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The process of financial management in companies of the Republic of Kosovo

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Abstract

In the process of financial management in the Republic of Kosovo companies affecting a number of factors that are required to consider, in order for this process to be more effective. The main problems will be examined in this paper deal with decisions on finance, investment, dividend, financial environment, the time value of money, capital budgeting, risk and return, capital resources and financing costs, working capital management and in the end bankruptcy and reorganization of the firm. Actually, when we possess enough information about these elements which are simultaneously the main pillars of financial management, then the application of these factors in the practical part will not encounter many difficulties, and if the opposite happens, we will be able to cope more easily because we have recognized cause-effect elements. This paper will make the description of the theoretical aspects of the role and impact of factors affecting the financial management process, which will also include an analysis that relies on the findings from the empirical data that are collected by research conducted in domestic enterprises. The importance of financial management theory will be compared with the reality of business in the surveyed enterprises, which will be studied the efficiency of this process which will be summarized with the main conclusions and finally offered some potential recommendations that will could have a positive impact on improving financial management in general.

Key words: Financial management, Risk, Analysis, Enterprises, Republic of Kosovo

JEL qualification: G; G31; G32; G39;

Content

Within this theme, as the primary factor will depend on the research of what are the ways of decision making for financial purposes, is actually looking for a result that provides evidence that the process of financial management in companies of the Republic of Kosovo guarantees business success, or do not have any particular influence. One of the main problems for each business is as good management of its resources, especially financial resources. This problem manifested affecting directly to business performance as a result of inefficient financial management, contributes to the decline of sales, which again results in the decrease in profits. Fall in income will affect businesses the flexibility of action to narrow, which is usually described through declining liquidity of the firm.

The main problem that occurs within the scientific development of this project is precisely to identify the effectiveness of financial decisions by managers and owners of enterprises of the territory of the Republic of Kosovo.

Submission of this problem in better way, will create space and opportunities through more constructive recommendations based on scientific evidence, to offer solutions that could affect the financial benefit to the firms in this country.

The main goals that we seek to achieve in this paper are:

- *To show the importance of effective financial decision making in business process development*
- *To provide information about what is the financial decision making and as applied to business carrying on business firms*
- *To provide empirical research achievements made in relation to the role and importance of making effective in increasing business success*
- *To show ways of financing the business and optimize its resources and debt*
- *A selected investment projects budgeting and risk doing that to them implemented. Necessarily should emphasize the key importance of financial management process in Kosovo companies so that everything is transparent.*
- *The main significance of the study is to provide a realistic picture of how the financial managers of business*

firms Association, make decisions financially and how these decisions positivity or a negative impact on business.

- *It will also identify the real situation of financial management in business firms and based on findings that will be based on empirical data, will create attempt to reach conclusions which will be followed by some recommendations, which eventually may have a beneficial impact on development as well to the financial management of enterprises of this country.*

According to the results found, respectively, in support of this work, many entrepreneurs and managers, will have the opportunity to improve their managerial shortcomings financially.

2**.** Making financial decisions in the firm **(***a type of financial decision* **–** *decisions on funding***,** *investment and dividend)*

There is broad agreement that the firm finances dully includes three basic areas:[1] a) investment, b) funding and c) dividend. Actually, decisions must adapt to the firm's strategy (vision), mission and policies set by its management. Put simply based on the optimal combination of these decisions to achieve the maximization of value of shares.

The decision on investment - represents the allocation of capital by investment proposals, whose effects are expected in the future. Investment proposals contain a large dose of risk, since no one can predict with certainty the effect of an investment in the future. Important components of this decision are: determination of rate of return on investment and determine the time of arrival of firm ownership.

Decision on funding- financial management deals with determining the best combination of capital structure. The main task may emphasize providing the necessary financial means to support the tasks that lie before the firm. Making funding decisions based on information on cash flows.

Decisions on dividend - after the firm realized profits, she decides what to do with those profits: retain or distribute them in dividends in cash. The decision on dividend highlights the contradictions between management and owners of stock. Managers are interested to maintain dividends and reinvest them in order to use it as a source of domestic investment. On the other hand, shareholders are interested to attract dividend as a result of their capital invested in the firm. If the shareholders do not like dividend policy, may seek to sell their shares.[2] Results that require optimal combination of these decisions. Relationship between the properties of these decisions allows evaluating the effects of each of these decisions on firm value.

2.1. Neighborhoods financial

About the firm, and to her on the activities of the firm operates in mutual surroundings.

Environment for other firms, firms are different types of institutions, agencies, governmental bodies with which firms entering into economic, financial and related technology.

