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THE ROLE OF DEBT CAPITAL IN CORPORATE FINANCING – OVERVIEW OF SELECTED SURVEYS

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Abstract The ability to create acompany's own capital structure with asimultaneous lack of universal solutions makes this issue afavorable subject of considerations. The aim of this article is to summarize selected surveys on the role of debt and financial leverage in corporate financing observed in the case of Polish companies. Based on the conclusions of the presented surveys, certain regularities were noticed. In most of the companies, equity was the main source of financing, whereas debt was used only in the case where internal sources of financing appeared to be insufficient. As a consequence of such an approach, the level of debt was relatively low and it may be concluded that companies benefited carefully from financial leverage. The external financing was limited to its most basic sources (i.e. bank loans and leasing). The conditions necessary to achieve the positive effect of financial leverage were most frequently met in large companies, which used external financing to a greater extent and had easier access to debt. The surveys confirmed that in principle adebt increase was not aconsequence of detailed analysis of capital structure, but rather aresult of current production needs or weak financial performance. It seems that tax shields (in aform of interest cost), increase of return on equity as aresult of positive effects of financial leverage, target debt ratio as well as costs of financial distress generally did not significantly affect the decisions on sources of financing. On the contrary, risk of insolvency associated with financial leverage, credit rating, the availability of debt and its cost had a significant impact on the capital structure (with amajor share of equity).

JEL Classification: G39
Keywords: debt, equity, capital structure, financial leverage

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Introduction

The capital structure of a company is composed of accumulated equity and debt. Equity, being an essential source of financing, may originate from internal and external sources. Internal sources of financing, which are generated by the company itself, include in particular retained earnings, depreciation and reductions of assets (Duliniec, 2007, p. 31). External sources of financing originate from resources generated or gathered by other entities such as banks, capital market investors and suppliers. All forms of increased liabilities, except for increase of equity due to retained earnings, should be classified as belonging to this category which includes in particular issuance of shares or increase of share capital.

All interest bearing liabilities are classified as debt. To this category belong in particular: loans (mainly bank loans and loans from related parties), debt securities (corporate bonds and long-term debt securities) and financial leasing. It is particularly important that these liabilities are a result of investment decisions aimed at achieving an expected rate of return, which is primarily influenced by interest rates. Debt is obtained solely from external sources (Duliniec, 2011, p. 37-40). Equity is the most stable form of financing and has a significant impact on liquidity. Return on equity may be increased through a reasonable utilization of

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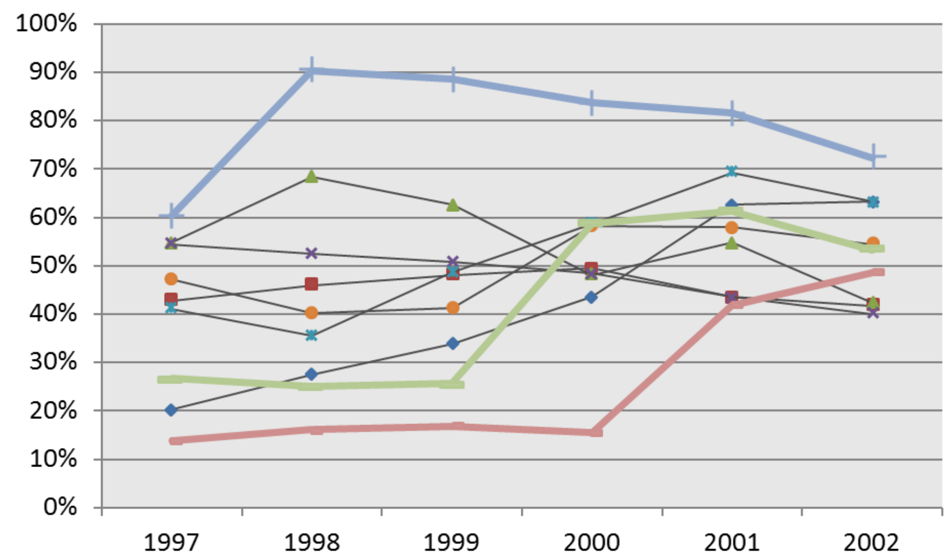
debt. This will particularly apply in a situation where the cost (interest rate) is lower than the return on equity ratio. The return on equity would be increased as a result of growing participation of debt in total financing. However, at the same time, the increase of debt augments the financial risk, which may lead to higher costs of financing and even loss of liquidity. Therefore, the optimal capital structure should be shaped in a way which allows for maximization of return on equity, however, under an acceptable level of risk (Bień, 2005, p. 202). In general, an appropriate balance between equity and debt leads to an increase of a company's value. The ability to create a company's own capital structure with the simultaneous lack of universal solutions makes this issue a favorable subject of numerous publications and surveys. This article is an attempt to summarize the results of selected surveys conducted among Polish companies.

Survey regarding 9 large companies from the furniture industry, covering the period 1997-2002

The aim of this survey was to identify the preferred sources of financing and analyze the use of financial leverage (Długosz, 2005, p. 77-90). Financial statements, quarterly reports published by the brokerage houses and publications of the Central Statistical Office[1] [CSO] were the primary sources of information.

The survey showed that equity was the main source of financing, whereas debt had a supplementary nature only. Eight out of nine surveyed entities explicitly restricted the use of debt, which led to minimization of financial risk. As a result of such a conservative approach, the share of debt in total equity was rather low (except for one company, it did not exceed 70%).

