

## CAUSES OF INSUFFICIENT FINANCIAL RESOURCES IN THE ENTERPRISES

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### **Abstract**

*The paper aimed to present causes of insufficient financial resources in the enterprises. To reach the set goals it was used statistics on activity of enterprises in Moldova as well as data on bank interest rate. To carry on its normal activity, the enterprise needs human, financial and material resources. As for the first two categories of resources (especially human resources), they are sufficient, or even records a surplus, and financial resources are almost always insufficient to business. In terms of the market economy, economic agents by their selves determine the amount and sources of funding, and the ways of increasing them, that's why they are responsible for effective use of financial resources. The importance of effective management of financial resources lies in the fact that it ensures the strategic and tactical objectives, and its participate in increasing activity for foreign investors.*

**Keywords:** financial resources, enterprises, effective management

### **INTRODUCTION**

Efficient management of financial resources is one of the main problems which require to be solved by domestic enterprises today. In market economy, businesses or herself and determine the funding sources and ways of their growth and therefore liable for financial resource efficiency. The importance of the effective management of financial resources is the fact that the latter is responsible for the strategic objectives and tactical, participating in raising the attractiveness for foreign investors. It should be noted that in order to carry out its normal business, the needs of human resources, material and financial resources. As regards the first two categories of resources (particularly human resources), they are sufficient, or even record a surplus, and financial resources are insufficient at the enterprise virtually always.

### **MATERIAL AND METHOD**

In order to illustrate the difficulties of local agents financing were used the next indicators: the average interest rate for loans, people income, GDP. The information was collected from the sites of the Ministry of Economy, the National Bureau of Statistics and from the annual bulletin of the National Bank.

### **RESULTS AND DISCUSSIONS**

Problems faced by domestic enterprises at present for training and use of financial resources can be classified into several categories depending on their nature: [1]

- I. General (which influence the activity of all enterprises);
- II. specific (for some companies that can be attributed to the same group as the active branch, either by regional or by size);
- III. private (characteristic for an enterprise).

Next, we analyze the *general* problems of increasing needs for financial resources, characteristic of the current stage of the economy, namely:

1) Low demand. Thus, growth is influenced by a number of social factors such as low salaries, lack of stimulating factors to work more productively, and other factors.

Although the current level of GDP is increasing the share of insolvent enterprises increases too. Thus, one of the factors that restrict the development of enterprises is the low ability to pay customers.

2) Uneven distribution of non-financial resources in the territory of the Republic of Moldova. Thus, most of the resources are

concentrated in the capital against outside enterprises.

3) The level of informatization of the country. Contemporary evolution of humanity leads to the realization that somehow unnoticed, but quite perceptibly, information has replaced industrialization. So, much as it did on the last to serve it. Neither substance nor energy, but information and scientific knowledge determines the level of development of the States and now dictates its future industry. It should be noted that, although Moldova remains far behind the developed countries by level of computerization, Information Technologies and Communications Ministry is working on the development of the Republic of Moldova's transition to an information society.

4) High share of shadow economy, reflecting the different problems that face the fiscal policy. This situation tells us that those have yet to find optimal parameters of the tax system which, on the one hand would provide the state with sufficient financial resources and on the other hand contribute to the dynamic development of the economy. Should be noted that the beginning of the transition shadow economy played the role of the social dampers and was an additional source of income of the population, new workforces and cheap goods. At the moment when the metastases of the shadow economy already affected young state, they create significant barriers to attracting investment and civilized forms of entrepreneurship development. Shadow economy accentuates material differentiation of the population, worsening poverty, which the state, even with rapid GDP growth, will not be solved, if the income in the budget funds will be obtained only from the legal economy, and not to be implemented effective mechanism for distribution of income from business.

The *specific* problems of formation and use of financial resources are the following:

- 1) The low level of profitability, since profits are the main source of funds training.
- 2) Limited access of the companies to the borrowed resources (primarily average lending rate about 15% [3], which is above the economic profitability of most enterprises in Moldova).

3) Underdevelopment of the capital market. Thus, to attract capital by issuing shares or bonds is a complicated procedure even for large firms today.

4) Inefficient use of available financial resources and reserves, and the irrational structure of the balance sheet. Financial instruments of analysis and management of current assets can not be applied by enterprises in Moldova due to the unstable environment in which the last activity, namely: irregular deliveries of raw materials, goods that require companies to create excessive stocks, lack of short-term investment opportunities of temporarily free cash in high-liquidity assets, losses caused by the irrational use of temporarily free funds.

Each enterprise is an economic unit complex, whose development is influenced by a number of the external and internal factors (conditioned by the particular enterprise creation, training and other financial resources). Thus, the main factors, characteristic of all branches of national economy, which stops the growth of businesses are: high level of taxation, low capacity to pay clients, contracting credit conditions, economic and political instability, weak demand on foreign markets, the high level of competition. Thus, enterprises face a number of problems (special problems) that stops their development, as well as the economy as a whole.

