FACTORS AFFECTING THE FINANCIAL ACTIVITY OF STATE-OWNED ENTERPRISES

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Abstract. *The analysis of the capital structure of state enterprises and the factors influencing its capital profitability are analyzed. At the same time, the limit values of own funds and debt funds in relation to total assets and the limit values of leverage indicators of the capital structure were calculated.*

Keywords: *state enterprise, assets, ROE, capital and liabilities, capital structure*

1. Introduction

In the manufacturing sector today, human capital is still essential for most factories to carry out a variety of The main objective of this study is to study and analyze the phenomenon of state-owned enterprises (SOEs) to investigate the impact of government subsidies on financial performance.

Large state-owned enterprises with the potential to operate efficiently and gain a large market share must independently meet their financing needs for commercial operations, both operations and investments.

Financially, the company has a cost structure that is more efficient if it is optimally managed, that is, it can attract investments to acquire the necessary technological capabilities for production and provide opportunities to set the price at an optimal level.

Although there is a high rate of return on investment and opportunities to grow the business more widely and efficiently, SOEs are financially threatened due to poor financial performance.

This study examines some of the important factors that can affect the financial performance of a public enterprise and also analyzes the role of these factors. It is analyzed on the basis of logical and empirical facts that are able to influence the relationship between the independent variables of financial performance or the financing by the government in the form of subsidies or additional capital

2.Literature review

SOEs can address market failures by providing public goods and financing key infrastructure projects. State-owned enterprises can contribute to smoothing the business cycle through investment spending and employment (Telegdy, 2016). At the same time, public enterprises can expand access to public utilities at low prices (Matuszak and Kabacinski, 2021).

State-owned enterprises differ significantly from private enterprises in terms of effective management and the main goal of serving the population (Sokol, 2009). State enterprises - "an economic entity whose main part of the property belongs to the state and is controlled by the government, and whose main income is obtained from the sale of goods and services". State-owned enterprises, unlike private firms, do not have a primary objective of making high profits (Pratuckchai and Patanapongse, 2012). The main purpose of SOEs is to provide a high level of social welfare (Whincop, 2005).

According to the World Bank's definition (1995) of state-owned enterprises - "State-owned or state-controlled economic entities that receive the main part of their income from the sale of goods and services".

The World Bank and the Organization for Economic Co-operation and Development (2005) identify a number of reasons for state ownership, including state-owned enterprises:

- Provides public goods (public parks) and utilities (health and education), both of which benefit all members of society, and consumers may prefer collective payments through taxes rather than individual payments;
- Improvement of labor relations in strategic industries;
- Restriction of private and foreign control in the domestic economy;
- Expansion of access to public services - sale of certain services at reduced prices for the benefit of the public through subsidization and performance of a number of other tasks is required.

In order to ensure the financial stability of state-owned enterprises, it is necessary to analyze the financial activity and financial independence of the enterprise. Losses incurred through the price reduction policy carried out by state-owned enterprises are covered by the state budget. But as a result of this, a number of situations can be observed in the management of enterprises.

Schreiner (1997) stated that the allocation of subsidies by the government is to stimulate the growth of the national economy through state-owned enterprises as a key factor in the development of industry, business development and other areas that are beneficial to the socio-economic society in general, such as education, health and other areas.

Gonzalez (2005) and Assagaf and Gunawan (2017) argue that the negative rate of return serves as a basis for determining the amount of subsidy, and if subsidies are given to enterprises, it will promote innovation and development. But if the subsidy is not given, the company may suffer losses due to higher costs than revenue. Subsidy is essential to maintain the continuity of the company's activities and has a positive effect on other areas so that the social life of the community increases well-being and creates a wider impact multiplier.

The results of a study conducted by Schreiner & Yaron (1999) showed that subsidies help to develop a company with research and development programs that can produce new innovations that help to increase profits or sales. According to the results of this study, through subsidies given by the government to public and private business entities, it ensures the implementation of government programs aimed at the growth of industry, business development and the development of social sectors and other economic sectors of society in general, such as the development of education, health services and the improvement of the welfare of society.

It is emphasized that the government should allocate funds to support state-owned enterprises in the form of subsidies or additional capital in order to implement state socio-economic programs. It is the main necessity of state enterprises, and it is classified as the main instruments of market economy regulation of developing countries and as a state tool for getting out of crisis situations. This requires improvement of the corporate management system of enterprises with a state share (Choriev, 2022).

Based on the research of Assagaf, Yusoff and Hassan (2017), the following conclusions are presented:

 government subsidy has a negative impact on the financial condition of state-owned enterprises. Subsidy policy is a burden on government spending by reducing the costs of other sectors in the local economy. Subsidy by the state is not a good opportunity for the development

of state-owned enterprises. Management behavior that tends to be less concerned about the level of financial strength and relies on government subsidy to meet the needs of operating costs and investment companies;

 strategic profitability in terms of income management has a positive effect on increasing financial income. The strategic profitability of real income management involved by the management of the company increases the level of financial stability;

 A sound strategic return on account revenue management has a positive impact on financial returns. Providing strategic profitability practices with company management revenues can increase the level of financial stability of the company;

 Capital composition does not have a positive effect on financial income. State-owned entrepreneurs borrow investments based on economic disadvantage or social benefit (social cost) or pay little attention to financial feasibility or net present value (NPV);

 The interaction between capital structure and independent variables showed that capital structures strengthen the relationship between public subsidies and financial independence, because debt financing strengthens the cash flow position at the level of company operations and investments.