Chart 1: Debt to equity ratio



Source: Długosz, J. (2005). Konsulting w kształtowaniu struktury kapitałowej prowadzącej do poprawy rentowności przedsiębiorstw. In M. Dębniewska (Ed.), Konsulting finansowy w strategii przedsiębiorstw i instytucji finansowych. Olsztyn: Wydawnictwo Uniwersytetu Warmińsko-Mazurskiego (p. 77-90)

In the case of three companies, the share of debt in total equity was growing significantly over the period under review. One of the enterprises was distinguished as far as its funding strategy is concerned. Solving current financial difficulties by incurring new liabilities led to a situation in which the share of debt in total equity exceeded 90% in the year 1998.

1 Główny Urząd Statystyczny.

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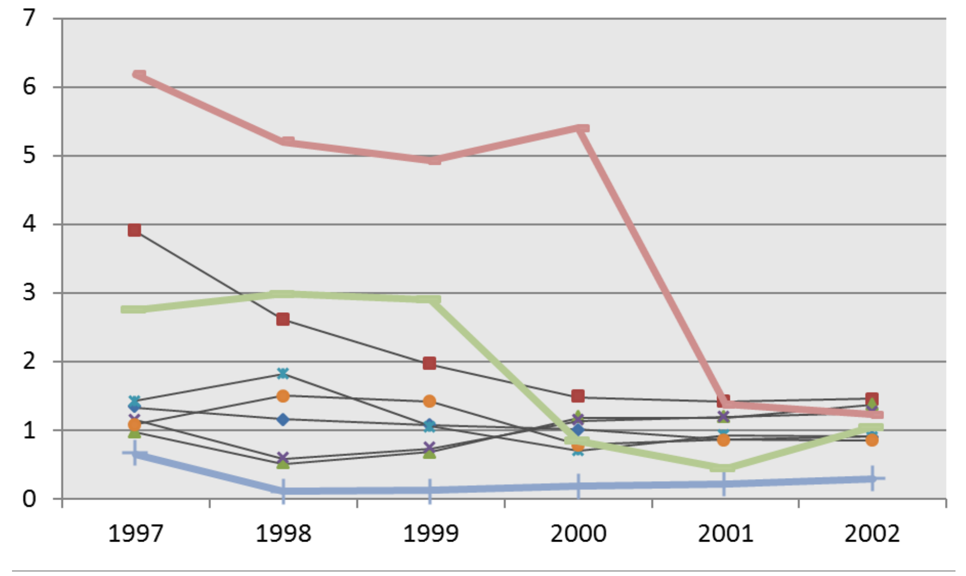
Chart 2: Equity to debt ratio



Source: Długosz, J. (2005). Konsulting w kształtowaniu struktury kapitałowej prowadzącej do poprawy rentowności przedsiębiorstw. In M. Dębniewska (Ed.), Konsulting finansowy w strategii przedsiębiorstw i instytucji finansowych. Olsztyn: Wydawnictwo Uniwersytetu Warmińsko-Mazurskiego (p. 77-90)

In the period under review, the majority of companies financed their business activity more frequently with equity than debt. This confirmed the general trend indicating the supplementary nature of the latter source of financing. Only in the case of one company the equity to debt ratio did not exceed 1, which means that its business activity was financed heavily from debt. The survey indicated that not only higher sales, increase of profits or a positive effect of financial leverage, but also costs of credit had a significant impact on the level of equity to debt ratio.

Bank loans (mainly short-term) were the most frequently used source of external financing, although due to high interest rates they were perceived as rather expensive. Similarly, expensive sources of debt such as leasing and factoring were used primarily due to their availability. On the other hand, bonds, a relatively cheap source of debt, were issued only by two companies. Four companies benefited from various sources of debt, whereas the majority limited external financing to its most basic sources (i.e. equity, bank and commercial loans).

The above survey confirmed that financial decisions have a direct impact on the company's situation. Nevertheless, in most cases, debt increase was not a result of a deep capital structure analysis, but rather a result of current production needs or unfavorable financial results. When benefiting from debt financing, most of the companies did not take into consideration optimization of capital structure, but simply used debt to rationalize capital allocation. Companies of sound financial standing choose various sources of debt, after taking into consideration capital cost and its availability. On the contrary, companies with an unfavorable financial standing focused mainly on the liquidity and possibility of obtaining any financing.

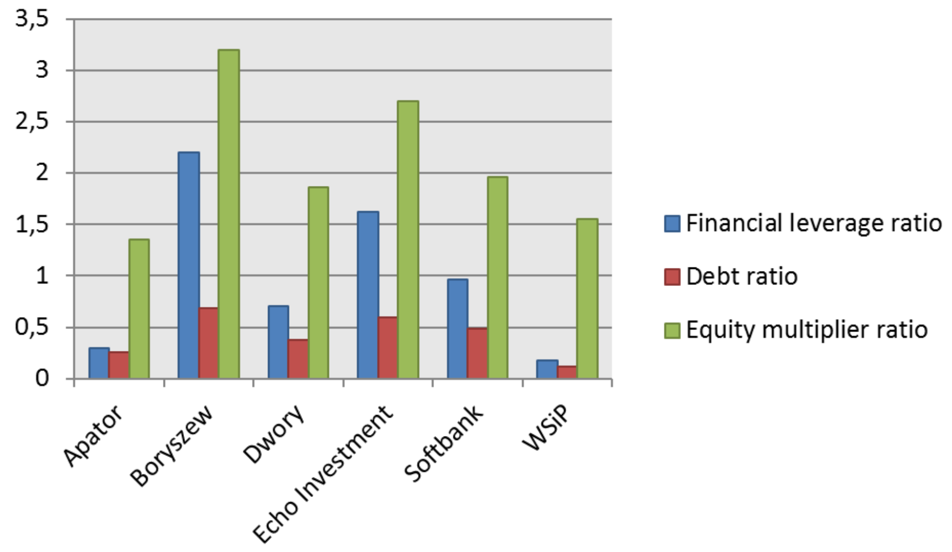
In the case of seven companies a condition in which there was a benefit from financial leverage was not met at all[2]. This resulted mainly from cost of debt, low return on equity, low production efficiency and delayed restructuring processes, which i.a. aimed at redistribution of operating costs. To sum up, the use of debt in 1997-2002 did not provide favorable results in the form of increasing return on equity.

