

INVESTMENTS AND FINANCING SOURCES OF BUSINESSES: EVIDENCE FROM POLLOG REGION *

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Abstract. *In this study we sought to analyze investments and financing sources for a sample of selected companies in the Pollog region with special reference to the municipality of Tetovo. Motivated by key questions "where to invest money" and "how to finance business activity", we sought to get some relevant recommendations. Investments are analyzed according to businesses sectors, and as some sectors were found to have higher percentage of investments in fixed assets, others were found to have lower. Generally speaking, liquidation was confirmed as a key common problem for the analyzed companies, and accelerating the development of national financial markets as an immediate need.*

Key Words: *investments, financing sources, local economic development*

1. INTRODUCTION

Investments and financing sources analysis play a key role not just for own businesses, but for local economic development too. The study treats the structure of investments and capital structure for a sample of selected companies. Also, the study analyzed investments according to businesses sectors. The study shows that according to the size of enterprises in Tetovo, the majority represent micro-firms (family businesses of up to seven employees); small and medium enterprises and a few large companies. Based on the structure of assets with which these firms realize their business, there is a different proportion between long-term and short-term assets (Hansen, 1999). In the period from 1988 to 1990, companies in our country as in the municipality of Tetovo had a lack of short-term assets on behalf of long-term assets (construction buildings and different types of equipment). This phenomenon of starting up and realizing the business is present even nowadays, when the majority of small and medium enterprises manage to provide long-term assets disregard-

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ing short-term assets. This implies that a certain number of subjects in Tetovo have sacrificed short-term assets on behalf of long-term ones.

However, the structure of companies' assets is affected by external economic environment and country's investment policy. National economies without taking in consideration the level of development, in a frame of political economy implement certain investment policy. The investment policy as an important segment of political economy, day after day gets a significant role in the function of economic development. The investment policy represents main intersystem of general economy political system, which the economy efficiency of a country depended on. Meanwhile, policy economical efficiency depends on the volume, structure and efficiency of investments. The goals realizing expounded of economical and social development, whether in short-term or long-term periods, also depend on these three elements. So, generally we can say that the volume and structure of investments depended on technique-technology development and functionality approach of general economic-social system.

The key characteristic of investments policy for certain period is orienting investments in line of increasing assets-capital funds. Such a policy has positive effects, inter alia, increase of social and individual standards. The investment policy affects technical composition of investments and due to this fact, it is concluded that technical composition of investments widely affects economical dynamics and developments.

In investment process the future is insecure, and the risk and return are very evident. The essential and investment effects consist of a correlation between return and risk. Viewed from the microeconomic aspect, investments present economic activities which are complex with interest, and responsibility followed every time by insecurity and high levels of risk. Investment management or investment decision presents a more complicated process of entity managing. It helps a manager to realize investment of capital at project which brings more profits. All this requires synergy of the manager in the aspects of knowledge, modern techniques, and accumulated experience-skills.

This study is organized as follows: Introduction; Theoretical framework concerning investments and financing sources; Description of data and methodology; Analysis and discussion of results; Conclusions and recommendations; References.

2. THEORETICAL FRAMEWORK CONCERNING INVESTMENTS AND FINANCING SOURCES

The investment decision is a key point for a manager. One side of the coin is where to invest money. And the second one is how to finance project(s). Both, investment and financing source are important in a decision-making process.

According to Masse (1959), investments are transformation acts of financial assets to real goods and as a result of financial assets transformation to real goods, which means own investments are real goods.

Depallens and Jobard (1990) say that investments do not mean just money transformation to fixed funds, but also performing others operations which company uses for a longer period. In many cases fixed assets are tangible, such as machinery, buildings, equipments, and so on. But, there are also intangible assets (long-term) such as patents, trademarks, etc.

However, before a company invests in assets, it must analyze own assets. This dilemma concerns the left-hand side of the balance sheet. Of course, the types and proportion of assets the firm needs to be set by the nature of the business (Ross *et al.*, 2007). On the other hand, how to finance projects concerns the right-hand side of the balance sheet. In principal, there are two ways of financing projects. The first one is via debt. The second one is via capital. How much debt and equity a company should have is another question known as capital structure dilemma.

The theories of capital structure are among the most interesting in the field of finance. They give explanations in questions like how much a company should borrow, what is the relationship between capital structure and its company value, how a company chooses its capital structure, and so on. Even though there is no exact formula available for establishing optimal target debt and capital ratio, the empirical studies indicate that profitability, types of assets, taxes, differences across industries, uncertainty of operating income, etc. should be considered when formulating capital structure policy.

3. DESCRIPTION OF DATA AND METHODOLOGY

Data analyzed in this study are derived from different sources, i.e. statistical summary, companies' annual reports as own realized surveys. The questionnaire is realized with sixteen managers (owners) of companies.

