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Інструмент фінансової стратегії в контексті модернізації підприємства

Розглянуто проблему розроблення та імплементації фінансової стратегії в контексті задач модернізації підприємств реального сектору економіки України. Здійснено аналіз проблеми підтримки стратегічної спрямованості підприємства на модернізацію шляхом ефективного використання інструменту фінансової стратегії. На базі дослідження підприємств пивоварної галузі України надано практичні рекомендації щодо формування фінансової стратегії в контексті здійснення програми капітальних інвестицій.

Ключові слова: модернізація, капітальні інвестиції, інновації, структура капіталу, джерела фінансування, фінансова стратегія, інституційне середовище.

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Інструмент фінансової стратегії в контексте модернізації підприємства

Рассмотрена проблема разработки и имплементации финансовой стратегии в контексте задач модернизации предприятий реального сектора экономики Украины. Осуществлен анализ проблемы поддержки стратегической направленности предприятия на модернизацию за счет эффективного использования инструмента финансовой стратегии. На базе исследования предприятий пивоваренной отрасли Украины даны практические рекомендации по формированию финансовой стратегии в контексте осуществления программы капитальных инвестиций.

Ключевые слова: модернизация, капитальные инвестиции, инновации, структура капитала, источники финансирования, финансовая стратегия, институциональная среда.

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The Financial Strategy Instrument in the Context of Enterprise Modernization

Problem of improving the strategic management quality at enterprise level (in particular its financial strategy formation and implementation) drastically increases under the recession conditions. It is highly important to take into account endogenous and exogenous factors influencing financial strategy formation, namely the issues raised due to need for modernization endemic to Ukraine's real sector enterprises.

The aim of the study is to determine financial strategy's role in the context of the real sector's modernization.

The paper considers the problem of financial strategy development and implementation in the context of enterprise modernization in Ukraine. The author analyzes the problem of maintaining an enterprise's strategic direction towards modernization through effective use of the financial strategy. The author studies the problem of financial management decisions' nature in the context of enterprises' innovative renewal. Based on the analysis of Ukrainian brewing industry enterprises, the paper provides practical recommendations considering financial strategy formation in the context of capital investment program implementation.

Based on the evidence collected, the author arrived at a conclusion that different enterprises take different financial strategic decisions based on peculiarities of their external and internal environment. The author argued for the existence of a pattern concerning Ukraine's real sector modernization issues, i. e. lack of a long-term focus, acute agency costs, weak interconnectedness of financing and operational policy. The author arrived at a conclusion that solutions to those issues are on both macro- and micro-level: firstly, state's efforts to improve institutional environment, secondly, enterprises' steps towards improving financing policy's efficiency, thirdly, alignment of an enterprise's financing policy and peculiarities of its exogenous and endogenous environment, which is highly important in the context of limited resources and uncertainty.

Keywords: *modernization, capital investments, innovations, capital structure, financing sources, financial strategy, institutional environment.*

Problem setting. The problem of improving strategic management quality at enterprise level (in particular its financial strategy formation and implementation) drastically aggravates under the recession conditions. It is highly important to take into account endogenous and exogenous factors while forming an enterprise's financial strategy in the context of Ukrainian real sector modernization.

Literature review. The problem of real sector modernization and its relationship with financial management is studied in numerous works of Ukrainian and foreign scientists: M. Dyba, I. Ivakhnenko, T. Mayorova, S. Onyshko, G. Bakker, J. Brown, M. Brown, A. Guariglia, B. Hall, W. Hölzl, J. Janger, S. Ongena, A. Popov, N. Rosenberg, P. Yesin, B. Peterse and others. However, the problem of supporting (both at qualitative and quantitative level) real sector modernization through financial strategy instrument remains insufficiently studied.

The aim of the study is to determine the financial strategy's role in the context of real sector modernization.