Financial Relations with Government

government interventions in the economy are known in the form of political intervention, exchange control auditor, restrictions on import, market control, fiscal control, price control and restrictions on labor. The legislation also exerts great influence market supply us with raw materials and imported equipment, as well as exporting products abroad.

a) *Relations with the world economy*

International factors affecting the economy of various countries by market machines and equipment, manufacturing and information technology, cooperation and linkages to other manufacturing and trade. Not always include in the global economy is free and unobstructed.

b) *Relations with financial markets and banks*

During periods when interest rates are low, consumers are more willing to take credit for purchases of goods and services the market offers.

Firms enter into relationships with banks to obtain loans with different terms.

c) Financial relations between firms

Among firms and other companies can be seen as relations and real estate and liquidation payment and competition relations.

The firm seeks to buy cheap and sell expensive. She enters the competition as in the case of purchase or in case of sale.

d) *Financial relationships with employees*

These relationships dealing with labor market and to address this market.

Relations with employees are of particular importance for the firm.

Troubleshooting material workers through joint design of reward systems and participation in profits has improved the efficiency of firms.

e) Relations with customers

A firm's clients are those individuals or firms that require or prefer its products or services.

Maintain existing customers and gaining new customers is usually associated with acceptable prices for them. In many facts affect customers outside such as, competition, distributor network, tax polics, measures, regulations and government policies.

2.2. The time value of money

Money has time value. A pick money today is worth more than money tomorow. Whith principle has nothing to do with concern that inflation may reduce the purchasing power of a money to be taken later, it is based on the fact that one can invest money today and gain totaling more than money in the future.[3]

In financial and investment decisions widely used concept of time value of money. Calculation of compound interest is an element that is used to determine the final results of investments and discounts.

[1] *J. Fred Wenston , Thomas E. Copeland: Managerial Finance, ninth edition, The Dyrten Press (1992), pg 5.*

[2] *Mustafa Isa, (2007) : Menaxhmenti financiar, pg. 36.*

[3] *Xhafa Halit , (2010): Drejtimi financiar pg. 193.*

In other words, the value of money changes over time. Investors prefer to have more money today than in the future in this way increase their value, and normally this is the main goal of financial management. The main factors that progressively reduce the time value of money are:[4]

1. *Inflation*, the purchasing power of money falls for a while
2. *Risk* is greater if associated with future cash flow, rather than at the present
3. *Individual consumer preferences*, in general people want to consume more now than to postpone it for future
4. *Opportunity cost*, an amount of € 100 now is better than € 100 a year

2.3 Capital Budgeting

Below are some cases where treatment is needed through the capital budgeting cash flows.

• Replacement (renewal): maintenance of business
• Replacement of old equipment for business continuity.
• Replacement: reduction of costs - in this case replace the equipment used to defray costs new equipment.
• Expansion of existing products and markets. Expenses to increase sales of existing product, or to increase the distribution of existing markets.
• Expansion into new products and markets. These are investments to new produce. This projects require large amounts and subsequent returns.
• Other. There may be other reasons such as pollution control, the working conditions of employees that bring returns difficult to assess at first. We have three different comparisons for projects, funds and cash flows that serve us better understanding of capital budgeting. . Independent projects and excluded from each other.

1. Independent projects are those that have their flows independent of each other and that acceptance of one does not eliminate another discussion. Projects that exclude each other are those who have the same function and compete together.
2. Unrestricted funds to capital rationing. When the firm has unlimited funds it gets easier to capital budgeting decisions. When funds are limited to make a decision about what should be taken early.
3. Cash flows are regular and irregular. Regular flows are an investment outflow at the beginning and then only inflows. Irregular flows occur when an outflow at the beginning followed later with inflows and outflows.[5]

2.5 Risk and return

If the ultimate goal of any enterprise is to maximize wealth, one of the main problems is that of financial management measures. For every euro invested no matter what object, it is important to define two indicators: risk and return. Why? For every financial decision in itself carry a certain risk and a certain return. Risk can be defined as the chance to lose. Other words, risk is estimated that there is fear that proceeds from an investment may not materialize given, or that the anticipated profit from the investment made can not be performed at all or to the extent planned. Reward risk by keeping the rate of profit is expected. Sources of risk must be classified as:[6]

• systematic risk (or not diversification) and
• as unsystematic risk (or diversification).

