HOW TO RAISE EQUITY CAPITAL? A CASE OF POLISH COMPANIES

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Abstract

The strategies of raising equity capital available to the Polish companies were studied, both in the theoretical and empirical dimension. According to the law regulations three strategies of raising equity capital were distinguished and characterized: the retaining profit strategy, the strategy based on the hybrid securities and the strategy using the issue of new shares. The empirical researches were conducted based on the aggregated data illustrating the practical application of the distinguished strategies in the activity of the Polish non-financial companies in 2006 – 2009, aiming at finding changes in the strategy profile due to the impact of the global financial crisis. The achieved results can be used as a basis for further, more detail studies, also for the cross-country comparative analysis.

Keywords: Capital Structure Decision, Equity Capital, Strategies of Raising Equity Capital, Shares Issue, Polish Companies
JEL classification: G32

1. INTRODUCTION

The capital structure decisions are important elements of the company's financial strategy. The most important problem in this field is described as the debt-equity choice in the context of the optimal capital structure and the maximization of the company's value. There are a lot of theoretical and empirical researches devoted to the problem of raising debt capital, while equity capital issues seems to be a little bit neglected. Thus, taking into account the importance of equity capital and its role in the corporate finance, it would be reasonable to conduct the research focusing on the identification and the analysis of the potential strategies of raising equity capital – methods and instruments that can be used by the companies.

The main objective of the paper is to analyze the strategies used by the Polish companies to acquire the additional equity capital in 2006 – 2009. This period was intentionally chosen to check whether the significant changes in the strategies of raising equity capital were observed as a result of the influence of the global financial crisis on the Polish economy.

2. STRATEGIES OF RAISING EQUITY CAPITAL – THEORETICAL APPROACH

The main objective of the modern company defined as the value maximization requires making effective decisions in the financing, investment and working capital management aspects of the financial management [see: Ehrhardt, Brigham, 2009, p. 9-13, Damodaran, 2000, p. 11-14]. Financing decisions concern the usage of different sources of corporate funds and result in the shape of the capital structure. This type of decisions are particularly important nowadays, when highly competing markets require the constant development of the companies, that is determined by the access to the appropriate sources of funds.

Searching for the additional sources of funds, the company may choose between increasing debt capital and raising equity capital. Financing decisions are influenced by many, various factors, both internal and external ones [factors influencing capital structure decisions are discussed in: Shapiro, Balbirer, 2000, p. 493, Marks, Robbins, Fernandez, Funkhouser, 2005, p. 26-40, Masulis, 1988, Myers, 1984, Kayhan, Titman, 2007, Wurgler, Baker, 2002, p. 1-37, Ayadi, 2008, p. 97-114, Crnigoj, Berk, Mramor, 2008, p. 205-217]. Due to their complexity, each company creates its own, individual strategy of financing, regarding its capital needs, target capital structure, access to the different sources of capital and their costs [see more about the problem of capital structure decisions: Damodaran, 2000, p. 619-649, Baker, Powell, 2005, p. 388-389, Groppelli, Nikbakht, 2006, p. 250, Marks, Robbins, Fernandez, Funkhouser, 2005, p. 22-23, Kim, Kim, Kim, 2002, p. 458, 461, Copeland, Weston, Shastri, 2005, p. 593-594, Myers 1984, p. 147-148, Palepu, Headly, Bernard, 2004, p. 12-4 – 12-5].

According to the basic definition, equity capital comes from the owners of the company. It plays important functions, that can be described as [Błach, 2006, p. 10]:

1) Initial Capital function – enabling the entrepreneurs to start running the business, sometimes required by the law regulations[1],
2) Guarantee Capital function – creating reserve to cover the potential loss that may occur during company's operations, being simultaneously the guarantee of the liabilities repayment to the creditors, determining the company' borrowing capacity,
3) Working Capital and Investment Capital function – financing company's day-to-day operations or investment expenditures.

Equity capital is preferred as a source of corporate funds in case of the conservative financing strategy[2], resulting in the high economic independence and long-term stability, high creditworthiness and low level of financial risk. However, the disadvantages of this strategy should be taken into considerations as well, such as: lower level of the tax shield, limited usage of the financial leverage and higher cost of capital. Financing investment projects by the equity capital improves company's capital structure, strengthens its market position and increases its market value. Thus, the decision to raise equity capital instead of debt, has significant consequences for the company's financial condition [see more: Fabozzi, Peterson, 2003, p. 29-32, Megginson, Smart, 2006, p. 203-204, Shapiro, Balbirer, 2000, p. 413-414, Marks, Robbins, Fernandez, Funkhouser, 2005, p. 161-162].