Results. The focus of academics and practitioners is shifted towards creating long-term value in real sector economy and increasing its competitiveness under circumstances of strengthening external and internal challenges. One of these challenges is a need for a qualitative and quantitative modernization of the real sector enterprises' assets. The paper [1, p. 51] studies key tasks for a post-crisis modernization: elimination of accumulated structural disproportions; purposeful formation of economic and financial systems' future structural characteristics considering future risks and development trends; formation of protective and stabilizing anti-cyclical mechanisms and effective levers for economic system's management ensuring sustainable and balanced economic development.

However, there is a significant gap between needs for modernization and barriers hindering its effective implementation. The study [2, p. 47] focuses on reasons for insufficient investment in the national economy, which are of an institutional nature. One of the major reasons outlined by researchers is an unfavorable investment climate resulting from inadequate legislation, underdeveloped stock and financial markets, significant tax burden pressure, inefficient use of depreciation funds, slow transformation of individual savings into investments, etc.

The fixed asset modernization is an acute problem for the Ukrainian economy. The study [3, p. 18] indicates that Ukrainian fixed assets are overall in a critical condition, while the production process is characterized by high resource and energy intensity, real sector's technological development being still at a low level, and national economy's innovation capacity being insufficient. One of the significant issues outlined in a study [3, p. 21] is exploitation of outdated fixed assets, resulting in tendency towards investment allocation for maintenance of existing technologies (resulting in the increasing fixed assets' residual value at the expense of its repair), instead of introduction of renewed and modern technological processes.

The modernization process in real sector enterprises is significantly distorted in Ukrainian realities due to numerous endogenous and exogenous factors. The deformations in the modernization process at macro- and micro-level are highlighted in paper [3, p. 24]:

1. unfavorable investment climate due to the pressure from institutional factors;
2. lack of a clear industrial policy and strategic direction for Ukrainian real sector economy; lack of effective tools stimulating investment in high-tech activities and innovations;
3. underdeveloped public-private partnership instrument in the context of Ukrainian real sector modernization;
4. limited access to debt financing;
5. insufficient development of the technology transfer legislation;
6. significant structural risks: high dependence on export industries with low and medium level of technological development, dominance of low value-added industries, sensitivity to fluctuations in global market prices for commodities (which make up a significant share of Ukrainian exports), high dependence on energy imports and global conjuncture;
7. unstable recovery of global foreign direct investment flows;
8. high debt burden of Ukraine's state budget and significant dependence on external financing sources for balancing Ukraine's public finance system;
9. low quality of corporate governance in Ukraine, in particular non-compliance with minority shareholders' rights, significant information asymmetry.

The unsatisfactory dynamics of investment in modernization is aggravated by the deficiencies of Ukrainian financial market, namely significant lack of debt financing options. According to paper [4, p. 214], options for issuing corporate bonds are significantly limited in Ukraine due to its imperfect legislation. The practice of attracting funds through issuing corporate bonds is limited for Ukrainian enterprises not only on the domestic financial market, but also on the external financial market, because of Ukrainian issuers' lack of transparency.

The limited financing is a key factor in inhibiting investment in modernization, particularly in Central and Eastern Europe region [5, p. 711]. According to study [6, p. 1798], limited financing of enterprises is caused by limited access to financial resources both from internal and external sources. External sources are inflows from financial markets, which, according to paper [7, p. 104], are less developed in Central and Eastern Europe compared to advanced countries, which further aggravates the problem of financing modernization. Furthermore, the use of external financing sources is significantly more costly compared to domestic financing sources [8, p. 101]. Scientists [9, p. 1795] explain this by the high uncertainty in the investment result, a significant time lag between investing funds and producing profits on investment, high irretrievable costs, which, given the information asymmetry, boosts the external financing cost. Internal sources of financing capital investments are financial resources generated within the enterprise, i. e. cash flows. The strong dependence of the enterprise's investments in modernization on its cash flows is emphasized in study [10, p. 976].

In the context of significant exogenous and endogenous constraints, it is necessary to take into account the issue of financing the modernization while developing an enterprise's financial strategy. The choice of funding sources and its combinations, i. e. the capital structure formation, depends on a number of factors arising from the financial and general strategy of an enterprise, stakeholders' conflict of interests and agency costs, behavioral and risk aspects, which are analyzed in numerous papers [11–16].

