

## Improving the Management of Borrowed Capital of Enterprises in Modern Conditions

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### Abstract

The paper is devoted to the development of approaches to improving the management of borrowed capital of enterprises in modern conditions. It is established that the scope of the proposed approaches is quite broad, since they can be useful for coowners and shareholders of the enterprise as a reference point for making managerial decisions to improve the personnel management in connection with enterprise finances, serve as benchmarks for the formation of prices for credit resources, characterize the results of management activities to raise and use borrowed capital. It is proved that the planning of the volume of mobilization of borrowed capital can be considered as a component of the development of the company's production and financial plan, which determines its main characteristics in the prospective period, the structure and volume of production, price policy, revenues, expenditures and financial result. It is established that properly organized financial planning becomes the key to improving the efficiency of the formation of borrowed capital.

**Keywords:** Management; Borrowed capital; Planning; Strategy; Enterprise; Finance; Development.



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### 1. Introduction

The development and implementation of an effective borrowed capital management policy is one of the most important tasks of financial management. In the academic literature, a key approach to understanding the content of a borrowed capital management policy is to understand it as part of the overall financial strategy of the enterprise, which consists in providing the most effective forms and conditions for attracting borrowed funds from various sources in accordance with the needs of corporate development.

This concept, although it points to one of the most important aspects of managing borrowed capital, namely the choice of forms and conditions for raising funds, only partially reveals its content. It missed such components as the calculation of the enterprise's needs in borrowed capital, its operational management to optimize the structure, and an analysis of the efficiency of its use.

In this case, one can use such a concept as the borrowing policy of a business entity, by which the authors mean the component of financial policy that coordinates the capital structure with the main financial goals of the enterprise with respect to the ratio of own and borrowed funds, the structure of borrowed funds in terms of the ratio of long, medium and short-term borrowing, determines the optimal instruments of borrowing.

The study of the problems of managing borrowed capital under current conditions has found its reflection in the works by [Belskaya and Dronov \(2013\)](#), [Galitskova \(2016\)](#), [Kireeva \(2014\)](#), [Medvedev \(2016\)](#), [Numanov \(2013\)](#), [Yandulova \(2012\)](#), etc. With considerable academic attention to the issue of capital management of the enterprise, there are not enough works in the academic literature devoted to the study of the place of borrowed capital in the enterprise's financing system, optimization of its structure and evaluation of efficiency.

Most researchers focus on the problem of assessing the structure of aggregate capital, its impact on the effectiveness of own capital and the financial condition of the enterprise as a whole. The issues of disclosure of the nature of borrowed capital, development of methods for optimizing the structure of obligations, assessing the effectiveness of their formation and use remain debatable.

## 2. Methods

The methodological basis of the study was the systemic approach, the methods of scientific abstraction, analysis and synthesis, the dialectical method of cognition of economic phenomena, the provisions on borrowed capital management. To solve particular problems, the following methods were used in this paper: theoretical generalization, logical, scientific abstraction, associations and analogies – for studying and generalizing the methodological foundations of managing borrowed capital of enterprises; the methods of system analysis, generalizations, comparisons – for studying methodological approaches and methods for doing the diagnosis of the effectiveness of borrowed capital management.

The information base of the research was legislative and normative regulations, statistical materials of state authorities and local self-government, scientific publications of domestic and foreign scientists on the problems of managing borrowed capital at an enterprise in modern conditions (Fedulin *et al.*, 2017); (Nikolskaya *et al.*, 2017); (Zavalko N. A. *et al.*, 2017a).

In the process of research, it is planned to develop some approaches to managing borrowed capital at an enterprise, to rationalize the approaches to strategic management of financial flows. In addition, the task is to substantiate approaches to assessing the factors of corporate financial development, to identify and formulate the main directions of corporate development in various financial conditions.