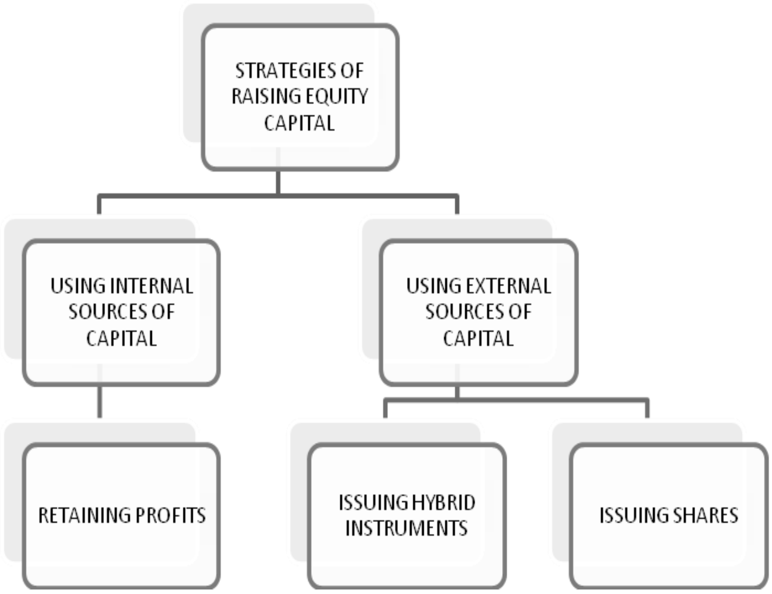
According to the law regulations, the Polish joint-stock companies may increase their equity capital by using one of the available strategies[3] [see Łukasik, 2004a, Błach, 2006] - (see Figure no. 1):

1) Retaining profits rather than paying them out to the shareholders in a form of cash dividends,

2) Issuing hybrid instruments followed by the issue of new shares within the initial capital conditional increase procedure,

3) Issuing new shares within the initial capital regular increase procedure or the authorized capital.

The first strategy is based on the internal sources of the equity capital. The other two strategies are connected with obtaining equity capital from the external sources of funds by issuing financial securities, either in the public or private market both in the domestic or global dimension. Particular strategies differ with the respect to their complexity, availability, cost of capital, level of ineffectiveness risk and impact on the ownership structure.



Source: [own elaboration]

Figure no. 1 Strategies of raising equity capital available to the Polish companies

The distinguished strategies can be ordered according to the pecking-order theory [see more: Arnold, 2002, p. 827, Fabozzi, Peterson, 2003, p. 619, Ehrhardt, Brigham 2009, p. 616, Baker, Powell, 2005, p. 391-393]. Retaining profits is the first source of corporate capital, due to its availability and possibility to eliminate the costs connected with external finance. The next preference is to obtain debt capital, then – hybrid capital and the last - is to raise equity by issuing new shares. Thus, the pecking-order theory prefers internal sources of corporate funds rather than external ones. Each of the presented strategies have different terms and conditions of usage and leads to different results and consequences for the company's financial situation.

The first strategy based on the retained profit is connected with changes in the capital structure of the company, as the generated profit (all of it or part that is decided to be retained) is transferred to the initial capital or to the reserve capital[4]. If the retained profit is used to increase the initial capital, it results in the higher nominal value of existing shares or in the higher number of ordinary shares as bonus shares must be given free-of-charge to the existing shareholders according to their holdings. This strategy has many advantages – the most important are: enhancement of the company's economic independence, increase of the company's potential to obtain external finance (mainly debt finance), possibility to eliminate the costs of obtaining capital from external sources, maintenance of the existing ownership structure, improvement of the capital structure and decrease in the level of the financial risk. The potential threats are connected with: sources of funds limited to the amount of profit, high cost of capital arising from the alternative cost (often neglected by the businessmen), potential conflict of interest due to the reduction in the dividend payments, potential problems with liquidity if the accounting profit is not accompanied by the required cash flow [see more: Shapiro, Balbirer, 2000, p. 402, 412-413, McLaney, 1997, p. 201].

The second strategy is connected with the issuance of hybrid instruments in the process called the initial capital conditional increase[5]. According to the law regulations, the new shares issued during this procedure can be offered only to the investors that have previously bought company's convertible bonds, bonds with priority warrants or subscription warrants [see more: Fabozzi, Peterson 2003, p. 506-507, 520, Fabozzi, Modigliani 2003, p. 453, Shapiro, Balbirer 2000, p. 417]. Thus, the issue of new shares increasing the equity capital is always preceded by the issue of the hybrid instruments. The procedure of raising equity capital is finalized only when the holders of the hybrid instruments decide to take up the new shares and become the shareholders. Using hybrid instruments enables the company to benefit simultaneously from the advantages of equity and debt finance. In case of convertible bonds, at the beginning of the procedure the company can use the tax shield to lower the cost of capital and at the end – the debt can be self-liquidated when bondholders decide to change bonds into shares. Such strategy enable the company to make its capital structure more flexible and to control changes in the ownership structure.

The last strategy concerns the issue of new shares within the initial capital regular increase procedure or the authorized capital[6]. The new shares in the company can be offered to different groups of investors [see more: Shapiro, Balbirer, 2000, p. 452 -457, Megginson, Smart, 2006, p. 474-484, Marks, Robbins, Fernandez, Funkhouser, 2005, p. 252-255, Baker, Powell, 2005, p. 337-339, Rose, Marquis, 2008, p. 614, Błach, 2007, p. 130-133]:

1) Only to the existing shareholders by exercising pre-emptive rights within the closed subscription process,
2) To designated investor accepted by the management board or the general meeting of shareholders within the private subscription process,
3) To all investors interested in buying company's shares in the process of the open subscription.

