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Working Paper

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IES Working Paper, No. 1/2008

Provided in Cooperation with:

Charles University, Institute of Economic Studies (IES)

Suggested Citation: Jindřichovská, Irena; Körner, Pavel (2008) : Determinants of corporate financing decisions: A survey evidence from Czech firms, IES Working Paper, No. 1/2008, Charles University in Prague, Institute of Economic Studies (IES), Prague

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Bibliographic information:

Jindrichovska, J., Körner, P. (2008). “ Determinants of corporate financing decisions: a survey evidence from Czech firms ” IES Working Paper 1/2008. IES FSV. Charles University.

This paper can be downloaded at: <http://ies.fsv.cuni.cz>

Determinants of corporate financing decisions: a survey evidence from Czech firms

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January 2008

Abstract:

This paper investigates the empirical evidence on determinants of financing decisions on the pool of respondents among financial managers of Czech firms. The theoretical section provides an overview of prominent contemporary theories on capital structure. Employing Chi-square Sign Test and Logit regression the empirical analysis provides the evidence how the financial managers perceive particular instruments of internal and external financing. We find, that firms follow pecking order theory for working capital financing, however the arguments for pecking order theory in investment financing are not that strong. Firms prefer retained earnings among internal financing instruments and bank loans and leasing among external financing instruments. Finally, the paper discusses the links with practice and some limitations of the results.

Keywords: corporate finance, capital structure, trade-off theory, pecking order theory, transition economies, survey

JEL: G32.

Acknowledgments:

Financial support for this research from Czech Science Foundation, project Efficiency of Financial Markets and New Basel Capital Accord (NBCA) under Nr. GAČR 402/05/2123 and financial support from Dennison Research Fund are gratefully acknowledged. We wish to thank Miron Tegze, Michal Mejstřík, Radovan Chalupka, and one anonymous referee for valuable suggestions.

1. Introduction and motivation

There is an extensive literature body of theory and empirical evidence of the firm capital structure. Actually, the debt versus equity decision making is one of the major topic in the literature on corporate finance. However besides the huge theoretical literature and huge empirical evidence on the determinants of the capital structure (for one of the relevant surveys see Harris and Raviv, 1991), there is surprisingly limited empirical evidence of more practical opinions of company financial managers. The questions that this study is seeking to answer are very practical and down to the earth: How do financial practitioners decide on financing instruments in their firms? When do they choose instruments of internal financing and when they choose external financing? Do they prefer retained earnings, IPO, or venture capital entry? Do they prefer bank debt, bond debt, or leasing? How do they perceive the particular financial instruments from the point of costs, availability, legal and administrative complexity?

This paper seeks to answer practical questions on the perception of corporate financing and aims to bring additional evidence, which will help to explain the management behavior in the financial decision-making.

The paper proceeds as follows. Section two provides an overview of theories of capital structure and relevant empirical evidence for financial managers' perception of particular financial instruments, section three tackles methodological issues of respondents sample and questionnaire layout, section four provides empirical analysis of the opinion survey and section five concludes.

2. Literature review

Theories of capital structure

“There is no universal theory of capital structure, and no reason to expect one.” (Myers, 2002:3) In this introduction to the theories of capital structure, we focus on three major competing theories. For comprehensive surveys see Myers (2002) or Frank and Goyal (2005). The *capital structure*

irrelevance theory has been introduced by Modigliani and Miller (1958). It's basic form states that, in the absence of taxes, bankruptcy costs, and asymmetric information, and in an efficient market, the value of a firm is unaffected by how that firm is financed. In the reality the theorem very much often fails as the transaction, agency, and bankruptcy costs and many other deviations from the pure theoretical assumptions are present. But despite the fact that the Modigliani-Miller theorem does not provide very much realistic description of the company financing, it does provide means of finding reasons why financing matters (Frank and Goyal, 2005).

In the *trade-off theory*, which grew directly from the Modigliani-Miller theorem discussions, firms trade-off the costs and benefits of leverage associated with the tax effects, bankruptcy costs (deadweight costs of bankruptcy), and agency costs (Jensen and Meckling, 1976). The debt associated tax benefits are represented by the tax shield of interest costs, which are tax deductible, whereas the costs of equity, such as dividends, are not deductible. The debt associated bankruptcy costs are driven by the probability that the firm will default on the financing. They can include either direct costs in the form of liquidation costs or indirect costs in the form such that customers are no more willing to buy the products or the company receives negative reputation on the market. Therefore firms with high bankruptcy costs have incentives to lower the amount of external financing in order to lower these costs. The debt associated agency costs stem from the principal-agent relationship in the debt-holders vs. creditors relationships. Since the agents have incentives to benefit on the expense of the principals, additional costs need to be spent on motivation and monitoring of the agents. Taking into consideration the above mentioned costs and benefits of the external financing, this trade-off decision making leads to a firm-specific targeted capital structure. The *pecking order theory* was developed by Myers (1984) and Myers and Majluf (1984) as a reaction to the static trade-off. It assumes asymmetric information in the form that the management knows more about its firm than the outsiders (investors, debt-holders). It declares that there is no optimal targeted capital structure and no optimal leverage but that there is a hierarchy (pecking order) of the preferences of financial instruments. Financial managers of the firms are expected to prefer internal financing to external financing, and when the internal funds are not in the position to sufficiently finance the capital expenditures, firms borrow rather than issue additional equity. In case of internal financing, the provider of retained earnings, which is the firm itself, will have more information about the firm than new equity holders, who will in turn demand higher rate of return. In case of external financing, the greater the exposure and risk of default the debt-holders face, the higher rate of return they charge. Therefore the firm shall prefer internal finance to debt, short-term debt to long-term debt, and any debt over new outside equity. As Myers (2001:81) noted, "the amount of debt will reflect the firm's cumulative need for external funds". Pecking order theory

also explains why the most profitable companies tend to borrow less. This is not because their targeted leverage is low but because they have sufficient volume of internal funds to finance their investments.

Empirical evidence

Surprisingly the empirical evidence on the corporate financial managers' perception of particular financial instruments is not that wide and deep as it might be expected from the huge recent literature in the theory of corporate finance. As this is generally valid for matured economies, the more is this valid for economies in transition.

One of the most comprehensive surveys of financial managers' perception has been delivered by Graham and Harvey (2001), who focus not only on the capital structure but also on the cost of capital and capital budgeting. In the capital budgeting methods section they study how firms evaluate projects considering number of evaluation approaches (from simple approaches as internal rate of return - IRR, net present value - NPV, payback period to more complex methods of price-to-earnings or value-at-risk). Most respondents select NPV and IRR as their capital budgeting techniques, whereas the large firms are more likely to use NPV than smaller firms and also highly leveraged firms are more likely to use NPV and IRR than low leveraged firms. Surprisingly the payback period also belongs to largely used evaluation techniques despite its heavily discussed shortcomings. In the cost of capital section they study how firms calculate the cost of capital considering major approaches, capital asset pricing model (CAPM), multi-beta CAPM, average historical returns and dividend discount model (DDM). They find that respondents by far most often employ CAPM for estimating of the costs of capital lagging behind the average stock returns, multi-beta CAPM and DDM. In addition to it larger firms are more likely to use CAPM than small firms and low leveraged firms are also more likely to use CAPM. Privately held firms are significantly less likely to use CAPM, which is natural outcome as their beta is to be estimated in a difficult way based on the comparable public held firms. In the capital structure section they study empirical evidence for the trade-off and the pecking order theory. For the trade-off they find, that corporate tax advantage of the debt has moderate importance for the CFO's in the capital structure decisions. The personal taxes have been found to have very little impact on capital structure decisions. The potential costs of distress are not very important, however firms are very concerned about their credit ratings, which indirectly shows their concern about distress. The empirics shows mixed support for the targeted debt-equity ratio, when 10% of respondents reported a strict target debt ratio, 34% have somewhat tight target and 37% have flexible target. However among larger firms about 55% have strict target ratios compared to only 35% for smaller firms. In the pecking-order theory section they find that having insufficient internal funds is moderately important for

issuing the debt. More often this is the case for the smaller firms than for the larger firms, which is consistent with the pecking order theory stating that the smaller firms face larger asymmetric-information-related equity undervaluation. However Graham and Harvey (2001) find only small evidence that firms issue equity because retained earnings have become insufficient for funding of the firm.

A relevant survey in matured economy has been conducted by Beattie et al (2004), who find that UK firms seem to be heterogeneous in their capital structure strategies. About half firm seeked for targeted debt level (consistent with the trade-off theory) whereas remaining part followed a financing hierarchy (consistent with the pecking order theory). They also find that among the corporate financing decisions determinants belong debt interest tax shield and available collateral, whereas the respondents rejected importance of major agency costs argument, that interest payments under high portion of debt decrease the free cash flow and hence the management's potential excesses.

