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**THE ROLE AND IMPORTANCE OF THE  
ENTERPRISE`S BORROWED CAPITAL**

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*The paper presents scientific views of researches regarding the definition of "borrowed capital". The basic functions of borrowed capital have been submitted, its classification on various grounds is highlighted. The article describes the features of borrowed capital, its advantages and disadvantages, considers management system of borrowed capital and problems of domestic enterprises in modern conditions of economic relations. The author proposed the main directions of the management improving of borrowed capital. The information will be useful for specialists in the field of financial management.*

**Keywords:** *borrowed capital, credit relations, financial liabilities, financial resources, financial leverage.*

**Introduction.** The functioning of enterprises is always accompanied by attracting financial resources, due to it there is the question about the importance of borrowed capital in the management system of financial resources of the enterprise. But in the current domestic economic, social and political conditions with inflation processes, high financial risks, political and economic instability and aggravation foreign conflicts, borrowed resources for enterprises is the very problematic task. Thus, issues about

the provision of the optimal amount of borrowed resources in the required period of time and at a reasonable cost are very actual.

**Analysis of recent researches and publications.** A large number of scientists investigated the essence of the borrowed capital, its importance in the financial resources management: B. P. Adamik, M. M. Agarkova, T. V. Bessarab, I. A. Blank, T.V. Davydyuk, I. V. Zamula, O. O. Kotenko, G. O. Kuznetsova, V. D. Lagutina, S. F. Lehenchuk, G. P. Lyashenkot. The role

of borrowed resources is also considered by these researches: O. Y. Kontorschykova, S. I. Kruchok, I. P. Lyhota, N. A. Mamontova, O. V. Pavlovska, A. M. Poddyerohin, Y. A. Potiyko, M. G. Chumachenko and others.

**Previously unsettled problem constituent.** The problem of developing a comprehensive theory of the nature of borrowed capital attracted the attention of scientists for many years, but today a unified approach to the interpretation of its essence has not been formed yet. At the same time, the dynamic conditions of domestic enterprises functioning require new approaches to tackling problems of borrowed capital formation of enterprises, to determine its importance and role in modern conditions of economic relations.

**Main purpose of the article.** To solve the problems it is necessary to study the essence of borrowed capital of the enterprises, to analyze its strengths and weaknesses, to identify the key problems of the borrowing of resources in modern conditions and establishment of the main ways of the management improving the borrowed capital of the enterprise.

**Results and discussions.** In a market economy the performance of enterprises in the long term, the high rate of their development, improving competitiveness are largely determined by the level of the financial capital.

The premise for its efficiency is the optimal capital structure. For most enterprises the own capital is the main part and the base of the all financial capital, but now it is difficult to rely on high-quality production and trading activities without borrowing. The use of borrowed resources makes it possible to increase the profitability of own capital, but negatively effects to the financial stability of the enterprise.

Therefore, when enterprise has the money of lenders, it must provide the additional profit, saving and repayment of money, and the liquidity of its assets generally. Therefore, one of the most important areas of financial policy on the current stage is the development of a balanced approach to determining the need for borrowed capital, the choice of its sources and volumes; the formation of effective strategy of the borrowed capital use that should be aimed at ensuring high rates of profit growth, minimizing business risk and providing the necessary liquidity of the enterprise [1, p.78].

The necessity of planning of borrowed resources attraction in the enterprise turnover, high dependence on the outcomes of their use, lack of elaborated theoretical and methodological regulations of analysis, evaluation and forecasting of the borrowed capital efficiency in enterprises stipulated the choice of the research topic.

Nowadays, there is no single point of view on the definition of the enterprise borrowed capital. Every scientist gives his own interpretation of the definition "borrowed capital" and describes its meaning in his own way. Some authors emphasize the need of use and attraction of the additional resources in the enterprise development, and other researches argue that the company must use the biggest part of its own capital for the development.

I. A. Blank determines the borrowed capital as "cash or other property values that are attracted to financing the development on a rotating basis. All forms of borrowed capital are used by the enterprise and they are the financial liabilities that are repaid in the stipulated terms" [7, p. 156].