## 3. Results

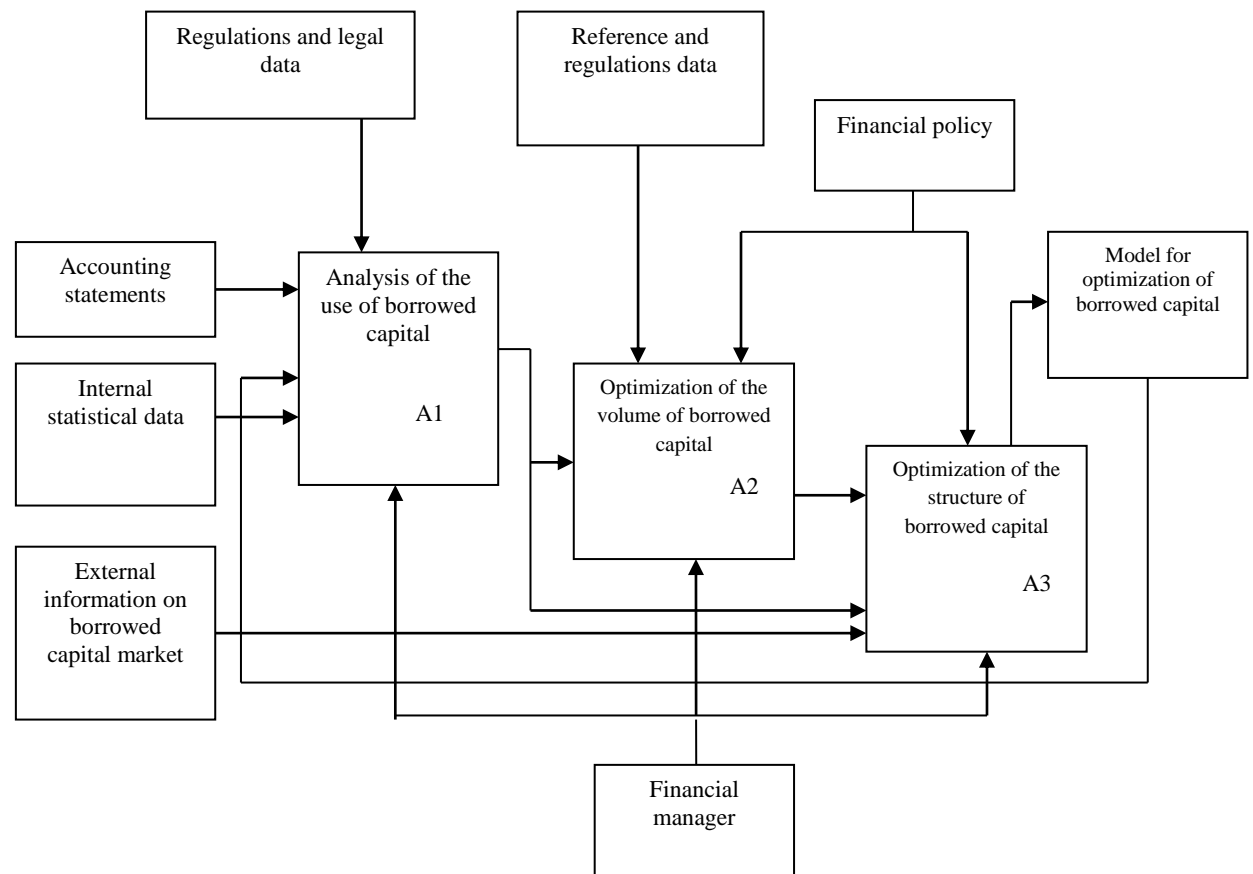
Practice has shown that the effectiveness of managing the borrowed capital of an enterprise depends on the quality of managerial decisions. Taking this into account, the information system of decision-making on the management of borrowed resources, which can carry out the functions of analysis and planning, becomes especially important. To create the structure of the decision-making process to optimize the volume and structure of borrowed capital, and to identify the functional links among its main stages, the authors use the structural modeling method.

The structural modeling method is a set of rules and procedures designed to build the functional structure of the object, i.e. the development of actions and connections among these actions. The main purpose of this method is to develop a hierarchy of diagrams that show the relationships among functions using data flows and control.

The following external links that affect the process of optimization of the volume and structure of corporate borrowed capital are defined:

- the basis of the input is the financial statements of the enterprise, internal statistical data of the enterprise on the basic capital indicators, as well as external information on the conjuncture of the borrowed resources' market and other information;
- control effect (information that is not processed but affects the data processing process) is taken by the regulatory and legal field of economic activity, norms, statutory documents, instructions, etc. to make decisions on optimization of the structure of borrowed capital. For example, such information sources can be financial standards, which the company must adhere to when borrowing resources, reference information on interest rates, reporting forms and the procedure for their compilation;
- the output is information that is a product of management activity. In this case, the outgoing result of the system of managing borrowed capital is the model for optimizing its volume-structural parameters;
- a mechanism which designs managerial decisions. In the conditions of a market economy, such a resource is the management of the enterprise, which is responsible for the development of the financial plan's goals and the implementation of operational financial activities.

