UNIVERSITY OF MISKOLC
FACULTY OF ECONOMICS

JUDIT SZEMÁN

THE ANALYSIS OF CAPITAL STRUCTURE OF THE HUNGARIAN CORPORATE SECTOR BETWEEN 1992 AND 2003

Theses of Ph.D. dissertation

Miskolc, 2008

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Theses of PhD dissertation

NAME OF DOCTORAL SCHOOL: ENTERPRISE THEORY AND PRACTICE DOCTORAL SCHOOL

HEAD OF DOCTORAL SCHOOL: Dr. Aladár Nagy
Professor
Doctor of economics

SCIENTIFIC LEADER: Dr. András Vigvári
Associate professor
CSC of economics

Miskolc, 2008

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1. JUSTIFICATION, AIM AND STRUCTURE OF RESEARCH FIELD

The topic of corporate leverage has been standing from the 1960's in the focus of heavy scientific interest. The debate started with the famous paper of Modigliani-Miller [1958], if the value of company is solely determined by the cash flow generated by the corporate assets, or the capital structure – the leverage between debt and equity - has got some influence on it. The main question occurred, if there is any optimal capital structure, which helps the company to maximise its market value. The related huge professional literature is primarily made by Anglo-Saxon authors, and the empirical researches examined mainly the corporate capital structure in the developed countries. Relatively little attention was devoted to the less developed countries, especially to Hungary. That was the reason, why I have chosen this mainly undiscovered field to my research interest.

The aim of dissertation is - near the introduction of theories relating the capital structure – to examine the factors, which influence the corporate capital structure.

The influencing factors are spitted into two distinct groups:

The *macro factors* are those, which determine the operational environment of companies, which appears as external making for them and the companies cannot manipulate them directly. The *corporate factors* are those, which derive from the corporate's circumstances, from the strategic goals of company, and the company is able to influence them.

I consider ***my primary task***, to examine which are those ***corporate factors***, which play a significant role in determining the capital structure in Hungary. This aim is supported by an available corporate database, which contains data on balance sheet and income statement of companies from period of 1992-2003. 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, the macroeconomic factors and their big changes may have a significant role in forming the capital structure. Inside of macro factors I emphasised the development of bank sector, the development of financial intermediaries, the establishment of legal regulation, as the major factors influencing the capital structure.

It is well-known, that in the 90's enormous changes have happened in the structure of Hungarian economy, which influenced the tradition of corporate financing. In line with political changes foreign owned companies appeared which adopted the financing strategies of their mother companies.

Near the ownership structure there were significant changes in the sectorial structure of economy. The share of agricultural sector has decreased; the share in employment and in GDP has shift in favour of machinery and services (especially telecommunication and financial services). The dissertation examines the whole corporate sector in sectorial stripping. The former capital structure analyses regarded to the processing industry in Hungary.

By nowadays enough long time has spent to draw appropriate conclusions from the available data to the tendency of corporate capital structure of a transition economy – i.e. of Hungary.

The structure of dissertation is the following:

Chapter 1 contains the introduction**.**

Chapter 2 gives a brief overview on the conceptual framework related to the corporate financing and capital structure. I review the concept and content of financing and capital structure.

Chapter 3 summarises the capital structure theories.
After the traditional theory [Durand, 1952], the first milestone of comprehensive corporate capital structure theory were laid down by Modigliani and Miller in their famous paper published in 1958. The two authors proved that the total value of corporate is independent from its capital structure in perfect market. This paper encouraged the researchers to examine this relationship, if they released the assumptions of perfect capital market.

The further researches can be spitted into two basic groups. The first group contain the papers examining the problem of taxation [Modigliani-Miller, 1963; Miller, 1977; Myers, 1984]. The trade-off theory, which belongs to this group, is searching the answer, what is the optimal leverage, which maximise the value of equity. It compares the advantages and disadvantages came from increasing the indebtedness. The advantage of raising loan is the tax shield of interest, the disadvantage of raising loan is, that the chance of occurrence of financial distresses increases and the incremental must be paid by the company. The optimal capital structure is there; where the marginal income from interest tax shield is equal the expected marginal cost coming from increasing of bankruptcy probability.