Survey regarding 7 medium and large companies listed on the Warsaw Stock Exchange [WSE], covering the year 2005

The aim of this survey was to gather information on the policies applied by Polish companies with respect to shaping capital structure (Grzywacz, 2008, p. 157-167). Three of these companies operated in the industrial sector (Apator S.A. (production of energy equipment), Boryszew S.A. and Dwory S.A. (chemical industry)), whereas four operated in services (Bank BPH, Echo Investment S.A. (real estate services), Softbank (IT services), Wydawnictwa Szkolne i Pedagogiczne (publishing services)). Responses to a questionnaire prepared for the purpose of this survey served as the primary source of information.

2 This condition is met, in the case where return on equity exceeds the rate of interest payable on debt.

Chart 3: Capital structure ratios in 2005



Source: Grzywacz, J. (2008). Kapitał w przedsiębiorstwie i jego struktura. Warszawa: Szkoła Główna Handlowa, p. 157-167

The clearest effect of financial leverage was noticed in Bank BPH (7.6). However, due to the fact that the bank belongs to the financial sector (subject to specific regulations), it is difficult (or even impossible) to compare and analyse these figures together with results obtained for non-financial sectors. In the case of companies from non-financial sectors, financial leverage impact was visible in Boryszew (2.2) and Echo Investment (1.62). In these three entities also the highest debt ratio and equity multiplier ratio[3] were recorded. Bank loans were the most frequently used source of debt (six out of seven companies benefited from this source of financing). Only four companies obtained capital via issuance of bonds. Few companies mentioned credit ratings, tax shields or costs of financial distress as factors influencing the capital structure[4].

This survey confirmed the application of pecking order theory in practice. Namely, the companies referred to the importance of financial flexibility (understood as the freedom to choose between different forms of financing) and the fact that debt was mainly used in situations in the case where retained earnings were not sufficient to cover financial needs.

It was also confirmed that the theories of signals and information asymmetry exist in practice. Namely, three companies limited their debt, in order not to give investors unfavorable signals on their financial standing. In addition, the majority of companies agreed that the use of debt is a better signal for investors than the issuance of shares. However, none of the companies used the information function of debt to give a signal of sound financial standing to its competitors.

Only a few companies considered the issuance of shares. One of these companies found the issuance of shares a less risky form of financing than debt, however, simultaneously indicated its inability to obtain funds from other sources. The other company

3 Equity multiplier ratio indicates how many units of assets are attributable to one unit of equity.

4 Among other factors affecting the capital structure, the literature usually enumerates financial flexibility, hedging, as well as income and cash flow instability.

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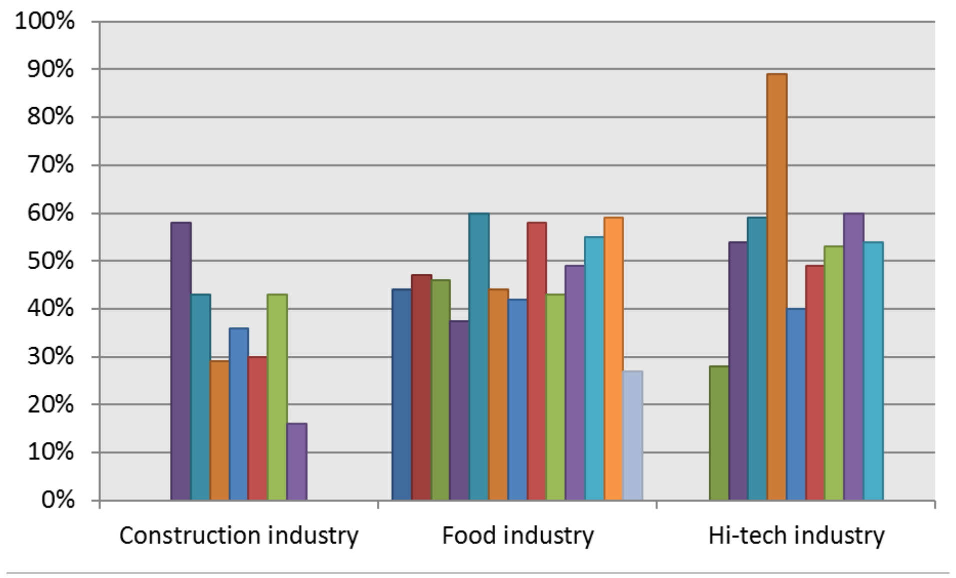
aimed at retaining the target financial leverage degree (which confirmed the existence of the theory of signals in practice). All companies claimed that the issuance of shares is a more expensive form of financing than use of debt.

The survey confirmed that companies when deciding on the form of financing did not aim at target debt ratio. Only a few companies had a target debt ratio or took it into account when considering issuance of shares.

