THE ROLE OF SELF – FUNDING IN ECONOMIC GROWTH OF COMMERCIAL COMPANIES

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Abstract: *Self-funding ixs generally the pivot of enterprises funding and for some of them, the exclusive source of funding in the decisive phases of development, being thus an always current subject, and our concern during this scientific approach. It is undoubtedly clearer that self-funding corresponds to a monetary surplus released by the enterprise from its activity and used to finance future development. The company is self-funding when it obtains a profit that can serve both as remuneration of the capital employed and as a source of investment that will contribute to increasing and maintaining its competitiveness on the market.*

Key words*: agriculture, self-funding, growth, rural area*

INTRODUCTION

Funding represents an essential activity for the optimal development of any economic process. In Romania, agriculture as a branch with a strategic role in the market economy required the allocation of considerable financial resources for restructuring and modernization.[3]

Self-funding creates conditions for the manifestation of the financial autonomy of the company, because based on the financial resources it achieves it can make decisions in the field of production supply, investment or scientific research, this is done in close connection with cash flow. Self-funding depends on the one hand on the most rigorous substantiation of development [1,7,9] requirements and actions and on the other hand on the mobility of reserves to increase profits, depreciation and other sources from which the funds intended for this purpose are funded.

Despite of many advantages offered by self-funding, we should not exaggerate in this direction because in the situation where the economic profitability of companies is higher than the interest rate on the financial market, the higher the ratio between borrowed capital and equity, the higher the financial return of the enterprise grows. The self-funding decision and its level are often influenced by external factors such as taxation, restrictions on access to the capital market and various legal constraints. The amount of self-funding released by an enterprise plays a strong role in signaling its performance. It indicates to potential investors of the company if it is able to use the entrusted capitals efficiently and to provide them with an attractive remuneration.

The size of the funds required depends on the type and size of the business and the state of the business. During the formation and operation of a company, depending on the stage in which it is, the entrepreneur will have access to certain sources of funding. This is due to the fact that many investors are not willing to invest in a business in the beginning period, considering that the risk is too high, the investment will be made only after the business reaches maturity, when the company has already made proof of viability. Potential investors for their participation in the capital also take into account the state of the business and the degree of risk involved. For this reason, the entrepreneur has the duty to investigate all the funding possibilities at his disposal, in order to be able to take the most advantageous decision possible at that moment.

MATERIALS AND METHODS

The targhet of this paper is to highlith the importance of self-funding, through some aspects such as: the factors influencing the self-funding decision, the main advantages of self-funding, sources for self-funding, determining the self-funding capacity, using as method of research an analysis based on several criteria, and then the synthesis of the information obtained.

RESEARCH RESULTS

Self-funding corresponds to the new needs obtained from the activity of the enterprise and destined to finance the future activity, it is about the gross profit or the gross result reinvested in the enterprise. [2,5,6,11,12,13] This formulation first poses thermological problems and can be confusing because there are several notions of the result and because the epithet "raw" has precise meanings.

The fundamental character of this resource is the fact that it is the element on the basis of which external funding can be requested and attracted by the enterprise. This status of self-funding has two fundamental reasons. On the one hand, its size (in absolute value and in relative value) provides indications on the performance of the enterprise. A high self-funding assures the financial investors on the possibilities of remuneration and capitalization, by the enterprise, of the funds that they will invest. On the other hand, self-funding creates the ability to repay the company's debts and gives a measure of the risk that fund providers assume.

But a more technical definition of self-funding requires specifying its components and its calculation method. Two points of view can be proposed in this regard. The first presents self-funding as the difference between the flow of receipts and payments determined by the activity of the enterprise. The second presents self-funding as a part of the monetary surplus (cash flow or self-funding capacity) obtained by the enterprise.

