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# MANAGEMENT OF LONG-TERM FINANCING IN A COMPANY

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**Abstract:** In modern market conditions, the results of the activities of any organization is to make a profit and maximize the value of the company, which mainly depend on the volume of the organization's financial resources, as well as on the sources of financing. When determining the financial policy of an organization, the company management, first of all, must set tasks that would help ensure the stable operation of the enterprise in the conditions of fierce competition. Financing of an organization can be carried out both at the expense of its own and borrowed funding sources. The decision on additional financing is made by the management of the organization as needed for additional financial resources. When a project is implemented over a long period of time, long-term financing is usually applied. This option is the most preferable, since with short-term financing there is no guarantee that the profit can be obtained before the maturity of the loan. In this regard, the management of long-term financing is one of the most important functions of financial management aimed at ensuring the achievement of high final results of the economic activity of the enterprise. The purpose of the paper is to study the management of long-term financing of an organization and measures to improve it.

**Keywords:** long-term financing, management, company, capital, financing.

## INTRODUCTION

Authorized capital is the minimum amount of financial resources required to start operating an enterprise; they are a source of financing with the necessary circulating and non-circulating assets. However, it cannot continue for a long time and the organization resorts to other sources and forms of financing of the economic entity for the further implementation of its economic activities. Funding is based on the following principles: Purposefulness, that is, all expenses have a substantive purposeful purpose: wages, business trips, scholarships, and operating expenses; Financing to the extent of performance of works and services means that financial resources are allocated in accordance with the actual performance of works and services, their quantitative and qualitative indicators; Observance of financial discipline implies compliance with regulatory requirements, accurate implementation of financial plans and compliance with the requirements of a saving regime, which, as a system of measures for careful and rational attitude to financial resources, is one of the conditions for working not only in the production sector, but also in the functioning of public finances.

All of the above principles apply to long-term financing of enterprises: the company must have financing goals, rationally use the funds obtained through this financing, and at the same time maintain financial discipline. Thus, the decision on the choice of the structure of funding sources should be part of a sound financial strategy that considers the company's position on the market, investment opportunities, funding needs, and dividend policy. Then such financing can be called effective (14). Depending on the term and goals of an organization, two types of financing are distinguished: short-term and long-term financing. Comparative characteristics of short-term and long-term financing are shown in Table 1. In accordance with Russian regulations, long-term financing is understood as financing for more than 12 months.

**Table 1**. Comparative characteristics of short-term and long-term financing

| Characteristic | Short term financing | Long term financing |
| --- | --- | --- |
| Application area | Current activity of the enterprise | Strategic Enterprise Development |
| A period of time | one year | More than one year |
| Goals | - maintaining current solvency;<br>- payment of current debt;<br>- work within the existing production facilities and fixed assets, etc. | - expansion of current business;<br>- purchase of new fixed assets, including equipment, premises, etc.<br>- updating non-current assets, etc. |
| Performance test | Maximizing current profit | Maximizing return on enterprise |

Compiled by the authors.

As we can see from Table 1, long-term financing is necessary for the implementation of long-term projects, that is, for a period of more than one year: the purchase of new fixed assets, the expansion of the enterprise, etc. Also, long-term financing in the form of reinvesting profits will provide greater profit in the future than present day. Short-term financing is necessary to support the current activities of the enterprise.

## METHODS

We used regulatory documents, information and analytical reports, and statistical reference books to write the paper. During the study, analytical, comparative, and statistical methods were used, as well as the grouping method, which allow us to generalize and identify industry-specific regional indicators and features in assessments of long-term financing in Russia.

**RESULTS AND DISCUSSION**

The phrase "long-term financing" occurs quite often in the literature, and each author has his or her own vision of this concept. It is advisable to analyse the definitions found in the literature and express your point of view. E.R. Yescombe believes that long-term financing is necessary when the financed assets have a high cost of capital, which is not reimbursed in a short time without shifting to the cost of the final result (17). M. Korolkova notes that the main forms of long-term financing are self-financing and debt financing. The choice of long-term financing depends on the financial policy of the organization in the long term (9).

With the development and growth of the Russian economy, many enterprises need expanding production capacities, introducing new production and technological complexes, and purchasing new and more modern equipment (11). Sources of funds are also required to achieve the goals of urban infrastructure development (3). Long-term financing allows us to use a larger amount of funds for these purposes than short-term financing. Researchers argue that when choosing sources of long-term financing, it is necessary to find a balance of the capital structure, that is, the balance between equity and borrowed capital (12).