Survey regarding 30 large companies listed on the WSE, covering the year 2005

The aim of this survey was to gather information on the policies applied by Polish companies with respect to shaping capital structure. This survey covered 30 large companies from the following sectors: construction (7 companies), food industry (15 companies) and hi-tech industry (8 companies, including companies operating in the following sectors: IT (4 companies), telecommunications (2 companies), media and biotechnology). The financial statements were the primary source of information (Grzywacz, 2008, p. 167-171).

Chart 4: Equity to fixed assets ratio



Source: Grzywacz, J. (2008). Kapitał w przedsiębiorstwie i jego struktura. Warszawa: Szkoła Główna Handlowa, p. 167-171

In the case of companies operating in the hi-tech sector, a significant diversity of capital structure was observed. The lowest equity to fixed assets ratio was 28.7%, while the highest level reached 89%. The company with the lowest rate followed an active investment policy, which basically explained its high level of debt. The average equity to fixed assets ratio, which amounted to 54% and was the highest among all industries subject to this survey, was influenced primarily by the nature of this sector. A large part of the assets of hi-tech companies was formed by intangibles and high costs of financial distress were rather likely to occur. In addition, much research and many projects undertaken were either never finished or failed to reach the desired level of profit. Thus, high spending on R&D with no guarantee of success efficiently discouraged companies operating in this sector from over-indebtedness.

The lowest equity to fixed assets ratio was recorded in the construction industry (on average 36%). High indebtedness generally resulted from the nature of this industry, i.e. a large number of projects of significant value. Clearly a higher equity to fixed assets ratio occurred in the food industry (on average

47%). The desire to limit debt financing resulted again from the nature of this industry, in particular strong competition, relative fragmentation of the companies, brand awareness and striving to ensure long-term relationships with customers. Only one of the companies in the food sector had a lower equity to fixed assets ratio (27.8%), significantly deviating from the average for this industry. This fact resulted from the nature of its business activity, namely, it was a manufacturer of soft drinks and thus less engaged in retail trade.

The conclusions from this survey generally indicated that there was a diversity of capital structure even among companies in the same sector. Factors affecting a particular company as well as its exceptional situation had an impact on debt financing decisions. Only if these factors reached the standard industry levels was pecking order theory applicable.

There was a growing diversification of sources of financing and an increased interest in the issuance of ordinary shares. Instead of traditional sources of debt (bank loans), the issuance of bonds or commercial papers became more and more popular. Nevertheless, the level of debt resulting from such securities was still immaterial.

Overall, this survey showed the importance of internal funding and only a supplementary nature of external financing. It indicated that the theory of information asymmetry applied only in the case of large listed companies. Small and medium enterprises paid more attention to the availability of particular sources of debt. Since often their access to external financing was limited, they were not in a position to make autonomous decisions and consciously shape their capital structure. In general, the issue of capital structure optimization was undertaken by large companies only.

Survey regarding 311 companies, covering the year 2010

This survey covered companies operating in non-financial sectors and employing at least 10 people. The aim was to determine the role of debt capital in corporate financing (Duliniec, 2011, p. 48-58).

This survey indicated that 89% of companies had debt ratios below 50%, whereas only 4% declared a level as exceeding 70%. Thus, the indebtedness of Polish companies was relatively low. With an increase of company size (measured by the number of employees), share of total liabilities (liabilities and provisions for liabilities) in financing of company's assets rose. At the same time, the relatively largest percentage of small enterprises had a debt ratio below 30% (74.8% versus 61.3% for large enterprises). The share of companies with the debt ratio in the range between 30% and 50% increased from 15.5% in the case of small companies to 23.6% for large. An even greater increase was observed by the indebtedness being in the range between 50% and 70% and raised from 5.8% in the case of small companies to 11.3% in the case of large firms. Size of an enterprise did not matter if the debt ratio exceeded 70%.

The survey confirmed the supplementary nature of debt and limited use of financial leverage. In addition, tax shields (in the form of interest) and an increase of return on equity as a result of positive effects of financial leverage generally did not have an influence on financing structure. The capital structure with a dominant share of equity was determined mainly by the insolvency risk associated with financial leverage, creditworthiness (in particular for small- and medium-sized companies), and availability of sources of debt on the market as well as their cost.

The companies indicated bank loans as a frequently used source of external financing (62.1% of companies). Subsequently, leasing (49.2%) and shareholder loans (15.1%) were enlisted. Only 3.2% of companies used debt securities, while 20.6% of companies did not benefit at all from any sources of debt.

Bank loans were mentioned as the most important source of debt (55% of surveyed companies), while 88.6% of the companies benefiting from bank loans recognized them as a primary source of external financing. Also leasing was frequently enumerated as the second most important source of external financing (30.5% of companies). 49% of the companies used leasing as a source of debt, however, for the majority (73.9%), it did not constitute the main source of funding.

15% of surveyed companies benefited from shareholder loans, whereas only 9% indicated these loans as an important source of debt. For most businesses, intercompany loans were only a supplementary source of funding.

The role of bonds (both short- and long-term) was rather marginal – only 3% of the companies obtained capital from these sources of external financing.