The main sources of self-funding are: depreciation, provisions and net profit. The shareholders make a saving and an investment of the net profit and a reinvestment of the capital recovered through amortization or protected by provisions. The amounts not distributed to the shareholders are transferred to reserves, and when they represent large amounts (from the accumulations of previous years) the management of the company may decide to incorporate the reserves in the share capital and the allocation of free shares. The interest is to define a clear strategy of the saving process, which consists of the self-funding policy and the dividend policy.

Self-funding is often considered free. But self-funding consists primarily of net profit reinvested and put into reserves. As long as the reinvested profit remains at the level of reserves, we can say that the shareholders do not directly demand a remuneration of the reserves (but only of the old shares). By incorporating reserves into share capital and allocating free shares, reinvested profits become directly remunerative. Thus, the cost of self-funding, by passing the profit in reserve is equal to the cost of own capital.

The self-funding decision and its level are often influenced by external factors, such as: taxation, various constraints, access to the financial market or various legal constraints.

- In terms of taxation, we can talk about a relationship such as: high taxation - high self-funding and vice versa, in the sense that a heavy tax policy encourages the company to proceed to capitalize part of the profit, as high as possible finding in this destination conditions lighter taxation (tax facilities). In contrast, other regulations, such as those relating to the reduction of the taxable base with certain expenses (amortization, loan repayments, interest payments) may influence the increase in the distribution of dividends rather than the increase in self-funding resources. In other words, investors (shareholders) who are heavily taxed on dividend income will vote in the general meeting of shareholders to distribute a lower dividend, in favor of reinvested profit, thus maximizing the value of the company, and the wealth of each shareholder.

- Constraints regarding the financial market. In the case of unlisted companies, the procurement of funds necessary for economic growth cannot be achieved by appealing to the capital market, remaining, consequently, the alternative of bank credit, self-funding or capital increase through external own funds. Capital increases through new cash contributions are operations that last over time, they are difficult and expensive operations which makes in comparison, self-funding to appear preferable.

- Various legal constraints. The profit of a joint stock company has two major destinations: dividend distribution and reinvestment (self-funding).

The decision of the general meeting to distribute dividends reduces the amount intended for self-funding, but other notable results are obtained: satisfying shareholders' demands, their loyalty to the company manifested in the sustainable holding of shares, without the intention to sell them on the market which leads to an increase in their price, and therefore of the market value of the enterprise itself. On the contrary, the decision of the general meeting of shareholders to reinvest the profit increases the self-funding resources, but may cause dissatisfaction of some shareholders, who will tend to sell the shares held, which, through the game of supply and demand, may lead to a decrease of shares and therefore the market capitalization of the enterprise.

In order for each company to achieve its proposed objective, it is necessary to have industrial and commercial means, meaning a production apparatus, consisting of machines, machinery, buildings and other tools. At the same time, in order to make these tools work, the company must consider: buying raw materials, materials, ensuring the stock at different stages of the production process, selling the products obtained in order to recover the resources spent.

Through self-funding, a qualitative mutation is achieved in the procurement and use of funds necessary for the development of companies. This implies the manifestation of the initiative of the companies in the preparation and realization of the production, and implies responsibilities in the formation and use of the money funds. To the extent that a company manages to procure the financial resources necessary for development, self-funding contributes to strengthening financial autonomy. The gross self-funding is characterized by the fact that it is realized on account of the depreciation profits and of the amounts collected from the capitalization of the fixed assets taken out of operation. In contrast, this net self-funding reflects the proportion in which development actions are carried out at the expense of profit.

In case in which self-funding is done at the expense of depreciation of profit and other sources is known as self-funding for operation, and when self-funding is provided only at the expense of profit is called growth self-funding.

An important role in reflecting self-funding is played by the working capital from which the current assets are covered. Working capital represents that part of the permanent capital that a company allocates to the operating cycle, respectively to cover current assets. Own working capital has an important role in self-funding the production activity of a company is not a separate fund but a form of permanent capital.

The efficient use of fixed capital and the recovery of value within the normalized service life influence the realization of the depreciation amounts necessary for the development, and the modernization of the production and own money resources. Procuring the necessary financial resources to carry out the activity was and is a major problem that companies face in market economy conditions.