Brounen et al (2004) find in a survey of European firms that the financial flexibility is the most important factor influencing the amount of debt, which seems to be evidence of the pecking-order hierarchy of financing. They also do not find strong evidence for the trade-off theory. The firms consider the tax shield of interest costs as the fourth most important factor, after financial flexibility, credit ratings, and earnings volatility. And the firms also consider the bankruptcy costs, representing the negative effects of debt, as less important.

A relevant survey in the economies in transition has been conducted by Isachenkova and Mickiewicz (2004). They find that in Hungary and Poland the firms with international parent, firms with concentrated ownership, and firms with larger turnover are less constrained in their access to finance. Next to it they also find that industrial group members favor bond issues and disinvestments in financing of their investment activities. Similar study of Filatotchev et al (2005) finds U-shaped (non-monotonic) relationship between the ownership concentration and expectations to rely on public equity as a source of finance. Hungarian and Polish firms with middle-range ownership concentration are said to be most attractive to providers of equity finance. This is fully in line with the agency theory argumentation of Shleifer and Vishny (1997).

However the relevant Czech empirical evidence is very limited. Bratkowski et al (1999) focus on de-novo firms in Czech republic, Poland and Hungary. Their survey shows that in these countries even very young and small firms receive large amount of bank loans and moreover even at the early stage of their existence. Loss-making de-novo firms have lower probability of getting bank loan than the profitable ones, which is clear outcome of cautious credit policy of banks. Buchtíková (1999) presents a descriptive analysis of the firms financing decisions with particular attention paid

to the bank loans and Czech banks credit appetite. Buchtíková (2001) presents a descriptive analysis of sensitivity of the bank loans on the interest rates development in particular differentiation of the firms based on their ownership structure.

One of the most valuable Czech studies seems to be Dvořák (2000) surveying about 600 Czech financial managers and having number of important findings. Firms under control of international parent usually finance their investments by intra-group loans and do not usually use leasing. These firms also did not respond that banks are not willing to finance their business sector. Concerning the bond issue they are usually not willing to finance via this type of financial instrument but they do not perceive the minimum bond issue volume as limiting. These types of firms also rarely take into consideration venture capital entry. Firms under control of management usually finance the investments via leasing, maybe because they usually perceive that banks are not willing to finance their business sector. Concerning the bond issue they find the minimal bond issue volume and information disclosure requirements as limiting. Firms under control of domestic private individuals more often responded that their cash-flow is not able to service debt service after bond issue, and also more often took into consideration venture capital entry. In addition to it firms financing via leasing usually stated that the banks are not willing to finance their business sector, which supports commonly accepted view of bank financing and leasing as substituting financial instruments. Further firms not listed on the capital market and not even considering IPO or bond issue usually stated they are not willing to disclose information. And finally firms with positive ROE usually seemed to finance from the retained earnings and depreciation and usually did not use leasing.

Despite the fact that our survey is oriented on particular financing instruments in very similar break-down to Dvořák (2000), we also employ some statistical tools (in form of Chi Square Sign Test and Logit regression) in order to deliver additional statistically significant interpretations of availability, importance and other characteristics of the financing instruments.

3. Methodology

In this section we turn to the methodological issues. First, we tackle the samples selection and then the questionnaire layout.

3.1 Sample selection – respondents

The respondent's firms were selected from the company database of Hoppensted Bonnier¹. The only considered criterion for the firm's selection was annual turnover, only the firms with annual turnover over CZK 100 mil (EUR 3 mil) were taken into account. This threshold was employed in order to filter out small firms and private individuals – entrepreneurs. This filter seems to be necessary, as the small firms do not consider utilization of full range of financial instruments which are subject of this survey. At the same time no firms active on the field of financial intermediation (banks, leasing companies, insurance companies, broker houses etc) were included into the pool as there is no reason to ask these respondents on the subject of this survey. No other selection conditions such as geographical location, or ownership structure was taken into account.

The questionnaire survey held in June 2006. There were randomly selected 3000 respondents from the database that were meeting the above-mentioned criteria. Out of them 59 questionnaire were received back due to improper postal address, 2753 respondents did not respond and 188 respondents did respond. This makes the response rate of about 6% from the original pool. Despite the fact that this response rate is not that high at first sight, it is good outcome given the length and number of questions in the questionnaire. The response rate is also fully in line with these types of studies (Graham and Harvey, 2001, have 392 respondents in total and 9% response rate, Trahan and Gitman (1995) have 700 respondents in total and 12% response rate).

However the received questionnaires might be subject of self-selection bias. The respondents self-selection can be affected by the transaction costs (the opportunity costs of the time spent with the questionnaire, the postal cost), by the season (time period of the survey can be bottom for some sectors) but most importantly by the characteristics of the respondents and their companies (respondents in firms undergoing financial distress are expected to be more willing to share their experiences). The respondents are thus naturally self-selected, however since the empirical results section shows consistency of the outcomes, there is no reason to believe that the self-selection bias is to such an extent that might disqualify the plausibility of the survey.

As we do not follow the differentiation of the business sectors, since we are not able to compare our sample of firms with the sector statistics of Czech statistical office in order to decide on the sample representativeness for the whole Czech economy. However we are still convinced that our

¹ Hoppensted Bonnier Information, www.hbi.cz

sample is sufficiently representative. Since it stems from the above mentioned firm database that is collected from all public available data sources, there is no reason to believe this sample is different from the population of firms in Czech economy. This might be the case only if some business sector would systematically deter the information disclosure. But there is no reason to accept this view.

3.2 Questionnaire layout

We seek for the perceptions of the financial managers of the Czech firms on the particular financial instruments. What do the managers think about the bank loans, or factoring, or trade credit? Is there any difference in the utilization of particular financial instruments if working capital or investment financing considered? And is there any difference between the manager's perceiving if some firms characteristics taken into account (firm size, firm profitability, equity endowment)? We wish to shed the light on these types of aspects in the corporate financing decisions.

In Part 1 of the questionnaire we ask for the identification of the firm and the respondent, and for further firm's characteristics, namely total assets, shareholders' equity, total revenues, operating profit and profit after tax. Also the ownership structure is questioned in terms of percentage stakes of the particular shareholders differentiated into seven groups (legal entities – domestic, legal entities – foreign, private individuals – managers, private individuals – employees, private individuals – others, government, and other shareholders).

In Part 2 of the questionnaire we ask for the respondent's general opinion on the particular financial instruments. Five different instruments of the internal financing are questioned (from equity increase through retained earnings to venture capital entrance) and six different instruments of the external financing are questioned (from loans through factoring to trade credit). The respondents are asked for their perceptions of particular financial instrument availability, legal circumstances, related costs and in some cases also other factors. The disinvestments are also included as internal source of financing since the sale of the fruitless asset may serve as a financial instrument for purchase of new assets (be it working capital financing for current assets or investment financing for fixed assets).

In Part 3 of the questionnaire we ask for the respondent's concrete opinion on the importance and frequency of use of each particular financial instrument considered in Part 2. In addition to it we separate the questions into two sub-sets of working capital financing and of investment activities financing. There are two major reasons for this separation. First some financial instruments are only applicable for one sub-set (factoring can be hardly used for financing of investment activities),

second it is expected that the respondent's perceptions shall differ if the time horizon taken into account.

The layout of the questionnaire is partially inspired by the studies of Dvořák (2000), Isachenkova and Mickiewicz (2004) and Beattie et al (2004). Early versions of the questionnaire were pre-tested with selected PhD students at Faculty of Social Sciences, Charles University in Prague in order to collect the feedback on the questionnaire layout from the respondents educated in the financial field. Next to it a piloting study has been conducted at Business School, The University of Buckingham in order to collect the feedback on the questionnaire layout from the relevant ultimate respondents among financial managers. Full wording of the questionnaire is enclosed in the appendix to this study.

4. Empirical analysis

In this section we turn to our empirical evidence from opinion survey of financial managers of Czech firms. First, we describe the descriptive statistics, then we provide the results of the survey based on Chi Square Sign Test and Logit regression.

4.1 Results

In this section we first report on profile of the respondents characteristics and then we provide the interpretation of the results of the questionnaires.

4.1.1 Descriptive statistics

Table 1 reports the respondents differentiated according to their gender. About three quarters of the respondents are male, which corresponds to the general perceived distribution of the population of financial managers.

Table 1: Gender of the respondents

Respondents	Number	Percent
Male	139	74%
Female	49	26%
Total	188	100%

Table 2 reports the firms differentiated according to annual turnover. The interpretation of the questionnaires is considered based on these turnover groups. Despite the fact that only firms of turnover above CZK 100 mil were selected in the respondent's database, there is also some limited share of these firms in the respondent's pool. These are companies whose annual turnover is very

close to CZK 100 mil, therefore they have been further included into processing. As can be seen the majority of the firms have annual turnover from CZK 100 to CZK 500 mil which can be considered as lower-end of the mid-sized firms in the Czech economy terms. But also the firms with higher annual turnover are sufficiently represented therefore we can accept our respondent's pool as acceptably representing whole Czech firms population.