Since the taxes still haven't given always appropriate explanation to the two basic questions, why and how much loan should the company 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 had got significant effect on the issue of capital structure.

The *agency theory* explains the capital structure in case of companies where the ownership and management is spitted [Williamson, 1988]. The root of problem is that the interest of principal (owner) and agent (management) differs. The management is generally interested in increasing the organisation and his/her income, whereas the shareholders are interested in share price increase. The change in capital structure helps to solve the occurred clashes, since the increasing indebtedness press the management to achieve better performance.
According to the capital market theories based on asymmetric information one actor of market has more information than the others. The other actors observe the signals of this particular actor and deduct the information from these signals. That is the reason, why these models are often referred as *signalling theories*. In 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-Majluf, 1984; Harris-Raviv, 1991].

Chapter 4 introduces the influencing factors of capital structure based on the former empirical researches. Several papers examined the validity of theories and the importance of influencing factors in various countries and in various country groups. Major part of these researches focused on developed countries, and the Central-Eastern Region, especially Hungary got relatively little attention [Rajan-Zingales, 1995; Booth et al, 2001; Prasad et al, 2001; Balla-Mateus, 2004; Szórádiné, 2004].

The companies cannot influence some of these factors (macroeconomic ones), since these are formed by such important historical phenomena as the development of capital structure and the features of bank system, current corporate taxation and the characteristics of bankruptcy law. However some factors can be modified by the companies (micro factors), and through modifying

these factors they influences the capital structure. These are the followings: structure of assets, size of company, profitability, growing opportunity, corporate business risk, and the tax shield of interest, ownership structure and the sector of business.

Chapter 5 contains the capital structural researches in Hungary.
In the first chapter I introduced the features and tendencies of corporate financing in the recent 15 years in Hungary and in the Central-Eastern European countries. I targets with this analysis to map those relevant *macroeconomic factors* which mostly influenced the financing policy and capital structure of companies operating in this region.

Parallel with increase in efficiency and productivity followed by the privatisation of companies the profitability of companies has also grown and the companies began to retain their net income according to the international tendencies. They recognised that the equity and the retained earnings should be the major source of company's growing. Near the internal financing the external financing has got an important role.

In the Hungarian economy the foreign companies and the joint ventures companies respectively have got important economic role. The *corporate ownership structure* and – inside this the *share of foreign interest* – may play meaningful role to determine the corporate capital structure.
General experience is that the *size of company* influences the capital structure.
Typical tendency is in the examined period (1992-2003), especially in the first period, that whereas the banks financed the working capital loan continuously and without any problem in the region, it was very difficult to *access loans for corporate investments*, especially in case of small and medium sized enterprises. That's why the financing situation of small and medium sized enterprises may be characterised by the lack of equity, the underdevelopment of capital market, the low income and low savings potential.
Important factor is which type of expenses from profit is preferred by the *tax system.* The company management strive by choosing the proper leverage to maximise the investors' realised income.
The company corporate structure may be affected by the *sector of industry*. It is well-know, that there are industries, which require high balance of tangible assets and there are those, where the share of intangible assets are high. The former researches haven't resulted unambiguous result on the relationship between these two factors and the capital structure, that's why I have made this examination.
The internal sources are generally available for *profit making companies*, thus the share of external sources may be less in the capital structure of these companies.
The volatile cash flow of *risky companies* cannot make the high fixed debt service possible, thus the risky companies may have lower liabilities, than the less risky companies.
The determined factors were tested on the database of Hungarian corporate system in period of 1992-2003 with various statistical tools. Based on these examinations I stated which theories have got relevance in the pattern of a transition economy – i.e. Hungary.
Furthermore the research results may draw the attention of corporate executives on those factors, which are worth considering if the corporate structure is determined.

Last part of dissertation contains the summary of research results.
Here I review the fulfilment or denials of hypotheses, formulate the most important deductions of dissertation, and suppose how my research results can be utilised.