To finance the activity, the companies first use their own capital, and as they prove insufficient, the company has the possibility to either increase them or to resort to other sources of funding.

The own funds of the commercial companies (self-funding) express their capacity to produce investment resources from the exploitation activity and from other activities.

The net profit resulting from the financial year is intended for development as well as for other destinations: dividends of shareholders, awards for employees.

The main advantages of self-funding are:

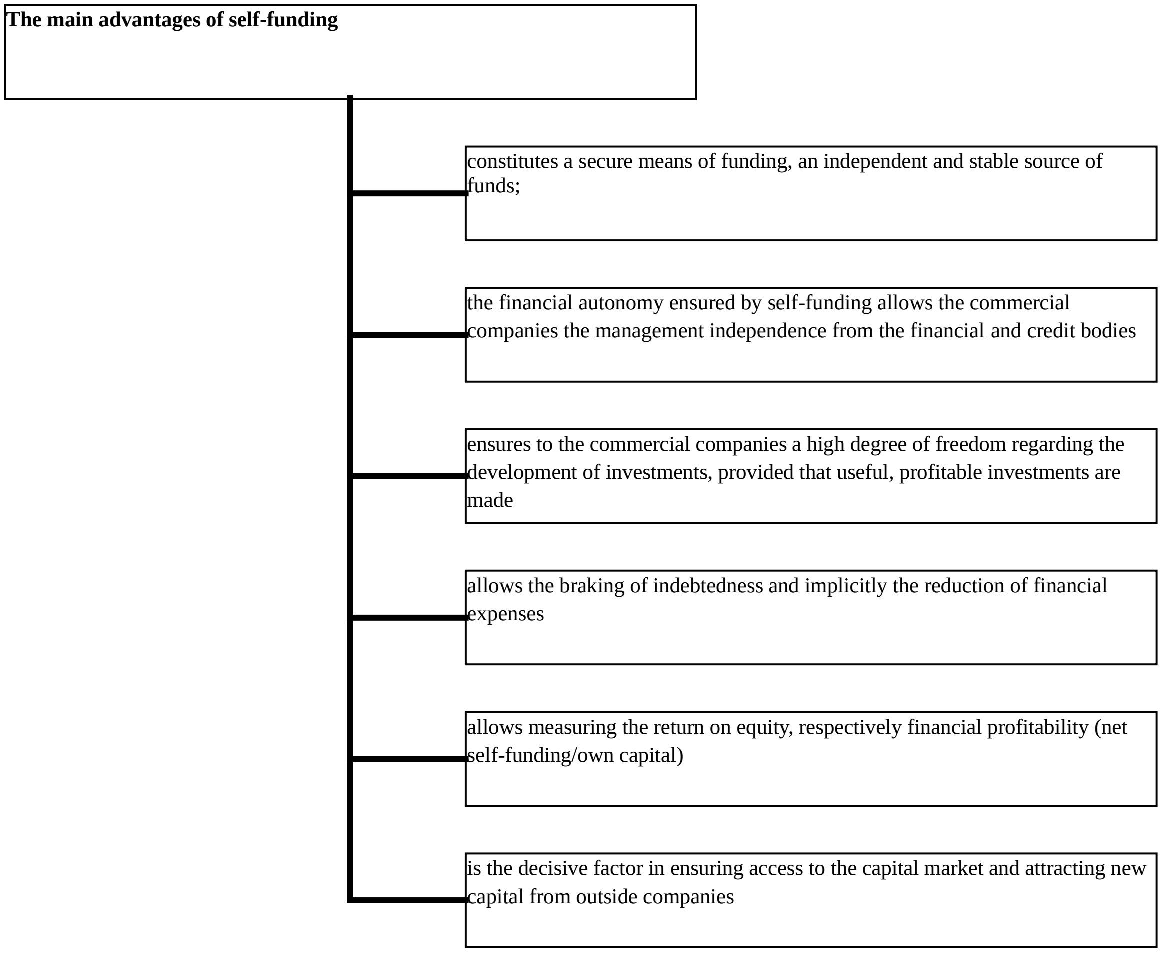

Figure 1. The main advantages of self-funding

Sources intended for self-funding are formed within the enterprise, thus representing internal sources. Mainly these sources come from the monetary surplus created from economic and financial operations, meaning from the difference between positive and negative financial flows, respectively between receipts and payments. The gross operating surplus consists of the positive results of the economic process, as well as of the depreciation fund created. Moreover, the gross operating surplus can be calculated in two ways: either the difference between the total revenues from the economic-financial activity and the total expenses incurred, taking into account that the depreciation is an expense included in costs, does not cause outflows; either as the sum of different elements, such as salaries, taxes, interest paid, annual depreciation fund, dividends, undistributed benefits.

The self-funding capacity represents a monetary surplus that is obtained as a result of all the collection and payment operations performed by the enterprise, in a period of time, taking into account the fiscal incidence.

In order to determine the self-funding capacity, both economic and financial variables must be taken into account. Economic variables start from sales forecasts (quantities x prices) and cost forecasts (raw materials, materials, fuels, wages, etc.), while financial variables take into account the loan policy, promoted by the company, which incurs financial expenses, the amortization policy that may charge costs differently for certain years and the profit distribution policy that measures the volume of dividends distributed to shareholders, benefit participations or the increase of reserve funds.

As a rule, the actual self-funding is lower than the self-funding capacity. Not all the self-funding capacity remains at the disposal of the enterprise for internal funding needs, but less the benefits distributed to the shareholders in the form of dividends and the participations in employee benefits.

Self-funding capacity is an indicator of great economic expressiveness, reflecting the financial strength of a company, the guarantee of its security and independence. Enterprises with a good self-funding capacity reduce their financial risk, being able to overcome difficulties during periods of economic crisis, when access to credit is difficult due to high interest rates.

