

Features of managing sources of financing organizations in post-crisis conditions

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Abstract

The modern market environment shows that to make effective decisions it is not enough to have information about the results of the organization as a whole. In order to focus on a long-term development strategy, there is a need for qualitatively different information that allows you to make systemic strategic decisions in various areas and field of activities: markets, products, customers, business units, etc.

The desire to reach volume criteria, such as income from turnover, the value of assets, product range, size of production capacity, etc., is being replaced by thinking focused on financial performance indicators in all areas and activities. At the same time, the successful implementation of an economic growth strategy implies an adequate system of its financing. It is a set of sources of long-term financial resources, mechanisms, forms and methods of their receipt in the real sector of the national economy.

Keywords: Economic Growth Strategy, Sources of Financing, Post-Crisis Conditions, Efficiency, Cost Management, Financial Resources, Capital Structure

1. INTRODUCTION

On the background of financial globalization, on the one hand, the existing high risks of internal and external financing at the macro level are pushing many commercial organizations to merge into holding-type shareholder structures in order to reduce transaction costs, active implementation of transfer pricing, and on the other – their focus on maximizing the price of business while maintaining a steady decline in the

value of the weighted average cost of capital, extensive use of opportunities to optimize financial resources different nature.

The influence of environmental factors is increasing with a simultaneous loss of control over the controllability of resources at the micro level. This circumstance demonstrates a heightened interest in various models for estimating the value of an organization and the cash flows generated as a result of financial and economic activities.[1]

Changing standards of economic behaviour, improved technologies, increased competition and cost of credit products, the “explosiveness” of the global financial system modify not only the financial strategy of modern commercial organizations, but also the direction of regulation of internal production processes.

At the same time, the primary task remains the desire to increase efficiency by optimizing and reducing production costs, and on this basis to increase the financial resources of enterprises.

It should be noted that the fundamental factors of growth in the value of a company (based on profitability, economic value added, sales, transparency of information, etc.) cease to have a significant impact on the behaviour of participants in economic relations.

2. METHODS

Today, the financial (value) model of measuring and managing of corporate finances, which replaces the accounting model, is actively spreading in Russia. The latter model’s methodological basis is the concept of capital, according to which capital is everything that generates income. The financial model is based on the concept of capital, in which it generates income / profit if there is an increase in the value of assets over a period.[2]

The dominant feature in the financial model is market estimates, not balance estimates. This, in turn, determines the significance of the conditions and factors of the external environment, as well as the scope of application of financial management: not only and not so much the control over current costs, but also financial strategies and their implementation.

At the same time, the limiting factor of its distribution is not so much its controversy as the underdeveloped financial market and the financial thinking of the management of most Russian companies that still remains at the grass roots level. This, in turn, quantitatively limits the

majority of transactions carried out, reduces the objectivity and reliability of market estimates, reduces the scope of their application and calls into question their adequacy to the current realities.

It should be emphasized that the popularization of value management in Russia, as a result of the proliferation of the financial model of measurement and management of the created corporate value, the sources of funding, in particular, allows it to be raised to a higher level. [3]

An important feature, due to the complexity and multiplicity of financing processes, was the transition from the valuation of financial resources to the valuation of the organization and the cash flows generated by it, which is a logical consequence of the financial resources' management system and in some aspects, replaces the latter.

Performance management based on the assessment of changes in the value of the enterprise is an effective way, since it takes into account the influence of the main factors on this change. Determining the influence of each of them is of scientific and practical importance, since, on the one hand, it allows to simulate the results of activities, on the other hand, requires the selection of optimal values of factors affecting the performance and value of the enterprise.

As the results of the analysis showed, in the current market conditions of management, the formation of the optimal capital structure of commercial organizations is accompanied by many contradictions. On the one hand, in a situation of obvious unsatisfactory balance structure and negative efficiency, the company continues to increase borrowing sources in its structure; on the other hand, organizations successfully operating on the market and experiencing a need for borrowed resources have to limit themselves with their own financing. The use of the latter is in most cases limited and largely depends on the chosen policy of distribution of net profit and depreciation policy.[4]

Achieving the optimal structure of the organization's sources of financing, the criteria for which are the optimal amount of resources, cash flow, profit maximization, minimization of financial risks, etc., is rather general. This circumstance makes it difficult to build an effective strategy for managing the organization's funding sources. The question of the choice of criteria for the optimal capital structure remains open.

Formation of capital structure is far from an unequivocal problem of corporate policy. Difficulties in finding the optimal solution may arise at the stage of initial analysis of the “problem relationship” between components in the capital structure. When performing such an analysis, they mainly rely on the information contained in the financial statements of a commercial organization, not always taking into account the conditions of modern financial modeling.