Studies show both a tendency to raise debt financing for modernization purpose and, as a result, a significant weight of the debt component in the capital structure, as well as a tendency to employ financing from shareholders' own funds and cash flows generated within an enterprise. According to the Modigliani – Miller theorem, the relation between debt and equity should not matter, but non-ideal conditions make its adjustments. Researchers [11; 12] find out that an enterprise, depending on its life cycle phase, tends to employ different financing sources for its innovation purposes. Thus, while at an early phase of the life cycle, enterprise's innovations are heavily funded through equity and cash flows generated within due to absence of liquid collateral and unsatisfactory credit rating, a mature enterprise, having better access to debt financing, tends to use loans for innovation financing.

Another factor that determines the combination of funding sources for modernization is a risk associated with the implementation of an investment program by an enterprise. Study [12, p. 871] suggests that the uncertainty of innovation investment program's result causes a negative impact on the availability of funding sources, first of all limiting access to external sources due to their high cost. Researchers [12, p. 874] consider a case of enterprises with a significant proportion of intangible assets. In particular, it is suggested that the information asymmetry and risks for external capital suppliers lead to the effect of self-limitation in growth among small innovative enterprises, which cannot afford incremental growth through external financing sources [12; 13].

Another factor that affects the combination of funding sources for modernization is stakeholders' conflict of interests, i. e. enterprise's executives and banks [14, p. 483]. V. Peyer and A. Shivdasani state that banks prefer to work with the enterprises implementing a more stable and predictable strategy, i. e. generating healthy cash flows in the short run, instead of implementing ambitious investment programs. Accordingly, an enterprise with a significant debt burden would be inclined to take care of generating cash flows in the short run to service debt instead of allocating resources for its innovation activities.

An additional factor determining the combination of funding sources for modernization is a behavioral aspect. Researchers, for instance, outline controlling shareholders' psychological attachment to their enterprises [15, p. 77], and increased focus on long-term strategy [16, p. 1309] in the context of financing policy formation for modernization purpose.

In essence, all the above mentioned indicates a predicament of supporting modernization through the financial strategy tool. For empirical evidence, this paper studies peculiarities of the financial strategy formation in the context of capital investment program's implementation based on data of Ukrainian brewing industry.

The author analyzed the data of 3 major Ukrainian brewing companies, namely CJSC "Carlsberg Ukraine" (USREOU: 00377511), CJSC "Obolon" (USREOU: 05391057), CJSC "SUN InBev Ukraine" (USREOU: 30965655). The author compiled a dataset for 2014–2017 period for three above mentioned companies, which consists of, yet not limited to, the data on Ukrainian brewing industry output dynamics, capital expenditure dynamics, divestiture dynamics, depreciation dynamics, debt burden and capital structure dynamics.

Ukrainian brewers are operating in a rather hostile external environment, as the national market has been steadily declining since 2014 (Appendix, Graph 1). Companies' sales declined (in UAH) only in 2014, yet sales dynamics demonstrated growth at a higher rate compared to consumer price index (CPI) dynamics only in 2017 (Appendix, Graph 1). The author concludes that Ukrainian brewers have been operating under constrained terms in 2014–2017, limiting their ability to invest and raise financing.

Regarding relationship between brewers' sales (in UAH) and capital expenditure dynamics, author did not find a pattern characterizing all three enterprises under study and a direct relationship between these two factors (Appendix, Graphs 2, 3, 4). The same evidence occurs for the relation between brewers' sales (in UAH) and divestiture dynamics (Appendix, Graphs 5, 6, 7). Author arrived at a conclusion that it is caused by, firstly, a significant length of brewers' investment programs, secondly, the upward trend in the accumulated depreciation (both conclusions are supported by the evidence of depreciation and capital expenditure dynamics (Appendix, Graphs 8, 9, 10)), thirdly, the weak strategic planning and short-term focus of brewers' executives.

