практика стихийности процессов заключения предпринимательских (бизнес) сделок. Наблюдается высокий уровень неоправданной доверительности в решаемых сложных задачах. Безусловно, все это оказывает негативное влияние не только на процессы капитализации малых предприятий, но и их устойчивое развитие, повышение эффективности деятельности (40 – 60% малых предприятий осуществляет свою деятельность в состоянии перманентной убыточности и увеличивающихся долгов).

Не приходится ждать стихийных решений в области диффузии собственности, которая имеет место и самым серьезным образом влияет на масштабы и характер развития малого бизнеса. Сфера деятельности малого бизнеса по этой и другим причинам серьезно не затрагивается процессом рационализации производств, их структуризации в аспекте рыночных требований. Крайне низкой остается вписанность деятельности предприятий малого бизнеса в фарватор деятельности крупных предприятий, компаний.

Выводы исследования и перспективы дальнейших изысканий данного направления. Особо следует подчеркнуть проблематику малого бизнеса и акционирования капитала. Есть сферы и зоны деятельности, которые совсем не задеты малым бизнесом. В данном направлении предстоит значительно больше внимания уделить изучению опыта акционирования капитала (особенно в регионально-производственном аспекте), трудностям и противоречиям, проблематике распыления капитала и его низкой экономической концентрированности в целях решения важных инвестиционных проектов, возможностям эффективной мобилизации денежных средств населения в сферу малого бизнеса, тенденциям отрицательного качества развития бизнеса (возможности, реальность, перспективы), методам найма работников в малые предприятия, с акцентом на проблематику постоянства работы, временность занятости, в том числе и мигрантов, увольнении, половых и возрастных проблем, образе жизни и ее условиях, заработной платы (ее уровень, дифференцированность и экономическая оправданность).

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THE CAPITALIZATION OF SMALL ENTERPRISES: THE CAUSES AND FACTORS OF ITS ACTIVATION

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Annotation: This article is dedicated to small-cap capitalization, especially to activation factors and causes. It is obvious, that capitalization is a consequence of many accumulating constituents. Relying on our research we can make an inference, that capitalization mechanisms involve a lot of special circumstances and clauses.

Keywords: capital, capitalization, small-cap enterprise, capital growth, business, cost, financial mechanisms.

УДК 336.12

СОВРЕМЕННЫЕ ПОДХОДЫ К ФОРМИРОВАНИЮ ОПТИМАЛЬНОЙ СТРУКТУРЫ КАПИТАЛА И УПРАВЛЕНИЮ ФИНАНСОВОЙ ЗАДОЛЖЕННОСТЬЮ

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Аннотация: В статье рассматриваются подходы, определяющие оптимальную структуру капитала компании. Анализ основных теорий продемонстрировал их преимущества и недостатки. Рассмотрен вопрос управления финансовой задолженностью компании.

Ключевые слова: капитал, структура капитала, теория Модельяни-Миллера, финансовая задолженность, инвестиции.

This assignment will discuss whether Modigliani and Miller's framework of capital structure is still relevant to the managers of corporations today and if the «pecking order» approach to capital structure provides a better framework. The capital structure decision relates to an assessment of the factors that sets the firm's optimum mix of equity and debt finance. The discussion will begin with an overview of the traditional theory followed by the Modigliani and Miller [1] theories of the irrelevance of the mix of debt and equity. These theories assumed no taxes and were later taken into account by Modigliani and Miller in 1963 [2]. A paper by Stewart C. Myers called «Capital Structure» [3] provides insights on the viability of the various capital structure theories and tests their actual application in corporations and capital markets. The question of how much debt should a company issue is one of the key areas of corporate finance as this has a direct effect of the cost of capital and therefore the market value of the company. This paper will argue that capital structure decisions are driven more by the behavioral aspects of management than financial theory.

Capital structure refers to the way that a firm is financed. As a firm increases it's gearing the weighted average cost of capital (*WACC*) changes. Debt has a lower cost than equity so the *WACC* will fall when new debt is introduced. The equity holders will require a higher return on their shares to cover the additional risk and therefore the cost of equity rises again. The traditional theory is that there is an optimal capital mix where the *WACC* is minimized. The assumptions are that earnings and risk remain constant, there are no issue costs, tax is ignored and all earnings paid out to shareholders in dividends. Shareholders will demand increased returns to compensate for greater risk as more debt is taken on. Also at high debt levels debt holders will also seek higher returns as the risk of the company defaulting increases. The traditional theory is shown below. K_e is the cost of equity in a geared company and K_d is the cost of debt.