Systematic risk refers to risk that relates to:

1. fluctuation of securities prices generally
2. fluctuation of interest rates
3. loss of purchasing power from inflation and
4. exchange rate risk

Unsystematic risk refers to risk associated with the firm, its activities and methods of financing. The combination of systemic risk to the unsystematic risk is defined as total or risk of the portfolio that the investor holds. Since all investments have risk, there should be a tool to measure it. A method for measuring the risk is profit rate distribution of a vehicle. The higher this rate is the greater risk will be. Another measure of risk called beta coefficient and is indicative of systemic risk associated with securities. The higher the beta coefficient, the risk will be higher. This indicator dividing the profit rate of a vehicle to market profit rate in a whole. Coefficient beta = 1 means that the rate of profit share moves exactly right as a whole market index. But we must not forget that this indicator is a measure of relative, since it does not show anything in terms of market volatility itself.

Definition of return

Return on investment is measured as the total gain or loss realized on behalf of the owner for a given period of time.

Valuation Model capital assets - (CAPM)

Risk-based model that links the return is the model:-CAPM. (Capital Asset Pricing Model), which assumes that securities sold in a perfect capital market, with features: the risk of unwanted, information to all investors, extension of time, which means that decisions are taken in a period of time, while the transaction cost and no taxes, the interest rate is wit

Diversification limits and domination Stohastic - Dominance stohastic use to test whether investors should prefer riskier securities as investment horizon extension. Simulated distributions of returns for stocks, bonds, treasury bills in the U.S. are designed to keep periods from 1 to 20 years, and tests are run stohastic dominance to establish preferences among alternative portfolios. With the return of independent, we have not found any evidence that high-risk securities (shares) dominate low-risk securities (bonds) as the investment horizon extension. Under the assumption that security returns correlated across time, we find that the common stocks of U.S. corporations dominate bonds, treasury bonds for investment horizons long enough risk.[7]

[4] *In the same , pq. 194*
[5] *Rrumbullaku Oltion, Buxhetimi i kapitalit*
[6] *Mustafa Isa, (2007) : Menaxhment Financiar, pg 188*
[7] *Charles W. Hodges, Haim Levy, James A. Yoder (2005), TIME DIVERSIFICATION AND STOCHASTIC DOMINANCE, in (ed.) 21 (Research in Finance, Volume 21), Emerald Group Publishing Limited, pp.1-15*

2.5. Sources of capital and financing costs

New business owners, labor resources to provide the labors begun by their savings, the pledged property, insurance policies or foreign.

The basic characteristic of short-term loans is their liquidation in a period shorter than one year. Financing costs-dependent extension of the loan Forms of short-term financing

Commercial loans - open accounts, bills and orders accepted

Definitions of time-wages and taxes

Commercial papers issued by the manufacturers, and service companies

Short-term loans, commercial banks are mainly a source of short-term financing

The most popular forms of lending to commercial banks: Exceeds the current account (overdraft) - Banks that need practice to apply current exceeding the client's account, that in the short term to provide financial resources Credit Lines - informal agreement that gives the organization the right to borrow a certain amount -Circular arrangement is a contractual obligation between borrower and bank. No time limit of one year or 18 months and after this time rinegocionohen conditions.

The cost of short-term loan

Manufacturing opportunities
Consumer time preferences
Risk
Inflation
Duration of loan
The height of the credit
International interest rates
Different types of financing assets

Long-term sources of funding

Capital market issued, circulated and sold securities. Securities traded on financial markets and capital markets. Capital market divided into short and long term market .Called long-term market and capital market consists of securities that have a maturity of longer than one year. Letters in common are corporate securities;

Bonds
Ordinary shares
Preferred shares and
Convertible securities Cost and capital structure[8]

Factors that affect the cost of capital

Some of them are under the control of the firm, while others affected by the decisions of funding and investment, that are outside the control of the firm Factors outside the control of the firm

The level of interest rates, falling inflation directly affects the decrease on interest rate

Tax rates-exert major effects on cost of capital.

2.6 Working Capital Management

Net working capital is calculated as the difference between current assets to current liabilities. Effective management of its increased returns and reduce risk facing the company, which lack liquidity[9]

Circulating capital is equal to assets minus current liabilities current.

Working capital management requires decisions about how to finance the assets: with short-term debt, long term or equity. In the management of working capital distinguish three basic policies: Conservative, Aggressive, and Moderate.

2.7 Bankruptcy and reorganization of the firm

Enterprises created, function and business. In translates the language of finance bankruptcy as losses and as such occurs only once in the life of the Enterprise. Poor ability to pay and negative net wealth lead to bankruptcy, but one of the leading causes of bankruptcy is the administration (menagment-direction) Poor financial. Other causes are: state of the economy in general and ultimate cause is the maturity of the enterprise.