Another significant factor influencing Ukrainian brewers' capital expenditure dynamics is companies' financial standing. Author studied the debt burden and the capital structure as the indicators of companies' financial standing. The analyzed companies demonstrate different relationship between the capital expenditure dynamics and the debt burden dynamics (Appendix, Graphs 11, 12, 13), which is explained by companies' different financing policies and financing needs. Similar pattern is revealed for the relationship between the capital expenditure dynamics and the capital structure dynamics (Appendix, Graphs 14, 15, 16), which indicates a breach between Ukrainian companies' financing policy and their operating policy, demonstrating a deformed state of Ukrainian micro-level finance.

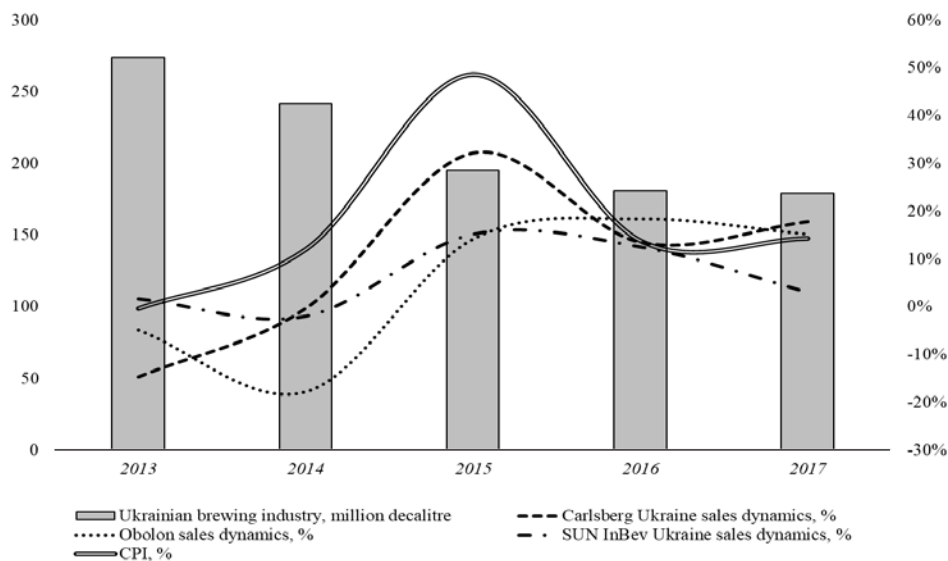
Conclusions. Based on the evidence collected, author arrived at a conclusion that different enterprises take different financial strategic decisions based on peculiarities of their external and internal environment. Exogenous factors hindering the efficient implementation of the capital expenditure program and the access to funds are rooted in the socio-economic

crises and limitations of the institutional nature, which are similar to all enterprises operating within this environment. While endogenous limitations are more enterprise-specific, i. e. financing policy peculiarities, quality of executive leadership, enterprise's legacy (accumulated D&A and debt burden), market positioning priorities, agency costs and conflicts of interest, etc. While reasons for weak results of capital expenditure programs are enterprise-specific, there is a similar pattern: enterprises with a lack of a long-term focus, acute agency costs, weak interconnectedness of financing and operating policies are prone to perform weaker in terms of modernization. Solutions to this problem need to be sought at macro- and micro-level: firstly, the government's efforts to improve the institutional environment, secondly, the enterprises' steps to improve the financing policy efficiency, which is highly important given limited resources and uncertainty.

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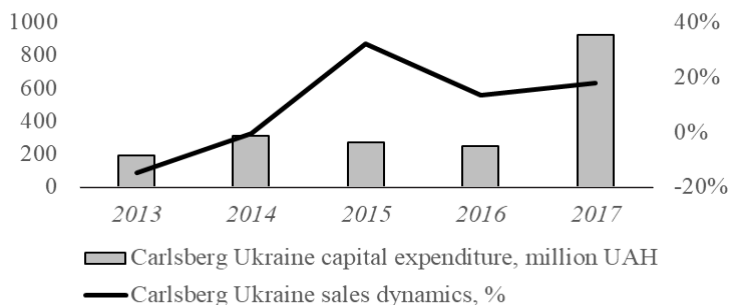
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Appendix