Table 2: Turnover of the firms (annual, in CZK mil)

Turnover	Number	Percent
below 100	9	5%
100 - 500	109	58%
500 - 1 000	30	16%
above 1 000	33	18%
n/a	7	4%
Total	188	100%

Table 3 reports the firms differentiated according to the origin of the group of the shareholder having the largest shareholding. In major firms domestic or foreign legal entity or private individuals active as managers represent groups of shareholders holding majority in the respondent. Other groups of shareholders such as employees, other private individuals or government bodies are not common to hold majority shareholdings. Very rare are also firms with dispersed ownership where the largest shareholder controls only minority stake.

Table 3: Group of largest shareholders in the firms

Group of largest shareholders	Number	Percent
Firms with group of shareholder holding majority		
Legal entities - domestic	42	22%
Legal entities - foreign	55	29%
Private individuals - managers	47	25%
Private individuals - employees	6	3%
Private individuals - other	19	10%
Government and its institutions	12	6%
Firms with only minority shareholders	4	2%
N/A	3	2%
Total	188	100%

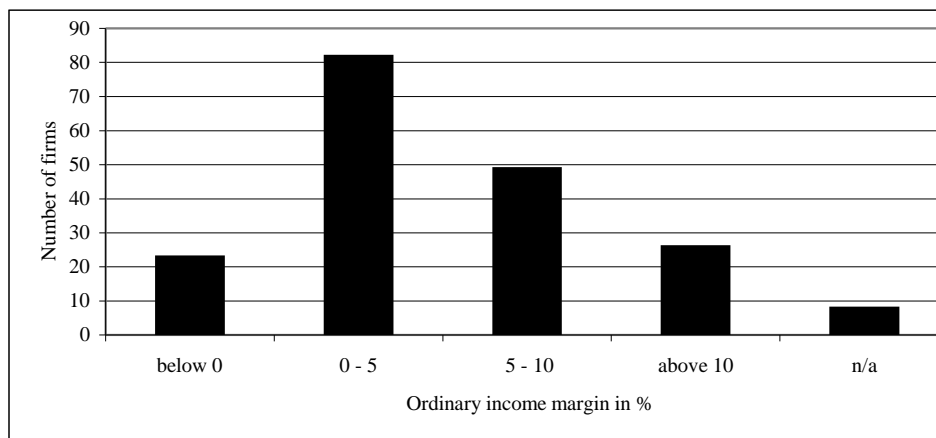
Table 4 reports the firms differentiated according to their equity ratio. The firms are equally distributed as about one third are firms with low- (equity ratio below 40%), one third with average- (equity ratio of 40% - 60 %) and one third with rather high capital endowment (equity ratio above 60%). Thus our respondents represent both companies with low and high share of the debt in their balance sheet. For our purposes we do not count for differences in equity endowments according to the industries.

Table 4: Equity ratio of the firms

Equity ratio of the firms	Number	Percent	Percent in subtotal
up to 20%	27	14%	33%
20% - 40%	35	19%	
40% - 60%	56	30%	30%
60% - 80%	47	25%	34%
above 80%	16	9%	
N/A	7	4%	4%
Total	188	100%	100%

Graph 1 reports the firms differentiated according to the ordinary income margin. As can be seen the respondent's pool includes both profitable and loss-making firms with major firms producing positive ordinary income margin below 5%.

Graph 1: Ordinary income margin



4.1.2 Respondents' perceiving

First we comment on how the respondents perceive the *characteristics* of the particular instruments of the internal and external financing. Then we comment on how the respondents perceive the *importance* of these instruments. The questionnaires are interpreted based on the Chi Square Sign Test and the results are reported in Annex II, tables 6, 7, 8 and 9.

Part Two of the questionnaire – internal financing

Equity increase

The respondents are not generally in accord whether the *availability of this instrument* is perceived as limited or sufficient. However the firms with international firm as majority shareholder perceive the availability of this instrument as sufficient. This may be because they feel sufficient support from their international parent with option of equity increase if necessary. On the other side the firms with ordinary income margin between 0% and 5% perceive this instrument as limited. The

interpretation of this can be that low-profitable firms hardly can expect additional equity. The *legal circumstances* are generally perceived as unimportant and the *costs of this instrument* are generally perceived as high.

IPO

The *availability of this instrument* is generally perceived as limited, the *legal circumstances* are generally perceived as complex and the *costs of this instrument* are generally perceived as high. The *minimal amount of the issue* of about CZK 100 mil is generally perceived as limiting. However firms with annual turnover above CZK 1 bn perceive the minimal amount of the issue as acceptable. This is no surprise as these firms usually have sufficient legal and financial infrastructure at hand in order to easily cope with the minimal issue amount.

Retained earnings

The *availability of this instrument* is generally perceived as sufficient. Surprisingly also the firms with negative ordinary income margin do not perceive the availability of this instrument as limited. The *legal circumstances* are generally perceived as unimportant. The *costs of this instrument* are generally perceived as low.

Disinvestments

The *availability of this instrument* is generally perceived as limited and the *stability of the firm* is generally perceived to be decreased. The *legal circumstances* are generally perceived as unimportant. The respondents are not generally in accord whether the *costs of this instrument* are low or high. However firms with ordinary income margin above 10%, or firms with annual turnover between CZK 500 mil and CZK 1 bn, or firms with domestic firms as majority shareholder do perceive the costs of this instrument as low. The respondents are not generally in accord whether the *firm's future standing* is deteriorated or not. However firms with ordinary income margin above 10% perceive the impact as not deteriorating. Hence the larger and more profitable firms do not perceive this instrument as costly and/or not deteriorating. These firms can usually easily manage the proper timing of the disinvestments and therefore must not sell below the market price of the asset, as can be the case for the firms in financial distress.

Venture capital entrance

The *availability of this instrument* is generally perceived as limited, in addition the *stability of the firm* is generally perceived to be decreased and the *legal circumstances* are generally perceived as complex. The *costs of this instrument* are generally perceived as high and *new shareholders interests* are generally perceived to be limiting for the firm.

Out of the instruments of the internal financing only the *retained earnings* are perceived as instrument both available and with acceptable related costs. All other instruments are perceived as

limitedly available and/or costly. In addition the *disinvestments* and *venture capital entrance* were also found as firm's stability deteriorating instruments.

Part Two of the questionnaire – external financing

Bank loan

The *availability of this instrument* is generally perceived as sufficient. The respondents are not generally in accord whether the *collateral requirements* are appropriate or high. However the firms with ordinary income margin between 5% and 10%, or firms with annual turnover above CZK 1 bn, or firms with international firms as majority shareholder do perceive the collateral requirements as appropriate. Whereas the firms with negative ordinary income margin perceive the collateral requirements as high. The interpretation is straightforward, the Czech banks have much less strict collateral requirements for more profitable firms or for firms with international parents, then for the loss making firms. Firms with the turnover above CZK 1 bn and the firms with international parent have much better negotiation position towards the banks than the other firms. In case of the more profitable firms the credit risk of these borrowers is much lower and therefore the banks do not need to require the collateral. On the other side loss making firms represent a substantial risk for the borrowing banks therefore the more strict collateral requirements seem to be the only way how the banks can provide financing. The *interest rates* are generally perceived as appropriate. The *debt service* is generally perceived as appropriate.

Intra-group loan

The respondents are not generally in accord whether the *availability of this instrument* is limited or appropriate. However the firms with ordinary income margin between 5% and 10% perceive this instrument as limited whereas the firms with international firms as majority shareholder perceive this instrument as appropriate. Again this shall not be surprising, since the firms with international parent have much stronger support from the parent than the other firms. Firms with domestic parent seem to be less financially strong in order to provide the subsidiaries with intra-group financing. The *collateral requirements* are generally perceived as appropriate. The *interest rates* are generally perceived as appropriate. The *debt service* is generally perceived as appropriate. Usually if the intra-group financing is provided then this shall serve as support of the domestic subsidiary, hence *bianco* financing with favorable interest rates is common.

Third party (non-bank) loans

The *availability of this instrument* is generally perceived as limited. The *collateral requirements* are generally perceived as high. The *interest rates* are generally perceived as high. The *debt service* is generally perceived as limiting. The interpretation of this might be, that the third-party loans are usually provided to firms, where no bank financing (to high credit risk) or no intra-group financing

(no strong parent) is available. Under these circumstances the financial intermediary (the third party) takes substantial risk of loan default that must be outweighed by higher interest rates and/or strong collateral.

Bonds

The *availability of this instrument* is generally perceived as limited. This is no surprise. In the Czech republic there is an bank-based financial system where the capital market financing is not that common. Therefore it seems to be also limited for the firms which would take this instrument into consideration. The respondents are not generally in accord whether the *collateral requirements* are appropriate or high. However the firms with managers as majority shareholders perceive the collateral requirements as high, whereas the firms with state as majority shareholder perceive the collateral requirements as appropriate. The *interest rates* are generally perceived as appropriate. The respondents are not generally in accord whether the *debt service* is limiting or acceptable. However the firms with annual turnover above CZK 1 bn perceive the debt service as acceptable, whereas the firms with managers as majority shareholders perceive the debt service as limiting. This can be the case that larger firms have much easier access to the capital market, whereas the firms with managers as controlling shareholder not. The *minimal amount of the issue* of about CZK 400 mil is generally perceived as limiting.