2. RESEARCH BACKGROUND AND METHODOLOGY

I began my professional work in 1987 as corporate creditor in a newly established commercial bank. Major part of my work came to connect the enterprises, to process the corporate loan application and to score the potential debtors. In frame of this work I might get acquainted with the expectation of bank towards the potential debtors and the financial operation of companies.

I have been working at the Department of Finance of Miskolc University since 1993. The corporate finance is part of my educational duties, whose special fields are the corporate financing and the capital structure, which I deal as researcher with.

The empirical examination was made in two approaches:

- The macroeconomic analysis related to tendencies of corporate financing and capital structure in Middle-Eastern Region and Hungary has been made from various international and domestic statistical databases and from various analyses respectively. Main on-line databases were: EBRD Transition Reports, World Development Indicators, MNB Reports on Stability.
- Discovering the factors influencing the capital structure of Hungarian corporate sector was the aim of microeconomic analysis. The Ecostat database was the base of empirical research, which contains annual balance sheet and income statement items from period between 1992 and 2003. The comparable data series are available from the beginning of the chosen period. The radical change of economy can be taken to the first half of the examined period, whereas the non financial companies can operate in the second half of period relatively in consolidated circumstances. So the examined period gives a good opportunity to analyse. The examinations have been made with the application of SPSS 14.0 statistical program package.

3. THE NEW AND NEWSY STATEMENTS OF RESEARCH

Among the macroeconomic factors influencing the capital structure I have examined those, which I judged relevant ones, primarily the development of bank sector and financial intermediary sector and the institutions and operation of capital market respectively.
I have examined the typical Eastern-European and Hungarian financing and capital structure tendencies from the beginning of 90' till nowadays compared with macroeconomic changes.
I have spitted the past period to three stages, based on the observed typical changes in corporate financing and corporate capital structure.
The first stage of period is the *era between 1987-1995*, which is characterised by the 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 system, which made the privatisation and the development of a modern economy possible. The establishment of two-tier bank system meant one of the most important station 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 the debt service capacity became the base to judge the credit application. The refinement and improvement of credit scoring system took long lasting years in the commercial banks. The other important station was the mass privatisation in point of capital structure, which made the company possible to access fresh capital.
The *second part of 90's* gives the second stage of period, which main characteristic is the quick increase of corporate leverage. From 1996 the Hungarian economy entered a long lasting increasing phase and the equilibrium also improved. The solvency of corporate sector was strengthened by the better than ever market prospects, whereas the credit risk of banks also decreased, their attitude to providing loan increased. The companies utilised the opportunity to raise loans from abroad. The increase of investment appetite encourages the increase in leverage.
The first years of 2000's gives the third stage of period, which is described by the emerging to the European average level of leverage. The capital leverage of Hungarian corporate sector became very similar to the average of European Union. The indebtedness of Hungarian corporate sector cannot be considered high compared with international standard, but the share of loans increased further. However the dynamics of loan increase is 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 macroeconomic system in line with the moderation of risk, resulted 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 happened in that respect in the recent 15 years. There is a fierce competition for clients and for lending opportunities in the bank industry. The financing of small and medium sized enterprises means the growing opportunity for banks. The capital leverage (liabilities/equity) of Hungarian companies reached the EU average in the new millennium. The term structure of loans changed favourably, the dominance of long term loan changed over the former ruling short term loans. The foreign currency loans and the credits provided by the foreign owner have got a significant role. The stock exchange has got moderate importance in financing the companies.

The results of company factor analysis are reviewed by grouping them into two theses:

- In the firs part I examined the validity of the corporate leverage influencing factors based on mainstream theories in Hungary. According to my examination this factors influence the capital leverage in Hungary, but their effect on decision is not always the same as in the developed countries. (Thesis I and its sub theses).

- The second part concentrates such factors, which haven't been placed in the focus of former examinations, thus they effect on capital structure especially in transition countries. (Thesis II and its sub theses).

Thesis I: The classical corporate factors influencing the capital structure effect on the Hungarian capital structure, but the direction of relationship is not always the same as the assumptions of capital structure theories and experiences in developed countries. I mean the explanation factors formulated in Anglo-Saxon literature on classical factors.