A. M. Poddyerohin considers the borrowed capital as a financial management

and formulates its definition as follows: "borrowed capital is money that is used to finance the economic activities on basis of maturity, return and payment" [6, p.89].

L. P. Dovgan in his works notes that "borrowed capital is the part of money which is generated from borrowed sources, it is not the property of the enterprise and therefore, during the relevant period of time should be returned to the owner."

Professor V. V. Kovalev gives the following definition: "borrowed capital is the liability on long-term and short-term loans, the repayment of which should take place on a certain date, from the date on which the balance is made."

In the book "Financial Management" such authors as G. O. Kramarenko and O. E. Chorna adhere to the idea of the division on borrowed financial capital and debt capital. Borrowed financing capital is the capital that the enterprise receives to the temporary use on the terms of payment and the return in the form of bank loans which are issued on different terms, resources of other enterprises in the form of promissory notes and bond loans. A debt capital is part of the enterprise's own resources that is intended to pay off its short-term liabilities, and temporarily used in economic turnover [5, p. 178].

Borrowed capital plays a significant role in business of entities as a factor of production and, moreover, as a method to attract the additional assets for production activity expansion. The main functions of enterprise borrowed capital are the following [2, p. 81]:

- protective – borrowed capital as the part of the enterprise capital is one of the sources of reserves financing;
- production – the use of borrowed

capital leads to expansion the production activity of enterprise;

- operational – it allows to direct resources to acquire the necessary assets;
- regulatory – it allows to identify and manage financial position of the enterprise;
- investment – borrowed capital is one of the main kinds of sources of financing the investment projects and investment activity of the enterprise;
- social – borrowed capital can help improve the quality of governance and institutional development.

Sources and forms of borrowed resources are very diverse. Borrowed resources of the enterprise are classified according to the following symptoms.

According to sources of borrowing the borrowed resources are divided into those which are involved with external and internal sources.

According to the period of attraction the borrowed resources are divided into long-term and short-term.

According to the forms of attraction the borrowed resources are classified as: cash resources, equipment, commodities and other tangible or intangible assets.

According to the forms of provision, the borrowed resources are divided into unsecured, secured by the guarantee or warranty and collateralized [3, p. 58].

We have identified the following features of the borrowed capital:

1. The borrowed capital, which must be returned to the borrower after the finishing of term of loan is always the capital of the owner, borrower does not invest its capital in production, but the industrial or commercial capitalist does this. Borrowed capital is given only for temporary use for

getting the profit in the form of interest rate. It differs from the capital-function and it is the capital-property.

2. Borrowers of the borrowed capital "sell" it as the goods to industrial and commercial capitalists for interest rate. They take it as means of production and labor, then get added value in the form of profit, part of which is repaid as the interest rate and loan itself. Thus, as a result of turnover, the borrowed capital functions in the form of goods that could be profitable as a result of exploitation of wage labor.

3. Borrowed capital does not change its cash form, unlike the commercial and industrial capital. Its movement does not

change its structure. In granting loans in cash, it is returned to the borrower in the same way, but in the different amount which is increased by the amount of the interest rate (money increase).

4. The presence of a specific form of exclusion as a unilateral moving of the value. The return of the borrowed capital occurs after a certain period of time, not from the beginning. That is why the contradictions between capital and labor reach the highest level.

Borrowed resources have advantages and disadvantages in the business activity (table 1).

**Table 1. Advantages and disadvantages of the borrowed capital of enterprises [4, p. 35]**

Advantages	Disadvantages
The lower value in comparison with the value of authorized capital	The emersion of financial risk of enterprise
The opportunity of diversifying the own capital	The need of concentration of the cash to the moment of maturity
The reduce of the tax base by the amount of payment of the borrowed capital value	The availability of meaningful part of borrowed capital threatens loss control of certain decisions of enterprise, which can be given to the creditors
The increase of profitability of the own capital (on condition that profitability of assets exceeds the amount of payment for the use of the borrowed capital)	

The use of the borrowed capital (with its own capital) gives the highest financial potential of the development and opportunities to increase the profitability of the enterprise own capital, but it may lose its financial stability, because by increasing the part of borrowed capital the ratio of autonomy will be zero.