Also, the search for the optimal capital structure requires the use of quantitative estimates. They are aimed at identifying the optimum ratio of two types of capital, for the implementation of which models are necessary; assumptions and input components that satisfy the conditions of the models.

When choosing the most rational structure of sources of financing the activities of an organization, it is advisable to pay attention to:

- minimizing its price at each stage of capital circulation;
- reduction of costs incurred per unit of created value when changing the rate of turnover of assets, capital as a constituent element of assets.

Considering the circumstances above, we believe that the approaches used today to build the optimal capital structure of industrial organizations can be significantly improved. First of all; it could be made by revising the basic postulates of forming the optimal structure. Namely, the relationship between borrowed and own capital, which is called in practice the financial leverage ratio. It has a certain element of static character. This element in turn, actually indicates the presence of momentary results in the formation of the capital structure of the organization, whereas the current market environment is somewhat more dynamic in nature. [5]

We believe that instead of the ratio of borrowed and own capital, it is advisable to use the current (estimated) market value of the components of capital, in this case, the percentage yield of borrowed and own capital.

Without departing from the logic and practice of applying the ratio of financial leverage, we introduce the following relation. This relation we propose to designate as the average market value index for sources of financing (Mrc):

$$Mrc = ECC / OCc,$$

where: ECC is the cost of borrowed capital, %;

OCc – cost of equity, %.

When forming the Mrc, we proceeded from the following assumptions and evidence:

1. The impact of the refinancing rate and the interest rate on borrowed sources is direct to the weighted average cost: each decrease causes a corresponding decrease in cost, all other conditions being equal.
2. The impact of the tax rate is reversed on the value of the weighted average cost: each percentage reduction in the rate causes a corresponding increase in the weighted average cost of capital.

Consider the size of the refinancing rate and taxation are macroeconomic factors. They are independent of the activities of the enterprise. So the only regulated value that can significantly optimize the value of capital is the interest rate, in other words, the source value.

The fundamental difference between Mrc and the traditional coefficient of financial leverage is that the average market value of the source is used as composite components (numerator and denominator). It may be the interest rate on loans and if it is impossible to estimate – the level of dividend payments or profitability, etc. [6]

3.RESULTS AND DISCUSSION

The value of Mrc shows how many times the market (estimated market) cost of borrowed capital exceeds the similar cost of its own.

Thus, the formed capital structure based on the use of Mrc is more in line with the rapidly changing conditions of the modern market environment.

The potential contained in the above formulas can be significantly expanded. And subsequently used in the design of an integrated decision-making model regarding the choice of a specific source of funding for an organization and the desirability of its further growth or decline. [7]

An important direction in optimizing the sources of financing for commercial organizations is the formation of strategies for attracting and subsequent management of resources.

Before embarking on the development of a financing strategy, it is advisable to provide a comparative assessment of financial management systems, typical for enterprises that are part of groups and operate independently.

As noted above, integrated into the group of companies enterprises have the ability to access redistributed, due to the internal borrowing of financial resources, minimizing tax and other risks. So, for example, making contributions to the authorized capital of subsidiaries is the simplest and most profitable way to replenish the assets of group members, since neither monetary nor property contributions in the formation of the authorized capital within the holding company do not cause tax consequences. The high degree of centralization of financial management in a group requires organizing control of the entire range of relationships with group members, ranging from the development of a financial strategy to strict limits and the mandatory coordination of most financial transactions (except for labour and taxes). With such a management policy, the strategy of maximizing the market value of a company headed by a group suggests that its source is more likely to be able to continuously generate net cash flows, including capitalized profits, in turn, from investment projects of enterprises in the group. [8]

In other organizations, the action of the “group leader” factor is completely leveled. However, the risks of financing are shifted to the financial field (banks, intermediaries) and the market field (competitors and suppliers). These enterprises with a decentralized financial management peculiar only to them are forced to independently take care of their financing strategy and subsequent development. And therefore control, including over investment resources, is usually concentrated segmentally: in the most profitable areas of financial and economic activity.[9]

From the point of view of financial management, a financial strategy includes a strategy for attracting financial resources (a credit strategy), within the framework of which the need for external sources of financing is determined; dividend policy, as well as the strategy of allocating financial resources (investment strategy) and the assessment of the need for working capital of the organization.

Financial strategy and financing strategy are not identical concepts, but two interrelated structural elements of the organization overall financing system, but at the same time having some important differences. [10]

4.SUMMARY

Under the organization’s financing system, we propose to understand the set of economic (financial-credit) relations related to the formation,

distribution and use of financial resources in an organization, regardless of the financial nature of each source, for the purpose of earning profits, increasing market value or increasing the organization's net cash flow.

5. CONCLUSIONS

Funding strategy is an integral part of the overall financial management system in the organization. It is important to emphasize that each source of financing has its own financing strategy, financing conditions and features, place, role and importance in the market, financial efficiency, etc.

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