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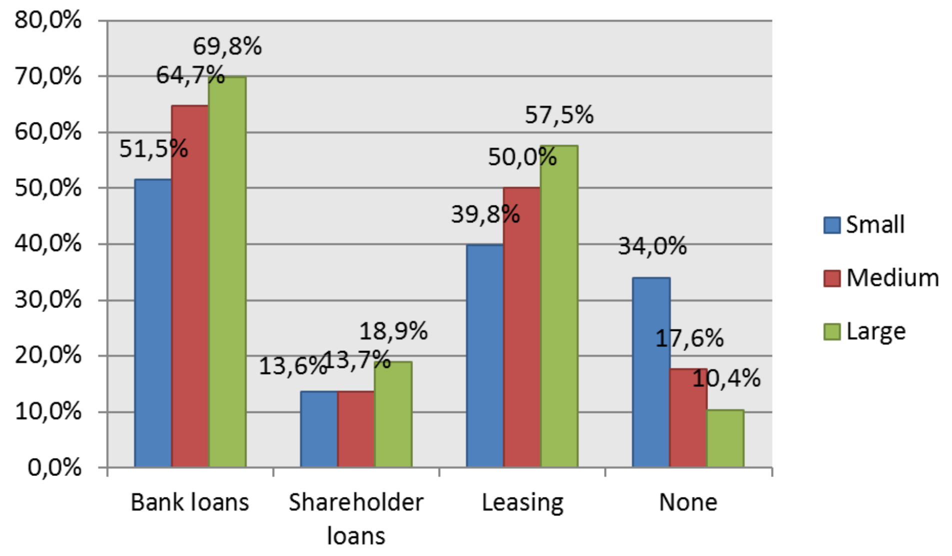
Chart 5: Sources of debt by size of company



Source: Duliniec, A. (2011). Kapitał obcy w finansowaniu przedsiębiorstw – Wyniki badań polskich spółek handlowych. In S. Wrzosek (Ed.), Finanse – nowe wyzwania teorii i praktyki. Finanse przedsiębiorstw. Wrocław: Wydawnictwo Uniwersytetu Ekonomicznego, p. 48-58

The aim of this survey was also to find out how the size of a company[5] influenced the choice of debt sources. According to the results, 34% of small companies did not benefit at all from any debt capital (as compared to 17.6% for medium-sized and 10.4% for large companies). 57.5% of large companies benefited from leasing (against 39.8% for small enterprises and 50% for medium). The percentage of enterprises using shareholder loans was almost identical in the case of small (13.6%) and medium companies (13.7%), while the rate was slightly higher for large enterprises (18.9%). Similarly, bank loans were a source of debt for all three groups of companies. Small-sized companies rarely used loans (51.5% versus 69.8% for large enterprises and 64.7% for medium). In general, this survey indicated that company size had no decisive influence on the choice of debt sources. With the increase of company size, the only the use of debt increased. Large companies often benefited from financial leverage. However, this survey shows that in general the companies used financial leverage carefully (in the case of more than 2/3 of companies, debt ratio did not exceed 30%).

Survey regarding 298 companies operating in non-financial sectors listed on the WSE, covering the period 2007-2009

The aim of this survey was to analyze the differentiation of capital and debt structure, debt aging and other factors influencing decisions on debt sources (Gryko, 2011, p. 69-79). Financial statements were the primary sources of information. Companies operating in the metal products industry, the energy sector as well as hotel and restaurant businesses used debt financing rarely. Significant value of assets often resulted in a conservative policy of financing mainly with constant capital. Financing with external capital was mostly observed in media companies, the construction industry and wholesale trade. Given the relatively high level of liabilities resulting from supply of goods and services visible in the latter sector, debt seemed to be a natural source of financing. This fact explained also the significant values of debt observed in practice. The construction industry also benefited frequently from debt-based capital, which was a natural consequence of application of long-term settlement periods. Relatively high utilization of debt was visible in the pharmaceutical and chemical industries. This situation might have resulted from the fact that companies from these sectors benefited from reserve credit capacity in times of a financial downturn. Similarly the indebtedness of IT companies was increased.

5 The companies were classified into one of three groups based on the employment size. Thus, small companies employed 10 to 49 people, medium 50 to 249, whereas large more than 250 people.

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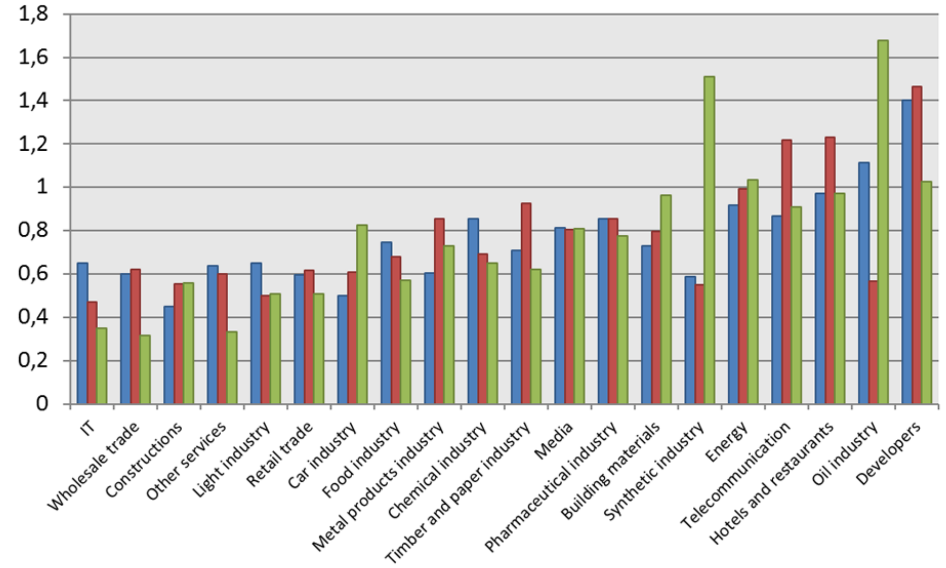
Chart 6: Financial leverage differentiation by industry



Source: Gryko, J. M. (2011). Zróżnicowanie źródeł finansowania i struktura wiekowa zadłużenia spółek publicznych w Polsce. In. S. Wrzosek (Ed.), Finanse – nowe wyzwania teorii i praktyki. Finanse przedsiębiorstw. Wrocław: Wydawnictwo Uniwersytetu Ekonomicznego, p. 69-79

According to the previous surveys (Stohs, 1996, p. 294), the companies benefiting substantially from debt, in order to reduce the risk of bankruptcy, should generally choose long-term liabilities. This survey did not confirm such a conclusion, rather indicating a more frequent use of short-term debt. In the case of half of the companies subject to this survey, the share of long-term liabilities in total liabilities did not exceed 14.3%. However, it should be noted that there was also a small group of companies in the case of which this ratio exceeded 50%.