The majority of studies have found the following relationships in 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 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-Raviv, 1991].

These factors in the particular countries – together with the macroeconomic factors - effect in different way to the capital structure policy.

I have chosen the total liabilities/liabilities and equity and the long term liabilities/liabilities and equity as dependent corporate leverage indicator.

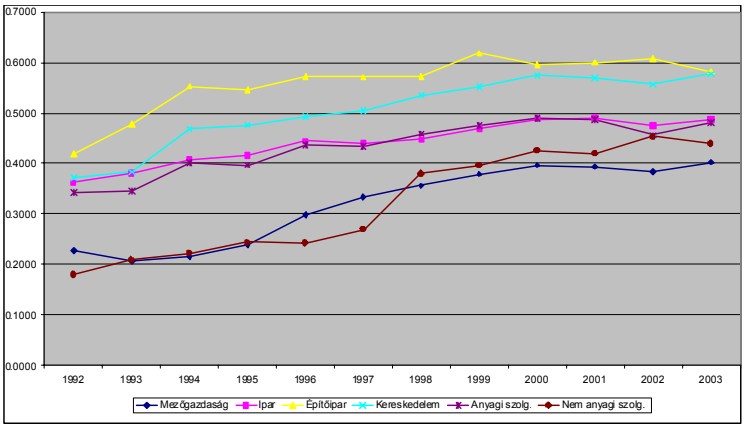

Chart 1 –Total liabilities/liabilities and equity ratio in the particular sectors in Hungary between 1992-2003

For validating thesis I have examined – as the database allowed me – the relationships between the explanation factors and the dependent variables in case of Hungarian enterprises.

Sub theses:

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 90's in case of Hungarian companies. This relationship is gradually becoming a positive one in line with the end of transition to market economy similarly to the developed countries.

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

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

The agency theory states, that the owners of strongly indebted companies tend to investment lower than optimum (since 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 tend to give loans for companies with high share of tangible assets.

In case of countries transited to market economy as in case of Hungary it is important to consider the fact, that there was credit crunch till the middle of 90's, so the banks didn't give new loans in significant size due to their former loss-making lending activities. It is also important to note, that the obsolete asset portfolio of big state owned enterprises couldn't be good collateral for bank loans.

Other important fact in this respect is the lack of secondary market of tangible assets. The bank couldn't or hardly sell the tangible assets confiscated as collateral. In my assumption these problems became gradually moderate from the second half of 90's in line with the strength of market economy and then they came to end.

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

Result of examination:

I/1. The negative correlation of share of tangible assets and capital leverage is valid for the whole period. The trade-off theory and the agency theory didn't prevailed in this period in Hungary, but it is important to consider, that the low level of liability ratio had got reasons out of company in the first and in the second stage of period and not the lack of tangible assets was the reason of it. Examining the last year of period, I stated, that the firms generally have got 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 in case of Hungarian enterprises, too.

The size of company effects on its capital leverage from the following reason:

The greater companies are generally more diversified and the probability of occurrence of financial distress is less, than in case of smaller companies according to the trade-off theory. 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 greater firm. The above hypothesis is strengthened by the fact, that the larger firms provide more and more reliable information for markets, thus the cost of informal asymmetries are smaller. Furthermore economy of scale appears in bank, since the interest income is much larger compared the cost of granting in case of a great company. Due to the above I think that the greater company has higher capital leverage, than a smaller one.

Method of examination: 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:

I/2. The positive relationship between size and capital leverage cannot be proved. If we consider the number of staff as a size of company and the capital leverage indicator is the total liabilities/total assets, and then even the opposite is true to the Hungarian companies, namely the larger is the company; the lower is the capital leverage. If the examined indicator the long term liabilities/total assets, than there is no significant difference in point of capital leverage among the companies with different size. If the net sales of the company are considered as the measure of size; it hasn't got significant relationship with any of capital leverage indicators. Based on this result the trade-off theory and the agency theory cannot be proved from 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 – whose significant part is the profit of company – the company satisfies its financing needs from this and not from raising loan.

