



CAPITAL STRUCTURE WITH HORIZONTALLY DIVERSIFIED PRODUCTION IN AGRICULTURE

D. Ivanova*

Department "Economics", Trakia University, Stara Zagora, Bulgaria

ABSTRACT

Assuming capital as a secondary factor of production in this study, we focused on analyzing its structure, since we believe it is crucial in a multi-industries. Serving the entire activity of diversified industries, determining the optimal levels of capital structure and its critical points will show us the effectiveness of using the elements of liability on the balance sheet and the possibility of targeted and justified investments to introduce new production lines in horizontal. Need to examine the capital and its structure is dictated by the type of the objects. Diversification as a goal to enter the business nova (new market) associated with existing or until business requires real investments aimed in different directions. "If you are available mainly with low fixed assets, diversification will be targeted in similar related activities (concentric horizontal diversification). But if the company has considerable financial resources, it can choose between three types of diversification. (Georgiev, 1993)"

Key words: capital, capital structure, diversification of production, a critical point

In literature the benefits of diversification are described multilateral but, generally can be grouped as: the scope and economies of scale, distribution and reduction unsystematic risk, increase revenue. Other theoretical arguments for diversification are related to capital markets and resource restructuring as diversified companies create larger internal markets and reduce problem of investment (Stulz, 1990). In line with this argument, the segments of diversified companies invest in safer net present opportunities rather than specialized.

Poor performance of diversified industries is typically copied over to the wrong investment or distribution of internally generated funds, due to inefficiency or other business problems. This particular problem incorrect results on cross-subsidization, where investments in firms represented segments are made with cash flows generated from well-represented segments.

Unlike the corporate sector, diversification in agriculture is most often seen as a strategy to reduce risk, which is achieved through

combinative use of resources and creation of new segments \rightarrow you who have imperfect related revenue (Harwood at al, 1999).

Considering most of the known definitions in the economic literature relating to agricultural diversification and using the rich experience of the authors define as agricultural diversification: Targeted attracting new and redistribution of existing resources in the agrarian enterprise, to create new products and / or services as directed in the agrarian sector and beyond.

For its part, horizontal diversification is associated with the production of new learning products in the industry to meet additional customer needs or create entirely new markets through product diversification.

In attempting to analyze the capital structure of the studied sites, responded to a shortage of data on different types of capital resources, which form a capital structure. It is particularly important to emphasize that in diversified industries capital is one that serves as the overall activity of the enterprise and individual product structures. From this perspective, we accept as the basis for Examining analyze capital structure, its critical point and the level of financial leverage, which are essential for

*Correspondence to: *Desislava Ivanova, PhD, Trakia University, Department "Economics", divanova@uni-sz.bg*

economic efficiency level of diversify production.

The main task of analysis is to reveal opportunities for optimize capital structure, i.e. to find such a relationship between elements of the capital, where the use of different parts of the capital to bring the highest net profit in the particular conditions of operation of the diversified enterprise.

In considering the relative shares of total equity capital structure of horizontally diversified firms, it is noteworthy the low levels of equity (less than 50%) encountered in 80% of the total population. This disadvantage

is related to the companies registered reductions in results financial reporting periods. On the other hand that circumstance plays a negative role on the possibility of this type of diversified structures to obtain low-interest loans, since whole loan capital may not be covered by property of the company. Quite a different picture emerges when considering equity share in total capital structure. In 90% of the aggregate consideration for the period debt is over 60% of the capital. We need to emphasize that leverage also provides certain advantages, which are implemented depending on the direction of using capital values of interest rates, the turnover of capital, etc.