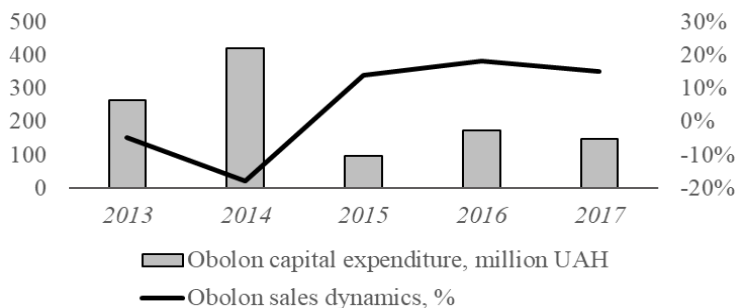
Graph 1. The Ukrainian brewing industry output (million decalitre), companies' sales (in UAH), growth dynamics (%) and CPI dynamics (%) in 2014–2017

Source: data from the State Statistics Service of Ukraine, company's data, Ukrpyvo industry association, author's calculations



Graph 2. Carlsberg Ukraine sales (in UAH), growth dynamics (%) and capital expenditure (million UAH) in 2014–2017

Source: companies' data, author's calculations



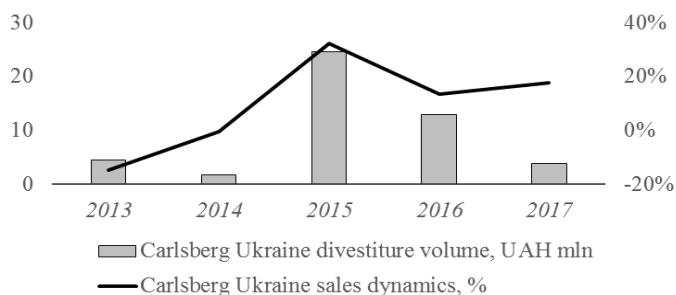
Graph 3. Obolon sales (in UAH), growth dynamics (%) and capital expenditure (million UAH) in 2014–2017

Source: companies' data, author's calculations



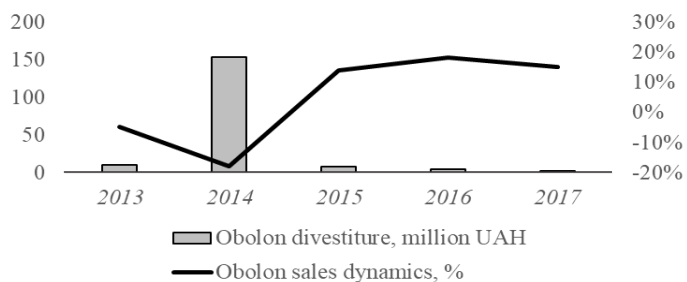
Graph 4. SUN InBev Ukraine sales (in UAH), growth dynamics (%) and capital expenditure (million UAH) in 2014–2017

Source: companies' data, author's calculations



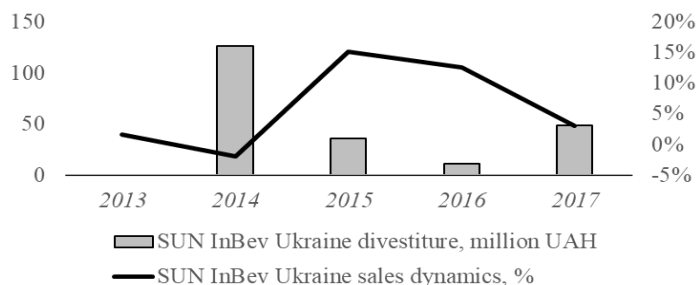
Graph 5. Carlsberg Ukraine sales (in UAH), growth dynamics (%) and divestiture (million UAH) in 2014–2017