Financial leasing, operative leasing, sale-and-lease-back

There is no substantial difference between perceptions of these three particular leasing types. In all three types, the *availability of this instrument* is generally perceived as sufficient, the *collateral requirements* are generally perceived as appropriate and the *leasing payments* are generally perceived as appropriate. Only the strength of the accord among the respondents is rather higher for the anterior type and rather weaker for the latter type.

Subsidies (government, municipal, EU and other)

The *availability of this instrument* is generally strongly perceived as limited. There were only 12 firms (6,4%) that perceived the subsidies as sufficiently available. These firms were either active on agriculture or R&D industry or majority owned by government.

Factoring

The *availability of this instrument* is generally perceived as sufficient. However the *factoring related costs* are generally perceived as limiting and the *interest rates* are generally perceived as high. The respondents are not generally in accord whether the *administrative requirements* are high or appropriate. However firms with ordinary income margin above 10% perceive the administrative requirements as high. Here the interpretation seem not be straightforward. Either the more profitable firms are used to very efficient labor force and hence the labor demanding

factoring financing seem to be administratively limiting. Or the more profitable firms usually finance with banks on *bianco* basis, here again the factoring financing must be perceived as administratively limiting.

Suppliers trade credit

The *availability of this instrument* is generally perceived as limited. The *costs of this instrument* are generally perceived as appropriate. Trade credit seems to be the easiest way of the firm financing. The longer payment terms are very popular as financial instrument, but as every firm would likely finance that way, this instrument must be limited at the end. And as the longer payment terms seem not to be sufficiently rewarded by price discount (hence hidden interest rate of the money), this financial instrument is perceived as not costly.

Out of the instruments of external financing the bank loans, all types of leasing and also factoring are perceived as sufficiently available instruments. Besides this, the availability of the intra-group loans is perceived as sufficient if only respondents with majority shareholder as foreign legal entity were taken into account. Surprisingly also the related costs were found as appropriate except for costly factoring and third party loans. For majority of the instruments of external financing the collateral requirements are perceived as appropriate.

Part Three of the questionnaire – Importance and frequency of use

Concerning the importance of respective financing instruments the relevant instruments have been considered differently for financing of working capital needs and for financing of investment activities needs. The respondents generally perceive the *instruments of internal financing* more important for working capital financing than the *instruments of external financing*, which strongly supports the pecking order theory. However out of the instruments of internal financing only *retained earnings* are perceived as important whereas the other types of instruments are perceived as unimportant. Out of the instruments of external financing the *bank loans* and *suppliers trade credit* are perceived as important. Also here other types of external financial instruments are perceived as unimportant. There is no statistically significant difference between respondent's perceiving of *importance* and *frequency of use* of particular financial instrument. In other words there is no financial instrument very important but rarely used, or not important and often used. This means that firms use more the important instruments and use less the unimportant ones.

On the other side in the case of financing of investment activities the *instruments of internal financing* and *instruments of external financing* are similarly perceived as important. Hence for the investment activities the pecking order theory seems to be less valid. Out of the instruments of internal financing again the *retained earnings* are perceived as important instrument whereas the other types of instruments are perceived as unimportant. Out of the instruments of external

financing the *bank loans* and the *financial leasing* (and not the operative leasing or sale-and-lease-back transactions) are perceived as important instruments. And again there is no statistically significant difference between respondent's perceiving of *importance* and *frequency of use* of particular financial instrument.

4.1.3 Regression

In this section we provide the regression analysis of the questionnaire results.

Regression equation

Here we investigate the respondents answers on the questions in part two of the questionnaire related to opinions on particular financial instruments characteristics. Since the answers are generally bi-variate in form of sufficient/limited or high/low, we use the logistic regression for the computations.

The logistic model takes following verbal form

$$\begin{aligned} \text{Dependant variable } [0,1] = \\ \text{constant} + \text{equity ratio} + \text{total revenues} + \text{ordinary income margin} \end{aligned} \quad (1)$$

The equation 1 can be rewritten in following form:

$$\text{Ln} [p / (1-p)] = B_0 + B_1 \text{EqR} + B_2 \text{lnTREV} + B_3 \text{OIM} \quad (2)$$

where p is probability of presence of characteristic and $1-p$ is probability of absence of characteristic, EqR is equity ratio, lnTREV is natural logarithm of total revenues and OIM is ordinary income margin. Hence as the explanatory variables for the dependant variables there were considered the relevant information provided by the respondents about their company in the part one of the questionnaire. There were also the dummies for the largest shareholder type utilized in the regressions, however and surprisingly none of them was found as statistically significant, therefore we do not report them in this section.

We run this regression for each question in the part two of the questionnaire. There were found statistically significant explanatory variables in the following questions:

- Model 1: Availability of equity issue on capital market is limited.
- Model 2: Legal circumstances of equity issue on capital market are unimportant.
- Model 3: Costs of equity issue on capital market are low.
- Model 4: The minimum volume of approximately CZK 100 mil issue is acceptable.
- Model 5: Availability of retained earnings is limited.
- Model 6: Costs of the venture capital entry are low.
- Model 7: Availability of bank loans is limited.

- Model 8: Collateral requirements for bank loans are high.
- Model 9: Interest rates for bank loans are high.
- Model 10: Debt service of intra-group loans is acceptable.
- Model 11: Debt service of third party loans is acceptable.
- Model 12: Availability of bonds is limited.
- Model 13: Debt service of bonds is acceptable.
- Model 14: The minimum volume of approximately CZK 400 mil issue is acceptable.
- Model 15: Leasing payments of operative leasing are high.
- Model 16: Leasing payments of sale-and-lease-back are high.
- Model 17: Availability of subsidies is limited.
- Model 18: Availability of factoring is limited.
- Model 19: Costs of factoring are acceptable.
- Model 20: Availability of trade credit is limited.
- Model 21: Costs of trade credit are acceptable.

Regression results

The estimation results for whether or not a respondent has positive answered the investigated question are presented in the table 5. The slope coefficients represent the changes in the logit estimates for a change of one unit in the independent variable.

Table 5: Regression results

Dependant variable	Constant	EqR	LnTREV	OIM	Overall Chi-square	Overall significance	Correctly classified	N
model 1	6,51	-1,57	-0,31 *	-1,6	6,55	*	80,95	126
model 2	-4,19	1,96 **	0,14	-0,38	4,58		78,4	125
model 3	0,31	-0,42	-0,08	7,38 **	5,76		64,86	111
model 4	-11,25	2,16 **	0,70 ***	-1,21	19,66	***	75,59	127
model 5	-1,83	0,90	0,09	-7,89 ***	8,26	**	66,86	169
model 6	3,42	0,85	-0,41 **	4,85	8,85	**	77,69	130
model 7	3,72	-1,66 *	-0,34 **	-2,78	8,69	**	80,81	172
model 8	5,46	-0,62	-0,39 ***	-3,36	12,38	***	58,48	171
model 9	3,82	-0,14	-0,38 **	3,08	7,09	*	72,51	171
model 10	-1,81	-1,54	0,31 *	2,78	6,16	*	81,6	125
model 11	-5,28	0,12	0,34 **	1,30	5,86		66,94	124
model 12	2,59	-3,23 ***	0,05	-2,45	10,67	***	79,2	125
model 13	-5,73	1,20	0,38 **	-0,22	8,84	**	61,95	113
model 14	-3,28	0,60 **	2,6	0,05 *	10,04	**	78,4	125
model 15	-0,51	-1,48 *	0,01	0,89	3,13		78,83	149
model 16	-0,33	-0,53	-0,04	4,99 *	3,01		69,50	141
model 17	5,55	-3,38 **	-0,11	4,35	5,76		92,31	156
model 18	-1,59	1,28	0,04	-5,28 *	4,87		66,44	146
model 19	2,60	-0,39	-0,24 *	4,29	4,79		59,29	140
model 20	1,88	-0,01	-0,14	4,25 *	3,93		56,89	167
model 21	0,01	-1,63 *	0,17	0,02	4,76		79,63	162

Significance on * 10%, ** 5% and *** 1 % respectively.

As suggested by Chi-square levels, the models in general do not have high explanatory power. Another widely used measure of the overall fit of the model is to examine its ability to correctly classify observations. This varies from very favorable above 90% correctness to still acceptable above 60% correctness.

Internal financing

For *Availability of equity issue on capital market is limited* we found that the higher the total revenues, the less limited is perceived the availability of the equity issue on the capital market. For *Legal circumstances of equity issue on capital market are unimportant* we found that the higher the equity ratio, the more are perceived the legal circumstances of the equity issue as unimportant. For *Costs of equity issue on capital market are low* we found that the higher the ordinary income margin, the more are perceived the costs of the equity issue as low. For *The minimum volume of approximately CZK 100 mil of equity issue is acceptable* we found that the higher the equity ratio and the higher the total revenues, the more acceptable is perceived the minimum volume of the issue. Hence, the larger firms in terms of revenues perceive the IPO as more available, the more profitable firms perceive it as less costly, the better capital endowed firms perceive the legal circumstances less important and the minimal volume of IPO issue is perceived as more acceptable

by larger firms in terms of revenues and by better capital endowed firms. These outcomes confirm our expected significant impact of economies of scale on IPO issues.

