

SCTMG 2020**International Scientific Conference «Social and Cultural Transformations in the
Context of Modern Globalism»****CURRENT STATE OF ENTREPRENEURSHIP FINANCING
MECHANISMS**

Isaeva Ekaterina (a)*, Bolonina Svetlana (b), Sirotkin Andrey (c), Uzhakhova Fatima (d)

*Corresponding author

(a) Moscow State University of Finance and Industry “Synergy”, Izmailovsky Val St., 2, Moscow, 105318, Russia,
dipmesi@mail.ru

(b) Moscow State University of Finance and Industry “Synergy”, Izmailovsky Val St., 2, Moscow, 105318, Russia,
svbolonina@yandex.ru

(c) Moscow State University of Finance and Industry “Synergy”, Izmailovsky Val St., 2, Moscow, 105318, Russia,
sirotkinmfp@mail.ru

(d) Chechen State University, 32 A. Sheripova St., Grozny, 364024, Russia, ftsakayeva@bk.ru

Abstract

The foundation of a market management system is made up of the most dynamic entities, namely, entrepreneurs, each of whom is individually interested in the results of doing business. From a legal point of view, entrepreneurial activity is defined as an independent activity carried out at its own risk, aimed at the systematic receipt of profits from the use of property, sale of goods, performance of work or the provision of services by persons registered in this capacity in the manner prescribed by law. The economic interpretation of entrepreneurship is more capacious and characterized from various perspectives by Russian and foreign economists. Western economists define entrepreneurial activity as a peculiar management style, the core of which is innovation, the constant search for new market opportunities, the ability to mobilize financial resources from various sources to perform specific tasks. The concept of financing entrepreneurial activity is understood as a combination of methods, methods, various forms used for providing an event with a financial resource; the resumption of the financial support of a specific industry and entrepreneurial business activity by attracting own funds is called self-financing. This research is aimed at searching for these relations. The issues of choosing sources of financing business are covered in sufficient detail both in Russia and in the world. However, the question of the optimal structure of financing remains debatable and does not exclude the gap between theoretical studies and the reality of their practical application, which confirms the relevance of this study.

2357-1330 © 2020 Published by European Publisher.

Keywords: Leasing, sources of financing, forward, project financing.



This is an Open Access article distributed under the terms of the Creative Commons Attribution-NonCommercial 4.0 Unported License, permitting all non-commercial use, distribution, and reproduction in any medium, provided the original work is properly cited.

1. Introduction

The final stage of the capital cycle is accomplished in the process of marketing products, works, services, and the acquisition of cash. The cost from the commodity form is returned in stock. The difference between invested and received money is the cash accumulation of the organization. Continuity of this process lies at the heart of the operational process of production and circulation.

The duration of the operation has a severe impact on the productivity of the enterprise and its profitability. The shorter the turnover period, the higher the effect for the enterprise. Therefore, the uniformity, consistency, and high efficiency of the functioning of a manufacturing enterprise is significantly affected by the availability of working capital. Therefore, to maintain the smooth operation of the organization, the financial manager needs to find sources of financing business activities. We proceed to consider these sources.

Initially, the source of financing the company is the authorized capital, which is formed by contributions from the founders. The financial manager of the organization should accumulate available sources of financing business activities to ensure financial obligations, fulfill social needs, and form the necessary investments. That is why ways of developing and building up sources of financing are essential.

The emergence of sources of financing is possible with targeted actions (obtaining a loan, a loan, loans) or as a result of financial and economic activities, i.e., spontaneously (formation of debt on taxes and fees). To more accurately organize the financing of entrepreneurship, it is necessary to classify the sources.

2. Problem Statement

Financial and investment opportunities of enterprises are mostly dependent on external factors. In an unstable economic situation, these factors can have not only a positive but also a negative impact on the results of enterprises. Any decision regarding the choice of funding sources is carried out in a situation of specific uncertainty with a high-risk factor.

In an awkward situation, when attracting traditional forms of financing and lending is complicated, the company should look for alternative sources of financing. The problem of lack of funding can be approached from the perspective of reducing costs, which are not mainly related to the core business of the enterprise. We define the possible savings options: (Schneider, 2016).