Prospect theory

Is a behavioral economic theory that describes decisions between alternatives that involve risk, where probabilities of outcomes are known. The theory says that people make decisions based on potential value losses and gains, not the final outcome, and that people evaluate losses and gains using heuristics interesting. The model is descriptive: it tries to model real-life voters, and not the optimal decisions. Newspaper "Prospect Theory: An Analysis of Decision under Risk" is called a "seminal paper in behavioral economics" A negative balance is the interest rate. Average after-tax real interest rate on U.S. Treasury bills and the average return in the long run, government bonds (LTGB) were negative during the last 75 years. Is this negative rate an equilibrium phenomenon or simply an empirical fluke?

The answer may be this: that a negative equilibrium interest rate is definitely possible. This phenomenon results from a positive inflation rate of taxation of nominal profits, and this may not hold in a period of zero inflation or a deflationary period. A positive demand treasury bills and LTGB exists in a portfolio context, even when these two properties are characterized by a negative expected return rate and other risky assets are expected to contain positive returns. According to prospect theory, individuals who are risk averse regarding gains but risk seeking for losses in connection with, implying an S-shaped value function. S-shaped value function hypothesis is based on experiments in which subjects are asked to choose between alternatives with its positive or negative results, alternatives which rarely exist in the capital market. In addition, S-shaped findings may be biased by the "impact safety" and the probability of distortion. Under this model recently developed by stochastic perspective, which implies dominance criterion to test hypothesis prospect theory S-shaped value function with mixed results and with no "safety effect."Assuming that the subjects do not distort the probability of the moderates, strongly oppose the prospect theory S-shaped value function, at least 76-86 percent of the election being in contradiction with such

[8] *Financial management, theory and practice,Eugene F. Brigham, Michael C. Ehrhard, THOMSON, South Weatern, 2005*

[9] *Xhafa Halit, (2010): Drejtimi financiar pg. 394*

preferences. When possible distortions of subjective probability we are considering a figure of 50-66% of elections are inconsistent with an S-shaped value function.

Fig. 1. S-shaped prospect theory value function, which implies risk aversion for gains but risk seeking for losses.

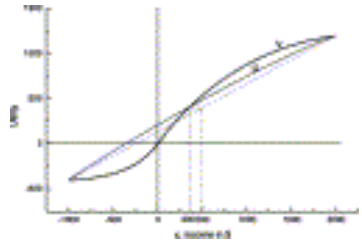

Fig. 2. Certainty equivalent of a mixed perspective does not determine the form of preferences. In this case the security equivalent of a 50-50 bet yeilding either - $ 1000 or $ 2000 is given as $ 400. As an S-shaped value function V, or U function, which is concaveeverywhere, can be consistent with the certainty equivalent value.

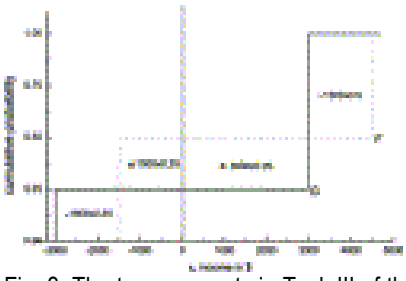

Fig. 3. The two prospects in Task III of the experiment 1. G dominates F by PSD

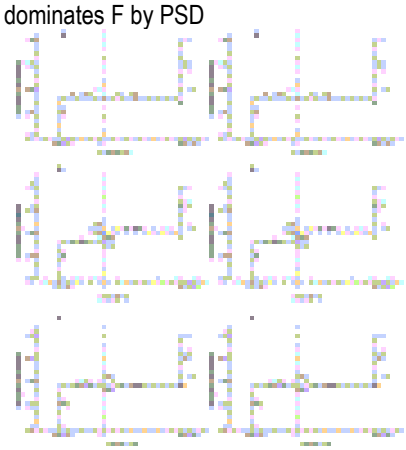

Fig. 4. The two prospects in Task II of Experiments 3 and 4. G dominates F by PSD with objective probabilities (a), the CPT probability distorted (b), and also with distorted normalized probability (c).[10]

Regression and correlation analysis

Regression provides a way to describe it as a variable, the outcome is linked numerically with predictive variables. Dependent variable is also referred to as Y, the dependent or response and is plotted on the vertical axis (coordinate) of a graph. Predictive variable is or may be referred to as X, is the independent variable or explanatory prognostic variables. Horizontal axis (abscissa) of a graph is used to plot X.