Long-term sources of debt were used mostly by companies operating in energy, telecommunications, hospitality and oil sectors as well as developers' businesses. For these sectors a low level of information asymmetry was characteristic, which resulted in adjustment of the aging of liabilities to the length of investment projects. The low share of long-term liabilities in the IT sector indicated more frequent use of short-term debt sources, which could have been aimed at giving investors a signal on favorable financial standing and growth perspectives.

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Large companies used debt to finance their business activity more frequently and more often decided on long-term sources of debt. They were less exposed to information asymmetry and had easy access to long-term sources of financing. Furthermore, since they acted on stable markets, they were in a position to more actively benefit from debt.

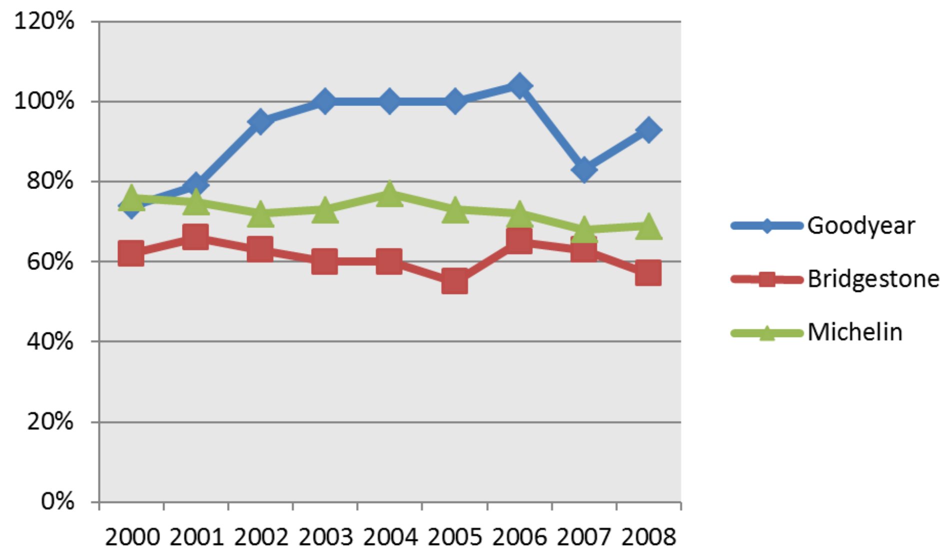
The survey confirmed the adverse relationship between the liquidity of assets and long-term debt, which could have been influenced by the important role of debt in reducing agency costs associated with retaining cash in the company. In the case of use of short-term debt, it was necessary to renew annually the revolving lines of credit or issue debt securities to refinance debt. Therefore such companies faced a higher risk relating to the frequency of obtaining short-term debt in times of financial downturns. Thus, companies that less frequently used long-term liabilities had a higher level of current assets.

To sum up, it is possible to indicate sectors with a high level of debt, mainly short-term (trade, construction), industries with a low degree of financial leverage based on long-term liabilities (energy) and finally industries rarely financing their activity with debt, (short-term, if any; IT, other services). The companies implemented various policies regarding selection of debt sources and its aging structure. The most important factors influencing debt level and its type were: size of a company and asset structure. To some extent, the survey confirmed the hypothesis stemming from the theory of agency costs. The results did not indicate any other factors that could have affected the degree of financial leverage in practice. Such factors differed significantly, depending on the sector of the company.

Survey regarding 3 companies operating in the tire industry, covering the period 2000-2008

The aim of this survey was to analyze how decisions on capital structure influence the management during an economic downturn (B. Pomykalska & P. Pomykalski, 2009, p. 399-411). Financial statements were the primary sources of information.

Chart 7: Debt ratio in the period 2000 – 2008



Source: Pomykalska, B., Pomykalski, P. (2009). Decyzje o strukturze finansowania przedsiębiorstwa w sytuacji kryzysowej. In J. Ostaszewski (Ed.), Dylematy kształtowania struktury kapitału w przedsiębiorstwa. Warszawa: Szkoła Główna Handlowa, p. 399-411

In general, this survey indicated a relatively high debt ratio. Its lowest level ranged between 57% and 66% of total assets and occurred in the case of Bridgestone, whereas a slightly higher level of debt was recorded in the case of Michelin (in the range between 68% and 77%). The highest value of debt ratio was observed in Goodyear. During the period under review, its debt increased gradually and as a result of losses carried forward, exceeded the value of assets already in 2002. As a consequence of shares issuance and debt restructuring, it was reduced to 83% of total assets in 2007.

In the case of this survey, the use of financial leverage was analyzed on the basis of return on equity ratio. However, close to zero or an even negative value of equity (in 2003 and 2006) observed in the case of Goodyear, made it difficult or even did not allow for calculation and analysis of this ratio for this company. Comparing the results of Bridgestone and Michelin, it should be noted that Michelin had a slightly higher rate of return on equity, whereas in the case of Bridgestone, the fluctuations of this ratio were more explicit.