3.Methodology

The methodology of this study requires consideration of a number of hypotheses regarding the impact on the financial stability of state-owned enterprises. In doing so, correlation and regression analyzes of profitability indicators of enterprises, shares of subsidies in the structure of capital and other indicators.

4.Results

A correlative analysis was conducted on the financial indicators of the state-owned enterprise. According to the correlation analysis, we can see that there is a weak inverse relationship between ROE and the share of subsidies in capital. Similarly, we can see that there is a strong positive relationship with return on assets, a weak inverse relationship with the amount of leverage, and a positive relationship between total debt and total assets. (Table 1)

Table 1.

Results of correlational analysis of financial indicators.

	ROE	S/E	ROA	Leverage	KP	LP	SHP
ROE	1	1					
S/E	-0,45	1					
ROA	0,89	-0,44	1				
Leverage	-0,48	0,94	-0,59	1			
KP	0,67	-0,9	0,73	-0,97	1		
LP	-0,85	0,36	-0,97	0,54	-0,68	1	0
SHP	-0,15	0,9	-0,12	0,83	-0,75	0,02	1

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According to this table, we exclude from our analysis the variables that do not have correlations. In this case, the profitability index of assets and the value of short-term debt relative to assets are not used in further analysis.

In the further analysis, we will perform regression analyzes of capital profitability as a dependent variable and other indicators as independent variables. According to the statistical analysis, the correlation coefficient is R=0.996, the coefficient of determination is R2 =0.993, and the standard error is 0.0036. It can be seen that there is a strong relationship between the factors and that 99 percent of the variance of the dependent variable is accounted for in the model and the influence of the factors included in the model.

Table 2.

Table captions should be placed above the tables.

	Coefficient	standard error	t-statistic	P-Value
Y	-0,155	0,065	-2,384	0,14
X1	-0,177	0,039	-4,57	0,045
X2	0,113	0,013	8,649	0,013
X3	0,37	0,073	5,052	0,037
X4	-0,193	0,038	-5,028	0,037

According to the results of the analysis, we can see that the P- indicator is less than 0.05. But we check the significance of the regression equation based on Fisher's F-criterion. The calculated value is F(count) = 76.09 and the next indicator we need is F(table) = 19.2. It follows that since F(calculation) > F(table), the regression equation can be recognized as true.

We evaluate the significance of regression coefficients using Student's t-test. In this case, the calculated t-criterion indicators for all factors are calculated and compared, and the coefficients can be considered significant only when the condition $[t_{x1\ count}]>t_{table}$ is fulfilled.

The calculated t_{table} = 4.3 and is smaller than the values of $t_{x1\ count}$, $t_{x1\ count}$, $t_{x1\ count}$, $t_{x1\ count}$ according to Table 2. We can consider that all regression coefficients are significant.

According to the results of the analysis, the model is significant:

(1) $$Y_{\chi} = -0.16 - 0.18X_1 + 0{,}11X_2 + 0{,}37X_3 - 0{,}2X_4$$

According to the model, we can see that a change in the share of subsidies in the capital structure of a state enterprise by a factor of 1 reduces the profitability of capital by a factor of 0.18, and a change in the amount of long-term debt funds by a factor of 0.2. It can be noted that the leverage of the state enterprise, i.e., the ratio of total debt to total capital and the value of total liabilities in relation to assets by 1 unit, increases the return on capital by 0.11 and 0.37 units, respectively.

In addition to the study of the factors affecting the capital profitability of the state enterprise, the main focus of the analysis is the effective management of short and long-term debt funds during the financial activity of the state enterprises. In this case, it is appropriate to determine the required limits of the capital structure for keeping profitability indicators in a stable state for enterprises.

In this case, the total amount of capital structure indicators for the state enterprise shows that the share of own funds is 43.5% and the share of total liabilities is 56.4%, and the share of long-term liabilities is more appropriate.

$$Y_{ROE} = 0.9475Xcap^2 - 0.8257Xcap + 0.1822 \quad (2)$$
$$Y_{ROE} = 0.9475X_{Liab}{}^2 - 1.0693X_{Liab} + 0.304 \quad (3)$$
$$Y_{ROE} = 0{,}0748X_L - 0.2194X_L + 0.1485 \quad (4)$$

The capital structure and purposeful management of capital are important for the financial activity of state enterprises. In this case, it is necessary to organize strategic planning by creating management reports along with financial reports, as well as effective use of long-term debt funds, in addition to carrying out activities at the expense of own funds. We can also see that the maximum leverage ratio is 1.47 or 147%.

5. Conclusion

The financial activities of state enterprises are carried out in a way that is coordinated with their goals and tasks, and they mainly carry out activities aimed at meeting the needs of the social classes to which their activities are directed, or regulating the established state goal directions, and implementing the state policy. While all state-owned enterprises are commercial organizations, their activities are not high profit making.

It was found that the targeted funds provided by the state to the state enterprises have a significant negative effect on the capital profitability of the enterprise, and the total debt funds and long-term debt funds have a positive effect.

In addition, the threshold amounts of the capital structure for the researched state enterprise were calculated. In this case, for the stable growth of its capital profitability, the amount of own funds of the state enterprise will be 43 percent and debt funds will be 57 percent, that is, it is possible to attract debt funds to the amount of 57 percent of the total value of assets in the financial activity of the state enterprise. It is desirable that long-term obligations make up a large share of these obligations.

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