An Analysis of the Capital Structure of the Hungarian Corporate Sector

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SUMMARY

It is well-known that in the 90's enormous changes occurred in the structure of the Hungarian economy, which influenced the tradition of corporate financing. In line with political changes, foreign-owned companies appeared that adopted the financing strategies of their mother companies. In addition to the ownership structure, there were significant changes in the sectorial structure of the economy. The share of the agricultural sector has decreased; the share in employment and in GDP has shifted in favour of machinery and services (especially telecommunication and financial services). This paper examines the whole corporate branch divided into sectors, showing how company capital structure changed in Hungary between 1992 and 2003, and contains a short analysis about the period 2004-2010. One of the most important findings is that the corporate capital structure has only secondary importance; companies make primarily production, market and investment decisions, and the financing decisions are the effects of these primary decisions. This secondary manner is typical in Hungary and in the other transition economies, where the financial culture is still at a low level (although it has developed by large steps in recent years), the financial markets are underdeveloped, and companies traditionally prefer to use internal sources rather than loans with interest and principal payment obligations. This study investigates theories of capital structure against the behaviour of the Hungarian corporate sector.
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INTRODUCTION

The topic of corporate leverage has been in the focus of heavy scientific interest since the 1960's. The debate started with the famous paper of Modigliani-Miller (1958), investigating whether the value of a company is solely determined by the cash flow generated by the corporate assets, or whether the capital structure – the leverage between debt and equity – has any influence on it. The main question is whether there is any optimal capital structure that would help the company to maximise its market value. The related huge professional literature is primarily from Anglo-Saxon authors, and empirical research has examined mainly the corporate capital structure in developed countries. Relatively little attention has been devoted to less developed countries, especially to Hungary.

The aim here is to examine the factors that influence the corporate capital structure. The influencing factors are split into two distinct groups. The macroeconomic factors are those which determine the operational environment of companies, which are externally imposed and which the companies cannot manipulate directly. The corporate factors are those which derive from the corporation's circumstances, from the strategic goals of company, and which the company is able to influence.

I consider it my primary task to examine which corporate factors play a significant role in determining the capital structure in Hungary. This aim is supported by a corporate database that contains data on balance sheets and income statements of companies from period of 1992-2003, and from period of 2004-2010. This database can be used to examine the relationship between capital structure and corporate factors.

However, the examination of macro-factors is unavoidable, since we are talking about a transition economy, and the macroeconomic factors and their big changes may have a significant role in forming the capital structure. Within macro-factors I emphasise the development of the bank sector, the development of financial intermediaries, and the establishment of legal regulation as the major factors influencing the capital structure. In the '90s enormous changes took place in the structure of Hungarian economy, which influenced the tradition of corporate financing. In line with political changes, foreign-owned companies appeared that employed the financing strategies of their mother companies.

In addition to the ownership structure there were significant changes in the sectorial structure of the economy. During the period investigated, the share of the agricultural sector decreased and the share in employment and in GDP shifted in favour of machinery and services

(especially telecommunications and financial services). This study examines the whole corporate sector by industrial sector. A long enough time has now passed to draw appropriate conclusions from the available data on the tendency of corporate capital structure of a transition economy – i.e., of Hungary.

THEORETICAL BACKGROUND

After the traditional theory (Durand 1952), the first milestone of comprehensive corporate capital structure theory was laid down by Modigliani and Miller in their famous paper published in 1958. The two authors proved that the total value of a corporate body is independent from its capital structure in a perfect market. This paper encouraged researchers to examine this relationship, if they cancel the assumptions of perfect capital market.

The further research can be split into two basic groups. The first group contains papers examining the problem of taxation (Modigliani and Miller 1963; Miller 1977; Myers 1984). The trade-off theory, which belongs to this group, searches for the optimal leverage to maximise the value of equity. It compares the advantages and disadvantages arising from increasing the indebtedness. The advantage of raising a loan is the tax shield of interest, while the disadvantage is that the chance of occurrence of financial distress increases and incremental payments must be made by the company. The optimal capital structure is where the marginal income from the interest tax shield is equal to the expected marginal cost coming from the increase in the probability of bankruptcy.