For *Availability of retained earnings is limited* we found that the higher the ordinary income margin, the less limited is perceived the availability of retained earnings. This is very intuitive outcome as the more profitable companies have larger profits, hence also larger retained earnings and therefore perceive the retained earnings as more available.

For *Costs of the venture capital entry are low* we found that the higher the total revenues, the less are perceived the costs of venture capital entry as low. In other words larger firms perceive the venture capital as more costly. This might be the case that the managers of larger firms are more afraid to share the power and profit with the venture capital funds that are said to be very tough in negotiations, very demanding on the management and very much profit oriented.

External financing

For *Availability of bank loans is limited* we found that the higher the equity ratio and the higher the total revenues, the less limited is perceived the availability of the bank loans. For *Collateral requirements for bank loans are high* we found that the higher the total revenues, the less are perceived the collateral requirements for bank loans as high. For *Interest rates for bank loans are high* we found that the higher the total revenues, the less are perceived the interest rates for bank loans as high. These outcomes are also rather intuitive and confirm our present knowledge on banking sector. Larger firms perceive the bank loans as more available, less collateral demanding and interest rates as lower. This is clearly thanks to their stronger negotiation power in the bank-customer relationship. Larger firms have more power to make pressure on the banks in terms of the financing conditions and also the banks are keen to borrower the larger firms in order to enjoy the advantages of relationship with large firm (name lending, side-business and cross-selling potential).

For *Debt service of intra-group loans is acceptable* we found that the higher the total revenues, the more acceptable is perceived the debt service of intra-group loans. The larger firms are more to be expected to be members of (international) groups with usual parent financing support, therefore they perceive the debt service of intra-group lending as more acceptable.

For *Debt service of third party loans is acceptable* we found that the higher the total revenues, the more acceptable is perceived the debt service of the third party loans. Clearly this is also intuitive, as the economies of scale have impact also on this field. Smaller firms need to count with larger relatively agency-costs in borrower-debt-holder relationship, therefore they face also more costly debt service.

For *Availability of bonds is limited* we found that the higher the equity ratio, the less limited is perceived the availability of bonds. For *Debt service of bonds is acceptable* we found that the higher the total revenues, the more acceptable is perceived the debt service of bonds. For *The minimum volume of approximately CZK 400 mil of bond issue is acceptable* we found that the higher the equity ratio and the higher the ordinary income margin, the more is perceived the minimum volume of bond issue as acceptable. Hence, for the bonds, the larger, more profitable and more capital endowed firms perceive the bond issues as more available and less costly. This is also intuitive outcome as investors are less keen to borrow to equity-weak, small and unprofitable firms. For *Leasing payments of operative leasing are high* we found that the higher the equity ratio, the less are perceived the leasing payments of operative leasing as high. For *Leasing payments of sale-and-lease-back are high* we found that the higher the ordinary income margin, the more are perceived the leasing payments of sale-and-lease-back as high. The empirical results for leasing instruments are not that easy to interpret. However the sale-and-lease-back transactions are said to be often result of adverse selection, as they are utilized by firms of weaker financial standing (in financial distress), therefore also the pricing of this instrument mirrors the larger exposure risk of the debt-holders. On the other side operative leasing seems to be more standard financial instrument utilized by all types of firms (more and less profitable), therefore here the better capital endowed firms (and hence of better financial standing) perceive the leasing payments as less costly (as they are able to be funded for lower risk premiums).

For *Availability of subsidies is limited* we found that the higher the equity ratio, the less is perceived the availability of the subsidies as limited. It seems to be that the better capital endowed firms are also better endowed by internal infrastructure for attendance in subsidies programs, therefore they perceive the subsidies more available.

For *Availability of factoring is limited* we found that the higher the ordinary income margin, the less limited is perceived the availability of factoring. For *Costs of factoring are acceptable* we found that the higher the total revenues, the less acceptable are perceived the costs of factoring. It is not much easy to interpret the evidence of factoring as well. However it seems to be that the factoring is more available for more profitable companies (as the debt-holders are more keen to provide the financing), however larger firms perceive the factoring as more costly, because the less costly alternative of bank loans is also very much available to them.

For *Availability of trade credit is limited* we found that the higher the ordinary income margin, the more limited is perceived the availability of the trade credit. For *Costs of trade credit are acceptable* we found that the higher the equity ratio, the less acceptable are perceived the costs of the trade credit. Here it might be the case that the better capital endowed firms do favor other types

of financing (such as bank financing) where they can enjoy better price conditions and do not use so often the trade credit.

5. Conclusion

This paper was assembled in search of the determinants of the corporate financing decision-making. In the literature survey section it has brought an overview of the points of departure in terms of theoretical literature and also some relevant empirical evidence. In the empirical analysis section it has shown, that the respondents follow pecking order theory in short term financing, when they prefer financial instruments of internal financing. Out of them the retained earnings have been perceived as most important one. Among the financial instruments of the external financing, bank loans and suppliers trade credit have been perceived as important. Concerning the financing of the investment activities, support for pecking order theory has not been found as strong, both instruments of internal and external financing have been found as similarly important. Firms reported again to prefer retained earnings and bank loans, and also leasing.

For IPO, the firms perceive this instrument as less available and costly. However larger firms perceive it as more available than smaller firms. Retained earnings are perceived as sufficiently available, not costly and with unimportant legal circumstances. Naturally, more profitable firms perceive this instrument as more available. The bank loans are perceived as sufficiently available. More profitable firms and larger firms in terms of revenues perceive the collateral requirements as appropriate, whereas loss-making firms perceive the collateral requirements as high. The interest rates are generally perceived as appropriate, and the larger firms perceive the interest rates as more appropriate. Intra-group loans are perceived as sufficiently available by firms with international parent, the larger the firms, the more acceptable has been also found the debt service of intra-group loans. The third part (non-bank) loans are generally perceived as less available, costly and with high collateral requirements. However the larger firms perceive the debt service of third party loans as more acceptable. The bond issues are perceived as less available, the minimal issue of bonds as limiting, but with appropriate interest rates. However more profitable firms perceive the minimal issue as less limiting. The leasing instruments are generally perceived as sufficiently available, with appropriate collateral requirements and appropriate debt service (leasing payments). The more profitable firms perceive the sale-and-lease-back transactions as more costly. Factoring is generally perceived as sufficiently available, however with limiting factoring-related costs and high interest rates. More profitable firms do more perceive the administrative requirements of factoring as high. More profitable firms perceive the factoring as more available and larger firms in terms of

revenues perceive it as more costly. The availability of the trade credit is generally perceived as limited, however with appropriate costs.

Our results are fully in line with other empirical evidence. Czech firms seem to follow pecking order theory in financial decision-making, similarly to Graham and Harvey (2001), Beattie et al (2004) and Brounen et al (2004). We also provide additional evidenced that Czech financial system is a bank-based one, similarly to Bratkowski (1999). We are also in accord with Dvořák (2000), that firms with international parent have more available intra-group loans and that the bond issue perceive larger firms more available.

There is a number of links of the results with the practice. The factoring market is to focus to limit the administrative requirements of the factoring service in order to tackle the major concern of the respondents. We may expect that the demand for the bank loans and leasing shall not weaken in the future, as these instruments are perceived as the most important ones among the external financing instruments. And to increase the demand for bond issues, the minimal volume of the issue is to be lowered. And one more hint for the firms, they are to be larger and more profitable in order to enjoy more available and less costly financial instruments.

Our results have clearly some limitations. The major one stems from the not that large pool of 188 respondents, despite the questionnaire has been fund to 3000 firms. This makes the result as not that statistically robust, however still sufficiently strong to accept our arguments.

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Annex I: Questionnaire

Structure of the questionnaire:

In Part 1 we ask for the information about you and your company. Fill in the appropriate answer.
In Part 2 we ask on your opinion on financial instruments separately for debt and equity. Mark the appropriate answer.
In Part 3 we ask about your opinion of the importance and frequency of utilization of individual financial instruments in your company separately for operational and investment needs. Mark the most appropriate option on both scales.