The closed subscription procedure is quite simple, quick and cheap way of raising equity capital – the issuing costs are relatively low and the entire process is not so complex as in case of the open subscription. The existing shareholders receive the possibility to maintain their stake in the company's capital and retain the same voting power regarding their current holdings. If they are not interested in the new investment in the company's shares, they can sell preemptive rights on the market and realize capital gains [see more: Shapiro, Balbirer, 2000, p. 452 – 455, Megginson, Smart, 2006, p. 482, Baker, Powell, 2005, p. 337-339].

As a result of the private subscription the company obtains not only additional equity capital but also access to the managerial help, business contacts and experience of the chosen investor. Selling shares to the designated investor reduces the issuing costs, eliminates the risk of ineffective shares issue and controls changes in the ownership structure. The private subscription can be used in the process of acquiring a Private Equity investor or a strategic one [see more: Shapiro, Balbirer, 2000, p. 456-457, Megginson, Smart, 2006, p. 483, Baker, Powell, 2005, p. 339 -340, Rose, Marquis, 2008, p. 614].

The highest issuing costs and the longest procedure is connected with the open subscription, which can be organized as the Initial Public Offering (IPO) or the Secondary Public Offering (SPO) process. The public subscription gives access to huge amount of capital, large number of investors and increases the company's prestige. The potential threats are connected with the high cost of capital, obligatory disclosures and risk of ineffective shares issue arising from the changes in the market conditions [see more: Tirole, 2006, p. 92-94, Draho, 2004, p. 2-3, p. 187-207, Frykman, Tolleryd, 2003, p. 21-23].

The strategy based on the issue of new shares can be realized in the public market - by the procedure of IPO or SPO or in the private market – by obtaining Private Equity investors, either Private Equity funds or Business Angels [see more: Casu, Girardone, Molyneux, 2006, p. 61, Megginson, Smart, 2006, p. 572, Rose, Marquis, 2008, p. 647, Barrow, 2004, p. 48]. The initial capital can be also raised by issuing equities in the domestic market (using either ordinary or preference shares) or in the foreign markets (using euroequities, foreign shares or depositary receipts) [see more: Fabozzi, Peterson, 2003, p. 843-844, Casu, Girardone, Molyneux, 2006, p. 97, Fabozzi, Modigliani, 2003, p. 246-247, Eiteman, Stonehill, Moffett, 2005, p. 326-343].

Each type of actions taken by the company requires following different law regulations and has different consequences for the company's situation that should be taken into account while choosing the proper variant of the strategy. The distinguished strategies can be used separately or can be combined, especially when the company's capital needs are significant.

The decision concerning the application of one or more strategies of raising equity capital can be based on the following model regarding different factors influencing the company's choice (see Table no. 1).

Table no. 1 Factors influencing the choice of the raising equity capital strategy

Factor	Retaining profit	Issuing hybrid instruments	Issuing new shares
The financial result determining the availability of internal finance	Net profit covers the equity capital needs	Net profit is lower than the equity capital needs Negative financial result - loss	
The scale of investment projects resulting from the company's stage of development	Investment outlays are equal to the retained profit	Investment outlays are much higher than the value of retained profit	
The dividend policy model regarding the investors' preferences	No cash dividends or low dividend payout ratio in case of investors preferring capital gains to dividends	High payout ratio in case of investors preferring current cash inflows in a form of dividend	
The capital market conditions determining the cost of capital and the availability of external sources of funds	Poor market conditions Decrease in the share prices Difficult access to the external finance	Good market conditions but the shares are undervaluated High level of the ineffective shares issue risk	Very good market conditions The shares are overvaluated Low level of the ineffective shares issue risk

Factor	Retaining profit	Issuing hybrid instruments	Issuing new shares
The ownership structure strategy	Preserving the existing ownership structure	Planned changes in the ownership structure are controlled	Significant changes in the ownership structure are planned
The capital structure strategy	Preference for financial independence Low flexibility of the capital structure	High dependence on the investors High flexibility of the capital structure	High dependence on the investor Low flexibility of the capital structure
The level of financial risk and the income tax strategy	Decreasing the level of financial risk Limiting the tax shield and financial leverage effect	Temporary increasing the level of financial risk, tax shield and financial leverage effect at the first stage of the strategy	Decreasing the level of financial risk Limiting the tax shield and financial leverage effect

Source: [own elaboration]

The first strategy based on the internal sources of equity finance can be chosen when the financial result (net profit) of the company is relatively high comparing to its capital needs. And the dividend policy of the company gives priority to investment projects – a residual dividend policy. This strategy would be advisable when the preservation of the existing ownership is required or the increased financial independence is needed.

Second strategy connected with the usage of hybrid instruments followed by the issue of new shares can be used in times of good market conditions, however with quite low valuation of the company's shares. It allows the company to maintain its dividend policy without significant changes, makes the capital structure more flexible and gives the possibility to use the tax shield effect and financial leverage at the first stage of the strategy. In addition, it helps to reduce risk of the ineffective shares issue and to make controlled changes in the ownership structure, as the number of investors entitled to subscribe for new shares is limited.