The operational process of the decision-making support system for optimizing the volume and structure of corporate borrowed capital is divided into three main functions: analysis of the use of borrowed capital (block A1), optimization of the volume of borrowed capital (block A2), optimization of the structure of borrowed capital (block A3) (Figure 1).

**Figure-1.** Main functions of the decision-making support system for optimizing the volume and structure of corporate borrowed capital

Studies show that the process of developing solutions to optimize borrowed capital in the long-term begins with the analysis of its use in the previous period. The main purpose of the analysis is to estimate the amount of borrowed capital, as well as to identify reserves to improve the parameters of its attractiveness and increase its efficiency. The results of the analysis can be used by both owners and management of the enterprise to solve the tactical and strategic objectives of the debt management policy or their adjustment.

This finds its practical embodiment in managerial decisions to change the volume or structure of borrowed capital. The initial result of fulfilling all functions of the system is the optimization model of the volume-structural parameters of corporate borrowed capital. It can be noted that before the final decision on the implementation of this model is taken, the effectiveness of the developed solutions can be assessed by assigning them to A1 block. This determines the feedback loop between blocks A1 and A3.

The next step in the process of optimizing the borrowed capital is to determine the maximum volume of borrowed resources (A2). Based on the results of the assessment of factors that affect the amount of demand for borrowed resources, the most acceptable optimization method is selected in accordance with the main criterion chosen by management. Based on the calculation of the options for the ratio of the company's own and borrowed capital, according to which the values of the optimization criterion will be the most acceptable, the amount of borrowed resources necessary under the given conditions is determined.

The third block of the decision-making support system for the optimization of corporate borrowed capital provides for the calculation of the most appropriate structure of borrowed resources in terms of the ratio of financial risk and the company's capitalization (block A3). At this stage, it is necessary to evaluate specific sources and conditions for attracting borrowed resources on a number of parameters: the cost of the resource, the timing and the currency, the creditor's credibility level, the creditor's readiness to adjust the credit terms and conditions, and the level of transaction costs for raising capital. Based on the results of such analysis, the final optimal model of volume-structural parameters of borrowed capital is formed.

Practice has shown that, together with the norms that enable to assess the appropriateness of borrowing resources through analyzing the impact of this operation on the level of financial risks and the financial condition of the borrower, in the process of forming the borrowed capital it is important to take into account both the personal characteristics of the particular lender and the terms and conditions of loans offered.

The need for such an assessment is due to the fact that for a borrower, together with the calculation of the economic feasibility of mobilizing borrowed capital, it is important to minimize the risk of failure to fulfill or delay the fulfillment of obligations assumed by the creditor. After all, this can cause the enterprise to lose liquidity by not receiving the agreed amounts of borrowed funds, forcing it to immediately seek for alternative sources of raising funds, which ultimately raises the cost of borrowed capital.

As an initial step in assessing the potential creditor, it is advisable to consider making of a list of criteria requirements and their grouping. The composition of the criteria can be broad and provide for the assessment of the

creditor in many ways: promptness of the transfer of funds to the borrower’s account; absence of intentions of hostile absorption of assets of the borrower; interest rate competitiveness; a competitive level of costs for the loan, hidden elements in the cost of capital.

The next step in evaluating a potential lender is to establish the parameters of the evaluation indicators and their weights, as well as the gradation of values of the synthetic indicator (the sum of the scores) and its interpretation. The methodology for assessing the creditor's reliability should be based on a scoring method with the distribution of evaluation criteria into three groups: reputational, organizational and economic. Each of the criteria, in the authors’ opinion, can receive three variants of the assessment, depending on the degree of its implementation (Table 1).

The final assessment of the creditor can be interpreted in the following cases: a low level of the creditor’s reliability and attractiveness of credit conditions (negative assessment of organizational criteria (low timing of funds’ transfer to the creditor’s accounts, uncertainty about the creditor’s lack of intentions regarding hostile takeover of borrower's assets, complexity of the loan procedure, etc.), below the average level of the creditor’s reliability and attractiveness of the conditions for borrowing (negative or neutral nature of the evaluation of organizational criteria, other credit conditions – at the medium-market level); above the average level of the creditor’s reliability and attractiveness of credit terms (neutral or positive nature of the assessment of organizational criteria, other credit conditions – at the medium-market level, some – being better than the average market; reputation indicators – neutral or positive), high level of the creditor’s reliability and attractiveness of credit terms (positive nature of the assessment of the organizational criteria, different credit terms).

