FINANCING AND FINANCIAL MANAGEMENT IN A COMPANY. SOME ASPECTS

Dr. Bożena Sowa

School of Law and Administration in Przemyśl
Department of Management and Economy
ul. Cegielniana 14, 35-310 Rzeszów, Poland
e-mail: bozenas@wspia.eu

Dr. Małgorzata Wilczyńska

The Bronislaw Markiewicz State Higher School
of Technology and Economics in Jarosław
ul. Czarnieckiego 16, 37-500 Jarosław, Poland
e-mail: wilgos@poczta.onet.pl

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Abstract:
On today's competitive market, financing of companies must contend with challenges that arise on it. Furthermore, a competition between companies is intensifying, and customers' requirements as to the quality of the goods and services are constantly increasing. It is important, therefore, that the company should reach financing sources and targets, in spite of the encountered difficulties.

The financial strategy of the activity is associated with the process of selecting the most important financial decisions that determine the future development of the company's financial relationship with the environment.

The purpose of this article is to present selected aspects of financing and financial management of a company operating on the competitive market.

Particular attention has been paid to financing with equity capital (and the risk involved), because the sources of equity financing provide the company with a continued development and benefits for the owners.

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1. Introduction

It is not possible to determine unambiguously financing of a company; for this notion different reference planes can be taken, i.e. the company's capital structure in a relation between equity capital and outside funds, legal guarantees, or collaterals granted to lenders, the very notion of capital, the period of engagement and transformations associated with it. In a narrower concept, financing is limited to raising capital, i.e. taking-in all kinds of ventures aimed at acquisition of long- and short-term capital.

Financing in a broader concept, in addition to the aspect of collection also includes management of the resources designed to maintain financial balance and liquidity.

Financing can also be seen through the prism of passive funding in order to finance own business, and active funding involving placement of capital in another business entity.

Nowadays, financing of a company with internal capital is not only gaining monies, but at the same time, it is raising capital in all forms of property and funds. The development of the society has led to the situation that people use better and more reliable access to knowledge that helps in running business.

On today's competitive market, financing of companies must contend with challenges that arise on it. Furthermore, a competition between companies is intensifying, and customers' requirements as to the quality of the goods and services are constantly increasing. It is important, therefore, that the company should reach financing sources and targets, in spite of the encountered difficulties.

Financing covers a wide range of ventures that cause supply of funds to the company for its daily operations as well as its long-term development.

The purpose of this article is to present selected aspects of financing and financial management of a company operating on the competitive market.

Particular attention has been paid to financing with equity capital (and the risk involved), because the sources of equity financing provide the company with a continued development and benefits for the owners.

2. Concept and essence of financing processes

Financing of a company covers two important areas of decision taking; the first one of them concerns the structure of capital, i.e. the selection of proposals between the size of the equity and the amount of outside funds invested in the business. The second one of these areas is closely associated with the selection of instruments of obtaining each of the resources in the framework of the adopted capital structure. In this regard, the company takes decisions regarding financial instruments and their maturity and currency (Gorczyńska, Wieczorek-Kosmala, Znaniecka, 2008, p.11).

Financing - is a set of methods and means of payment settlements used in the implementation course of an economic nature project. At the company level, the funding sources can be divided into two categories: self-financing, which results from certain financial opportunities created by the company itself, thanks to achieved profits, depreciation charges, or reserves (Ślusarczyk, 2008, p. 23-30).

The next category is financing from outside, which includes contributions in kind of temporary or definitive character, brought to the company by legal and natural persons from outside the company (Bernard & Colli, 1994/1995).

In the developed market economy, financial decisions in a company are treated as a combination of skills and knowledge of the money management. For the past dozens of years, it has been difficult to point to a different area than financial activities, which has gone through an equally rapid development. At the same time, a large increase has been noted in the importance of the company management process, perceived overall. The saying that money

attracts brains is extremely accurate, and the modern development of finances shows that this interest is manifested not only in the pursuit for gaining or multiplication of available resources. The interest is manifested primarily in creation of more and more sophisticated methods, tools, as well as concepts of achieving this goal. The result is a situation in which the financial matter permeates many other, often seemingly very distant, areas of business management (Strużycki, 2004, p. 331).