According to D.A. Shevchuk, long-term financing is more reliable in contrast to short-term financing and guarantees a stable flow of financial resources for an enterprise, but long-term financing has a number of disadvantages: It is extremely difficult to obtain long-term financing in Russia; Collateral is most often required; Additional information is required in the form of a business plan, and also documents confirming the ability to pay off debt; If the terms of the agreement are not revised, it may turn out to be expensive if interest rates and exchange rates rise, (16). Other authors believe that long-term financing is the receipt by an organization of funds for a long period and is aimed at the development of an enterprise through the implementation of investment projects. Long-term financing is designed for a longer period and is necessary for the implementation of strategic plans of the company's management, renewal of production assets, while short-term financing is aimed at maintaining the current solvency and liquidity of the organization, for the acquisition of current assets and repayment of urgent debts (8).

Long-term financing assumes that the organization gives up part of the profit today, investing it in the development of the enterprise with the aim that these investments will give a greater payback after some time (8; 10; 7). Long-term financing is related to the investment activities of companies, as well as control over financial flows (1; 13; 2). A source of long-term financing, among others, is the issue of shares and bank lending (4; 6; 5). Based on the study of literature sources, we can offer the following definition: long-term financing can be carried out at the expense of our own and borrowed funds. Long-term financing is used to organize a new or significant expansion of an existing business, purchase new fixed assets, renew non-current assets, and pay off long-term debt.

The proposed definition implies the following main properties of long-term financing: 1) It can be carried out at the expense of company's own and borrowed funds;

2) The authors believe that long-term funding is carried out over a long period, that is, over 12 months; 3) Financing is used for specific purposes; 4) Giving up a part of the profit by directing it for the development of the enterprise and its greater payback in the future. Features of long-term financing are as follows: From the point of view of the borrower, this financing is less risky than short-term financing, since longer terms allow adapting to changes in the external economic environment; It usually requires collateral; It is required to provide information on the activities of the organization; It is more expensive, in contrast to short-term financing, since there is a higher risk from the point of view of the lender; It is not always available in full and not for all organizations.

Thus, in our opinion, long-term financing is financial means received by an organization for a long period of time, usually for more than one year, and intended for the development of an enterprise.

**SUMMARY**

The success of company's current activities is determined by the efficiency of short-term financing management. Long-term financing management should be viewed from the perspective of the company's development strategy. Long-term financing management is a purposeful process of their formation from various sources and in different forms in accordance with the needs of the organization for additional financing at various stages of its development. The long-term financing management process includes the following main stages:

1. Determination of the purpose of using financial resources. The enterprise can direct funds for the following purposes: Expansion of the current business; Purchase of new fixed assets, including equipment, premises, etc.; Renewal of non-current assets, etc.

2. Determination of the maximum amount of funds. In particular, two conditions must be met for the maximum amount of borrowed funds: a) The marginal effect of financial leverage, that is, the ratio of debt to equity. Based on the calculated ratio, the maximum amount of borrowed funds is calculated; b) The normal financial stability of the organization, both from the position of the organization itself and from the side of external counterparties to reduce the cost of rising borrowed capital.

3. Estimation of the cost of own and borrowed funds. The results of the assessment serve as a basis for making decisions about the choice of funding sources that ensure the satisfaction of the enterprise's financing needs.

4. Collecting information about each type of long-term funding sources, considering their features, and identifying their advantages and disadvantages.

The characteristics of the sources of long-term financing are shown in Table 2.

**Table 2.** Comparative characteristics of long-term financing sources

| Source Type | Specificity |
|---|---|
| Undestributed profits | The profit that was directed to the development of the organization after paying taxes, dividends, the formation of accumulation funds and reserves |
| Stock | A security that entitles us to participate in the management of the company |
| Bond | Debt security |
| Bank's credit | The funds provided by the organization's bank on the terms of urgency, payment and repayment |

| | |
|---|---|
| Leasing | Leasing of property on the basis of a leasing agreement with the right of redemption |
| Forfaiting | Forfeiting solves the problem of the lack of free cash of the buyer if the seller is unable to provide a deferment or installment payment at his own expense at the right time for the buyer |

Compiled by the authors.

The owners of the company can accumulate retained earnings after the payment of dividends on shares, or they can reinvest them in the company's activities. If retained earnings are accumulated, but not invested, then the attractiveness of the enterprise decreases, and its value decreases. Thus, in order to increase the value of the company, the owners must direct retain earnings to the development of the enterprise. Depreciation deductions are directed to the full restoration of fixed assets. This considers the accelerated depreciation of the active part of fixed assets, that is, machinery and equipment, since it allows the cost of depreciable objects to be transferred at an accelerated rate, thereby reducing taxable profit. Shares are issued due to a shortage of own funds and high costs of bank loans. The funds received from the additional issue are used to develop the company and increase the authorized capital. Bonds are issued in large volumes for the implementation of large projects without the threat of shareholders' interference in the management of the enterprise. Management can manoeuvre in defining the characteristics of the bonded loan.