The decision to issue new shares is motivated by the huge investment needs exceeding the internal financing, together with very good market conditions ("hot market") characterized by the high valuation of shares, high liquidity of trading and high demand for shares. The investors preferring dividend payments to capital gains, will also enhance the company to look for the external sources of equity capital. Additional motives can be connected with the possibility to make changes in the ownership structure, introducing new shareholders and diluting the control over the company.

3. RESEARCH METHOD

The main objective of the paper is to analyze the strategies of raising equity capital used by the Polish companies in 2006 – 2009, the period that includes variable market conditions – before, during and after the global financial crisis influencing the Polish economy. To analyze the applied strategies the aggregated statistical data were used.

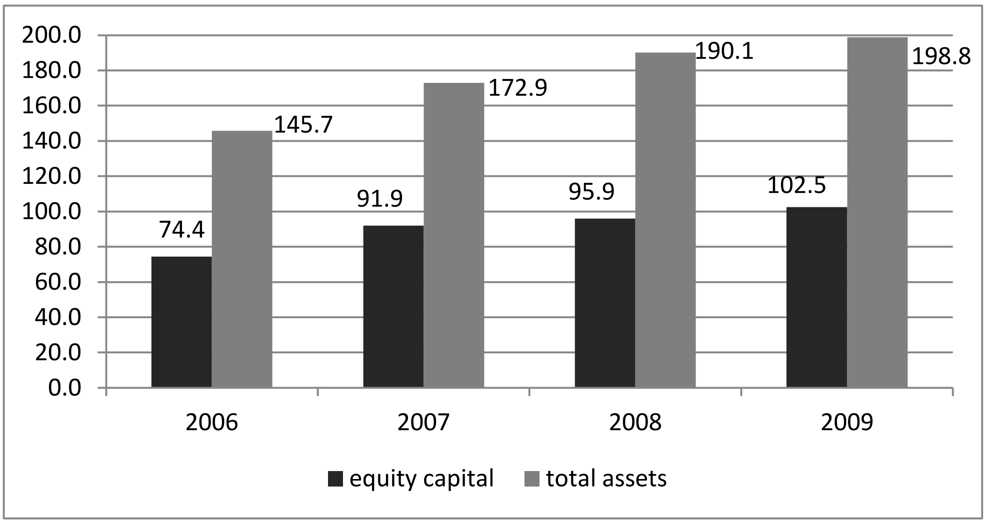
The empirical research was based on the public available data recorded by the several institutions and agencies analyzing the financial situation of the Polish companies and the development of the Polish capital market. Thus, in this paper there were used the aggregated data for all the Polish non-financial companies that were gathered by the Central Statistical Office (GUS)[7]. For the publicly held companies the data were received from: the Polish Financial Supervision Authority (KNF), the National Depository for Securities (KDPW) and the Warsaw Stock Exchange (WSE). To analyze the extent of usage of the Private Equity (PE) financing, the data provided by the European Venture Capital Association (EVCA) together with information supplied by the Polish Private Equity Association (PSIK) were applied.

To analyze the strategies of raising equity capital used in the practice of the Polish companies the most important data were obtained and assessed:

- the total value of the equity capital of the Polish companies and its changes over a period of time together with the analysis of the total assets value indicating the capital structure of the Polish companies,
- the structure of the equity capital regarding two main parts of equity – the share capital of the company and the other elements of the equity including: supplementary capital, reserve capital and retained profits,
- the data characterizing the company's dividend policy and pay out strategy strictly connected with the possibility to use the first of the distinguished strategies based on the retained profit,
- the amount of the equity capital acquired by the Polish companies from the Private Equity funds operating in Poland and its changes over a period of time,
- the value of the public subscriptions of shares conducted by the Polish companies both in the Main Market and the Alternative Market of WSE, focusing on the different types of subscriptions e.g.: IPO, SPO or the issue of preemptive rights,
- the value of the public issue of hybrid securities connected with the conditional initial capital increase procedure.

4. RESULTS

The level of equity capital comparing to the total capital used to finance the company's assets shows its growth potential and indicates its long-term stability. The value of equity capital comparing to the value of total assets for all Polish non-financial companies in years 2006-2009 are presented on the Figure no. 2.



Source: [own elaboration based on the GUS reports: Financial results of Polish non-financial companies in 2006, 2007, 2008, 2009 at http://www.stat.gov.p), accessed on March 20, 2011.]