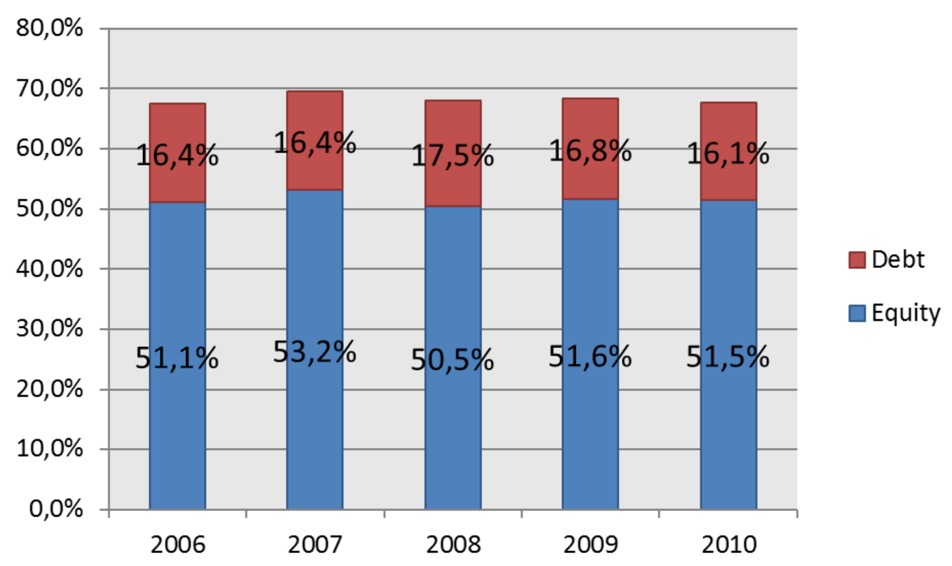
This survey indicated a relationship between financing and the market situation. In the case of prosperity, there was an increase of total debt, with a frequent use of short-term liabilities. In times of economic downturns, the short-term liabilities decreased to the advantage of long-term liabilities. The debt level was also reduced.

The overall conclusion is that the economic situation (in particular economic downturns) affected the funding strategy, including in particular level of debt, financial leverage usage and capital structure. The survey indicated also that the level of debt depended on other factors related to the environment in which the company operated, such as profitability of business, investors' expectations regarding rates of return as well as acceptable levels of risk and cost of debt.

An analysis of Polish companies based on aggregated data, covering the period 2006-2010

The analysis of financial data prepared by CSO indicated that the value of equity and debt invested in Polish companies in the period under review amounted to an average 68.2% of total liabilities and equities, out of which debt was on average 16.6%. In general, during the period under review this percentage fluctuated insignificantly. Namely, initially, it grew from 16.4% in 2006 to 17.5% in 2008 to fall to 16.8% in 2009 and 16.1% in 2010. This slight decrease in share of debt in total liabilities and equities could have mirrored the market situation, since in the third quarter of 2008 an economic downturn was already perceptible. As indicated above, a decreased debt level could have been a natural consequence of the economic downturn. In general, the CSO report concluded that equity was a primary source of financing, whereas debt had a supplementary nature only.

Chart 8: The share of equity and debt in total liabilities and equities



Source: CSO, 2007 – 2011, table 15 and 21

The value of external financing obtained by a company was generally lower than the sum of total liabilities and provisions for liabilities. In the period under review, loans and liabilities arising from debt securities accounted for an average of 25% of total liabilities and provisions for liabilities. The majority of this consisted of loans.

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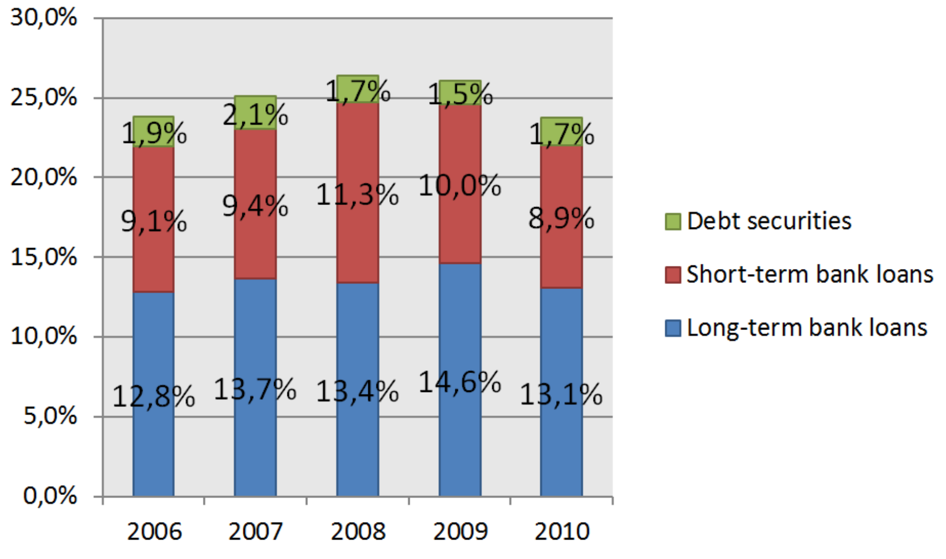
Chart 9: Selected sources of debt in total liabilities and provisions for liabilities



Source: CSO, 2007 – 2011, table 18 and 20

Bank loans were the primary source of debt and constituted on average 23.3% of total liabilities and provisions for liabilities, out of which 13.5% were long-term loans, whereas 9.7% were short-term. Debt securities continued to be an insignificant source of debt (on average 1.8% of total liabilities and provisions for liabilities). In general, in the period under review, only minor changes of the participations of particular forms of external financing in total liabilities and provisions for liabilities were observed. In 2009, despite a decrease in the share of debt and basically a slight change of the total share of bank loans (from 24.7% in 2008 to 24.6% in 2009), the share of short-term loans decreased to the advantage of long-term loans. The aggregated CSO data confirmed the conclusions resulting from one of the above presented surveys. Namely, during an economic downturn the long-term debt financing usually increases with a subsequent decrease of total debt.