1. Budgeting is the planning of costs, the budget of income and expenses, the budget for cash flows, the budget for receivables and payables, raw materials, and materials.

Benefits:

- a) Coordination of work as a whole;
- b) making adjustments through analysis;
- c) the identification of planning deficiencies and their elimination in the future;
- d) identification of new possible sources of financing;
- e) the development of the interconnection of processes

Disadvantages:

a) Does not always cover the whole range of problems and all factors affecting the activities of the enterprise;

b) complexity and high cost.

2. Outsourcing – transfer of non-core functions and corporate roles to external specialized companies.

Benefits:

a) Focusing on the main subject of activity;

b) the predictable costs of conducting the process outsourced;

c) reduction of personnel costs; d) payment of outsourcer services in full reduces the tax base for income tax and VAT.

Disadvantages:

a) Loss of full control over their resources, part of the affairs and functions;

b) the risk of information leakage;

c) lack of a developed legislative framework;

d) there are cases of fraud

3. Forward contract (Loboda & Dakhova, 2016) is short-term financing; an agreement under which one party undertakes to transfer the goods to the other party on agreed terms within a specified period.

Benefits:

a) Exact hedging of risk by determining the amount of the transaction and the terms that meet the needs of the parties;

b) the absence of a transaction fee;

c) flexibility in the conclusion of the deal.

Disadvantages:

a) You cannot prematurely terminate the contract, change its terms or resell;

b) low liquidity;

c) is not a public source of funding.

The considered financial instruments and mechanisms with their proper use can significantly save money, the release of which the company will be able to direct to expand its activities or to search for new sources of financing.

3. Research Questions

The subject of the study is the sources of financing business and the process of their optimization.

4. Purpose of the Study

The purpose of this study is to identify factors affecting the formation of sources of financing for entrepreneurial activity and assess the consequences of financing, taking into account profitability and risk.

5. Research Methods

The study is based on the methodology of financial and economic analysis, economic and mathematical methods, a systematic approach, methods of aggregation and statistics (grouping, correlation, and regression analysis, coefficient analysis). Such techniques as observation, classification, modeling of economic processes, and analysis were used.

6. Findings

In conditions of unstable economic development, budgeting is an essential method of managing an organization in the field of financial management. Budgeting is practically the only means capable of regulating the volume of expenditures within the limits of the total cash inflow, determining how much and when financing should be provided. Outsourcing of non-core functions can also provide significant assistance to the company, which will reduce personnel costs, which will free up additional funds for business development. Cases of fraud can be avoided by carefully and responsibly approaching the choice of outsourcing companies (Bisultanova, 2019). Besides, all documents must be transferred to the outsourcer according to the inventory or provide copies.

There are also other ways to raise funds for the activities of the enterprise. Table 1 presents methods based on the principles of optimizing settlements with debtors and creditors (Grabskaya et al., 2016; Magomadova, 2017).

Table 01. Optimization of settlements with debtors and creditors as a source of financing business

Name of procedure	Brief description	Benefits	Disadvantages
1	2	3	4
Spontaneous financing	Providing discounts to customers for shorter settlement periods	1) An inexpensive way to obtain funds; 2) benefit for the buyer: does not require collateral, long grace periods; 3) benefit for the supplier: reduction of the payment period.	1) For the buyer: the amount of bank interest may be higher than the received discount; 2) for the supplier: careful calculation of the discount size is required.
Factoring	Activities of a particular organization for the recovery of funds from customer debtors.	1) The ability to immediately receive a payment for the shipped goods, without waiting for payment from the buyer; 2) acceleration of working capital; 3) covering a significant part of the risks by the bank.	1) Fee for processing documents; 2) factoring commission; 3) interest in the use of funds provided by the bank to the client immediately after the shipment of the goods.
Forfeiting	Transaction for the forfeiter to acquire a financial obligation of a borrower to a creditor. All the risks associated with the debt obligation are transferred to the forfeiter without the right of circulation to the seller's obligations.	1) Simplification of the balance sheet of possible liabilities; 2) improvement of liquidity; 3) the absence of risks and costs associated with the activities of credit bodies.	1) Relatively high costs of transferring risks to forfeiter; 2) the bank in the securities market can sell loan documents; 3) the duration of the transaction.