The conclusion is that there is an optimum gearing position (x) where *WACC* is minimized and the company's value therefore maximized. However this could only be found by trial and error. Modigliani and Miller wrote in their article «The cost of capital, corporation finance, and the theory of investment» that under certain theoretical assumptions the two opposing factors of the benefits of issuing in debt and the increased cost of equity cancel out exactly. This means that the *WACC* and business value remains constant at all levels of gearing. This represented by the formula: $V_g = V_{\boldsymbol{g}}$.

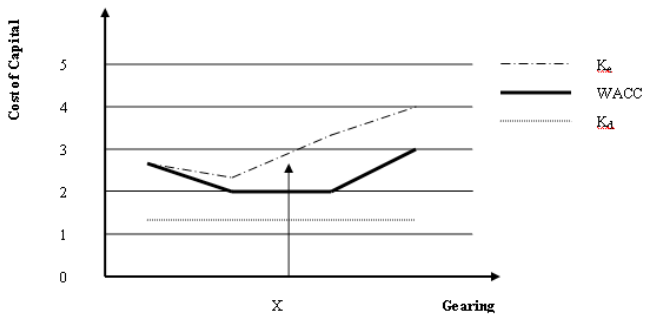

Figure 1. The cost of equity in a geared company and K_d is the cost of debt.

The assumptions are that transaction costs are ignored, debt is assumed risk free, debt costs are the same for individuals and firms, information is freely available to all investors and investors will act rationally and have similar expectations. Notice that tax and possible bankruptcy costs are ignored and the graph is shown below [4, p.409].

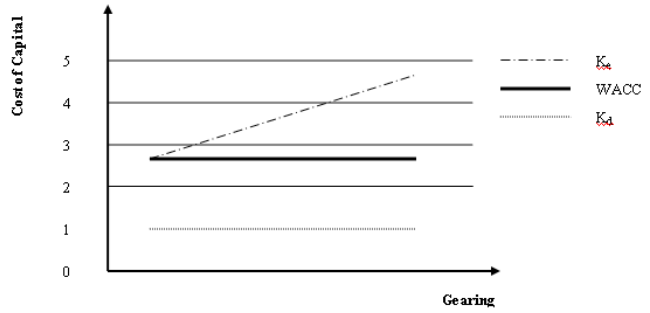

Figure 2. The tax and possible bankruptcy costs of company.

Modigliani and Miller (M&M) presented their proposition of debt irrelevance in two parts. Proposition one is that «The market value of any firm is independent of its capital structure and is given by capitalising its expected return at the rate r appropriate to its risk class». [1, p. 268]. The value of the firm is determined by the net cash flows earned on its assets and the capital structure will not affect the market value of the firm. Arbitrage will ensure that the process of the switching of funds by an investor between investments to obtain a better return for the same risk level will push market prices towards equilibrium. M&M's second proposition is 1958 is that the effect of the above is that a firm's *WACC* is not therefore affected by its capital structure. This is because three things will happen as the debt-equity ratio increases. The expected return on equity will increase while the expected return on debt remains constant. The proportion of equity to debt decreases. The rise in the expected returns on equity is exactly cancelled out by the fall in the mix of equity to debt. The logical extension of M&M's claim is that the cost of capital for a company financed only by equity is the same the *WACC* of the same firm with debt. The required return for the all equity firm *r* 0 is the same as the *r* WACC of a geared firm without taxes.

The M&M theory is important for corporate finance and provides the fundamental framework for discussions of capital structure. However the various assumptions underlying the theory, whilst enabling a clear insight to be shown, could not be ignored in the real world. The main omission was taxation. Debt interest is a deductible expense in the firm's tax computation whilst shares are distributed from post-tax earnings. Therefore the tax treatment of debt interest and dividend payments out of retained earnings is not the same. Consequently M&M published an article in 1963, «Corporate income taxes and the cost of capital: a correction» [2] which incorporated into their model the tax relief on debt interest. The present value of the interest tax shield on debt interest should be added to the value of a geared entity. Hence the present value of the tax shield *TB* should be added to the value of the value of the ungeared entity *Vug* to now equal the value of the geared entity *Vg*. $V_g = V_g + B$.

