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Internal Sources of Financing Companies on the Basis of Static and Dynamic Indicators: Comparative Analysis

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Abstract

The Republic of Serbia is characterized by an unsatisfactory macroeconomic environment (high degree of illiquidity, high inflation rate, rising unemployment, decline in the level of capacity utilization, followed by the process of globalization, deregulation and liberalization of the market with all its negative connotations to the growth and development of our country). Under such conditions where there is a shortage of liquid assets, the financial capital has moved from the real to the financial sector, which led companies to over-indebtedness and shutdown of their own capacities. Therefore, capital investments largely depend on internal sources of financing and the ability of companies to internally generate funds for investments. In this regard emphasis is placed on the difference in the assessment of the investment ability of companies based on internal sources of financing measured using static and dynamic indicators in order to prove the necessity of applying dynamic coefficients which unfortunately are not present in our domestic practice.

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1. Introduction

In economic theory so far two approaches to measuring the financial results have been differentiated: economic (static, traditional), which is based on the calculation approach to accounting profit, and financial (dynamic, contemporary), which is based on cash flows in order to avoid the limitations of traditional accounting system of

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calculation. The research problem that concerns the analysis of cash flows, as a new concept of management and evaluation of liquidity and financial performance gains the importance in the modern business environment when the possibilities of a solvent and efficient operations in inflationary and insolvent general economic environment are at a very unsatisfactory level. Analytical tools for the analysis of the cash flows were given by several authors in late 1990s. Several authors (Rahaman, 2011), (Goel, et al. 2012), (Caglayan, et al. 2012), (Mohamed, et al. 2014) performed various studies on internal financing of business. At the beginning of the 21st century research papers are beginning to be published on the importance of cash flow statement as supplementary to existing reports and the possible directions of its analysis that are not fully systematized in a unique way and are not empirically validated for a variety of instruments, including the purposes of analysis. The aim was to draw attention to the difference of interpretation of successful operation on the basis of performance indicators and indicators based on cash flow.

This viewpoint determined the large number of companies that operated with profit, but went bankrupt due to the inability to settle their obligations over a longer period of time. Then the role and importance of cash flow analysis (dynamic analysis) and deficiency of analysis based on information from the balance sheet and income statement (static analysis) started to be realized. The proponents of the ratio indicators based on cash flow (Gombola, & Ketz, 1983) (Giacomino, & Mielke, 1993), (Mills, & Yamamura, 1998) suggest that the indicators based on cash flows are more reliable and objective than traditional ratio relations. It is considered that the data from the balance sheet are static since they measure a single point in time as well as that the income statement contains many arbitrary non-cash allocations (Kamal, & Quader, 2010).

Considering that in Serbian literature there are still insufficient papers on the analysis of cash flow reporting, and the opportunities that it provides, and the quantification of difference (asymmetry of financial information) obtained on the basis of cash flow and the traditional indicators are not sufficiently discussed, in this paper a comparative analysis based on static and dynamic indicators will be performed in order to prove diametricity of information and the unreliability of static dimensions. Our analysis in this paper will be in the field of evaluation of the investing capability of enterprises which encompasses other aspect of business operations, after having rated in previous paper (Bukvic, & Pavlovic, 2014) the importance of the application of dynamic parameters in the analysis of the solvency of the company. With regard to capital investments affecting the company's growth and development, and thus the entire economy, there is no doubt that the financial management is a crucial issue, especially in conditions of scarcity of liquid funds.

2. The methodology of work

The research includes a number of variables, which is why it has been approached differentially. Namely, it is essential that the overall objective is deductively broken down into specific goals or tasks. Such methodological way is also used in setting up the hypotheses, taking into account that the general hypothesis is compliant with the overall aim of the research, and that the specific hypotheses, as its projections are in line with the tasks of research. In accordance with the object and purpose of the research empirical research was conducted using statistical models - analysis of variance (dispersion analysis), considering the existence of variability between modern (dynamic) and traditional (static) indicators in the survey sample, consisting of large companies that operate within the industry for production, transmission and distribution of electrical energy, by which a 100% sample is treated based on the analysis of all the major companies operating within the specified industrial branch. Analyzed are all the companies operating in this sector vital for the production and transmission of electricity, where there is a monopoly position and the state property. In Serbia, energy production is based on thermal and hydro energy, and today it is a significant competitive advantage (Bogavac, et al. 2011), belonging to the industrial sector which is the carrier of technical progress, the driving force of economic growth and a creator of synergy effects in the overall economy (Bukvic, 2011).

Analyzing the variance, which is based on an impartial assessment of the variability arising under the influence of controlled factors, there is a reliable estimate of the asymmetry of information gathered by the use of static and dynamic instruments of financial analysis of solvency where it is proven that the indicators of dynamic analysis based on cash flows are more reliable predictors of the financial position of the company, compared to static indicators, thus creating a better informative foundation for more adequate planning, analysis and decision making

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