Spontaneous financing is a relatively inexpensive way to obtain funds that do not force the client to cover and attract rather long grace periods. The size of discounts should be carefully calculated, and not determined arbitrarily. It is necessary to compare the "discount rejection price" with the cost of a bank loan based on annual interest rates for calculating the cost of spontaneous financing. Costs for a similar choice can be calculated according to the following formula (Dedov):

$$\Pi = \frac{\Pi_c}{100\% - \Pi_c} \times 100 \times \frac{360}{\Delta o_{max} - \Pi_c}, \quad (1)$$

where Π – the price of a rejection of the discount; Π_c – the percentage of discount; Δo_{max} – the maximum duration of the deferred payment (days); Π_{ec} – the period during which the refund is provided (days).

In cases where the settlement result exceeds the bank interest rate, it would be correct to use a bank loan and pay a fee for the goods during the grace period.

Such a source of financing as factoring is of great interest to small and medium enterprises because they very often have the problem of a temporary shortage of liquid funds. As a rule, it is used when the following circumstances arise: when the profitability of an enterprise is many times higher than the cost of factoring services, taking into account the time value of money; when inflation losses cover factoring costs. The cost of factoring services is formed from two components: commission (payment for service as a percentage of the invoice amount) and interest charged for an early fee of the transferred documents.

The main differences between forfeiting and factoring are considered to be:

- a full release of the exporter from the risk of default;
- forfaiting only with the assistance of a bank and a specialized financial institution (forfeiter);
- payment of the full price of the claim (when factoring, 5–10 % is usually frozen).

Financial sources, alternative to a loan, can be considered leasing and overdraft. A brief description, as well as the advantages and disadvantages of each operation, are presented in Table 2.

Table 02. Sources of financing alternative to lending

Name of procedure	Brief description	Benefits	Disadvantages
1	2	3	4
Leasing	A kind of long-term loan in kind and repayable in installments.	1) The ability to minimize property tax; 2) the transaction is secured by acquired equipment; 3) a leasing agreement is more flexible than a loan; 4) the risk of obsolescence of the equipment lies entirely with the lessor.	1) The lessee does not win by increasing the residual value of the equipment; 2) the complexity of the organization of the transaction; 3) the inability to redeem property ahead of schedule.
Overdraft	Bank lending to a client's current account for payment of settlement documents in case of insufficient or absent funds in the client's current account.	1) Provides continuity and acceleration of the circuit of working capital; 2) a flexible form of lending, providing borrowed funds to the extent of the emerging need; 3) ease of design.	1) The loan is repaid at the request of the bank – the borrower may lose the source of payment in a critical period; 2) only a short-term source; 3) high cost; 4) overdraft size is limited.

Due to the specifics of their activities, some organizations, for example, engaged in trade, have constant gaps between revenue and payments. An overdraft will be especially useful for such organizations. An overdraft will allow the organization to make all payments on time, reduce the cost of money for fines, penalties, and forfeits, and maintain its solvent image.

The cost of the overdraft will consist of the interest rate and additional commissions to the bank. The main types of overdraft commissions are a commission for opening an overdraft, commission for maintaining the overdraft limit, commission for not using the overdraft limit.

Forms of borrowing are possible in the initial stages of enterprise development:

1. Venture financing – a long-term, high-risk investment of private capital inequity of newly created small technologically promising enterprises.

Benefits:

- a) allows attracting the necessary funds when other sources are not available;
- b) does not require collateral and different types of security;
- c) can be provided in a short time;
- d) does not provide for interim payments.

Disadvantages:

- a) the difficulty of attracting an investor;
- b) the need to allocate a share in the capital;
- c) maximum disclosure requirements;
- d) investor intervention in project management;
- e) underdevelopment in the Russian Federation.

2. Bridge – financeng – is the main form of additional funding for enterprises at the venture stage of development (Simakova, 2013).

Advantages: it is a guarantee that existing shareholders will participate in the next round of financing, along with new shareholders.

Disadvantages:

- a) the most expensive form of borrowing;
- b) underdevelopment in the Russian Federation;
- c) noteholders may have advantages over shareholders.

3. Project financing - financing of investment projects. Source of debt service: cash flows generated by the project. The object of investment is a specific investment project.