Table 1. Coefficients of capital structure and critical points in the horizontal diversified enterprises

Коефициенти	Година	A	B	C	D	F	G	H
Relative share of own funds in total capital structure	2007	0,882	0,176	0,057	0,478	0,522	0,195	0,358
	2008	0,216	0,163	0,087	0,425	0,529	0,055	0,391
	2009	0,263	0,253	0,002	0,442	0,437	0,072	0,347
Relative share of borrow in total capital structure	2007	0,118	0,824	0,884	0,505	0,309	1,195	0,642
	2008	0,876	0,837	1,020	0,382	0,354	0,945	0,609
	2009	0,737	0,747	0,857	0,421	0,396	1,072	0,654
Coefficient of Financial certainty	2007	0,773	0,066	0,128	0,486	0,140	0,009	0,598
	2008	-	0,063	0,096	-	0,133	3,925	0,537
	2009	0,340	0,066	3,250	-	0,131	3,200	0,520
Coefficient of financial solvency	2007	7,500	0,214	0,064	0,947	1,689	0,163	0,559
	2008	0,247	0,195	0,086	1,111	1,496	0,058	0,642
	2009	0,357	0,340	0,002	1,049	1,102	0,067	0,530
Level of financial leverage	2007	-1,750	1,0123	-	-2,650	12,000	-0,446	4,694
	2008	6,000	1,2000	-	-33,500	-0,490	-0,623	-1,105
	2009	1,429	1,0147	-	2,300	-0,500	-0,522	-0,686
Critical point of capital structure	2007	75650	1071560	2806170	6181940	305270	520650	3436290
	2008	164650	1204170	2763450	6190840	304380	859740	3509270
	2009	169100	1218410	3462100	6339470	372910	799220	4088660

When analyzing the ratio of equity and long-term liabilities ratios are obtained with a value above 1, which showed good solvency of the companies used long-term loans. The analysis of financial leverage in the group of horizontally diversified industries find that used loans (mostly short) lead to a reduction in the profitability of equity relative to its total capital resources in more than 95% of the population surveyed.

This is another confirmation of the study specializes literature studies that found that the level of financial leverage plays an important

role in the diversification discount. Therefore, you first need to examine the relationship between diversification discount and corporate risk, control of financial leverage.

Horizontally diversified industries can reduce leverage, as long as the profitability of the total capital resources are equal to the level of interest rates.

We should not ignore that function and perform reserve capital, in the capital structure and mode of its formation. His absolute amount formed at the expense of profit and its

relative value, expressed the possibility of diversified industries to cover production, trade and others risks. The group of horizontally diversified firms establish good levels of provision of financial ratios (Table 1) that individual firms vary widely, the relative average for the group is 0.372.

For critical points reported in the capital structure of horizontally diversified industries, it should be noted that there was no distinct trend for the entire population during the period. Amount of leverage that a critical point in the capital structure (i.e. it no longer profitable) for nearly 45% of the objects is close to critical levels (Table 1). For the rest of the objects observed low levels of leverage, i.e. diversified firms rely on their own capital resources available that can serve a multi production firms. In this case, our chosen interest rate on borrowed capital is the average interest rate for the sector "non-financial corporations" (Bank, 2008).

CONCLUSION

The analysis of capital and its structure in the group of horizontally diversified production in the agricultural sector for the period, led us to several conclusions:

The share of equity in total capital structure of this group of firms is average for the total population 45.5% (Table 1). The share of borrowed capital in total capital structure is the average of the total population 50.5%

The observed capital structure we could not treat or to a group of high risk structures, nor to low risk production. This could occur for various entities within the group. In confirmation of the above, in this group reporting and the highest levels of financial profitability ratios of all investigated structures. One of the reasons why a highly diversified horizontal structures are directed towards loans are circumstances that credit financing increases the profitability of equity on the other hand interest rates on loans are exempt from tax by including them as an expense, which further reduces the cost of loan financing.

REFERENCES

1. Георгиев Ив., Диверсификация в бизнеса, Научни трудове, Икономика, УНСС, изд. Стопанство, 1993г.;
2. Stulz, Rene M., managerial discretion and optimal financing policies, *Journal of financial economics*, 26, 1990: 3-27
3. Harwood et al., Managing risk in farming: concepts, research and analysis, *Agricultural economics*, Rep774, March 1999
4. Katchova Ani, The farm diversification discount, *American Journal of agricultural economics*, 87(4), 2005, p.984-994
5. Lang, L, E.Ofek, R. Stulz. Leverage investment, and Firm growth, *Journal of Financial Economics* 40, 1996, p. 3-30.