According to the size of enterprises in the municipality of Tetovo, the majority represent micro-firms (family businesses up to seven employees); small and medium enterprises and a few large companies.

There have been considerable investments in the municipality of Tetovo, especially in the production sector such as machines and other equipment in almost all industries including agriculture, textile, wood, plastic and rubber, paper and leather, chemical industry, etc. The biggest parts of these investments have been made by the non-financial sector, financial subjects, households and the state. If we analyze these investments in fixed funds, according to the allocation of investments, we get the information presented in Table 1.

Table 1 Investments in fixed assets, according to their allocation
(all subjects) (in millions of denars)

City	Total	Manufacturing industry	Electricity, gas and water supply	Construction	Communications and connections
Tetovo	251	113	6	96	36

Source: Statistical Summary: Construction from 2002-2006, Skopje, Tetovo 2007

If we analyze the investments in fixed assets means according to their allocation and technical structure, we can see that investments in the municipality of Tetovo in relation to the overall investments in Macedonia reach 0.73%; the participation of investments in the manufacturing industry is 1.78%, and the other percentages are shown in Table 3.

Table 2 Investments in fixed assets according to their allocation and technical structure in Tetovo (all subjects) (in millions of denars)

City	Total	Different buildings and infrastructure	Domestic machines and equipment	Imported machines and equipment	Cultivated means
Tetovo	523	298	7	209	9

Source: Statistical Summary: Construction from 2002-2006, Skopje, Tetovo 2007.

As we can see in Table 2, the major percent of investments in fixed assets go to buildings, infrastructure, etc. Based on the obtained data, we have used qualitative analysis and relevant suggestions are given.

Table 3 Investments in fixed assets, according to their allocation (all subjects) (in millions of denars)

Municipality	Total	Manufacturing industry	Electricity, gas and water supply	Construction	Communications and connections
Tetovo	251	113	6	96	36
Total in R.M.	34.544	6.366	5.446	4.549	6.409
The participation of all subjects' investments from Tetovo compared to overall investments in Macedonia					
Participation %	0.73	1.78	0.11	2.11	0.56

Source: Statistical Summary: Construction from 2002-2006, Skopje, Tetovo 2007.

On the other hand, a questionnaire is realized with managers of companies from the Pollog region in order to see managers' perceptions. The majority of the analyzed companies are small and medium businesses and belong to more than two business sectors. The majority of managers were not aware of the function of Stock Exchange in Skopje and the main business financing source was private capital. It was confirmed that accessibility to financial market is difficult in terms of cost and technical difficulties. Trade credit is very important for them. Trade credit (difference between accounts payable and account receivable) is considered a relevant source in business financing for small and medium companies. Trade credit is the highest short-term financing and represents about half of short-term liabilities for trade businesses (Ciceri and Xhafa, 2005).

4. ANALYSIS AND DISCUSSION OF RESULTS

Even though the obtained data represent minor percent of investments compared to the country overall percentage (0.73), relevant suggestions and recommendations can be given to companies. The data showed that manufacturing industry is the sector which accumulates more investments in fixed assets. It is followed by construction, communication and connections, and electricity, gas and water supply. The percentage of investments in fixed assets indicates that they depend on the nature of the business sector. Manufacturing industry uses a lot of machinery, equipment, land, and other long-term assets. Due to this fact, as a sector it has the majority of percentage of investments in fixed assets.

Table 4 Questionnaire realized with managers

Question		Answer (%)
1. Which industrial sector does your company belong to?	Production.	13%
	Trade.	19%
	Services.	19%
	More than two.	50%
2. According to Company law in Macedonia, your company is classified as	Small business.	44%
	Medium business.	44%
	Large business.	13%
3. Is your company aware of the function of Stock Exchange in Skopje?	Yes.	13%
	No.	81%
4. Which sources do you prefer in financing the company's projects?	Private capital.	56%
	Own capital: earnings from prior years.	19%
	Bank loan.	13%
	Issuing bonds.	0%
	Issuing stocks.	0%
	Others.	13%
5. How is your company net profit allocated?	Investing in long-term assets.	69%
	Improving short-term liquidity.	31%
6. How many times have you required a bank loan and has it been approved based on financial results of your company?	Once, yes.	31%
	More than once, yes.	38%
	Once, no.	31%
	More than once, no.	0%
7. How much have you required as a bank loan?	Up to 5.000 €.	31%
	5.000 € - 10.000 €.	25%
	More than 10.000 €.	44%
8. Do you think that asset composition of your company is relevant for taking a bank loan?	Yes.	75%
	No.	25%
9. Which of your company assets do you believe are more important for the bank as collateral?	Land.	6%
	Buildings.	38%
	Equipment, machinery, etc.	31%
	Goods, raw materials, etc.	13%
	Others.	13%
10. Do you think that ratio debt/equity of your company is relevant for taking a bank loan?	Yes.	81%
	No.	19%
11. Do you think that the level and sales trend of your company are relevant for taking a bank loan?	Yes.	75%
	No.	25%
12. Do you think that debt is non-debt tax shield for your company because of interest expenses?	Yes.	25%
	No.	75%
13. Do you think that depreciation is non-debt tax shield for your company?	Yes.	69%
	No.	31%
14. Do you think that your company's business activity plays a role in (not) approving a bank loan?	Yes.	81%
	No.	19%
15. Do you think that your company's ownership plays a role in (not) approving a bank loan?	Yes.	81%
	No.	19%
16. Do you think that your company's age plays a role in (not) approving a bank loan?	Yes.	75%
	No.	25%