Part 1: Information about You and Your company		Debt	
Company Registered Name and position of the Yes, we are interested in the results of this research by e-mail. Please email them on the address: Total Assets: CZK thousand Shareholders' Equity: CZK thousand Sales Revenues: CZK thousand Operation Earnings: CZK thousand Profit after tax: CZK thousand End owners of the company legal entities - domestic: % legal entities - foreign: % physical persons - managers: % physical persons - employees: % physical persons - others: % state and state institutions: % others: %		1 Credit/loan 1.1 bank loan instrument's availability is <input type="radio"/> sufficient <input type="radio"/> limited <input type="radio"/> other collateral requirements are <input type="radio"/> appropriate <input type="radio"/> high <input type="radio"/> other interest rates are <input type="radio"/> appropriate <input type="radio"/> high <input type="radio"/> other debt service is <input type="radio"/> limiting <input type="radio"/> acceptable <input type="radio"/> other 1.2 incompany (intra group) credit instrument's availability is <input type="radio"/> sufficient <input type="radio"/> limited <input type="radio"/> other collateral requirements are <input type="radio"/> appropriate <input type="radio"/> high <input type="radio"/> other interest rates are <input type="radio"/> appropriate <input type="radio"/> high <input type="radio"/> other debt service is <input type="radio"/> limiting <input type="radio"/> acceptable <input type="radio"/> other 1.3 third parties credit instrument's availability is <input type="radio"/> sufficient <input type="radio"/> limited <input type="radio"/> other collateral requirements are <input type="radio"/> appropriate <input type="radio"/> high <input type="radio"/> other interest rates are <input type="radio"/> appropriate <input type="radio"/> high <input type="radio"/> other debt service is <input type="radio"/> limiting <input type="radio"/> acceptable <input type="radio"/> other 2 Bonds instrument's availability is <input type="radio"/> sufficient <input type="radio"/> limited <input type="radio"/> other collateral requirements are <input type="radio"/> appropriate <input type="radio"/> high <input type="radio"/> other interest rates are <input type="radio"/> appropriate <input type="radio"/> high <input type="radio"/> other debt service is <input type="radio"/> limiting <input type="radio"/> acceptable <input type="radio"/> other the minimum barrier of aprox.400 000 CZK is <input type="radio"/> omezující <input type="radio"/> přijatelná <input type="radio"/> other 3 Leasing 3.1 financial leasing instrument's availability is <input type="radio"/> sufficient <input type="radio"/> limited <input type="radio"/> other collateral requirements are <input type="radio"/> appropriate <input type="radio"/> high <input type="radio"/> other lease payments are <input type="radio"/> appropriate <input type="radio"/> high <input type="radio"/> other 3.2 operative leasing instrument's availability is <input type="radio"/> sufficient <input type="radio"/> limited <input type="radio"/> other collateral requirements are <input type="radio"/> appropriate <input type="radio"/> high <input type="radio"/> other lease payments are <input type="radio"/> appropriate <input type="radio"/> high <input type="radio"/> other 3.3 sale and lease back instrument's availability is <input type="radio"/> sufficient <input type="radio"/> limited <input type="radio"/> other collateral requirements are <input type="radio"/> appropriate <input type="radio"/> high <input type="radio"/> other lease payments are <input type="radio"/> appropriate <input type="radio"/> high <input type="radio"/> other 4 Subsidies (state, municipal, EU and other) instrument's availability is <input type="radio"/> sufficient <input type="radio"/> limited <input type="radio"/> other 5 Factoring instrument's availability is <input type="radio"/> sufficient <input type="radio"/> limited <input type="radio"/> other cost of factoring are <input type="radio"/> limiting <input type="radio"/> acceptable <input type="radio"/> other interest rates are <input type="radio"/> appropriate <input type="radio"/> high <input type="radio"/> other administrative requirements are <input type="radio"/> appropriate <input type="radio"/> high <input type="radio"/> other 6 Trade credit from suppliers instrument's availability is <input type="radio"/> sufficient <input type="radio"/> limited <input type="radio"/> other cost of instruments are <input type="radio"/> limiting <input type="radio"/> acceptable <input type="radio"/> other 6 Other (please specify)	
Part 2: General opinion on financial instruments divided to debt and equity Equity 1 Equity increase instrument's availability <input type="radio"/> sufficient <input type="radio"/> limited <input type="radio"/> other legal circumstances are <input type="radio"/> complex <input type="radio"/> unimportant <input type="radio"/> other cost of the instrument is: <input type="radio"/> high <input type="radio"/> low <input type="radio"/> other 2 Equity issues on capital market instrument's availability <input type="radio"/> sufficient <input type="radio"/> limited <input type="radio"/> other legal circumstances are <input type="radio"/> complex <input type="radio"/> unimportant <input type="radio"/> other cost of the instrument is: <input type="radio"/> high <input type="radio"/> low <input type="radio"/> other the minimum barrier of aprox.100 000 CZK is <input type="radio"/> limiting <input type="radio"/> acceptable <input type="radio"/> other 3 Retained earnings instrument's availability <input type="radio"/> sufficient <input type="radio"/> limited <input type="radio"/> other legal circumstances are <input type="radio"/> complex <input type="radio"/> unimportant <input type="radio"/> other cost of the instrument is: <input type="radio"/> high <input type="radio"/> low <input type="radio"/> other 4 Disinvestments instrument's availability <input type="radio"/> sufficient <input type="radio"/> limited <input type="radio"/> other firm's stability <input type="radio"/> improves <input type="radio"/> decreases <input type="radio"/> no impact legal circumstances are <input type="radio"/> complex <input type="radio"/> unimportant <input type="radio"/> other cost of the instrument is: <input type="radio"/> high <input type="radio"/> low <input type="radio"/> other company future <input type="radio"/> deteriorates <input type="radio"/> no impact <input type="radio"/> other 5 Venture capital entrance instrument's availability <input type="radio"/> sufficient <input type="radio"/> limited <input type="radio"/> other firm's stability <input type="radio"/> improves <input type="radio"/> decreases <input type="radio"/> no impact legal circumstances are <input type="radio"/> complex <input type="radio"/> unimportant <input type="radio"/> other cost of the instrument is: <input type="radio"/> high <input type="radio"/> low <input type="radio"/> other interests of new shareholders are <input type="radio"/> limiting <input type="radio"/> contributing <input type="radio"/> other 6 Other (please specify)		7 Other (please specify)	

Part 3: use of financial instruments in your company

Operational financing of your company

Assess the importance and frequency of the use of the following financial instruments for **working capital financing** of your company. Mark the most appropriate option on both scales.

	Importance					Use				
	High		Low			Frequent		Rare		
	1	2	3	4	5	1	2	3	4	5
Equity (in general)										
Debt (in general)										
Equity - specific financial instruments										
Equity increase										
Equity issues on capital market										
Retained earnings										
Disinvestments										
Venture capital entrance										
Other										
Debt - specific financial instruments										
Credits and loans										
bank loans										
incompany/intra group credits										
third party credit										
Bonds										
Leasing										
financial leasing										
operative leasing										
sale and lease back										
Subsidies (state, municipal, EU and other)										
Factoring										
Trade credit from suppliers										
Other										

Investment financing of your company

Assess the importance and frequency of the use of the following financial instruments for **investment financing** of your company. Mark the most appropriate option on both scales.

	Importance					Use				
	High		Low			Frequent		Rare		
	1	2	3	4	5	1	2	3	4	5
Equity (in general)										
Debt (in general)										
Equity - specific financial instruments										
Equity increase										
Equity issues on capital market										
Retained earnings										
Disinvestments										
Venture capital entrance										
Other										
Debt - specific financial instruments										
Credits and loans										
bank loans										
incompany/intra group credits										
third party credit										
Bonds										
Leasing										
financial leasing										
operative leasing										
sale and lease back										
Subsidies (state, municipal, EU and other)										
Factoring										
Trade credit from suppliers										
Other										

Annex II: Tables

Table 6: Respondent's perceiving – results (Part 2 of the questionnaire: equity instruments)