In case of bank lending, the organization pays interest for using the bank loan for a certain period of time, and the company must also return the amount of the loan provided. A company enters into a lease agreement with the seller when the need arises for any property for its further use. The organization, together with the lessor, develops a leasing payment scheme. However, the company needs to pay cash, despite wear or damage to equipment or other property. In the future, the company can buy back the leased property from the seller. When forfeiting, the company sells its long-term debt to the forfeiter. Thus, the organization receives the full value of the shipped goods and does not bear any risks.

In order to find the optimal ratio of own to borrowed funds, it is necessary to consider various options for the ratio in series.

1. Determination of forms and methods of long-term financing. The choice of forms and methods is based on the goals and specifics of the enterprise.

2. Formation of effective conditions for attracting funds, such as: a) Term of circulation of shares, bonds, provision of credit and leasing. The optimal period is considered to be the period during which the purpose of its attraction is fully realized; b) Determine the number of shares and bonds, their value; for a loan, it is necessary to determine the amount of payment of the principal and interest on them; for leasing, a debt payment scheme should be determined; c) Other conditions related to the placement of shares, bonds and obtaining loans and leasing.

3. Ensuring the efficient use of funds. The efficiency criterion is the return on assets ratio, which shows the effective use of its assets by the enterprise.

4. Ensuring timely payment of dividends on shares, coupon yield on bonds, interest and principal on a bank loan and lease payments on lease.

5. Management of long-term financing should be carried out in accordance with regulatory enactments, which provide general information, as well as the nuances of long-term sources of financing.

## CONCLUSIONS

Let us highlight the requirements and conditions for the recommended sources of long-term financing: 1) A sufficient amount of funds for the development of the enterprise; 2) A long term, since long terms allow adapting to change in the external economic environment; 3) Low cost of raising funds; 4) Independence from investors in the implementation of decisions. Consider the proposed sources of long-term financing in accordance with the requirements (see Table 3).

**Table 3.** Sources of Long-Term Financing

| Name of the indicator | Requirements |
|---|---|
| Stock securities | Additional issue of stocks allows attracting at a low cost a large amount of cash for a long period. The purchase of ordinary stocks entitles the shareholder to participate in the management of the company. An additional issue of preferred stocks, within the established norm, will allow the issuer to receive resources with non-voting investors, but with a fixed dividend. |
| Bonds | Issuing a bonded loan allows us to borrow money for a long time. The purchase of bonds does not give the right to participate in the company. However, there are significant costs in the issue of bonds. |
| Leasing | The acquisition of expensive property on lease. Lessor does not take part in organization management. |

Compiled by the authors.

Based on the above requirements and costs, there are four strategies we offer to traditional industrial companies:

1. Placing shares on the stock exchange to attract a large amount of funds at low costs for a long time. The accumulation of common stock should not be in the hands of a single investor. Additional issue of shares increases the share of equity capital. Be aware of the costs of commissions, interest to the underwriter, and road shows.

2. Placing shares on the over-the-counter market to attract large amounts of funds at low costs for a long time, but the company will become dependent on the investor. No exchange fees, underwriting fees, or road show costs are required. However, the issuing company is placing a large block of shares in the OTC market for a strategic investor and there is a risk of losing control of the joint stock company.

3. Issue of bonds to attract a large amount of funds at low costs for a long time, while the bondholders do not have the right to interfere with the activities of the enterprise. The bond issue increases the share of borrowed capital in the company's structure. It is necessary to consider the costs of listing, the exchange commission, interest for using the services of the underwriter, and conducting road shows.

4. Acquisition of property on lease for a long time at low costs. The lessor has no right to interfere with the management of the company. Lease payments also increase the organization's debt capital.

Thus, we can give the following recommendations to traditional industrial Russian companies. First, it is necessary to develop a regulation for managing financing and include in it an algorithm for a long-term financing management system. Second, many Russian mid-level companies have a low level of financial stability. We recommend improving financial stability by increasing equity capital and controlling receivables and payables. The share of equity capital can be increased by renting out property and attracting investors. Third, we propose to make some changes to the financial policy of organizations: restructure short-term debt into long-term debt, increase revenue and net profit, increase solvency and liquidity. Fourth, based on the goals of the company's management, choose one of the long-term financing strategies: additional issue of shares, issuance of a bond issue, or leasing property.

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