#### *The main directions of improving the training and use of funds from business*

The human and the fix capital development, conditioned by the new technologies, creates a high competetiveness in countries that possess it. New conditions of world economy, namely globalization and the transition to the computerized economy, creates necessary conditions for changing financial relations. The changing of financial relations at the enterprise level are the following:

- 1) The modification of enterprise's costs structure, share of services in production costs increasing. These changes are conditioned by such factors as: delegation of part of tasks, so with production as well service functions related to basic production, transport, management, and other organizations. In addition, in condition of an accelerated

development of technologies, it is no rational to invest a lot of resources in equipment and also in different areas. This entails capital expenditures reducing, costs of purchase of fixed assets, maintenance of equipment, but also increase the rent payments. The costs related to collection and processing the information are reduced too;

2) Possession of a flexible financial structure that allow the use of available resources with maximum efficiency and of those attracted. A flexible structure allows to minimize costs on the one hand, and on the other hand allows rapid adaptation to changing market conditions. In this regard, a particular importance acquires financial resources management and especially management of current assets. Thus, effective management of assets optimizes stocks of goods and materials, stocks of finished products, respectively, accelerating their rotation. A great importance in this case one has and the efficient management of the Revolving Fund, in particular the control of its sufficiency. The consequences of insufficient working capital can be quite imposing for the enterprise's activities, and sometimes fatal. The necessity to increase working capital appears as to extend the volume of enterprise's business. If the enterprise is not assured with a proper capital structure, and if the receipts and payment were not correctly projected, then it may have an insufficiency of liquidity. Consequently, business leaders must take operative measures to improve the situation as follows: to find money to pay salaries. Often, in these situations, business leaders focused their attention on solving the questions created by neglecting the problems that increase shareholder's value, and this can lead to a lower competitiveness and profitability. Solutions in this case may be:

- The radical solution is to decrease the volume of business. The company will have to deny the profitable orders due to the lack of resources for financing the working capital. If, however, orders are inevitable, which means a risk to increase the acceptable level of indebtedness, execution of these orders must be made so that expenses related to indebtedness won't be greater than the losses that may appear in case to avoiding the orders;

- The easiest way is to increase capitalization. One of the strategies to finance the assets is an aggressive strategy that will be realized through small capitalization. This situation creates insufficiency of working capital. In this case the problem can be solved by increasing permanent assets, which will be accompanied by an adequate increase in permanent capital, preferably is the issuing of shares or contracting for long-term loans;

- Another way is the judicious control over the use of working capital. Permanently analysis of the working capital state and cash flows generated by this one allow the enterprise to limit the use of additional sources necessary to finance the base activities.

3) Globalization means the searching of partners in the worldwide, it means that the economy have not to know geographical, ethnic, political or other borders. Thus, the existence of modern information helps to make markets for goods and services in markets with perfect competition, open access to information on prices and make the competitors to know about features of products and services. The customer may contact the manufacturer (without involving a third person), even if the parties are in different parts of the world.

4) Acceleration of payments, financial cycles, increasing the share of electronic payments in total payments, reducing cash payments. At the same time, it has found that the reduction in the duration of the operational cycle time affects directly the growth of the efficiency of utilization of assets and indirectly decrease the necessity in loans and maintain a satisfactory balance sheet structures, and also increase financial stability.

5) introduction of new information technologies in business relationships with its contractors: State, banks, employees and other businesses.

In addition to the solutions proposed above, regarding the increasing of the financial resources volume at the enterprise level, it is necessary by a number of measures at the state level. Each state has its own economic development scenario. Regarding the Republic of Moldova, here must be focused primarily on demand, without which we can not speak of any development. One of the main components

of internal demand is the demand of the population. So, it is necessary to undertake various measures to increase the demand volume, which will lead to export increasing. Chronic insufficiency of financial resources imposed reciprocal lending businesses, which often is cheaper than loans offered by commercial banks. It has worsened and the correlation between accounts payable and receivable average per economy, being 2 [2]. Substantial increase of overdue debt does not mean anything other than reducing of the resources volume. Unfavorable dynamics of the correlation's indicator between accounts payable and receivable, and the overdue debts share in the total debts is caused primarily by lower production volumes, which is followed by the reducing of the amount of own sources of financing the production. As a result, the reproduction takes place on account of borrowed sources, which involves the increasing of servicing credit costs. All that mentioned above tell us about an imbalance in the financial system as a whole. In condition which the companies face great difficulties of financing, the foreign investments have an important role. In the last years, due to the large deficits in the State budget, financing economic programmes of the State budget is quite limited. However, if funding from the state budget can be excluded as funding source, then the absence of credit to finance business activity is in total contradiction with the rules of normal development of market economy. The solving of this problem is a condition of reducing the interest rate on loans provided by commercial banks and involves a maximum amount of resources in production.

Today, the majority of the capital investments is covered on account of the internal sources of financing, in particular on account of depreciation Collections.

It should be noted that for tax purposes companies use linear methods for calculating depreciation, which is to their detriment, given the high inflation, scientific and technical progress. The unpopularity of the accelerated depreciation mechanism may be explained by a high depreciation deductions that lead to high production costs. However, depreciation deductions artificially leads to a high profit. At the same time, the high depreciation deductions leads to an artificial decrease of the profit, that misleading the creditors investors and other users regarding the financial state of the company. Thus, most businesses, not only use accelerated methods of calculating depreciation, but decreases the existing rules for reducing the cost of production, respective of the price to face the existing competition.

## CONCLUSIONS

In conclusion, we can say that the measures proposed above will increase productivity, the efficiency of using company's financial resources, and the enterprise's profitability. In addition, since the company's profitability influences the formation of other business resources, so the increasing of their profitability will increase the volume of financial resources of society as a whole.

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