 5.13 the studied companies generally perform better than the industry median for similar companies. The $r_A$-ratio (see Figure 5.12) tells that the industry median is lower than the mean of the six companies studied. The reason behind this might be as explained in section 1.1, that Jönköping is a suitable location for a road transporting company. Since the industry index compares all companies all over Sweden, a similar company in a part of Sweden where the population density is lower might have difficulties experiencing economies of scale which affect the industry median negatively. There might also be other explanations, but it is not in line with our purpose to understand why, we just conclude that the interviewed companies perform better than the industry median.

The fact that the studied companies perform better and have less debt than the industry median implies that the beliefs and attitudes of the studied companies might differ from the average road freight company in Sweden. Perhaps the six companies in this study have better possibilities to freely choose their capital structure than less profitable firms in parts of Sweden where the population and business density is lower.
6.6.1 Analysis of special characteristics of family businesses

All of the companies that participated in our study expect Transflex, are according to the definition stated in section 1.4, family businesses. Göte Claesson claims that he never had the desire for the business to grow rapid, it is more important to remain the control of the company and avoid unnecessary risk taking. This can be referred to what Hutchinson (1995) argues, i.e. that entrepreneurs as long as possible wants to stay independent and therefore tend to use retained profits not to involve outside participants. Further more this is because of their goal to stay in full control of their business. Sven Lundahl has always been careful with and in full control of investments and important decisions. Expresstransport on the other hand do not refer their restricted behaviour towards externally financed investments by their urge to stay in control of their business. Still it can be argued that Expresstransport’s nonexistent need for growth is linked to the need of family control. The spouses and owners of Hit&Dit, Catrin and Stig Jalkander do not seem to have the same need for family control and independency as the owners for the companies discussed above. The company has had a big growth since they bought the business and their view of debt financing is not by far as restricted as for the other companies. Alfa argues that it would be ideally if they did not have to borrow money at all. This can be interpreted as a wish to be independent and in control of the business as well as their goal to grow slow and be careful with investments, but no clear links can be drawn between this behaviour and family control.

Transflex is not a family business but its owners have strong need for control and decided to be totally independent from creditors which is a typically feature for family businesses. Hence, we can argue that the company’s owners reason in a similar manner as the family firms do.
In the last chapter of this thesis, the research questions will be answered and conclusions will be drawn followed by a general discussion and ideas for further studies.

Five of the six interviewed companies clearly stated that they prefer internal financing i.e. reinvested earnings, and as a second alternative, use debt in form of bank loans. No other alternatives than internal financing and loans from creditors were considered by any of the interviewed companies. Our study shows that the reasons behind this preferred order are (1) previous experience, (2) the will of being independent and (3) managements’ risk-taking propensity. These factors can be concluded to be more important than pure financial issues such as cost minimizing or profit maximizing. Further on, we believe that it is these factors, together with beliefs about debt and realized need for debt, that influence the strategy for how the capital structure decision is formed and developed.

Age of firm and age of CEO most likely have some impact in the choice of capital structure. In our case study though, we believe this sums up to experience of the business managers and owners. This experience can come from other organizations and thus size of the firm may have less impact of the beliefs about debt. Our findings suggest that companies reason similarly about debt as a source of finance independent of their size and age. Instead the owners’ need for control and independency seem to have a more direct affect on the capital structure decision.

All owner/managers claimed that it is important to be liquid and remain in control of the business i.e. not to be dependent of external organizations like banks. The managers regard it to be important to be able to act fast. They want to make decisions fast and easy without banks involved. Only companies that are profitable enough to generate an extraordinary cash flow can grow and expand without external financing.

The business leaders and owners interviewed did not talk about risk as a major factor affecting their decision of capital structure. It is our belief that many of the factors they claimed were vital for them; not to grow too fast, consider new investments carefully and save money for bad times is due to a certain risk aversion. We can conclude that managements’ risk-taking propensity indirect affects the strategies of the companies and thus the capital structure decision.

Owner/managers’ beliefs about debt affect their plans to achieve growth. A restrictive view on debt leads to a more restrictive desire to grow, since growth most often needs to be financed by debt if one wishes to expand and grow as fast as possible. Growth is dependent upon managements’ personal values and beliefs which in turn affect the capital structure decision.