Source: Adopted from Osmani and Deari (2009)

However, long-term and short-term assets proportion is neuralgic point for most analyzed companies. They have blocked their money in different long-term projects without appropriate returns. Due to this fact, companies' liquidity is worsened. On the other hand, if we analyze the companies in Tetovo with regard to their short-term assets, we will see that the biggest part of their structure is organized upon the accounts receivables, which, at the same time, represent the most neuralgic point in terms of the collecting money from debtors. The entrepreneurs hardly manage to reimburse these demands in a timely manner; therefore they also have difficulties in maintaining their liquidity. This creates obstacles in terms of using their money from sales and is forced to approach the financial mediators. This situation makes the entrepreneurs prolong the terms of supply payment financing their businesses by debts. The financial potential of these companies could be continuous, mid-term, and long-term (Spasov, 1993). The accumulated profit, amortization, and short-term receivables represent a source of self-financing. On the other hand, other financial sources are debt financing-bank loans and accounts payables. In order for these companies to keep their level of liquidity and solvency, they have to base their businesses upon the principle that the short-term assets should be financed by short-term sources, whereas the long-term active should be financed by long-term sources.

Regarding the question of how they allocate net profits, 69% of companies managers argued for investing in long-term assets. The majority of them believe that assets composition is relevant for taking a bank loan and long-term assets serve as guarantees. Tangibility was confirmed to have significant role in determining the capital structure of unlisted companies (Deari and Deari, 2009). Also, the majority of them believe that depreciation presents non-debt tax shield, but not and interest expenses. Business activity, ownership and company age were confirmed to play a role for the majority of interviewed managers. At least those are the perceptions of managers.

5. CONCLUSIONS AND RECOMMENDATIONS

In this study we sought to analyze investments and capital structure for a sample of companies in the Pollog region with special reference to the municipality of Tetovo. It was demonstrated that types and proportion of companies' assets are decided by the nature of the businesses in which they operate. As some sectors were found to have higher percentage of investments in fixed assets, others were found to have lower. However, generally speaking liquidation was a key problem for analyzed companies. In order to revive and develop the production sector in the Tetovo region, apart from measures of the macro-economic policy, which are expected to create better conditions for the development of the production sector, other efficient measures to boost the existing companies need to be undertaken. These are as follows (SEEU, 2008):

- Revitalization of the existing companies in the production sector, which have problems with their re-construction;
- Production increase by using technological procedure optimization methods and a maximal utilization of capacities;
- Innovation and technological development; engagement of modern machines and equipment, automation of the production process;

- Motivation and support for companies in mountainous regions which deal with food production;
- Use of concessions to attract foreign capital;
- Technical support in the implementation of quality standards and licensing according to ISO 9000, HACCP, ISSO 14000, ISO 14001, etc.
- Usage of all material and mineral resources in function of the increase of production;
- Usage of credit lines (loans) from outside to support production in companies;
- Support for the production sector in the integrative processes in world economy, especially in the EU countries and creating conditions for free exchange of goods, capital, labor, and knowledge;
- Realization of differentiated credit support for production companies in Tetovo.

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INVESTICIJE I IZVORI FINANSIRANJA PREDUZEĆA: PODACI IZ POLOŠKOG REGIONA

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U ovoj studiji pokušali smo da analiziramo investicije i izvore finansiranja za uzorak odabranih preduzeća u pološkog regionu sa posebnim osvrtom na opštinu Tetovo. Motivisani ključnim pitanjima "gde investirati novac" i "kako finansirati poslovne aktivnosti", pokušali smo da otkrijemo neke značajne preporuke. Investicije su analizirane prema poslovnim sektorima, i otkriveno je da neki sektori imaju viši procenat investicija u osnovna sredstva dok neki sektori imaju niži. Uopšteno govoreći, likvidacija je potvrđena kao ključni problem analiziranih preduzeća, dok je ubrzanje razvoja državnih finansijskih tržišta neposredna potreba.

Ključne reči: *investicije, izvori finansiranja, lokalni ekonomski razvoj.*