Since taxes alone did not always provide an appropriate explanation to the two basic questions – why and how much loan the company should raise – thus the economists put other market imperfections in the centre of examination. The information theory appeared in the '70's. This assumes that the market actors are not equally well-informed and their access to information is also not equal (investors and managers). Two streams of this school have had a significant effect on the issue of capital structure.

The agency theory explains the capital structure in the case of companies where the ownership and management are not the same (Williamson 1988). The root of problem is that the interests of the principal (owner) and the agent (management) differ. The management is generally interested in increasing the value of the organisation and his/her income, whereas the shareholders are interested in share price increases. The change in capital structure helps to solve the occurring clashes, since the increasing indebtedness presses the management to achieve better performance.

According to the capital market theories based on asymmetric information, one actor of the market has more information than the others. The other actors observe the signals of this particular actor and deduce the information from these signals. That is the reason why these models are often referred as signalling theories. In the case of capital structure the management has more information. The investors observe its signals. The introduced models examine how the management send "signals" by changing the capital structure (Myers 1984; Myers and Majluf, 1984; Harris and Raviv 1991).

The pecking order theory (e.g. Donaldson 1961; Brealy and Myers 1992) says that companies use their resources in a strict order, starting from internal resources (profit and appreciation) until they are used up, and only then calling on external resources. The first external resource to be used is commercial credit, at no cost to the company, the next resource used is bank loans, and the most expensive resource, releasing shares, is the last one resorted to.

Macroeconomic factors

Among the macroeconomic factors influencing the capital structure I have examined those which I judged relevant, primarily the development of the bank sector and financial intermediary sector and the institutions and operation of the capital market. I have examined the typical Hungarian financing and capital structure tendencies from the beginning of the 1990s, comparing them with macroeconomic changes. I have divided the past period into three stages, based on the observed typical changes in corporate financing and corporate capital structure.

The first stage of period is the era between 1987 and 1995, which is characterised by economic transformation, mass privatisation and the dominance of corporate equity. The importance of this stage is given by the establishment of economic, regulational and political systems, which made privatisation and the development of a modern economy possible. The establishment of a two-tier bank system was one of the most important steps influencing the long-term financing structure of companies, since instead of the allocation of loans supporting the fulfilment of economic plans, the credit scoring system examining debt service capacity became the basis for judging credit applications. The refinement and improvement of the credit scoring system in the commercial banks took years. The other important station was mass privatisation in point of capital structure, which made it possible for the company to access fresh capital.

The second half of the 90's gives the second stage of period, whose main characteristic is the quick increase in corporate leverage. From 1996 the Hungarian economy entered a long-lasting growth phase and the equilibrium also improved. The solvency of the corporate sector was strengthened by the better-than-ever market prospects, while the attitude of banks to providing loans increased as the credit risk of banks decreased. Companies utilised the opportunity to raise loans from abroad. The increase in investment appetite encouraged an increase in leverage.

The first years of the new century form the third stage of period, which is described by the emergence to the European average level of leverage. The capital leverage of the Hungarian corporate sector became very similar to the average of the European Union. The indebtedness of the Hungarian corporate sector cannot be considered high compared with international standards, but the share of loans increased further. However, the dynamics of loan increase are significantly lower than in the second stage. In this stage the formerly explicitly low capital leverage reached the average level of developed countries. In Hungary the stabilisation of the macroeconomic system in line with the moderation of risk resulted in the increase of leverage in the examined period.

Overviewing the financing opportunities and capital structure of the Hungarian companies, it can be stated that a significant transformation has occurred in that respect in the past two decades. The capital leverage (liabilities/equity) of Hungarian companies reached the EU average after 2000. The term structure of loans changed favourably, and long-term loans dominated over the short-term loans that had formerly ruled. Foreign currency loans and the credit provided by foreign ownership play a significant role. The stock exchange has only moderate importance in financing companies.