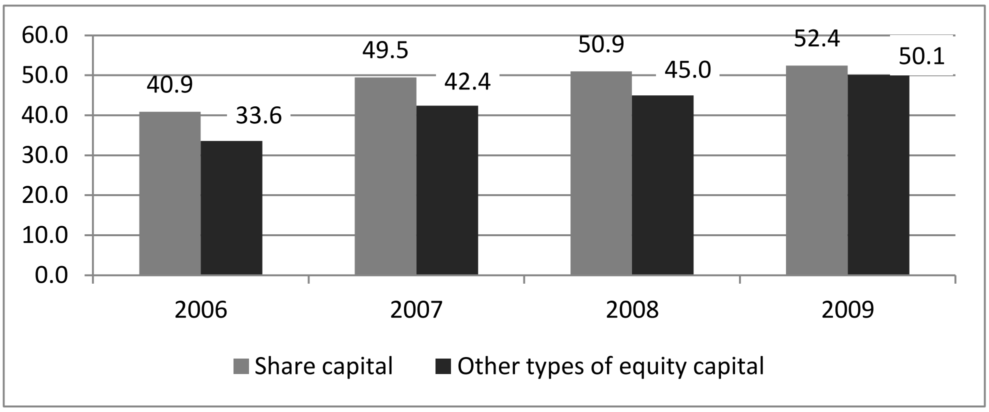
Figure no. 2 Equity capital and total assets of the Polish companies in 2006-2009 (PLN bln)

Analyzing data presented on the Figure no. 2 it can be observed the increasing tendency both in the value of the equity capital and the value of total assets with similar dynamic indices for the period (about 36% for both categories) indicating the continuous growth of the Polish companies (both in terms of increasing number of companies and increasing value of the existing companies). However it must be stated that the highest dynamic indices were achieved in 2007 – 23.4% for equity and 18.6% for total assets followed by the significant decrease in their values to 4.3% for equity in 2008 and 4.5% for total assets in 2009. Lower level of the dynamic indices may indicate the influence of the global financial crisis resulting in the economic slowdown in the Polish economy.

Regarding the part of the assets financed by the equity capital it should be stated that in all 4 years, the equity capital covered over 50% of the total assets – the highest level was reached in 2007 – 53.1% followed by the decrease to minimal level in 2008 (to 50.4%) and then little increase in 2009 up to 51.5%. This indicates quite stable and safe capital structure of the Polish companies, signaling relatively low level of financial leverage and financial risk due to the lower level of debt finance.

Presented data signal the importance of the equity capital in financing assets of the Polish companies, indicating the potential problems for further research connected with the question: why the usage of debt capital was relatively low? Whether it was connected with the internal factors influencing company's decisions e.g.: the applied model of the capital structure or the management's attitude towards financial risk or may be with the external factors arising from the market conditions – mainly concerning the cost of debt capital and the availability of the debt finance, that was limited in the times of financial crisis.

To analyze the sources of the equity capital increase, it would be useful to check the equity capital structure (Figure no. 3). The equity capital is divided into 2 parts: the first one - the share capital illustrating the nominal value of shares issued by the Polish non-financial companies and the second – the other types of equity capital including: supplementary capital, reserve capital from revaluation, other reserve capital and profit from the previous years and the current year.



Source: [own elaboration based on the GUS reports: Financial results of Polish non-financial companies in 2006, 2007, 2008, 2009, at http://www.stat.gov.p), accessed on March 20, 2011.]

Figure no. 3 Structure of the equity capital of the Polish companies in 2006 – 2009 (PLN bln)

In the analyzed period the most important part of the equity capital of the Polish companies was the share capital indicating the external sources of equity – capital that comes from the shareholders. Other types of equity capital inform about the external sources of equity (the difference between the issuing price and the nominal price of shares increases the supplementary capital) and the internal sources of equity (the retained profit can increase all elements of the other types of equity). In 2006-2009 both parts of equity capital of the Polish companies were increased, however other types of equity capital were growing at higher rate – almost 50% in the whole period, while the dynamic index for the share capital was only 28%, which resulted in smaller difference between the share capital and other types of equity capital at the end of 2009. This situation may indicate higher level of usage of internal sources of equity comparing to the external ones. The reasons for this situation may be heterogeneous as it may be connected with the higher profitability of the Polish companies, or higher level of retention rate leading to changes in the dividend payout ratio or even more difficult access to the external sources of equity due to unfavorable fluctuations in the capital market. The provided examples of the potential factors influencing changes in the equity capital structure indicate high complexity of the issue and require further detail research in this field.

Interesting information, connected with the strategy of raising equity capital by retaining profits, comes from the analysis of the data characterizing the Polish companies listed on the Warsaw Stock Exchange (WSE) - see Table no. 2. The presented information consider two aspects of the companies pay out strategy – the traditional tool of dividend policy – cash dividends and the alternative solution – share repurchases (buy-backs).