Looking at a plot of data is an essential first step. The above chart suggests that newborn babies, birth weight increased quickly from 70 to 100, rather than on birth weight infants. Linear regression can be used to fit a straight line in these data:
Eqation: Y = a + bx
• b is the coefficient, slope gradient or regression
• whether the line is cut or Y-axis continuous regression
• Y is a value for the outcome
• x is a value for preview
Fitted equation describes the best linear relationship between population values of X and Y which can be found using this method.
The method used to adjust the equation is called the least squares regression. This minimizes the sum of squares of errors associated with each point Y of differentiation. This error is the difference between observed and point to point Y Y predicted by the regression equation. In linear regression this error is the error term distribution Y, or residual error.
Simple linear regression equation can be generalized to consider defining k:
Y = b0 + + + b1x1 b2x2 ... + bkxk
General assumptions of linear regression:
• Y is related linearly for all x or their linear transformations
• All error terms are independent
• The deviations from the regression lines of the symbol of waste) follow a normal distribution
• The deviations from the line of regression residuals symbol) have uniform variance
A remaining point Y is the difference between the observed and fitted to this point, so it is the distance of point from the regression line fitted.[11]

3. Discussion and analysis

In 6 questions that comprise the questionnaire formulated, where we interviewed 104 managers respectively 104 enterprises in the municipality of Kosovo, we obtained different answers about the importance and role of effective decision-making process of financial management in the Republic of Kosovo. Based on the above mentioned theory, we can arrive at the results of management or

[10] *"Time diversification and stochastic dominance"(whith M.Levy and N. Alisof), journal of portfolio menagment, 2004*

[11] *" Regression, correlation, and the time interval; additive- multiplicative framework"(whith I. Guttman and I. Tkatch), Menagment science, 2001.*

financial management, whether required or not, because in practice there are many enterprises which apply the specific factors, but the opposite happens.

Cities	Pejë	Prishtinë	Gjakovë	Istog	Gjilan	Prizren
”Are you independent in making decisions "	yes- 75% no –25%	yes- 85% no - 15%	yes- 75% no – 25%	yes- 80% no -20%	yes- 85% no –15%	yes-80% no- 20%
"How has your relationship with the company the financial market and banks'	Many 50% Less 20% On average 30%	Many 60% Less 25% On average 15%	Many 70% Less 10% On average 20%	Many 55% Less 25% On average 25%	Many 60% Less 20% On average 20%	Many 50% Less 20% On average 30%
“To what extent is applied to maximize satisfaction and that of ethics in your company “	Many 70% Less 10% On average 20%	Many 80% Less 10% On average 10%	Many 65% Less 05% On average 30%	Many 80% Less 10% On avertage 10%	Many 75% Less 05% On average 20%	Many 70% Less 15% On average 15%
“How is risk management and risk factors are financial "	Economic factors 65% Natural Factors 35%	Economic factors 75% Natural Factors 25%	Economic factors 80% Natural Factors 20%	Economic factors 70% Natural Factors 30%	Economic factors 65% Natural Factors 35%	Economic factors 70% Natural Factors 30%
“How you take care of compiling the financial analysis "	Many 90% Less 0% On average 10%	Many 80% Less 10% On average 10%	Many 70% Less 10% On average 20%	Many 85% Less 10% On average 05%	Many 80% Less 10% On average 10%	Many 80% Less 0% On average 20%
“What funding sources use more: short, medium, or long-term"	Short-term 70% medium 20% long term 10%	Short 60% Medium 20% Longterm 20%	Short-70% Medium 15% long Term 15%	Short 80% Medium 10% Longterm 10%	Short 75% medium 15% Longterm 10%	Short 80% Medium 10% Longterm 10%

Table No.1 statistics in some cities in Kosovo

4. Conclusions and recommendations

In conclusion we can emphasize that if our enterprises applying these theoretical factors in practical financial management such as planning and forecasting if funding or investment decision making, then different ways of avoid risk whether natural or economic phenomenon, the ways if resources were used long term or short term, using the dividend policies, etc., then we arrive at the conclusion that no company ever would go bankrupt.

-During the research study arrived at a conclusion, the enterprises of the Republic of Kosovo have shortcomings in terms of financial management because inadequate or incompetent people out for a particular act and work in that direction, which respectively have no expertise in that field.
-Most financial businesses get bank loans with a higher interest rate. By comparing the average income of which are low, these interest rates is clear that it is very difficult to have economic growth or economic development in our country.

-Another disadvantage is the fact that Kosovo as a new state has a small number of corporations, so that dividend policies are limited and must be considered, not possess or securities, and issued no money, that are factors key resources and cost of capital.

My recommendations would be: the intervention done in the banking system to reduce the rate of interest in, our business focus in the econometric field, to have the opportunity to minimize or reduce standard errors, and to make foreign investors to finance more in Kosovo, because statistically the number of investment is very low as well be the right persons in right positions.

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