Equity instruments	All respondents			Turnover (CZK mil)						Ordinary income margin						Group of largest shareholders																												
				above 1 000		500 - 1 000		below 500		above 10%		5% - 10%		0% - 5 %		below 0%		PI - managers		PI - others		PI - employees		domestic legal entities		foreign legal entities		state																
	a	b	count	a	b	count	a	b	count	a	b	count	a	b	count	a	b	count	a	b	count	a	b	count	a	b	count	a	b	count														
Equity increase																																												
instrument's availability	82	95	177	15	17	32	13	15	28	12	20	32	15	10	25	23	23	46	31	47*	78	9	13	22	20	25	45	5	14*	19	2	4	6	16	24	40	32*	17	49	7	5	12		
legal circumstances	72	103*	175	12	20	32	11	16	27	15	17	32	8	15	23	17	29*	46	31	46*	77	14	8	22	15	31*	46	8	11	19	3	3	6	20	19	39	16	31*	47	8	4	12		
costs of the instrument	89*	62	151	16	13	29	16	9	25	15	10	25	10	11	21	26*	15	41	41*	26	67	8	9	17	26*	14	40	9	8	17	4	2	6	23*	10	33	20	19	39	4	6	10		
Equity issues																																												
instrument's availability	24	109*	133	10	18	28	4	17*	21	4	20*	24	5	12*	17	3	33*	36	13	46*	59	2	15*	17	4	30*	34	1	10*	11	0	6*	6	8	26*	34	6	30*	36	5	4	9		
legal circumstances	103*	29	132	19*	6	25	19*	4	23	22*	6	28	12	8	20	32*	7	39	43*	9	52	13*	4	17	28*	6	34	8	3	11	5*	0	5	27*	8	35	26*	8	34	7*	2	9		
costs of the instrument	74*	43	117	14	12	26	11	6	17	19*	6	25	8	9	17	20	15	35	34*	14	48	10	4	14	12	16	28	8*	2	10	3	1	4	23*	8	31	21*	11	32	5	4	9		
the minimum barrier of aprox 100 mil CZK	95*	40	135	8	18*	26	18*	4	22	21*	6	27	11*	4	15	21	17	38	48*	11	59	12	6	18	31*	3	34	13*	0	13	4	2	6	26*	11	37	18	16	34	2	6	8		
Retained earnings																																												
instrument's availability	115*	63	178	21	12	33	20*	7	27	23*	9	32	18*	8	26	39*	9	48	43	34	77	12	9	21	35*	11	46	9	9	18	3	3	6	26	16	42	34*	16	50	6	4	10		
legal circumstances	6	164*	170	2	28*	30	0	26*	26	1	30*	31	2	23*	25	1	43*	44	2	73*	75	0	21*	21	1	41*	42	0	19*	19	0	6*	6	2	40*	42	3	43*	46	0	10*	10		
costs of the instrument	51	111*	162	10	21*	31	6	19*	25	6	26*	32	7	16*	23	12	31*	43	22	49*	71	7	13	20	12	31*	43	6	12	18	3	2	5	11	29*	40	15	26*	41	3	6	9		
Disinvestments																																												
instrument's availability	57	116*	173	11	21*	32	7	20*	27	14	18	32	10	14	24	11	35*	46	27	51*	78	7	15*	22	15	30*	45	3	15*	18	3	3	6	15	26*	41	17	28	45	4	8	12		
firm's stability	23	88*	111	3	18*	21	4	13*	17	4	17*	21	3	6	9	4	28*	32	13	42*	55	2	9*	11	5	25*	30	3	10*	13	1	3	4	4	23*	27	6	21*	27	2	4	6		
legal circumstances	28	142*	170	7	24*	31	3	23*	26	5	27*	32	1	21*	22	8	39*	47	12	63*	75	4	16*	20	6	38*	44	2	17*	19	2	4	6	6	34*	40	7	37*	44	4	7	11		
costs of the instrument	63	81	144	16	11	27	5	18*	23	13	16	29	5	12*	17	21	20	41	27	40	67	10	7	17	18	21	39	5	11	16	3	3	6	13	23*	36	20	14	34	3	6	9		
company future	85	68	153	16	10	26	9	12	21	18	11	29	4	13*	17	26	16	42	42	29	71	10	9	19	24	19	43	10	7	17	4	2	6	20	15	35	21	18	39	3	5	8		
Venture capital entrance																																												
instrument's availability	27	115*	142	3	25*	28	6	14*	20	8	22*	30	3	16*	19	8	30*	38	15	50*	65	0	16*	16	9	28*	37	2	13*	15	1	5	6	6	31*	37	6	28*	34	3	6	9		
firm's stability	32	111*	143	7	22*	29	4	17*	21	6	21*	27	4	13*	17	8	29*	37	13	53*	66	6	12	18	6	33*	39	6	8	14	0	6*	6	8	26*	34	11	26*	37	0	8*	8		
legal circumstances	84*	61	145	15	12	27	11	13	24	18	12	30	11	8	19	21	20	41	38	26	64	11	6	17	26*	12	38	10	5	15	3	3	6	19	16	35	18	20	38	6	2	8		
costs of the instrument	103*	32	135	24*	4	28	17*	4	21	20*	7	27	9	8	17	30*	8	38	51*	9	60	11	7	18	26*	10	36	12*	2	14	5	1	6	25*	9	34	25*	8	33	6	2	8		
interests of new shareholders	99*	23	122	17*	6	23	16*	3	19	20*	6	26	11	6	17	30*	6	36	44*	9	53	11*	2	13	28*	4	32	9*	0	9	5*	0	5	20*	8	28	26*	8	34	8*	1	9		

* is statistically significant based on Chi-square sign test

Table 7: Respondent's perceiving – results (Part 2 of the questionnaire: debt instruments)

Debt instruments				Turnover (CZK mil)						Ordinary income margin						Group of largest shareholders																									
	All respondents			above 1 000		500 - 1 000		below 500		above 10%		5% - 10%		0% - 5 %		below 0%		PI - managers		PI - others		PI - employee s		domestic legal entities		foreign legal entities		state													
	a	b	count	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	count											
Loans																																									
Bank loans																																									
instrument's availability	147 *	34	181	28 *	4	32	25 *	3	28	27 *	7	34	22 *	3	25	42 *	7	49	66 *	13	79	13	9	22	40 *	7	47	12	7	19	4	2	6	35 *	7	42	41 *	8	49	11 *	12
collateral requirements	92	88	180	24 *	7	31	14	14	28	13	21	34	13	11	24	35 *	14	49	34	45	79	7	15	22	21	26	47	9	10	19	1	5	6	20	22	42	33 *	15	48	7	12
interest rates	129 *	51	180	29 *	2	31	20 *	8	28	21	13	34	16	8	24	38 *	11	49	57 *	22	79	15 *	7	22	32 *	15	47	13	6	19	3	3	6	32 *	10	42	38 *	10	48	7	12
debt service	42	132 *	174	5	25 *	30	5	23 *	28	10	21 *	31	9	15	24	7	42 *	49	21	55 *	76	4	16 *	20	12	34 *	46	4	14 *	18	1	4	5	13	28 *	41	8	39 *	47	3	11
Intra-group loans																																									
instrument's availability	68	78	146	16	13	29	8	13	21	17	9	26	11	9	20	20	22	42	24	39 *	63	10	8	18	10	18	28	5	10	15	1	5	6	15	22	37	33 *	15	48	3	8
collateral requirements	117 *	15	132	24 *	3	27	18 *	3	21	23 *	0	23	15 *	1	16	35 *	4	39	51 *	8	59	15 *	2	17	23 *	4	27	10 *	2	12	3	3	6	31 *	3	34	39 *	2	41	7 *	8
interest rates	122 *	15	137	25 *	3	28	20 *	2	22	23 *	0	23	15 *	2	17	35 *	5	40	53 *	7	60	16 *	1	17	25 *	3	28	11 *	2	13	3	3	6	33 *	1	34	39 *	5	44	7 *	8
debt service	22	109 *	131	2	24 *	26	2	18 *	20	3	21 *	24	2	16 *	18	4	34 *	38	13	42 *	55	3	14 *	17	5	22 *	27	3	10 *	13	2	3	5	9	25 *	34	1	39 *	40	2	8
Third parties loans																																									
instrument's availability	23	119 *	142	3	24 *	27	3	18 *	21	6	18 *	24	2	16 *	18	7	30 *	37	12	51 *	63	2	17 *	19	4	32 *	36	2	11 *	13	1	5	6	8	28 *	36	5	34 *	39	3	9
collateral requirements	36	99 *	135	7	18 *	25	10	11	21	3	21 *	24	4	13 *	17	9	28 *	37	18	42 *	60	4	14 *	18	11	24 *	35	3	8	11	2	4	6	5	30 *	35	10	26 *	36	4	9
interest rates	22	112 *	134	4	21 *	25	3	18 *	21	4	20 *	24	4	12 *	16	6	31 *	37	10	50 *	60	2	15 *	17	8	27 *	35	2	9 *	11	1	5	6	4	30 *	34	3	33 *	36	3	9
debt service	87 *	43	130	12	11	23	11	9	20	16	9	25	12 *	5	17	19	17	36	43 *	15	58	10	6	16	21	13	34	7	4	11	2	3	5	25 *	8	33	25 *	10	35	5	9
Bonds																																									
instrument's availability	26	105 *	131	4	21 *	25	3	16 *	19	12	14	26	5	11	16	4	35 *	39	12	42 *	54	4	15 *	19	1	30 *	31	1	13 *	14	3	3	6	10	24 *	34	4	29 *	33	6	10
collateral requirements	58	59	117	12	10	22	10	6	16	16	10	26	8	6	14	17	21	38	22	23	45	10	8	18	8	19 *	27	5	6	11	2	3	5	16	16	32	17	13	30	8 *	10
interest rates	70 *	48	118	15	8	23	12 *	5	17	15	10	25	7	7	14	21	17	38	30 *	17	47	11	7	18	13	14	27	6	5	11	4	1	5	20	13	33	18	13	31	8 *	10
debt service	65	52	117	7	16 *	23	8	9	17	14	11	25	8	6	14	19	19	38	29	18	47	8	9	17	18 *	9	27	7	4	11	1	3	4	21	12	33	14	17	31	4	10
the minimum barrier of approx 400 mil CZK	103 *	28	131	20 *	5	25	15 *	3	18	20 *	6	26	14 *	1	15	26 *	12	38	48 *	8	56	13	6	19	30 *	3	33	13 *	0	13	4	2	6	26 *	8	34	23 *	10	33	4	9