Source: companies' data, author's calculations



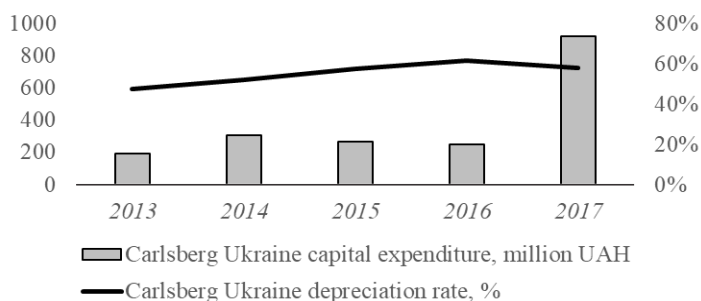
Graph 6. Obolon sales (in UAH), growth dynamics (%) and divestiture (million UAH) in 2014–2017

Source: companies' data, author's calculations



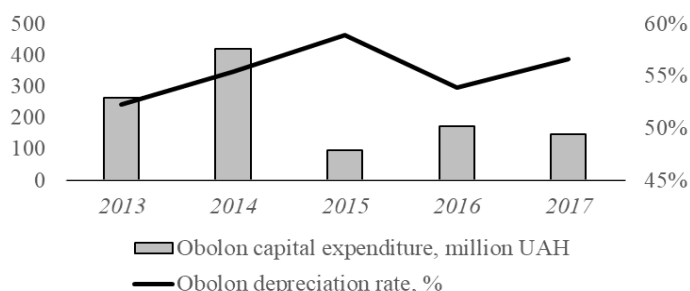
Graph 7. SUN InBev Ukraine sales (in UAH), growth dynamics (%) and divestiture (million UAH) in 2014–2017

Source: companies' data, author's calculations



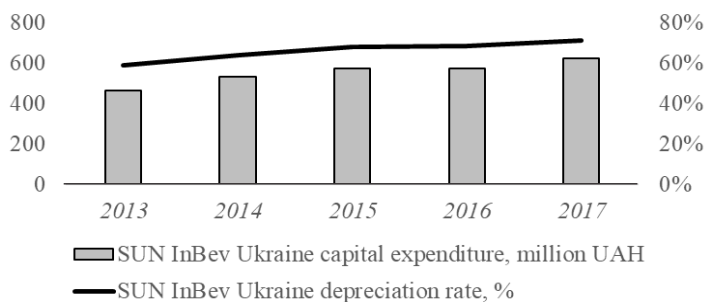
Graph 8. Carlsberg Ukraine capital expenditure (million UAH) and depreciation rate (%) in 2014–2017

Source: companies' data, author's calculations



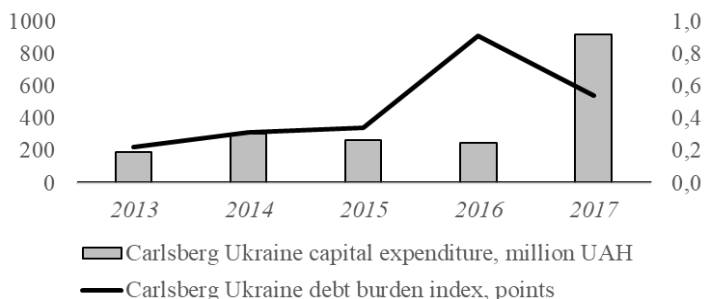
Graph 9. Obolon capital expenditure (million UAH) and depreciation rate (%) in 2014–2017

Source: companies' data, author's calculations



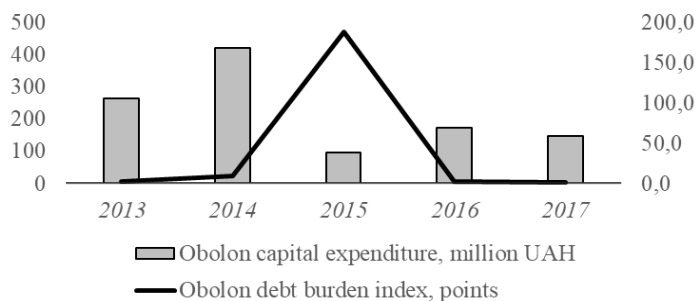
Graph 10. SUN InBev Ukraine capital expenditure (million UAH) and depreciation rate (%) in 2014–2017