I assume the validity of the popular pecking order theory, which is supported by the fact, that the majority of empirical researcher discovered 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 is the profit of company, the higher leverage is more favourable for the company due to the greater extent of interest tax shield.

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

Result of examination:

I/3. *To examining the relationship between the 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, the companies made their decision to capital leverage rather on the grounds of pecking order theory. The trade-off theory can be denied, which assumes a positive connection between the two factors – saying, that the profit making firm strive to utilize the interest tax shield via raising loans.*

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

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

There are several approaches related to the liquidity in the theories about capital structure. The *pecking order theory* – which is successfully tested in several studies – states, that the firms with high liquid asset ratio finance their investments by mobilizing these liquid assets, and don't turn to banks for loans (neither to investors for further equity).

Other part of researchers argues that those companies can get loans with good chance, whose liquidity ratios are high, since they are able to perform the required debt service towards the bank.

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

I have chosen my hypothesis on grounds of pecking order theory, because this view is closer to the Hungarian historical tradition and to the Hungarian mentality, that you should accommodate your pleasure to your purse. Leastways the companies turned to bank loan only if they couldn't achieve their targets from internal sources.

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

Result of examination:

I/4. The pecking order prevails in connection between liquidity and capital leverage, namely if the company has liquid, usable assets, doesn't raise loans for financing.
The agency theory cannot be proved based on the Hungarian sample. According to this theory the high level of liquid assets encourages the owners to keep high amount of loan, 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 company is measured by the volatility of operating profit. The volatile operating profit doesn't allow the payment of high fixed debt service, thus the firms should abstain from large loans. The big loan raising would increase the probability of bankruptcy, thus the *trade-off theory* states.

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

Result of examination:

I/5. I haven't found the connection proposed by the theory between the volatility of profit and the level of capital leverage; the volatility of operating profit doesn't influence the liabilities/equity ratio significantly in the examined period.

Tax shield of interest – Test of Proposition II of Modigliani-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 company strive to maximize the investors' realized income. The change of corporate tax rate leads the change of capital structure.

The proposition II of MM overemphasises the importance of tax shield with its derived deduction. The *trade-off theory* draws the attention, that the tax shield is available only for profit-making companies.

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

Since the interest of loan can be accounted as an expense, the favourable effect of loan rising for company is to decrease the corporate tax base. The bigger is the tax rate, the more favourable is that base reduction effect. I suppose that the companies transformed their capital structure after the tax rate reduction. Since the advantage of using debt decreased, they lowered the share of loan in the capital structure.

Method of examination: I have examined, how sensitive is the capital structure on the tax advantage reduction 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 suppose that those companies would lower their capital leverage, which widely used loan to finance their activity. So I spitted 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 the median of 0.5 and below.

Method of examination:

I/6. The enterprises indebted below median didn't reacted the corporate tax rate changes in their capital structure, that's why they didn't decrease their balance of loans because of the tax shield of interest, since the this advantage weren't too significant for them compared to the growing profit opportunities came from investments. However the enterprises indebted above median felt the changes came from corporate tax rate decrease, and they decreased their balance of loan, but in small extent. This fact is worth considering, since against the dynamic increase of loan ratio the enterprises indebted above average decreased their balance of loan. Based on this result I accepted the stated hypothesis, that the enterprises strive to utilise the tax shield, the tax system has influencing role on the capital structure.

Industry sector – Test of mob spirit

The industry sector influences the capital structure of company.

The enterprises observe their competitors and abide to develop totally different capital structure than the average. The theoretical explanation of this phenomena is, that every industry sector has got a special risk characteristic, to which the capital structure of companies belonged to the given sector should justify.

Method of examination: I have examined the importance of sector in the corporate capital structure with the help of variance analysis regarding the fact, that the sector is a qualitative variable. I have applied the firs two digits of industry code – TEÁOR – as an explanation variable.

Result of examination:

I/7. The mob spirit prevailed moderately in the examined period, the larger was the company, and the closer was the company's capital leverage to the industrial average according to the examination.