The borrowed capital of the enterprise can be not only a development stimulation and intensification of economic activity, but

also can generate problems. The policy of borrowed capital formation is a very important for the enterprises.

The effectiveness of credit leverage of the future development of scientific and technological progress determined credit policies. To implement the investment program it is necessary to carry out the lending priority projects that are aimed at encouraging scientific progress. Investment activity is virtually absent in necessary

volumes in Ukraine. Today, the part of long-term loans is only 1–2% of the total volume of credit investments. The state must achieve the adoption of regulatory legal acts which are designed to stimulate optimal financing of investment projects.

The borrowed capital in the development of various sectors of Ukraine's economy plays the significant role. One of the leading positions in strengthening relations is occupied by the commercial banks. Commercial banks invest the significant part of credit resources in material production, thus crediting promotes the recovery of many sectors of economic production.

The borrowed capital also contributes to the acceleration of denationalization of the property by its corporatization, privatization and lease. This function must ensure the efficiency of the enterprises and economic organizations activity.

Credit relations affect the balance of the economy, regulation of proportions of the social reproduction between production and non-production spheres. In Ukraine there is a transition of borrowed capital from the production into circulation that leads to the macroeconomic imbalance. Credit as one of the factors of the market relations affects the commodity-monetary balance and leads to the increase of production of goods.

The main goals of the borrowed resources attraction by enterprises are the following [9, p. 43]:

- 1) replenishment of the required amount of permanent current assets;
- 2) ensuring the variable current assets formation;
- 3) formation of insufficient investment resources;
- 4) provision of social and household needs of their workers.

The maximum amount of involvement is

stipulated by two main conditions:

1) marginal effect of financial leverage. In this case the amount of own financial resources is formed in the previous step and the total amount of own capital can be determined in advance. Regarding to it, the financial leverage ratio (funding ratio) is calculated, where its effect will be maximized. Considering the amount of own capital in the future period of time and the calculated coefficient of financial leverage, the limit of borrowed resources amount is calculated, that ensures the efficient use of the own capital;

2) provision of the adequate financial stability of the enterprise. It must be assessed not only from the standpoint of the enterprise, but from the standpoint of possible creditors, which will provide the reduction of the borrowed resources value.

We know, that the management of the enterprise borrowed capital includes: the formation of the information basis for management; calculation of capital needs on the base of operating and investment activities forecast; definition of the opportunities of own capital attraction; determination of the needs of borrowed capital; choice of optimal sources and conditions of the attraction of loans; assessment of the effectiveness of borrowed capital formation; provision the implementation of attracting policies of loans; the analysis of the efficient use of loans.

Nowadays, the basic problems of the borrowed capital formation for domestic enterprises are [8, p. 79]:

– high level of financial risk of domestic enterprises (especially in areas of unstable political situation or military aggression), the result is the reduce the ability to attract credit resources at

reasonable interest rates;

- targeted majority of borrowed resources for creating the limitations in their use that can lead to loss of benefits;

- predominance of the necessity of the borrowed capital return in the short term, which occurs due to recent changes in the financial, economic and political situation in the country. In particular, banks provide long-term loans to the enterprises and lenders less and start to reduce the terms of payment, and some of them prefer a prepayment;

- not optimal structure of borrowed resources that can be caused by a wide differentiation impossibility of resources as well as shortcomings (or even lack of) policy of the management of borrowed resources;

- decrease of product sales volumes, and therefore, the reduction of the possibility of financing the current activity through its own resources and increase the necessary volume of borrowed resources to ensure the normal functioning of the enterprise.

We offer the following main tasks of improving the management of the enterprise borrowed capital in unstable conditions:

- decisions about the ways of formation of the borrowed financial resources, which include the main justification of the need for such financial resources and volumes of borrowing (if it is necessary), the assessment of borrowed capital from various sources and optimization of the ratio between them;

- formation of operating profit, determination the volume of sales that provide profitable operating activity, and level of possible reduction of prices to increase sales that means the increase of

negotiability of resources.