Corporate factors

In the first part I examine the validity of the factors in Hungary influencing corporate leverage based on mainstream theories. According to my examination, these factors influence the capital leverage in Hungary, but their effect on decision making is not always the same as in the developed countries. The second part concentrates on factors which have not been placed in the focus of earlier studies, but which affect capital structure, especially in countries in transition to the market economy.

The majority of studies (see Prasad et al. 2001 for a review article) have found the following relationships in the case of developed countries:

The capital leverage increases if

1. the tangible assets increase.
2. the non-loan-like, tax-saving opportunities increase.
3. the growing opportunity of company increases.
4. the size of the company grows.

The capital leverage decreases if

1. the volatility of cash flow increases.
2. the cost of marketing increases.
3. the probability of bankruptcy increases.
4. the profitability increases.
5. the speciality of product increases (Harris and Raviv 1991).

These factors in particular countries – together with the macroeconomic factors – affect the capital structure policy in different ways. Let us now examine the situation in Hungary.

INVESTIGATION OF CORPORATE FACTORS IN HUNGARY

The database used in this study contains corporate balance sheets and income statements of 4,740 Hungarian companies from the period 1992-2003, and was made by Ecostat, a Hungarian statistical institute. I examined the relationships between the explanatory factors and the dependent variables in the case of Hungarian enterprises.

The factors of leverage – [total liabilities/liabilities and equity] and [long-term liabilities/liabilities and equity] – were used as dependent corporate leverage indicators. As can be seen in Figure 1, in Hungary between 1992 and 2003 the leverage increased in all sectors, with the building industry consistently at the highest level, and the agricultural sector and non-material services at the lowest, though still growing.

Composition of assets – Test of trade-off theory and agency theory

In my assumption there is a negative relationship between the ratio of tangible assets and the corporate leverage till the middle of 90s. This relationship gradually becomes a positive one, similarly to the developed countries, in line with the end of the transition to the market economy.

In a market economy the larger the share of tangible assets in total assets, the larger the share of liabilities in the corporate capital structure, since tangible assets mean good collateral for the lending banks.

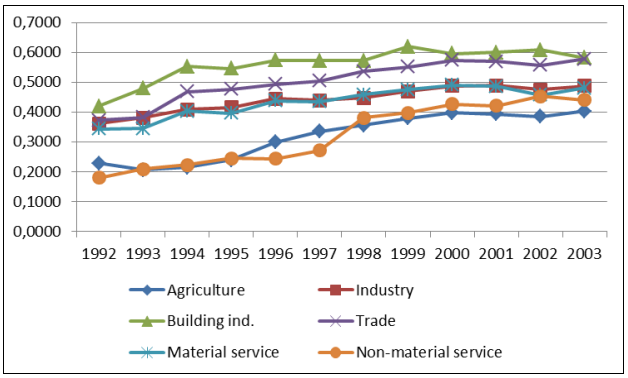

Figure 1. [Total liabilities/liabilities and equity] ratio by sector in Hungary, 1992-2003

The trade-off theory holds that the firms raise loans up to the point where the marginal tax savings from borrowing is equal to the present value of expected expenses of financial distresses. If the share of tangible assets – which can be sold without significant losses – in a company is high then the expenses of financial distress and bankruptcy can be held at a low level, thus the larger the share of tangible assets; the larger should be the share of loans among the financing sources.

The agency theory states that the owners of strongly indebted companies tend to make investments lower than

optimum (denying investments with positive net present value), but if the company owns tangible assets, which can be used as collateral, then this anomaly can be cancelled (the borrower tends to give loans to companies with a high share of tangible assets).

For countries making a transition to a market economy, as in the case of Hungary, it is important to consider the fact that there was a credit crunch till the middle of the '90s, so the banks did not offer new loans of significant size due to their former loss-making lending activities. It is also important to note that the obsolete asset portfolio of large state-owned enterprises could not act as good collateral for bank loans.

Another important fact in this respect is the lack of a secondary market for tangible assets. Banks were unable to sell the tangible assets confiscated as collateral, or could only do so with great difficulty. In my assumption, these problems became gradually more moderate from the second half of the '90s, in line with the strength of the market economy, and then later came to an end.