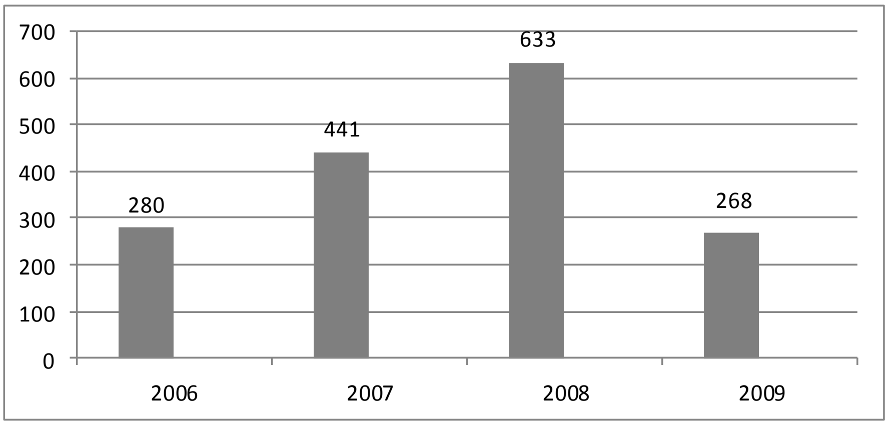
Table no. 2 Cash dividends and share repurchases in the group of the companies listed on the WSE in 2006 - 2009

Years	Number of companies with cash dividends	Number of companies with share repurchases	Total number of companies distributing profit to the shareholders	Total number of Polish companies listed on the WSE
2006	84	15	99	272
2007	86	12	98	328
2008	109	5	114	349
2009	94	11	105	354

Source: [own elaboration based on the WSE data, at http://www.gpw.pl, accessed on March 20, 2011]

In the analyze period, altogether 373 companies decided to pay out cash dividend to the shareholders, and the highest number of companies paying out dividend was observed in 2008 – 109 companies representing over 31% of all listed companies. Share repurchases were less popular form of distributing profit to the shareholders – altogether 43 companies decided to buy-back shares decreasing the value of the equity capital. The highest number of companies using this strategy was observed in 2006 – 15 companies representing 5.5% of all listed companies. Taking into account both types of payout strategies (both cash dividends and share repurchases), the highest number of companies distributing profit to shareholders were noticed in 2006 – 99 companies representing over 36% of all listed companies, comparing to 2009 when only 29.6% of companies redistributed profit. The decreasing tendency observed in 2009 may indicate either the problems with generating positive financial results by the Polish companies or the increased level of the retention ratio, lowering part of the profit available to the shareholders.

The next strategy of raising equity capital is based on the issue of shares. In the analyzed period Polish companies obtained equity capital by issuing shares both in the public and in the private market. The value of the Private Equity financing provided both by the Polish and foreign Private Equity funds for the Polish companies is presented in the Figure no. 4.



Source: [own elaboration based on the data of the EVCA, at http://www.evca.eu, accessed on March 20, 2011]

Figure no. 4 Private Equity financing in Poland in 2006 – 2009 (Euro mln)

The highest value of the PE financing was acquired by the Polish companies in 2008 – it was 633 mln Euro. In 2009 the significant decrease was observed (over 50%) resulting from the general slowing down tendency observed in the PE market in Europe due to the high expectations of the investors regarding the minimal rate of return. Additional information characterizing the extent of the PE financing in Poland is presented in Table no. 3.

Table no. 3 Number of Polish companies obtaining PE financing in 2006 - 2009

Years	**Number of companies**	**Total value of investment (as % of GDP)**
2006	37	0.114
2007	50	0.114
2008	67	0.167
2009	23	0.089

Source: [own elaboration based on the data of PSIK, at http://www.ppea.org.pl, accessed on March 20, 2011]

The highest number of companies acquiring PE financing was observed in 2008 – 67 companies, followed by the significant decrease in 2009 to 23 companies. The value of PE investments expressed as a percent of GDP also decreased in 2009 to 0.089% comparing to the highest results for this period observed in Luxembourg (1.020%) or the average value for all CEE countries (0.239%), indicating low level of development of the PE industry in Poland. It is worth to add, that the investments realized in 2009 were mainly conducted in the late stages of company's development: buy outs (74%), expansion (23%), restructuring (2%) and venture capital (below 1%). These data may indicate potential problems of the young Polish companies with obtaining capital from the PE investors (in 2009 the main direction of the investments in CEE countries was the Czech Republic). However, the situation should be improved, as there are several actions taken by the government agencies to enhance PE investments in Poland (e.g. the National Capital Fund was created to help the fund raising process in the Polish PE funds).

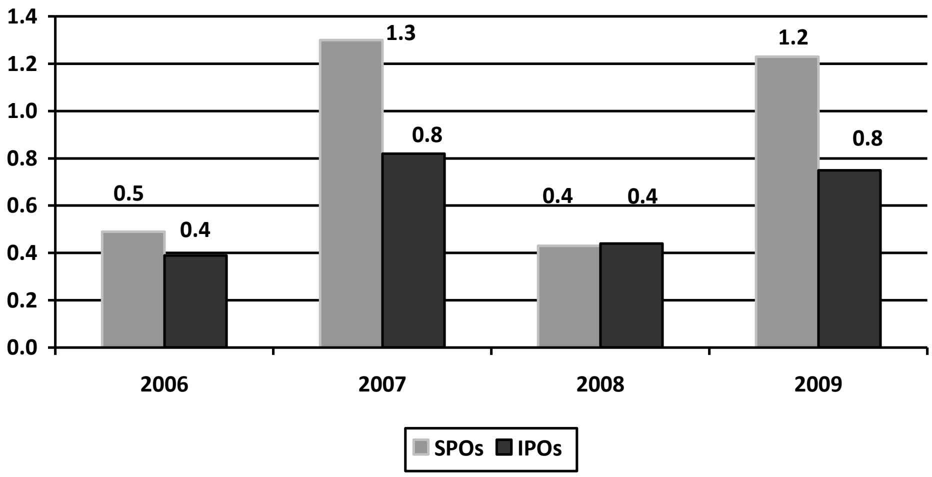
The Polish companies have opportunity to issue new shares in the public market either in the Main Market of WSE or in the Alternative Market – New Connect. The information about the number of the public issue of shares and their value conducted in the Main Market are presented in the Table no. 4.