**Table-1.** Scoring methodology for the potential creditor when planning borrowed capital

Requirements		Scores		
		-1	0	+1
<b>Reputational criteria (group A)</b>				
1	The creditor’s brand awareness	low	medium	high
2	Personal reputation of the creditor’s owners and top management	negative	neutral	Positive
3	The creditor’s financial solvency, credit rating	negative, low	unstable, low	stable, medium/high
4	Presence of authoritative clients	none	few	common practice
<b>Organizational criteria (group B)</b>				
5	Promptness of funds’ transfer to the borrower’s account	low	medium	high
6	Surety in connection with the creditor’s intentions on hostile takeover of the borrower’s assets	no	low	high
7	Innovation technologies and credit forms	no	declared	practice
8	Complexity of fundraising	high	medium	low
9	Easy settlements (various forms of settlements, widespread network of offices, etc.)	low	medium	high
<b>Economic criteria (group C)</b>				
10	Competitiveness of interest rate	above market	market	below market
11	Competitive transaction costs (costs on making out the agreement, valuation and insurance of pledge, etc.)	above market	market	below market
12	Hidden costs applied (hidden commissions, forcing to deposit, etc.)	general	custom	none
13	Probability of deteriorating credit conditions in case of force majeure	high	medium	low
14	Opportunities to mitigate credit conditions (reduction of rates, prolongation, etc.)	none	low	high
Total scores:		low priority of choosing the creditor		
-14 to -5 (including negative assessment under group B criteria)		low priority of choosing the creditor		
-4 to 0 (including negative or neutral assessment under group B criteria)		below medium priority of choosing the creditor		
0 to +4 (including positive or neutral assessment under group B criteria)		above medium priority of choosing the creditor		
+5 to +14 (including positive assessment under group B criteria)		high priority of choosing the creditor		

#### 4. Discussion

The reliability of the presented approaches to improving the management of the borrowed capital of enterprises is confirmed by the fact that an important aspect of improving the quality of debt management is applying an adequate model for assessing the effectiveness of both its formation and use.

The approaches considered give only fragmented and partial assessment of the effectiveness of such management: on the one hand, the use of a cumbersome combination of coefficients makes it possible to assess the results of debt management as much as possible in a multifaceted way; on the other hand, this significantly complicates the work of the analyst, and also distorts the overall picture as a result of obtaining contradictory results by different indicators.

In addition, there is a need to develop a specific mechanism that, by combining individual values into a certain range, would determine the overall level of effectiveness of managerial decisions on the formation or use of

borrowed capital with a sufficient level of probability. In academic sources, there are several approaches to the creation of such techniques – the methods of complex analysis, determination of integral coefficients, scoring systems.

Practice has shown that the effectiveness of borrowed capital management should be evaluated in two aspects: efficiency and cost effectiveness, using a system of assessment indicators (Kosevich *et al.*, 2016); (Zavalko N.A. *et al.*, 2017b); (Zavalko N. A. *et al.*, 2018). Considering the essential differences in the methodology for calculating individual coefficients, as well as in different interpretation of the results obtained, in the authors' opinion, the most acceptable for evaluating the efficiency of borrowed capital management is a complex scoring system with an integral value of 100 points. The assessment can be carried out by reducing the values of integral indicators – efficiency and cost effectiveness - by simple additive weighting using the coefficients with their weights.

## 5. Conclusion

Summing up, it can be noted that the sphere of application of the proposed approaches to improving the management of borrowed capital of enterprises, in the authors' opinion, is quite broad: they can be useful for coowners and shareholders of enterprises as a guide for making managerial decisions to improve personnel issues in corporate financial management. The suggested approaches can serve as reference points for the formation of the price for credit resources for the enterprise, since they comprehensively characterize the results of management activities in raising and using borrowed capital.

It is proved that the planning of mobilization of borrowed capital can be considered as a component of the development of the corporate production and financial plan, which determines its main characteristics in the prospective period, structure and volume of production, price policy, revenues, expenditures and financial result. It has been established that properly organized financial planning becomes the key to improving the efficiency of the formation of borrowed capital, because the stability and predictability of the performance of the enterprise are an incentive for the growth of credits, improving borrowing terms and conditions and reducing the cost of borrowed capital.

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