Method of examination: the quantification of correlation between the share of tangible assets and capital structure.

Result of examination: the negative correlation of share of tangible assets and capital leverage is valid for the whole period examined. Neither the trade-off theory nor the agency theory prevailed in this period in Hungary, but it is important to consider that the low level of liability ratio was affected by factors out of company control in the first and in the second stages of the period, and not by the lack of tangible assets. Examining the 2003 results, I can state that the firms generally have enough tangible assets to increase their loan stock.

Size of company – Test of trade-off and agency theory

In my assumption there is a positive relationship between the size of company and the corporate capital leverage, also in the case of Hungarian enterprises.

According to the trade-off theory, the size of a company affects its capital leverage for the following reason: the larger companies are generally more diversified and the probability of occurrence of financial distress is lower than in the case of smaller companies.The liquidation value is also smaller in the small companies than in the larger ones. Thus the agency cost of debt is relatively lower in larger firms. The above hypothesis is strengthened by the fact that the larger firms provide ever more reliable information for markets, thus the cost of informal asymmetries is smaller. Furthermore, an economy of scale appears in banks, since the interest income is much larger compared to the cost of granting a loan in the case of a large company. Due to the above, I expected that a larger company would have higher capital leverage than a smaller one.

Method of examination: Leverage versus size. The size was measured by two variables – number of staff and net sales. I examined the description statistics of companies grouped into deciles by the number of staff and net sales.

Result of examination: The positive relationship between size and capital leverage cannot be proved. If we consider the number of staff as representing the size of a company and the capital leverage indicator is the total liabilities/total assets, and then even the opposite is true for the Hungarian companies: namely, the larger the company; the lower the capital leverage. If the examined indicator is the long-term liabilities/total assets, then there is no significant difference in point of capital leverage among the companies of different sizes. If the net sales of the company are considered as the measure of size, no significant correlation is found with any of capital leverage indicators. Based on this result, neither the trade-off theory nor the agency theory is supported by the Hungarian corporate database.

Profitability – Test of pecking order and trade-off theory

In my assumptions there is a negative relationship between profitability and capital leverage, thus if there are enough internal sources of finance – a significant part of which is the profit of company – the company satisfies its financing needs from internal sources and not from raising loans.

I assume the validity of the pecking order theory, which is supported by the fact that the majority of empirical researchers have discovered a negative relationship between these two factors. The internal sources of finance are generally available for profit-making companies, so the capital leverage is lower here, since there is less need to apply for external sources.

The trade-off theory states that the higher the profit of the company, the more advantageous high leverage is, due to the greater extent of the interest tax shield.

Method of examination: measuring the correlation between the capital leverage indicators and the return on assets (ROA).

Result of examination: To examine the relationship between profitability and capital leverage in the Hungarian corporate sample, it can be stated that the negative correlation prevails in tendency. The connection between the two factors is weak in the examined period. Based on this result, it appears that the companies tended to make their decisions about capital leverage as the pecking order predicts. The trade-off theory – which assumes a positive connection between the two factors, saying that the profit making firms strive to utilize the interest tax shield via raising loans – can be rejected here.

Relationship between capital leverage and liquidity – Test of pecking order and agency theory

In my assumption, the better the liquidity of company; the lower its capital leverage.

There are several approaches related to liquidity in theories about capital structure. The pecking order theory – which has been successfully tested in several studies (see Prasad et al. 2001 for a review article) states that the firms with a high liquid asset ratio finance their investments by mobilizing these liquid assets, and do not turn to banks for loans (nor to investors for further equity). Other researchers argue that companies whose liquidity ratios are high have a good chance to obtain loans, since they are able to perform the required debt service towards the bank.

The question of liquid assets also appears in agency theory, namely, that the loan forces the company to perform cash outflow (ordinary interest and instalments), since the free cash flow available for the agent becomes lower. Based on this logic the target is the low liquid asset ratio in line with high capital leverage.