Source: companies' data, author's calculations



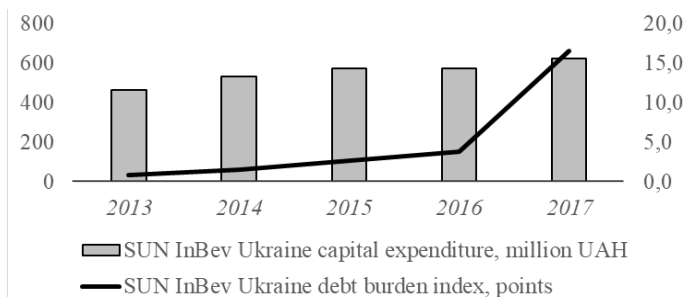
Graph 11. Carlsberg Ukraine capital expenditure (million UAH) and debt burden (index, points) in 2014–2017

Source: companies' data, author's calculations



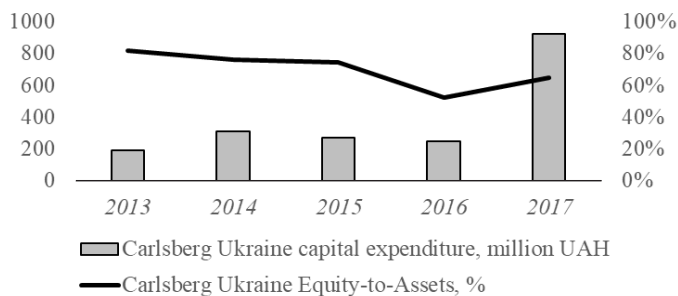
Graph 12. Obolon capital expenditure (million UAH) and debt burden (index, points) in 2014-2017

Source: companies' data, author's calculations



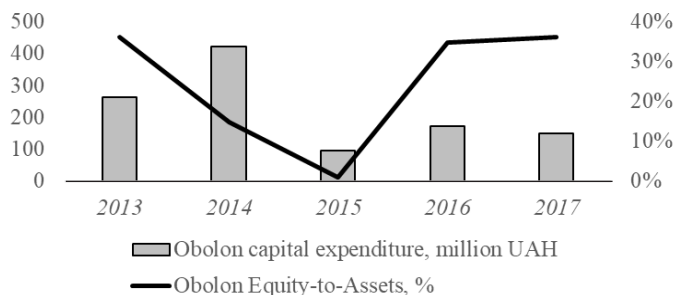
Graph 13. SUN InBev Ukraine capital expenditure (million UAH) and debt burden (index, points) in 2014-2017

Source: companies' data, author's calculations



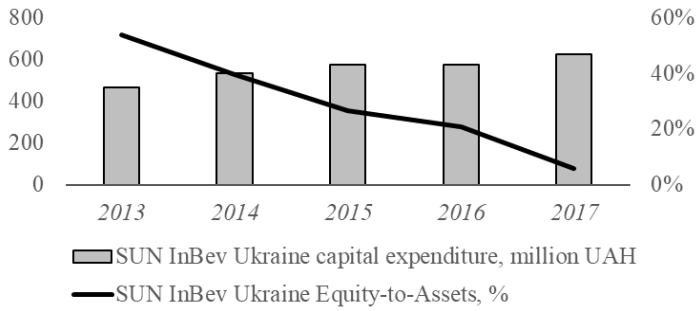
Graph 14. Carlsberg Ukraine capital expenditure volume (million UAH) and capital structure (Equity-to-Assets, %) in 2014-2017

Source: companies' data, author's calculations



Graph 15. Obolon capital expenditure volume (million UAH) and capital structure (Equity-to-Assets, %) in 2014-2017

Source: companies' data, author's calculations



Graph 16. SUN InBev Ukraine capital expenditure volume (million UAH) and capital structure (Equity-to-Assets, %) in 2014–2017

Source: companies' data, author's calculations

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