Table no. 4 Shares offerings in the Main Market of WSE in 2006 - 2009

Specification	**2006**	**2007**	**2008**	**2009**
Number of IPOs	38	81	33	13
Value of IPOs (in PLN bln)	4.2	8.0	3.9	7.0
Value of SPOs (in PLN bln)	3.7	12.9	4.6	12.8
Total value of shares offerings (in PLN bln)	7.9	20.9	8.5	19.8

Source: [own elaboration based on the data of the WSE, at http://www.gpw.pl, accessed on March 20, 2011]

In the analyzed period the highest value of the capital acquired by the Polish companies in the Main Market was observed in 2007 – almost 21 bln PLN were gather both in the IPO and SPO procedures. After a significant decrease in 2008 due to the fluctuations in the capital market, the situation was improved in 2009 with the public offerings reaching almost 20 bln PLN. It is worth noticing that apart from 2006, in all years the value of the SPOs was higher than the value of IPOs, which means that part of the companies listed on the WSE decided to raise additional equity capital by the secondary issues of shares assessing them as an effective source of equity financing. Additional information concerning the public offerings of shares in Poland is presented in the Figure no. 5.



Source: [own elaboration based on the data of KNF, at http://www.knf.gov.pl, accessed on March 20, 2011]

Figure no. 5 Public offerings of shares in Poland in 2006 – 2009 (bln PLN)

As the Main Market of the WSE is the most important part of the public market in Poland, the aggregated data provide similar information, indicating that the importance of the Alternative Market is quite low (as it started operating in August 2007 and is devoted to small companies). The worst situation was observed in 2008, when only 8.7 bln PLN were gathered on the public market by the issue of shares due to the influence of the global financial crisis that caused fluctuations in the Polish capital market. However, in 2009 the situation improved, as the investors regain their confidence in the stability of the financial markets – thus the equity capital gathered in the public market in 2009 increased to almost 21 bln PLN, reaching the maximum level of 2007.

Part of the public subscription of shares in the Main Market were realized by the usage of the pre-emptive rights (see Table no. 5).

Table no. 5 Pre-emptive rights issues in the WSE in 2006 - 2009

Years	Number of preemptive rights issue	Value of the preemptive rights issue (in PLN bln)	Total value of the shares offerings (in PLN bln)
2006	7	1.7	7.9
2007	23	1.4	20.9
2008	42	7.2	8.5
2009	36	6.4	19.8

Source: [own elaboration based on the data of the WSE, at http://www.gpw.pl, accessed on March 20, 2011]

The highest number of the pre-emptive rights issue accompanied by the highest value of issue was observed in 2008 – 7.2 bln PLN, then followed by the slight decrease in 2009. This means that in the uncertain times (2008), the companies that decided to raise equity capital, first of all asked their existing shareholders for the additional financing. The popularity of the rights issue can be also explained by the possibility to reduce the risk of the ineffective shares issue, as the new shares can be purchased either by the existing shareholders or by the investors that have bought pre-emptive rights from the shareholders.

The last of the described strategy of the raising equity capital is based on the hybrid securities issuance. However, the value of the public issue of such instruments in Poland was quite low in this period, as only some companies decided to use hybrids, probably due to their complexity and the ambiguous tax status (see Table no. 6).

Table no. 6 Hybrid securities issues in the public market in Poland in 2006 - 2009

Years	Number of convertible bonds issue	Value of the convertible bonds issue (in PLN mln)	Number of bonds with priority warrants issue	Value of the bonds with priority warrants issue (in PLN mln)
2006	3	11.9	1	13.4
2007	2	11.4	1	13.3
2008	2	10.4	0	0
2009	4	15.7	1	13.3

Source: [own elaboration based on the KDPW reports, at http://www.kdpw.pl, accessed on March 20, 2011]

In the analyzed period there were reported 11 public issues of the convertible bonds with the total value close to 50 mln PLN – the highest number of issues resulting in the highest value was observed in 2009. While the bonds with the priority warrants were issued only 3 times and there was no issue of subscription warrants reported in this period.

The aggregated data characterizing the activities of the Polish non-financial companies in the field of raising equity capital are presented synthetically in the Table no. 7.