I have chosen my hypothesis based on the pecking order theory, because this view is closer to the Hungarian historical tradition and to the Hungarian mentality of accommodating your pleasure to your purse. Companies tend to turn to bank loans only if they cannot achieve their targets from internal sources.

Method of examination: Measuring the correlation between the current ratio and the capital leverage

Result of examination: The pecking order prevails in the connection between liquidity and capital leverage: if the company has liquid, usable assets, it does not take out loans for financing. The agency theory cannot be supported based on the Hungarian sample. According to this theory the high level of liquid assets would encourage the owners to keep a high amount of loans, to force the executives to manage the company better.

Business risk – Test of trade-off theory

In my assumption there is a negative relationship between the business risk and capital leverage of company. The business risk of a company is measured by the volatility of operating profit. Highly volatile operating profit does not permit the payment of high fixed-debt servicing, thus the firms should abstain from large loans. Raising a large loan would increase the probability of bankruptcy, the trade-off theory states.

Method of examination: measuring the correlation between the standard deviation of return on assets (ROA) and capital leverage indicators.

Result of examination: I did not find the connection proposed by the theory between the volatility of profit and the level of capital leverage; the volatility of operating profit appears to have no significant influence on the liabilities/equity ratio in the examined period.

Tax shield of interest – Test of Proposition II of Modigliani and Miller and the trade-off theory

In my assumption there is a positive relationship between the tax shield of interest and the capital leverage. The current tax system influences the capital structure. The management of a company strives to maximise the investors' realized income. The change in corporate tax rates leads to a change in capital structure. Proposition II of Modigliani and Miller (1963) overemphasises the importance of the tax shield with its derived deduction. The trade-off theory draws attention to the fact that the tax shield is available only for profit-making companies.

The corporate tax rate in Hungary was changed from 40% to 36% in 1994, and then was lowered to half of its former rate – to 18% – in 1995. I have examined the effect of this drastic decrease on corporate capital leverage.

Since the interest on a loan can be accounted as an expense, the favourable effect of raising a loan for a company is to decrease the corporate tax base. The higher the tax rate, the more favourable the base reduction effect is. I supposed that the companies transformed their capital structure after the tax rate reduction. Since the advantage of using debt decreased, they were assumed to have lowered the proportion of funding from loans in the capital structure.

Method of examination: I examined how sensitive the capital structure was to the tax advantage reductions in 1994 and in 1995. However, the general examination of capital leverage indicator showed that the capital leverage – due to other factors – was continuously increasing during the examined period. Thus I segmented the sample. I supposed that those companies that widely used loans to finance their activity would lower their capital leverage. So I divided the sample into two parts by the median of capital leverage – which was 0.5. I have separately examined the average tax burden and the level of capital leverage above and below the median of 0.5.

Result of examination: The enterprises indebted below the median did not react to the corporate tax rate changes in their capital structure. They did not decrease their balance of loans because of the tax shield of interest, since this advantage was not particularly significant for them compared to the growing profit opportunities from investments. However, the enterprises indebted above the median reacted to the changes came from the corporate tax rate decrease and they decreased their balance of loan, but only to a small extent. This fact is worth considering, since in opposition to the trend of dynamic increases in loan ratio, the enterprises indebted above average decreased their balance of loan. Based on this result I accepted the stated hypothesis, that enterprises strive to utilise the tax shield, and the tax system thus has a role in influencing the capital structure.

Industry sector – Test of peer pressure

The industry sector influences the capital structure of company. Enterprises observe their competitors and tend to develop a similar capital structure to the average for that sector. The theoretical explanation for this phenomenon is that every industry sector has special risk characteristics, to which the capital structure of companies belonging to the given sector should be adjusted (Jaksity 2004).

Method of examination: I examined the importance of sector in the corporate capital structure with the help of variance analysis, treating sector as a qualitative variable. I applied the first two digits of the industry code TEÁOR to indicate the general sector in which a company operates.

Result of examination: Peer pressure prevailed moderately in the examined period. The larger the company was, the closer the company's capital leverage was to the industrial average.