As the *WACC* falls the business value rises. Please see the following graph [4, p.419].

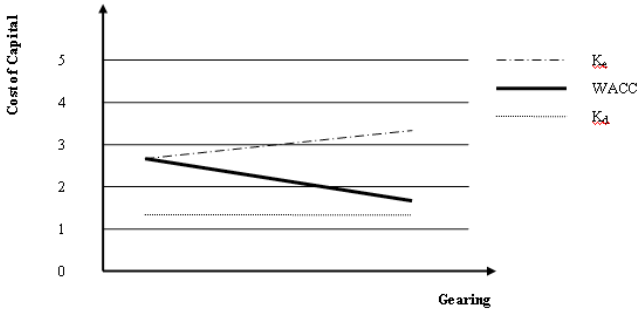

Figure 3. The graph of *WACC* falls the business value rises.

Corporation tax is not the only tax to affect shareholder and debt holder returns. There are different tax rates between the corporate tax paid by firms and the income taxes paid by individuals. In addition individual income taxes can be split between earned income and capital gains which also have different rates. Currently in the U.K. the corporate tax rate is 24%, income tax is from 20% to 50% and capital gains 18% to 28%. Therefore for a firm to be indifferent between issuing equity or debt the after tax cash flow to shareholders must equal the after tax cash flow to debt holders [4, p. 422]. If distributions to shareholders are taxed at a lower rate than interest payments the tax advantage of debt is partially offset [4, p. 425]. This leads the firm to add more debt to capture the tax shield and reduce their *WACC* and increase the firm's value. This lead to the conclusion that a firm is best when financed 100% by debt.

However adding more debt adds more risk and the other major omission from M&M's model is the effect of bankruptcy costs [4, p.435]. As a firm adds debt it adds a greater risk of bankruptcy. There is a bigger risk that if a firm's operating profits fall that it will be unable to meet its interest obligations and therefore debt holders would start bankruptcy proceedings. Therefore the cost of financial distress needs to be plotted against the present value of the tax shield on debt to find the optimal amount of debt. Thereafter the additional financial distress costs are higher than the increases in the tax shield. This cost cover the direct costs of liquidation such as accountant's and lawyer's fee as well as the indirect costs such as the lost income coming from the period before the company finally goes into bankruptcy. If a company is struggling the signals move out to market quickly and that would affect customers, suppliers, as well as banks and other stakeholders. Some economists believe that the indirect costs are much higher for larger firms [4, p.438]. Bankruptcy sometimes takes several years as the loss of customers and market share erodes the company's value. This fear of bankruptcy can cause firms to restrain the issue of debt and that there is a trade-off point where the firm can optimise value and risk. Companies with volatile cash flows normally have small levels of debt. This makes sense as debt implies having a minimum level of operating profit to pay interest. Larger firms tend to have high debt as they are less prone to bankruptcy. They normal have a wide range of diversified operating divisions that act as a natural hedge against risk. Companies with tangible assets have higher debt as they have physical chattels that act as security. Companies with large intangible assets do not have this as the valuation of intangible assets such as goodwill, property rights, brands etc. are sometimes very difficult and the values are often volatile.

The conclusion is that the debt-equity ratio is not irrelevant. However M&M's theories provide an essential framework to apply increasing layers of complexity and test the correlation between factors such as debt, bankruptcy and

the value of the firm. M&M have assumed that information about the firm is freely available to all investors. However there is an asymmetry of information between the owners and the managers of a firm. The managers have a day to day understanding of the running of the firm as well as full information concerning products, markets, competitors and other operational information. Also they wish to remain employed and will use any information they have to maximise the chances of them keeping their jobs. Myers and Majluf developed their «pecking order theory» in 1984, to illustrate how managers can influence the capital structure strategy for the firm. When a manger is faced with a financing decision he will use his insider knowledge to develop the funding strategy as well as the timing of the process. He has an incentive to issue new shares when the stock is overvalued and debt when the stock is undervalued. This implies that the manager is working in the best interests of the existing shareholders by trying to achieve the maximum value at the best price. However external investors would fully understand that when a company issues new shares that this is when the management thinks the company is overvalued and will therefore push the price down. Managers know that the market will react in this way and therefore issues debt instead. Likewise when the stock is undervalued the manager will also take on debt rather than underselling shares and moving value from the existing shareholders to the new shareholders.