The owner/managers’ beliefs about debt is their preferred relation between debt and equity. However, their actual capital structure represents their realized needs for debt. The beliefs affect the companies’ realized need which in turn forms the strategy for the capital structure decision.
7.1 Discussion and suggestions for further research

Our purpose was to describe and analyze the capital structure decision in a specific sector in order for the companies to have similar needs for investments and for our conclusion to be more valid. Generalizations could easier be drawn if the compared companies operate in the same industry. However, we detected differences between the companies in the transporting sector of road freight. When we started the process of writing this thesis we believed that the road freight industry was a clear niche, and hence, that the companies might reason in similar manners in the choice of capital structure. Today, it is obvious for us that the forwarding agents do not have to the same need for investments as the haulage contractors and the firms offering express services.

A suggestions for further research could be to niche a study even further to be able to compare and make more generalizations i.e. instead of studying the road freight industry as a whole one could more narrowly study only one subcategory within the industry e.g. companies doing express deliveries.

Since all six companies in our study are more profitable than the industry median, another suggestion is to compare similar companies but in different regions. Is Jönköping a suitable city for business in general, or are the studied companies more profitable due to the location in the centre of south Sweden?

Leasing was not a preferred way to finance vehicles in the studied companies, which surprised us since we expected this form of financing to be more common. The interviewed companies only use leasing for light vehicles due to the VAT reasons. The owner/managers seemed to be of the opinion that leasing is a form of financing for companies that cannot afford to buy their own vehicles. It would be interesting to see why this form of financing is not preferred; is it a coincidence that all companies interviewed prefer to purchase all vehicles or is this trait valid for the entire sector?
References


References


References


References


Appendices

Appendix 1 - Company interview questions

The company’s capital structure

1. How is your capital structured today?
2. Has anything significant happened since your last annual report?
3. Has your capital structure differed significantly from today’s levels throughout the history of the firm?
4. Why does your capital structure look like it does today?
5. What are the underlying factors for your capital structure?

Risk awareness

6. How high do you regard your risk-taking propensity to be?
7. Do you have any well-defined policy for your capital structure?

Advantages and drawbacks with different capital structures

8. What advantages and drawbacks do you experience with today’s capital structure?
9. What level of debt and equity do you prefer?
10. What sources of finance do you prefer and in what order?

The Bank

11. In what situations do you turn to a creditor (bank) for capital?
12. What determines the amount of capital borrowed?
13. Have you received any credit ratings?
Appendices

Appendix 2 - Bank interview questions

1. What is your opinion about the road freight industry?

2. What are the most important factors considered when lending money?

3. How is a company’s capital structure affecting the amount of loan a company can receive?

4. Is the amount of debt a company applies for ever affected by the bank?

5. What do you think about Jönköping as a location for companies in the road freight industry?

6. Do you think owners for companies within the road freight industry are more or less risk aware compared to other industries?
## Appendix 3 - Data table

### Industry 60240, i.e. road freight of goods.

2005 years industry median from UC AB is the median for companies with at least 20 employees in industry 60240, i.e. road freight of goods.

### Table

<table>
<thead>
<tr>
<th>Risk Buffer</th>
<th>Debt Interest Rate</th>
<th>Return on Asset</th>
<th>Debt Proportions</th>
<th>Equity</th>
<th>Long-Term Debt</th>
<th>Short-Term Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>% 7.1%</td>
<td>% 7.4%</td>
<td>% 7.2%</td>
<td>% 7.0%</td>
<td>% 7.2%</td>
<td>% 7.2%</td>
<td>% 7.2%</td>
</tr>
<tr>
<td>8.2%</td>
<td>9.9%</td>
<td>10.2%</td>
<td>6.2%</td>
<td>4.7%</td>
<td>5.5%</td>
<td>6.6%</td>
</tr>
<tr>
<td>18.5%</td>
<td>22.0%</td>
<td>23.6%</td>
<td>12.4%</td>
<td>5.4%</td>
<td>5.5%</td>
<td>6.6%</td>
</tr>
<tr>
<td>31.0%</td>
<td>29.2%</td>
<td>30.1%</td>
<td>27.1%</td>
<td>5.0%</td>
<td>5.5%</td>
<td>6.6%</td>
</tr>
<tr>
<td>41.9%</td>
<td>41.5%</td>
<td>40.8%</td>
<td>50.1%</td>
<td>6.8%</td>
<td>5.5%</td>
<td>6.6%</td>
</tr>
<tr>
<td>78.3%</td>
<td>78.3%</td>
<td>78.3%</td>
<td>78.3%</td>
<td>78.3%</td>
<td>78.3%</td>
<td>78.3%</td>
</tr>
</tbody>
</table>