SPECIAL CORPORATE FACTORS

The factors identified in developed countries do not perfectly explain the changes in the capital structure in the countries transferring to a market economy, such as Hungary. In the transitional economies special factors are also significant. In the further part of this study I examine some of these special factors. I have searched for the factors appearing in Hungary that determine the capital structure, beyond the examined "classical" factors.

Ownership structure

In my assumption the propotion of foreign ownership influences capital structure decisions. Those companies where foreign owners have a majority stake found it easier to borrow, because the appearance of foreign owners signalled to the bank a favourable financial situation in the company. From the middle of the '90s – after which the informational asymmetries decreased in Hungary – the signalling effect of foreign ownership decreased.

The necessity of transformation of ownership structure came from political changes. The macroeconomical circumstance of foreign indebtedness of the country forced the government to privatise. Privatisation became necessary in such an environment, which brought about a quick change in the ownership structure. As a result, foreign ownership became very significant.

In such circumstances privatisation is considered as a special factor that meaningfully increased the ratio of equity to the total assets. After mass privatisation ended, the country's ability to lock in foreign direct investments decreased considerably. It became typical that if the strategic owner was foreign, the capital leverage was higher.

My hypothesis was that between 1992 and 1995 the equity had a determinig role in capital structure. After 1995 the importance of external capital increased, especially in foreign-owned companies, and capital leverage increased year by year, while the retained earnings were also increasing.

Method of examination: quantifying the correlation between the foreign capital ratio and the capital leverage, and measuring the median of capital structure grouped by ownership structure and industrial sector.

Result of examination: There is a positive correlation between foreign ownership and capital leverage. The correlation coefficient weakens in the last four years of the examined period, so the existence of a foreign owner gradually comes to have a smaller effect on the capital leverage, and the domestic companies have a similar capital structure. In every industry I measured higher capital leverage in the case of foreign-owned companies, but the difference in capital structure between the foreign and domestic companies differed from industry to industry.

Examination of maturity matching

In my assumption the principle of maturity matching would not prevail in the case of the Hungarian companies; the companies would have to finance some of their fixed assets from current liabilities.

According to the principle of maturity matching, companies finance their fixed assets from long-term sources, while their current assets are financed from current liabilities. If we establish the financing strategy, it is important to consider the basic rule that long-term investments should be financed from equity or long-term liabilities, and current assets may be financed from current liabilities (Bozsik 1998). In the frame of this hypothesis, I examined whether the Hungarian companies have followed this rule.

Method of examination: In the interest of examining maturity matching I have counted the fixed assets to equity and long-term liabilities ratio. The [fixed assets / (equity + long-term liabilities)] indicator informs us to what extent the company uses the capital to finance its fixed assets. If the value of the indicator is lower than 1, the company does not use its whole capital to finance its fixed assets, but instead some of its current assets are also financed from long-term sources, i.e. the company follows a conservative strategy. If the ratio is over 1, the amount of fixed assets is greater than the size of capital employed; in this case we are talking about an aggressive strategy for the company.

Result of examination:

The Hungarian companies fulfil the principle of maturity matching; the current assets are financed from current liabilities, the fixed assets are financed from capital employed, i.e. (equity + long term liabilities).

Corporate capital structure between 2004-2010

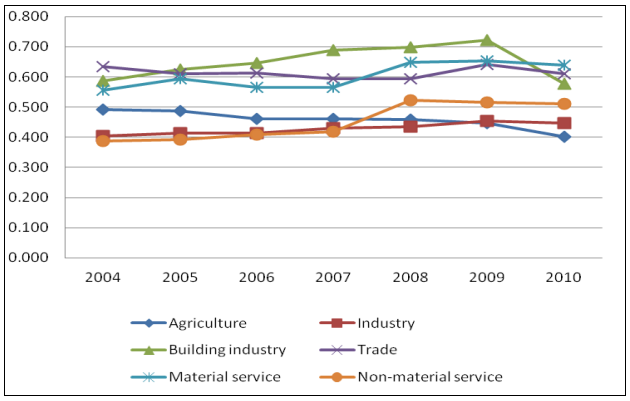

Figure 2. [Total liabilities/liabilities and equity] ratio by sector in Hungary, 2004-2010