In the process of the company management, finances play an essential role; there are not any decisions that should not be judged by their impact on the financial results of the business. With financial measurements, one can explore both positive and negative effects of economic decisions. The financial evaluation of the decisions taken in the company is based, *inter alia*, on the cash flows. First, money and its movement is the foundation of the corporate finances; they explain monetary phenomena as well as their effects (Dudycz, 2005, p.18).

The company management may be orientated to create maximum benefits for its owners, which is called the management of the company value. The value management is a management philosophy that applies analytical tools and processes for concentration of the organization's individual objects, or is focused around creating specific values for its shareholders. The financial management is dependant on economic decisions of the business owners as well as managers, whose job is to multiply the value of the company (Sowa, 2015, p.103-114).

The financial management in the company is associated primarily with a large uncertainty, but also with a risk in addition to large opportunities for the company. Moreover, very important to reduce the risk is quick and reliable information relating to the capital market and feelings of the company managers. The decisions taken in the field of financial management are located in the company's organizational structure at the level of the financial director or the vice president. It should also be noted that the company's management need to know the essence of financial processes to be able to take rational, strategic, as well as current financial decisions (Krajewski, 2006, p.7).

In each company, one can distinguish characteristic financial problems. The first of these problems relates to the method of financing the assets that are needed to operate; the second problem is a place to invest, while the last financial problem is the policy of profit retention. Against this background, we can talk about financial decisions that are based essentially on the functioning of the entire company, and they refer to the size and structure of its assets and the period of their use, the size and structure of the capitals, the costs of financing methods and the amount of the dividend in relation to the retained earnings (Krajewski, 2006, p.7).

The financial management of the company is related to the interaction between the financial market, i.e. the market, which corresponds to and affects the relationship between the own and outside sources in the financing of business assets, and economic operations of the business that relate to its property.

In the company, the following types of funds occur: the first is the fund provided by the financial markets from own and external investors, and intended to finance the business. The second type relates to funds, own and external, appropriated - according to the decision of managers – to financing of the economic activity, in particular, of fixed and current assets involved in the production process of the company. It should be emphasized that the financial management of

the company is dependent on its own and external investors since their capital creates its future value.

There are two basic groups of investors; investors with a legal personality, i.e. financial institutions and other business organizations with the task of providing the company with free funds. The second group of investors is investors who are individuals who have free capital ready to be invested in the business itself, in other investment joint ventures (domestic or foreign), or on stock exchanges.

We can also look at inventors from the viewpoint of their capital involvement in terms of the ownership. Attention is given to the fact whether the funds that support the business and financial operations make them owners of or shareholders in the business, or form a group of lenders (Krajewski, 2006, p.8-9).

These investor groups take over part of the funds generated in the company, which because of the business can take the form of the capital return, including interest on the loan.

The process of financial management in the company leads in particular to formulation, in the longer term, of a strategy of the company as well as tactics, which ensures its execution. A projection of financial states is to multiply the existing values and to ensure the formation of a new value in a long term (Krajewski, 2006, pp. 8-9).

3. Business financing types

The property of each company has its source, so it is defined financially. In the balance sheet, the value of the property is shown as assets (which are the financial resources, controlled by a unit, of the reliably fixed value, originating as a result of past events, and which in future will have an impact on economic benefits of the entity); on the other hand, the sources and methods of financing are recorded as liabilities. The structure of the liabilities somehow reflects the ways to raise funds necessary to conduct current operations as well as to develop the company.

It should be emphasized that in the dynamic approach, capital resources are to contribute to economic growth, and the economic growth should lead to multiplication of the capital (Grzywacz, 2008, p.11). The management is in fact a form of multiplication of the capital (Borowiecki, Czaja, Jaki, 1997, p 21).

Financing of a company can be considered from different points of view. Basing on the fact whether the company capital has been supplied or developed by the company itself, external financing and internal financing are distinguished (Wypych, 2007, p 85).