### Industry Median

<table>
<thead>
<tr>
<th>Industry</th>
<th>Sample</th>
<th>Mean</th>
<th>Median</th>
<th>Claesson June</th>
<th>Express June</th>
<th>Express June</th>
<th>Transport ALA</th>
<th>Transport Hildén</th>
<th>Transport Express</th>
<th>Express June</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport</td>
<td>31.0%</td>
<td>41.5%</td>
<td>41.9%</td>
<td>50.1%</td>
<td>6.8%</td>
<td>5.5%</td>
<td>6.6%</td>
<td>5.5%</td>
<td>6.6%</td>
<td>5.5%</td>
</tr>
<tr>
<td>June</td>
<td>31.0%</td>
<td>41.5%</td>
<td>41.9%</td>
<td>50.1%</td>
<td>6.8%</td>
<td>5.5%</td>
<td>6.6%</td>
<td>5.5%</td>
<td>6.6%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Express</td>
<td>31.0%</td>
<td>41.5%</td>
<td>41.9%</td>
<td>50.1%</td>
<td>6.8%</td>
<td>5.5%</td>
<td>6.6%</td>
<td>5.5%</td>
<td>6.6%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Transport</td>
<td>31.0%</td>
<td>41.5%</td>
<td>41.9%</td>
<td>50.1%</td>
<td>6.8%</td>
<td>5.5%</td>
<td>6.6%</td>
<td>5.5%</td>
<td>6.6%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Claesson</td>
<td>31.0%</td>
<td>41.5%</td>
<td>41.9%</td>
<td>50.1%</td>
<td>6.8%</td>
<td>5.5%</td>
<td>6.6%</td>
<td>5.5%</td>
<td>6.6%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

### Data table

- **Short-Term Debt**
  - Claesson June: 31.0%
  - Express June: 41.5%
  - Express June: 41.9%
  - Transport ALA: 50.1%
  - Transport Hildén: 6.8%
  - Transport Express: 5.5%
  - Express June: 6.6%
  - Claesson June: 5.5%
  - Express June: 6.6%
  - Transport ALA: 5.5%
  - Express June: 6.6%
  - Transport Hildén: 5.5%
  - Transport Express: 6.6%
  - Express June: 5.5%

- **Long-Term Debt**
  - Claesson June: 31.0%
  - Express June: 41.5%
  - Express June: 41.9%
  - Transport ALA: 50.1%
  - Transport Hildén: 6.8%
  - Transport Express: 5.5%
  - Express June: 6.6%
  - Claesson June: 5.5%
  - Express June: 6.6%
  - Transport ALA: 5.5%
  - Express June: 6.6%
  - Transport Hildén: 5.5%
  - Transport Express: 6.6%
  - Express June: 5.5%

- **Equity**
  - Claesson June: 31.0%
  - Express June: 41.5%
  - Express June: 41.9%
  - Transport ALA: 50.1%
  - Transport Hildén: 6.8%
  - Transport Express: 5.5%
  - Express June: 6.6%
  - Claesson June: 5.5%
  - Express June: 6.6%
  - Transport ALA: 5.5%
  - Express June: 6.6%
  - Transport Hildén: 5.5%
  - Transport Express: 6.6%
  - Express June: 5.5%

- **Debt Interest Rate**
  - Claesson June: 31.0%
  - Express June: 41.5%
  - Express June: 41.9%
  - Transport ALA: 50.1%
  - Transport Hildén: 6.8%
  - Transport Express: 5.5%
  - Express June: 6.6%
  - Claesson June: 5.5%
  - Express June: 6.6%
  - Transport ALA: 5.5%
  - Express June: 6.6%
  - Transport Hildén: 5.5%
  - Transport Express: 6.6%
  - Express June: 5.5%

- **Risk Buffer**
  - Claesson June: 31.0%
  - Express June: 41.5%
  - Express June: 41.9%
  - Transport ALA: 50.1%
  - Transport Hildén: 6.8%
  - Transport Express: 5.5%
  - Express June: 6.6%
  - Claesson June: 5.5%
  - Express June: 6.6%
  - Transport ALA: 5.5%
  - Express June: 6.6%
  - Transport Hildén: 5.5%
  - Transport Express: 6.6%
  - Express June: 5.5%