

CONSIDERATIONS ON THE IMPACT OF CAPITAL ON INVESTMENT IN TECHNOLOGY

Ph.D. Ec. **Gabriela MARIAN (APOSTU)**
E-mail: gabimarian2003@yahoo.com

ABSTRACT

Small and medium-sized entities will continue to be in future decades the most active, dynamic and powerful part of the economy of any country. Keeping business in triggered worldwide crisis conditions in which changes occur frequently and ascending is possible only through investment in flexible production systems that are able to adapt and respond anticipated to changes.

KEYWORDS: *financial capital, permanent capital, financing sources, flexible technology.*

In preparing financial statements, most entities adopt a financial concept of capital. Under such a concept, such as the invested money or invested purchasing power, capital is synonymous with net assets or equity of the entity. Under a physical concept of capital, such as operating capability, the capital is the production capacity of the entity, expressed, for example, production units per day.

The capital concept presented generates the following the capital maintenance concepts[4]:

- *Maintain the financial capital.* Under this concept, the profit is obtained only if the financial (or money) value of net assets at the end of the period is higher than the financial (or money) value of net assets at beginning of the period, after excluding any distributions to owners and any contributions from owners during the analyzed period. Maintaining financial capital can be measured both in minimum monetary units and in units of constant purchasing power.

- *Maintain physical capital.* Under this concept, the profit is obtained only when the physical productive capacity (or operating capability) of the entity (or resources, the necessary funds to obtain that capacity) at the end of the period exceeds the physical capacity of the beginning of productive after excluding any distribution to the owners and any contribution from owners during the financial year

The selection made by entity of the most appropriate concept of capital should be made depending on the users needs of its financial situations. Thus, we must adopt the concept of financial capital where the users of the financial situations are concerned primarily with maintaining nominal invested capital or the purchasing power of the invested capital. But if the main concern of users is an operating capacity of the entity, we should use the physical concept of capital. The chosen concept indicates the intended objective in profit determination, although some evaluation difficulties may arise in the concept implementation.

The selection of financing sources for the investment is particularly complex because in addition to the main criterion regarding the cost for capital obtaining, we have to take into account a number of restrictions on access to capital markets, the financial situation of the company, the management staff motivation. Referring only to the latter

condition, if the shareholder of a company holds the entire capital, he controls the whole business and he is responsible for all decisions, either good or bad.

Entities can arbitrate the different proposed investment objectives and the adequate possible sources. *First* they seek to affect the first available and less onerous resource that is self-financing, for replacement or modernization of fixed assets investment and increased need of working capital. *In the next place* the development and strategic investments will be balanced by attracting fresh capital from shareholders old and / or new, from banks and other credit institutions. The result of the investment funding decision is the investment budget, which on a time horizon sufficiently predictable presents the situation of balancing the financial needs with defrayment funding.

An entity borrowing base is given by the technology cost you choose, either rigid or flexible. For a given technological configuration, the expected profit of a company is independent of the the entity committed loan as the entity can make the payment in low demand situation. When the pros and cons of borrowing are taken into account, the entity could reach an optimal capital structure. This structure requires borrowing up to a threshold beyond which risk of failure too high.

In practice the capital structure decision is based on the arbitration effect on the solvency and business ability to continue its activity[3]. The manager must always interpret with caution and even reinterpret the available data, to integrate them into context and analysis purposes. Both the analyst and the manager have the responsibility to ensure that the selected processes and the obtained results of the test are consistent with the objectives set at the beginning of, and to determine whether this approach expresses a financial point of view or is the result of an economic analysis of the performance, prospects and business value.

The success of the operational activities, business performance and long-term sustainability depends as much on a number of the management fundamental decisions, either individual or collective. In fact, managers make decisions on behalf of the entity's shareholders, but decisions regarding a wide range of groups interested in the company's activity, such as employees, creditors and the community. In doing so managers are responsible for the efficient allocation of internal and external available resources to create economic gains for shareholders, these gains will reflection time a combination of dividends distribution and the appreciation of quotes owners' shares. This concept called total return to shareholders is also a key criterion for measuring a company's success, relative to its competitors and its market.

An entity development is achieved either by increasing or diversifying its products and capabilities, either by using new improved technologies leading to a higher profitability. Transition, this way to a new stage of existence creates problems to the entity because the goods proposed to be produced and the acquired technologies can be at different stages of their existence and the funding action usually entails significant capital.

The amount of funding need differs from one entity to another depending on the set strategy, on the activities nature and diversification but also on the reached stage in products development and owned technologies. So for example:

- maturity stage - profitability being increasing, the cash flow has increasing positive values;
- phase of decline - uninvestment prevails, financing allocated funds are reduced and yet cash surpluses are obtained because profitability still remains above profitability threshold.

Whatever the development strategy and used funding sources, the investments can create competitive advantages and profitable evolutions followed by sustained increase of the cash flow – as a result of future exploitation of these advantages.

Keeping business in this triggered worldwide crisis in which changes occur frequently and increasing is possible only through investment in flexible production systems, able to adapt and to respond to anticipated changes. In terms of level of investment, a flexible production system able of producing a wide range of products will be generally more expensive than an inflexible production system, not only in terms of investment costs but also in the impact on the entity internal organization and the relationship with the stakeholders (suppliers, customers).

Evaluation of a proper flexible range in a company, even if this flexibility comes from the technological, organizational or outsourcing side, *requires an estimation of cost of competitors current and potential behavior changes*, which may be more or less aggressive to the company, based on its own level or technological flexibility as well as its financial liquidity. Hence the need to create a strategic model with explicit features in terms of flexibility and liquidity. We must take into account that technological and financial options of a company are simultaneously and interdependent.

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