At the same time, the self-funding capacity is an indicator of financial liquidity and solvency, which raises the degree of creditworthiness of the company, increases the confidence of business partners, creating better conditions for negotiating economic contracts. We can also add that a good self-funding capacity also expresses a good borrowing capacity, respectively the possibility to better guarantee the bank loans used by the company.

Funding remains a problem for SMEs given that seven out of ten small and medium enterprises (SMEs) from Romania have self-financed their economic activities. [8] The biggest difficulties faced by SMEs are unfair competition (46%) and bureaucracy (46%). Firms over 15 years old self-funding in a greater measure, (74.5%) and use more frequently sources of funding such as bank loans (23%) or loans from suppliers (29%). Regarding the funding methods that Romanian entrepreneurs intend to use, over 70% of them will continue to use their own financial resources, but some of them will use other forms of funding: about 21% will apply for credit from the supplier, almost 20% will use bank loans while 11% want to access non-reimbursable funds[4,10]. The fact that almost 75% of them are self-funding is a very serious matter. Self-funding means weak maintenance and development. [15,16]

CONCLUSIONS

All companies operate according to an identical mechanism: they start by buying raw materials and materials that they turn into finished products, so that in the end they sell these products. This cycle of buying, transforming and selling is known as the operating cycle. The operating cycle gives rise to real flows articulated on three categories of physical stocks: raw materials and materials, ongoing or unfinished production and finished products, which correspond to financial flows and a set of financial assets in the form of receivables and payables. The main source of funding for current assets for operating companies is profit. This forms the link between the quality of financial activity and the funding of current assets.

Self-funding is designed as a set of funding processes that come from within the company. This expresses the realization of the necessary investments without resorting to external capital, respectively only on account of own sources. Through self-funding, a qualitative mutation is achieved in the procurement and use of funds necessary for the development of companies. This implies the manifestation of the initiative of the companies in the preparation and realization of the production, and implies responsibilities in the formation and use of the money funds. To the extent that a company manages to procure the financial resources necessary for development, self-funding contributes to strengthening financial autonomy.

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