The figure above shows the changes in the capital leverage between 2004 and 2010. This period can be splitted into two parts– before and after crisis periods. In the firt period (from 2004 till 2008) you can see the increase of capital leverage similarly to the previous figure. There is only one exception – the agriculture. In the agriculture the increase of capital leverage stopped in 2003, and thanks to the enter in the European Union, the indebtedness began to decline. The main reason behind this break could be the vast increase in subsidies which replaced the bank loans.

In the opposite side we can detect a big increase in capital leverage in case of building industry. Following the booming period of the Hungarian economy, the building industry faced big demand (motorway building, new homes). To meet the increasing demand, the industry requires higher level of loans. But this opportunity turned to a major concern, when the economic crisis broke up. The build offices, houses can not be sold, and the industry is now forced to pay back the raised loans. The difficult situation of building industry caused high losses for the Hungarian banks as well. For example the Hungarian Foreign Trade Bank should have written off 160 billion forint impairment to project loans granted for building office houses. The industry branch represents the widest range of activity from mining to processing industry. The figure above shows a slight increase in capital leverage till the crisis. Unfortunately we cannot draw generalised conclusion from that fact, because the major actors are here the local subsidiaries of multinational companies, where the size of capital function is the function of the way of profit repatriation. If the parent company decides to withdraw the money as interest, the Hungarian subsidiary have high capital leverage (high ratio of inter-company credit). If the main way of profit repatriation is the transfer prices, or leasing, the capital leverage is low. The credit terms of Hungarian banks are not competitive with the bids of Western banks, so it is very rare, that a multinational company raises loan in Hungary.

The capital leverage of trade branch didn't change dramatically. There was a moderate decrease in the first part of period, then a slight increase between 2006-2008, and after the crisis a small decrease again. The loan requirements of trade is generally not too sensitive to the economic cycle. The operating loan of trade depends on the average stock turnover, and the trade business requires only limited project loan.

The material and the non-material services can be treated together, because the shapes of their capital leverage curve are very similar. The material services requires higher leverage. These services include freight, accommodation, real estate deals. The non-material services requires less capital but more labour force, since they include education, health care, and other services. Naturally the capital investments requires project loans that is the reason why the material services use more loan – consequently have got higher leverage. However it is an interesting fact that the leverage of non material services advanced the leverage of industry in 2007. This is a not healthy phenomenon, it shows the accelerating indebtedness of public institutions as universities, hospitals and museums.

I think this chart perfectly demonstrate the sensitiveness of leverage to economic cycles (in the booming period we see an increase of leverage, while in recession there is a decline), but also we see, that the cycles don't affect the same extent to the different industries. The most sensitive leverage can be detected by the building industy, the least change can be observed by the processing industry and trade.

CONCLUSION

The research results draw attention to the gap between theory and practice. Knowledge of this gap helps to draw the attention to narrowing the assumption of models, and to bringing theory nearer to practice. The introduced theories, taken together, shed light on which factors (may) influence the corporate capital structure. However, the importance of influencing factors varies in different countries, sectors, and companies, and from one period to another the extent (and perhaps the manner) of influence changes. The introduction of various theories highlights the variety of possible approaches, and points out that a variety of views should be considered during the examination. The comparison highlights the strengths and weaknesses of a number of theories.

It is important to consider that the influencing factors of capital structure are split into two distinct groups (macro- and corporate factors). The full list of factors influencing the capital structure can be only discovered by examination of both. This study focuses on the influencing role of corporate factors.

It may be very useful for the corporate specialist to know the influencing role of corporate factors when developing a effective financing policy, and it may

encourage maximising the corporate value through the decrease of capital cost. The results illustrate expressively that no single theory has exclusive importance in forming capital structure, but several theories are relevant. This recognition can help executives to determine the relevant factors in how business decisions react to financing policy.

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