Table no. 7 Changes in the equity capital and sources of the equity capital of the Polish companies in 2006 - 2009

Specification	2006	2007	2008	2009
Equity capital increase	73.3	174.8	40.3	66.0
Public subscription of shares	8.8	21.2	8.7	20.8
Proportion of public subscription of shares in the equity capital increase	12.0%	12.1%	21.5%	31.5%

Specification	2006	2007	2008	2009
Private equity financing	1.1	1.7	2.5	1.0
Proportion of the PE financing in the equity capital increase	1.5%	0.9%	6.2%	1.5%
Other sources of equity capital including retained profit	63.4	151.1	29.1	44.2
Proportion of the other sources of equity capital in the equity capital increase	86.5%	86.4%	72.2%	66.9%

Source: [own elaboration and calculations based on the data: KNF, at http://www.knf.gov.pl, GUS, at http://www.stat.gov.pl, WSE, at http://www.gpw.pl, EVCA, at http://www.evca.com, accessed on March 20, 2011]

Analyzing the changes in the equity capital of the Polish companies, it should be stated that other sources of equity financing than public issue of shares and PE financing are the main sources of the additional equity. This situation can be explained by the fact, that limited number of the Polish companies have the access to the public capital market and to the PE financing. However each year more companies decide to enter the public market (see number of IPOs and number of the companies listed in the Table no. 2 and no. 4). The data presented in the Table no. 7 also illustrate this tendency, as the proportion of the public subscription of shares in the equity capital increase is steadily growing from 12% in 2006 to over 31% in 2009. There are two reasons for such tendency – the lower rate of growth of the equity capital on the one side and the dynamic increase in the value of the public subscription of shares in 2009 on the other. As to the PE financing, the best results were achieved in 2008, when this type of financing provided almost 6.2% of the additional equity. Unfortunately in 2009 the significant decrease was reported, limiting the opportunities for the development of the Polish companies and by this – the growth of the Polish economy.

5. CONCLUSION

The capital structure decisions are one of the most important elements of the financial management of the business entities. While choosing the financing mix, the company can use either equity or debt capital. The paper is devoted to the analysis of the strategies of raising equity capital, both in terms of theoretical and empirical approach.

Based on the analysis of the law regulations in force, the three main strategies of raising equity capital available to the Polish companies were distinguished. The first one - based on the retained profit, the second one – connected with the hybrid securities and the last one – related to the issue of shares. The strategies were compared regarding to the conditions of usage and the potential consequences for the financial situation of the company.

The second part of the research was devoted to the analysis of the practical usage of the distinguished strategies by the Polish companies in 2006 – 2009. The analysis of the aggregated date indicated relatively low importance of the public subscription of shares and PE financing in acquiring equity capital by the Polish companies. Thus, the Polish companies should try to acquire more PE financing, as it is capital provided to finance investment projects with high potential of growth. It would be also advisable for the Polish companies to use more hybrid instruments in the strategies of raising equity capital as they are quite flexible instruments of shaping the capital structure of the company according to its capital needs and changes in the market conditions.

As to the strategy based on the retained profit, which is the most popular among Polish companies, it can be positively assessed as it enables the company to maintain its existing ownership structure. However it is worth noticing that high opportunity cost of capital is connected with this strategy and should be taken into account while choosing this source of equity capital.

Summarizing the conclusions, it should be mentioned, that the influence of the global financial crisis was observed in several aspects of the raising equity capital strategies, such as: the lower rate of growth for the equity capital reported since 2007, the decrease in the value of the public subscription of shares noticed in 2008 comparing to 2007 or the decrease in the PE financing reached in 2009.

The achieved results indicate the high complexity of the analyzed problem, signaling the need for the further, more detailed studies to be conducted. The presented results can be also used in the cross-country studies aiming at comparing strategies of raising equity capital used by the companies in different countries.

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Notes

1 For example, in Poland to register a business in a form of a joint-stock company, the initial capital must be gathered by the shareholders equal to 100 000 PLN. Articles: 306 and 308, *The Commercial Companies Code, Kodeks Spółek Handlowych, Dz. U. 2000, nr 94. Poz. 1037.*

2 There are three possible financing strategies: conservative (preferring equity capital), aggressive (preferring debt capital) and moderate (using a debt-equity mix) [see more: Brigham, 1996, p. 129-131, Łukasik, 2004b, p. 117-121].

3 Join-stock companies in Poland operate on the basis of The Commercial Companies Code, The articles 431-454 regulate the process of the initial capital increase.

4 The initial capital increase based on the internal funds is regulated by the provisions of the articles 442-443 of the Commercial Companies Code.

[5] The conditional initial capital increase is regulated by the provisions of 444-454 articles of the Commercial Companies Code.

[6] The subscription of shares under the regular initial capital increase or the authorized capital is regulated by the provisions of 431-441 articles of the Commercial Companies Code.

[7] These data concern business entities keeping account ledgers, where the number of employed persons exceeds 9 persons, excluding bank, insurance institutions, brokerage institutions, tertiary education institutions, independent health care institutions and private farms in agriculture. In 2006 it was 47 048 business entities covered by the national statistics while in 2009 it was 53 148 business entities. *Financial Results of Economic Entities in 2006, 2007, 2008, 2009, GUS, Warszawa 2007, 2008, 2009, 2010, http://www.stat.gov.pl (op.cit. 11.03.2011).*