The pecking order works in this way. Once a firm has an investment to finance it will first turn to retained earnings and try to finance internally. If the funds are not adequate they will take on extra debt to finance the project. If debt is not available then finally they will resort to issuing new equity to fund the investment.[6, p. 94] Thus the debt-equity ratio is not important here. What is important is to avoid going to the capital market for issuing equity as the market will judge the firm incorrectly (invariably managers believe that their firms are undervalued) and the new shares will be taken up at the wrong price. Information asymmetry can also lead to underinvestment by managers. An announcement that a company will issue new shares can send out conflicting signals. The firm has good news in that it has a growth opportunity with a positive *NPV* that will increase the value of the company. But this would be bad news for the company as the market would believe that as the company is issuing new stock they must think it is overvalued. Managers would prefer to avoid the bad news more than the value they see from the good news. Hence investments with positive *NPVs* are not undertaken and the shareholders loose an opportunity to grow the value of their shares. Finally managers can change the capital structure to signal to the market the excellent way they are running the company's finances. By taking on more debt managers are saying that the company is in good financial health and are very confident about the future. [3]

There is evidence that suggests that the pecking order hypothesis provides some insight. Most firms do finance investments internally and this explains why large profitable companies have low debt as they have higher retained earnings. However Myers pulls up some issues with the pecking order theory. There is not a clear linkage between the value of a new stock issue and management incentives unless their contracts are tuned into the effect of financing decisions on the stock price. Also if the theory is well understood why has not the market come up with other tactics to counteract the asymmetry of knowledge? Why the firm issue doesn't deferred equity finance which de-links the final share price with the current stock price? Myers concludes «The pecking order theory does show how information differences can affect financing. Like all theories of capital structure, it works better in some conditions and circumstances than in others.» [3, p. 95]

There are significant agency costs due to the asymmetry of information. A firm may take on debt to finance a project they would not risk with an equity issue. Any significant upside from a risky project accrues entirely to the shareholders whilst if the project fails (and pulls down the firm) the debt issuer will lose more than the shareholders who are protected by limited liability. Ultimately the theory suggests that the agency costs of this inefficiency, as well as for the shareholders milking the firm's assets and of managers' under investments falls on the shareholders when the debt holder factors in these risks into the interest charge.

To conclude Modigliani and Miller's theories on capital structure have provided an intellectual framework to help understand companies' financing strategies. Their model simplified the environment to enable a clear set of conclusions about the relationship between debt, equity and the cost of capital. The insight that gearing has no real effect on the value of the firm sets the base of understanding at a level that can be built on. And indeed as the extra layers of complexity are added such as tax, financial distress, information asymmetry and agency costs the analysis struggles to provide a clear conclusion about the irrelevance of the debt-equity ratio. The pecking order theory of Myers and Majluf sets out a framework that helps to understand why managers do not look at optimum gearing when looking at financing options. This theory even suggests that projects with positive *NPV* are not undertaken due to the managers' lack of trust of the capital market. Therefore the gearing question is very important and there are very strong reasons to believe that this is directly connected to a firm's value. But human behaviour and the complexities of tax systems undermine any attempt to have a clear theory that will help investors and managers when they go to the capital market. Research has shown that the gearing of firms tends to follow that of other firms in the sector they operate rather than any other rational method [4, p.456].

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MODERN APPROACHES TO THE FORMATION OF AN OPTIMAL CAPITAL STRUCTURE AND MANAGEMENT OF THE FINANCIAL DEBT

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Annotation: The article discusses approaches that determine the optimal capital structure of the company. Analysis of the main theories demonstrated their advantages and disadvantages. The question of financial debt management company.

Keywords: capital, capital structure, Modigliani and Miller theories, financial debt and investments.