The process of improving the management of the borrowed capital of the enterprise is necessary to carry out according to the following ways.

Management of internal debt, which is the analysis of internal payables, its justification of the future periods of time, determination of the frequency and forecast of average payout for certain types of debt.

Management of the involvement of bank credit, which means the credit rating of enterprises and credit conditions on different types of bank credit products.

Management of the commercial attraction of the credit, which means the optimization of the conditions of attraction, the use of borrowed capital and provision of timely payments.

An important factor for improving the efficiency of borrowed resources in the enterprise can be the provision of the systematic process control, because the current realities of domestic enterprises functioning cause the necessity to search and use the best ways for achieving their goals. For optimal balancing of the borrowed capital structure, a management strategy must be developed and implemented that will provide effective search of financing production sources and business activity with all the limitations and risks. Comprehensive and focused management of resources attraction will help identify additional reserves to obtain resources and to increase economic potential and competitive advantage in the market.

**Conclusions and further researches directions.** Current domestic realities of the enterprises functioning require the increase of borrowed resources volume at the particular period of time when most sources of obtaining are significantly decreasing.

This situation stipulates the necessity to find optimal ways of borrowed capital formation of the enterprises.

We have developed the main ways of improving the borrowed resources formation, in present conditions, it would be the increase of the management quality by ensuring systematic management of this process, and as a result, the development and implementation of management strategy of the resources attraction that provides the search of effective sources of production financing and business activity considering all limitations and risks.

Thus, in order to ensure the formation of effective financial capital the enterprises of all forms of ownership and organizational-legal status need to use not only their own financial resources but also the resources of the financial market. In this case the state must create favorable conditions, regulatory and legal framework to provide the availability of financial market resources for all enterprises.

There is the necessity for the use of borrowed capital as one of the effective ways of integration processes of the national

economy into the global economic system. The process of structural adjustment and stabilization of the domestic economy is almost impossible without a credit assistance of the international community. Import of new technologies, advanced technology, even the passive trade balance is possible with the help of borrowed capital. The borrowed capital promotes exports of traditional goods and is used as a means of regulating the balance of payments.

Today, there is the process of the capital market formation in Ukraine. In the transition process to a market economy, the possibilities of state intervention in the allocation of financial resources are limited, because the majority of enterprises transfer from state to private or joint-stock ownership. They seek their material and financial resources on the market independently and manage their income themselves. Therefore, the market of borrowed capital must provide the access to the necessary financial resources for the enterprises.

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## **РОЛЬ ТА ЗНАЧЕННЯ ПОЗИКОВОГО КАПІТАЛУ ПІДПРИЄМСТВА**

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*У статті представлено наукові погляди вчених стосовно дефініції «позиковий капітал». Наведено основні функції, які виконує позиковий капітал, та висвітлено його класифікацію за різноманітними ознаками. Стаття описує особливості позикового капіталу, їх переваги та недоліки, розглядає систему управління позиковим капіталом та проблеми, з якими зустрічаються вітчизняні підприємства в сучасних умовах економічних відносин. Автором запропоновано основні напрямки підвищення ефективності управління позиковим капіталом. Матеріал буде корисним для спеціалістів галузі фінансового менеджменту.*

**Ключові слова:** позиковий капітал, кредитні відносини, фінансові зобов'язання, фінансові ресурси, фінансовий леверидж.

## **РОЛЬ И ЗНАЧЕНИЕ ЗАЁМНОГО КАПИТАЛА ПРЕДПРИЯТИЯ**

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*В статье представлены научные взгляды учёных относительно дефиниции «заёмный капитал». Приведены основные функции, которые исполняет заёмный капитал, и высветлена его классификация по различным признакам. Статья описывает особенности заёмного капитала, его преимущества и недостатки, рассматривает систему управления заёмным капиталом и проблемы, с которыми встречаются отечественные предприятия в современных условиях экономических отношений. Автором предложены основные направления повышения эффективности управления заёмным капиталом. Материал будет полезным для специалистов области финансового менеджмента.*

**Ключевые слова:** заёмный капитал, кредитные отношения, финансовые обязательства, финансовые ресурсы, финансовый леверидж.