Benefits:

- a) the ability to attract assets significantly exceeding the number of available assets from the applicant for investment;
- b) the distribution of project risks among project participants;
- c) the absence of strict requirements for the financial condition of the company.

Disadvantages:

- a) significant fees for project evaluation and organization of financing;
- b) high costs of pre-design work;
- c) a long period of consideration of the project application;

d) tight control by the investor at all stages of the project development.

The factors hindering the development of venture financing in Russia include underdevelopment and low capacity of the stock market, which makes the traditional way for investors to exit projects difficult; lack of professional managers who can unleash the commercial potential of scientific and technological developments; low consumer demand for high-tech products within the country; inferior liquidity of venture capital; lack of state support (provision of benefits, protection of intellectual property).

As mentioned above, after determining the sources of financing, the next step in the process of determining the total capital cost is an assessment of each source value. Having estimated the cost of each source of money, they proceed to decide on its overall value. You can do this according to the formula below (Tronina, Nikitin, Semenikhina, & Morozova, 2018):

$$WACC = \sum_i^n C_i V_i \quad (2)$$

where WACC is the price of capital; C_i – the cost of the i -th source of the funds after-tax; V_i is the specific weight of the i -th source of funds in their total amount.

As previously indicated, the total cost of capital and the cost of each element are significantly affected by risk. A kind of uncertainty associated with the occurrence or non-occurrence of a particular event that arises with the adoption of a decision, the execution of which occurs over time. The degree of risk has the most significant influence on the establishment of the level of profitability of an organization's financial activity; a close correlation dependence is manifested, which gives grounds to combine these two parameters into a single "profitability-risk" system. For quantitative risk assessment, many indicators and methods are used. First of all, the company must decide for itself what degree of risk it can allow obtaining the desired result. To do this, you need to calculate the risk coefficient (formula 3):

$$K_r = \frac{Y}{C} \quad (3)$$

where K_r is the risk factor; Y is the maximum acceptable amount of loss; C is the amount of equity.

The values of the risk coefficient are distributed as follows: from 0 to 0.3 – low risk, from 0.3 to 0.5 – acceptable risk, from 0.5 to 0.7 – high risk, above 0.7 – critical risk.

7. Conclusion

The methods and effectiveness of risk management are significantly affected by the total amount of financial resources available to the enterprise. An assessment of the value of funds taking into account the risk factor allows calculating the present and future value of money with coverage of the risk level.

The primary borrowed sources include state financing, accounts payable, bank loan, bond loan. In an aggravated situation associated with borrowed sources for funding, the risk of insolvency of business entities increases significantly. A characteristic feature of the use of borrowed funds is financial leverage. In an awkward situation, when attracting traditional forms of financing and lending is complicated, the company should look for alternative sources of funding. Such sources of financing are budgeting, outsourcing, spontaneous funding, factoring, leasing, and an overdraft. Forms of borrowing that are

possible in the initial stages of enterprise development are venture financing, bridge financing, project financing, mezzanine financing.

References

- Bisultanova, A. A. (2019). Actual issues of lending to small and medium-sized businesses. *Vector econ.*, 5(35), 125.
- Grabskaya, Y. I., Antonov, S. I., & Vdovina, Y. S. (2016). Microfinance organizations as a promising tool for attracting financing to small and medium-sized businesses in Russia. *Econ. and entrepreneurship*, 11-3(76), 758.
- Loboda, N. A., & Dakhova, Z. I. (2016). Sources of financing business. *Youth and cooperation: innovation and creativity materials of the international scientific-practical conference* (pp. 293–303). Belgorod.
- Magomadova, M. M. (2017). Factors of socio-economic development of the region. *Competitiveness in the global world: econ., sci., technol.*, 5-5(47), 104.
- Schneider, O. V. (2016). Alternative sources of financing business in the conditions of unstable economic development. *Vestnik SamGUPS*, 1(31), 104.
- Simakova, E. K. (2013). The system of infrastructural support for financing business: problems and prospects. *Finance and Credit*, 12(540), 27.
- Tronina, I. A., Nikitin, S. A., Semenikhina, A. V., & Morozova, O. I. (2018). Economic and mathematical approaches to the assessment and selection of an innovative enterprise strategy. *Manag. Account.*, 11, 97.