Conclusions

According to the pecking order theory, companies primarily use internal sources of financing, which are directly at their disposal (i.e. they are generated from accumulated surplus of cash (or cash invested in short-term financial assets), depreciation write-offs and retained earnings). Only when the internal sources of financing appear to be insufficient do the companies benefit from external sources, mainly by incurring liabilities (loans or debt securities). Equity increase from external sources is the least preferable form of obtaining financing (Duliniec, 2011, p. 36).
Generally, the assumptions of this theory were reflected in the presented surveys and aggregated CSO data. Equity was the primary source of financing for the majority of companies, while debt had a supplementary nature only. The number of companies benefiting from various sources of debt was growing, however, still the majority limited external financing to its most basic sources. As a result, there was a significant share of bank loans in total debt (mostly short-term). Leasing was also an important source of external financing. Although the share of bonds in debt grew slowly, it continued to be an insignificant source of financing.
The level of debt was relatively low, which resulted mainly from the fact that it was used only in the case where retained earnings were not sufficient to cover the financing needs of a company. One survey even indicated that there was a significant percentage of companies that did not benefit from debt sourced capital at all (it mainly applied to small businesses).
From the surveys it followed that specific factors having an impact on a particular company influenced in the first place its decisions on funding sources. Only if these factors reached the standard industry level, was the pecking order theory applicable.

According to the trade-off theory, both equity and debt need to be used in a certain proportion. It is essential to find such a ratio of their participation which would lead to an optimum capital structure and target level of financial leverage (Skowronek-Milczarek, 2002, p. 65). Determination of its level should be a compromise between maximizing tax shields and minimizing costs of financial distress.
The surveys showed that in principle debt increase was not a consequence of detailed analysis of capital structure, but rather a result of current production needs or weak financial performance. The majority of companies benefited from debt without considering optimization of capital structure, but rather aimed at rationalization of capital allocation. Therefore, in practice, the decisions on financing structure were often undertaken on an ad hoc basis and primarily aimed at liquidity and growth opportunities. It seems that tax shields (in a form of interest cost) and increase of return on equity by the positive effects of financial leverage generally did not significantly affect the decision on sources of financing. The risk of insolvency associated with financial leverage, credit rating, the availability of debt and its cost had a significant impact on the capital structure (with a major share of equity).
In general, companies carefully used financial leverage. Large companies benefited from financial leverage most frequently, whereas in the case of small- and medium-sized companies the conditions necessary to achieve the positive effect of financial leverage were often not met.
In addition, in the case of trade-off theory, costs of financial distress are often considered. These costs, also referred to as the cost of bankruptcy, do not only occur in the event of bankruptcy or liquidation of a company, but also in the case of occurrence of financial difficulties. The risk of bankruptcy grows with the increase of debt, since lenders and investors demand a higher rate of return as a result of growing insolvency risk. This leads to an increase of weighted average cost of capital and thus, reduction of a company's value. The possibility of the occurrence of bankruptcy costs may restrain some companies from debt. It applies in particular to these companies in the case of which the potential costs of financial distress are high, i.e. for companies with a significant share of intangibles (Grzywacz, 2008, p. 120-122).
One of the surveys is a confirmation of this theory. Namely, it indicated a low level of debt in high-tech companies, in the case of which a significant share of the assets was covered by intangibles. In the case of these companies, high costs of financial distress were often recorded. Many research and development projects undertaken either were never finished or failed to achieve desired profits. Thus, high spending on R&D with no guarantee of success efficiently discouraged them from over-indebtedness. Nevertheless, the surveyed companies generally did not indicate the cost of financial distress as influencing the decision on debt reduction.
Companies benefiting frequently from debt, in contrast to the principle of limiting bankruptcy risk, most often chose short-term financing. However, such situation may result from the fact that the economic situation has an impact on the funding strategy. In the case of prosperity, the level of debt funding will increase, with short-term liabilities prevailing. In the times of economic downturn, the short-term liabilities would decrease to the advantage of long-term liabilities. The debt level will be also reduced. In general, this rule was not clearly mirrored by the aggregated CSO data. Nevertheless, in 2009 and 2010 the total debt level was reduced, as was the share of short-term loans.
The existence in practice of the theory of signals and asymmetric information was confirmed in the case of large listed companies. Namely, the level of debt was reduced in order not to give any unfavorable signals to investors. In addition, it was emphasized that use of debt is a better signal than issuance of shares. Nevertheless, none of the companies used the information function of debt to give a signal of good financial standing to its competitors.
To sum up, it needs to be emphasized that although the recorded level of debt in the case of Polish companies was rather low, some of the assumptions of theories on capital structure were confirmed in practice. This mainly happened in the case of large companies, which used debt more frequently and performed relevant analysis allowing them to maximize tax shields under an acceptable level of risk. Nevertheless, the ability to consciously shape the capital structure still needs to be further developed in order to better benefit from financial leverage and successfully increase the value of a company.

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