H2: The factors identified in the developed countries don't perfectly explain the changes in the capital structure in the countries transferring to market economy – also i.e. in Hungary. In the transitional economies special factors are also significant.

In the further part of my dissertation I have examined some special factors. I have searched the answer, what kind of special factors appeared in Hungary to determine the capital structure beyond the examined "classical" factors.

Sub theses:

Ownership structure

In my assumption the size of foreign ownership influences the capital structure decisions.

Those companies, where the foreign owners has got majority stake, borrowed easier, because the appearance of foreign owners signalled to the bank a favourable economic situation of company. From the middle of 90's – thereafter the informational asymmetries decreased in Hungary – the signalling effect of foreign ownership decreased.

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

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

In my assumption between 1992 and 1995 the equity has got overwhelming role in capital structure (after closing the mass privatization) the equity has got determining role. After 1995 the importance of external capital increased, especially in the foreign-owned companies, and the capital leverage was increasing year by year, however the retained earnings were also increasing.

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

Method of examination:

II/1. There is a positive correlation between the foreign ownership and the capital leverage. The correlation coefficient has weakened in the last third of examined period, so the existence of foreign owner has got smaller and smaller effect on the capital leverage, the domestic companies has got similar capital structure. In every industry I measured higher capital leverage in case of foreign companies, but the difference in capital structure between the foreign and domestic companies differed in industry to industry.

Examination of maturity matching

In my assumption the principle of maturity matching didn't prevailed in case of the Hungarian companies, the companies were ought to financed one part of their fixed assets from current liabilities.

According to the principle of maturity matching, the companies finance their fixed assets from long term sources, their current assets are financed from current liabilities.

If we establish the financing strategy, it is important to consider the basic rule, that the long term investments should be financed from equity or long-term liabilities, the current assets may be financed from current liabilities. In the frame of this hypothesis I examined if the Hungarian companies have kept this rule.

Method of examination: In interest of examining the 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, in what extent the company uses the capital employed to finance the fixed assets. If the value of indicator is lower than 1, the company don't use its whole capital employed to finance its fixed assets, but one part of its current assets is also financed from long term sources, i.e. the company follows 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 aggressive strategy of 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.

4. THE APPLICATION OPPORTUNITIES OF RESULTS

I have showed how the company capital structure changed in Hungary between 1992 and 2003. One of the most important lesson, that the corporate capital structure has got secondary importance, the companies make primarily production, market and investment decisions, and the financing decisions are the derivation of these primary decisions. This secondary manner is even more typical in Hungary and in the other transition economies, where the financial culture still has got low level (however it developed with big steps in the recent years), the financial markets are underdeveloped and the companies prefers traditionally to use internal sources against the loans with interest and principal payment obligation.

The earned information can be used in several ways.

- The research results draw the attention to the gap between the theory and the practice. The knowledge of this gap helps to draw the attention to narrow the assumption of model, to near the theory to the practice. The introduced theories reflects altogether, which factors (may) influence the corporate capital structure. However the importance of influencing factors are other in different countries, sectors, companies, and period to period the size (and perhaps the way) of influence changes. The introduction of various theories highlights the variety of possible approaches, and points, that this variety of views should be considered during the examination. The comparison highlights the strengths and weaknesses of theories.
- It is important to consider, that the influencing factors of capital structure are spitted into two well distinct groups (macro- and micro factors). The full list of factors influencing the capital structure can be only discovered with their common examination. This dissertation discovers the influencing role of micro factors. The examination makes the analysis of these influencing factors to the whole industry grouped by sector.
- To know the influencing role of micro factors may be important for the corporate specialist to develop a cute financing policy, and it may encourage through the decrease of capital cost to maximize the corporate value. The results illustrate expressively, that any solely theory hasn't got exclusive importance to form the capital structure, but several theories have got relevant content. This recognition helps the executives to determine the relevant factors, how the business decisions react to the financing policy.
- The results of research can be used in the education, since the relevance of the theories in the example of a transition economy can be shown through them.

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