* is statistically significant based on Chi-square sign test

Table 8: Respondent's perceiving – results (Part 2 of the questionnaire: debt instruments) - continued

Debt instruments	All respondents			Turnover (CZK mil)						Ordinary income margin						Group of largest shareholders										state															
				above 1 000		500 - 1 000		below 500		above 10%		5% - 10%		0% - 5 %		below 0%		PI - managers		PI - others		PI - employees		domestic legal entities				foreign legal entities													
	a	b	nt	a	b	nt	a	b	nt	a	b	nt	a	b	nt	a	b	nt	a	b	nt	a	b	nt	a	b	nt	a	b	nt	a	b	nt	a	b						
Leasing																																									
Financial																																									
instrument's availability	175 *	1	176	33 *	0	33	27 *	0	27	33 *	0	33	23 *	0	23	48 *	0	48	80 *	0	80	19 *	1	20	45 *	0	45	19 *	0	19	5	1	6	42 *	0	42	48 *	0	48	11 *	0
collateral requirements	160 *	15	175	29 *	3	32	23 *	4	27	31 *	3	34	20 *	3	23	45 *	3	48	70 *	8	78	20 *	1	21	43 *	2	45	17 *	2	19	6 *	0	6	35 *	5	40	44 *	4	48	11 *	1
lease payments	140 *	34	174	24 *	8	32	23 *	4	27	23 *	11	34	18 *	5	23	39 *	9	48	60 *	17	77	19 *	2	21	35 *	8	43	17 *	2	19	5	1	6	30 *	11	41	38 *	10	48	11 *	1
Operative																																									
instrument's availability	145 *	15	160	29 *	4	33	24 *	2	26	27 *	1	28	19 *	2	21	44 *	3	47	63 *	6	69	15 *	4	19	37 *	3	40	15 *	1	16	3	2	5	37 *	2	39	38 *	7	45	10 *	0
collateral requirements	140 *	17	157	28 *	4	32	24 *	2	26	25 *	3	28	17 *	4	21	44 *	3	47	59 *	7	66	17 *	2	19	37 *	3	40	14 *	2	16	4	1	5	33 *	4	37	40 *	4	44	9 *	1
lease payments	116 *	40	156	23 *	9	32	18 *	8	26	19 *	9	28	15 *	6	21	40 *	7	47	44 *	22	66	14 *	4	18	25 *	13	38	14 *	2	16	3	2	5	27 *	11	38	36 *	8	44	9 *	1
Sale and lease back																																									
instrument's availability	107 *	45	152	23 *	7	30	14	8	22	23 *	5	28	13	6	19	32 *	10	42	47 *	22	69	12	7	19	25 *	12	37	14 *	3	17	2	4	6	30 *	10	40	26 *	12	38	8 *	2
collateral requirements	114 *	34	148	23 *	5	28	18 *	4	22	22 *	6	28	17 *	2	19	34 *	8	42	48 *	17	65	14 *	5	19	25 *	12	37	14 *	2	16	3	3	6	32 *	7	39	29 *	7	36	8 *	2
lease payments	99 *	48	147	18	11	29	17 *	5	22	17	11	28	10	9	19	29 *	13	42	45 *	20	65	14 *	4	18	23 *	12	35	11	5	16	5	1	6	26 *	13	39	23	14	37	9 *	1
Subsidies																																									
instrument's availability	12	152 *	164	2	28 *	30	1	24 *	25	4	27 *	31	2	21 *	23	3	39 *	42	5	68 *	73	2	19 *	21	0	44 *	44	2	16 *	18	0	6 *	6	3	38 *	41	4	38 *	42	3	6
Factoring																																									
instrument's availability	103 *	51	154	21 *	9	30	15 *	7	22	19 *	10	29	14 *	6	20	29 *	14	43	45 *	22	67	10	9	19	34 *	8	42	10	5	15	3	2	5	24	15	39	25 *	14	39	5	4
costs of factoring	92 *	55	147	22 *	8	30	16 *	6	22	15	13	28	12	7	19	21	21	42	44 *	20	64	13 *	5	18	26	16	42	11 *	2	13	1	4	5	29 *	8	37	19	18	37	4	4
interest rates	52	97 *	149	11	19	30	6	16 *	22	8	20 *	28	2	17 *	19	19	24	43	23	41 *	64	6	13	19	15	27 *	42	4	10	14	3	2	5	10	28 *	38	16	21	37	3	5
administrative requirements	65	83	148	16	14	30	7	14	21	13	16	29	5	13 *	18	17	25	42	31	34	65	8	11	19	20	21	41	3	11 *	14	3	2	5	17	20	37	18	19	37	3	6
Trade credit																																									
instrument's availability	76	100 *	176	14	19	33	13	14	27	18	14	32	10	14	24	19	27	46	33	46	79	13	8	21	18	28	46	9	9	18	3	3	6	18	23	41	20	28	48	6	5
costs of the instrument	34	135 *	169	2	29 *	31	6	21 *	27	7	25 *	32	6	17 *	23	10	36 *	46	11	64 *	75	7	14	21	4	40 *	44	4	13 *	17	3	3	6	11	29 *	40	9	36 *	45	3	8

* is statistically significant based on Chi-square sign test

Table 9: Respondent's perceiving – results (Part 3 of the questionnaire)

	Importance							Use						
	High			Low		N/A	Total	Frequent			Rare		N/A	Total
	1	2	3	4	5			1	2	3	4	5		
Working capital financing														
Equity (in general)	96	45	30	9	2	6	188	98	43	22	13	4	8	188
Debt (in general)	55	51	37	19	14	12	188	60	39	35	22	17	15	188
Equity - specific financial instruments														
Equity increase	16	21	42	22	69	18	188	4	10	19	34	101	20	188
Equity issues on capital market	1	6	8	17	124	32	188	1	0	5	9	141	32	188
Retained earnings	79	39	31	17	15	7	188	80	30	25	23	18	12	188
Disinvestments	3	17	52	48	55	13	188	4	13	41	52	61	17	188
Venture capital entrance	2	1	6	23	133	23	188	1	0	3	9	152	23	188
Other	3	1	18	15	80	71	188	2	2	16	13	84	71	188
Debt - specific financial instruments														
Credits and loans														
bank loans	78	42	27	9	20	12	188	72	29	27	20	26	14	188
incompany/intra group credits	23	20	34	22	67	22	188	15	23	25	24	77	24	188
third party credit	3	6	11	25	114	29	188	4	6	6	18	125	29	188
Bonds	0	2	10	11	130	35	188	0	0	3	5	145	35	188
Leasing														
financial leasing								47	31	32	12	50	16	188
operative leasing	10	18	33	22	74	31	188	11	18	21	20	88	30	188
sale and lease back	3	13	17	28	96	31	188	1	10	7	23	115	32	188
Subsidies (state, municipal, EU and other)	34	21	22	21	71	18	187	18	11	23	28	90	18	188
Factoring	10	22	21	26	86	23	188	7	14	10	24	110	23	188
Trade credit from suppliers	53	38	40	18	27	12	188	39	46	42	16	33	12	188
Other	0	1	20	13	86	68	188	0	1	18	11	91	67	188
Investment financing														
Equity (in general)	76	39	46	9	7	11	188	75	31	44	15	9	14	188
Debt (in general)	55	54	34	11	15	19	188	53	48	26	20	19	22	188
Equity - specific financial instruments														
Equity increase	14	18	25	32	77	22	188	2	14	17	26	104	25	188
Equity issues on capital market	1	7	9	10	124	37	188	0	1	6	7	137	37	188
Retained earnings	78	28	41	14	17	9	187	67	28	33	23	25	12	188
Disinvestments	6	19	42	44	59	18	188	3	20	31	41	73	20	188
Venture capital entrance	2	3	10	14	128	31	188	1	1	2	7	147	30	188
Other	1	0	19	11	88	69	188	0	0	16	9	97	66	188
Debt - specific financial instruments														
Credits and loans														
bank loans	78	42	27	6	21	14	188	60	33	34	17	28	16	188
incompany/intra group credits	21	23	24	21	76	23	188	13	17	23	24	85	26	188
third party credit	2	4	12	19	119	32	188	2	2	6	17	129	32	188
Bonds	2	6	8	9	121	42	188	1	1	3	8	133	42	188
Leasing														
financial leasing	53	38	36	13	34	14	188	51	36	36	5	46	14	188
operative leasing	8	22	33	24	74	27	188	7	16	21	17	98	29	188
sale and lease back	5	13	21	22	96	31	188	2	6	12	17	119	32	188
Subsidies (state, municipal, EU and other)	40	21	27	21	61	18	188	15	12	27	26	89	19	188
Factoring	6	6	18	17	110	31	188	3	3	2	12	137	31	188
Trade credit from suppliers	25	27	34	34	52	16	188	18	20	37	37	60	16	188
Other	0	2	13	13	92	68	188	0	0	11	13	98	66	188

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