It is important to distinguish between the company equity and outside funds because each of the two forms of the capital is related to different responsibilities, rights, and risk (Łuczka, 2001, p.38). The external financing - as the name suggests - is the capital that comes from outside the company; at the time of its creation the whole capital is external capital, including funds mobilized by the company owners (foundation capital), as well as resources made available in the form of loans and bank credits. The external capital penetrates into the company through the capital market and the money market, through the credit and commodity takeover as well as by means of the so-called specific forms of financing (Wypych, 2007, p. 85).

External financing can be divided into own external and alien external. Raising capital from own - external sources occurs in various forms, depending on the legal form of the company. This capital flows to the company, *inter alia*, in the form of shares, contributions, or payment of a registration fee.

An important feature for external own financing is the obtained cash capital or capital in kind, which remains available to the company for an indefinite period. The consequence of indefinite involvement of the capital, in the future, will be reflected in ownership relations. It follows that the right to participate in the profit distribution, or an obligation to participate in coverage of the company losses. In addition, the capital from own external sources is the guarantee base for creditors, whereas alien financing includes many different forms of capital supply in the company. An inflow of the new capital takes place through the financial market (and its segments) through the commodity market or through special funding.

The primary feature of the alien external funding is that the capital is available to companies for a specified period or is to be reimbursed within the agreed period. In this case, the relations between the creditor and the debtor are created. A significant and important feature of this funding is also that the borrowed capital must pay interest. The outside funds may be partly lost because of the business losses, when its coverage with equity proves insufficient (Szczepanski, Szyszko, 2007, pp. 64-65).

The second type of financing is internal financing, otherwise known as self-financing. Internal financing occurs once the company undertakes operations using the earned surplus of revenue over the costs incurred. Subsequently, it is thus able to develop. Self-financing may also be possible by transforming the ownership structure, e.g. sale of redundant assets, through a more efficient management, and a more effective management of the factors of production.Self-financing is also possible via payable transfer of the business assets to be used by a third party (Wypych, 2007, p 86).Internal financing is based mainly on raising funds through the proprietary transformation and the accumulation of capital.

The individual methods of financing have different implications for financing of current operations and development of the company. The proprietary transformation can directly affect the evolution of liquidity and – consequently – financing of operations as well as (indirectly) financing of development activities (Olak, 2011, p. 83-90).

Internal supplying with funds is mainly a result of the revenue realizing from the sale of products or services. Although these funds come from outside the company, they cannot be classified as external financing. Here, there is a replacement of tangible assets into monies, which is characteristic of the circular motion of the funds within the company. An important source of internal financing as well as a specific property transformation is funds due to redemption and depreciation of fixed assets.

Also relevant is the mechanism used to calculate depreciation. The company can obtain cash through the sale of these assets, which do not affect its production capacity and overall proper functioning. Similar effects on the financing process may have actions taken in the business that lead to the duration reduction of a circular motion of the resources. They should lead to the possibly fastest recovery of funds that have been invested in raw materials, semi-finished products, materials, and finished goods (Szczepanski, Szyszko, 2007, p 65).

It should be taken into account that these transformations only improve the structure of the assets, but they do not affect its growth. As previously mentioned, the main objective is to recover funds that could be used to purchase other assets or improve liquidity. If the sale generates a profit and it is not entirely taken over by the owners and the budget, the profit is a growth factor for the company's capital and for its assets. This means at the same time that the retained profit is the source of internal financing. Such a source can also be long-term reserves, for example a pension fund, created in the company. The contributions that are calculated for the pension fund bring a double benefit to the company. Firstly, the contributions are treated as deductible costs of revenue expenses, and they affect the reduction of the taxation base.

Secondly, the calculated contributions remain available to the company for a period of the employee's employment. The resources, which are accumulated in this fund, are also commitments of the company towards the employee. Therefore, interest is accrued on this fund, but as costs of the company. Since the interest is not paid on a regular basis, the company can treat it as an additional source of funding until the payment of the pensions is made (Szczepanski, Szyszko, 2007, 65).

Internal financing has its final expression in the earnings retained in the enterprise. It gives rise to creation of a variety of funds that are both mandatory and prescriptive, determined by the company's articles of association. Both characteristic features of the fund are an extension of own capital base, whose core part is the initial capital.

The next primary criterion for classification is the time how long the financial resources are made available to the company. One can list two ways of financing; the first one of them is the long-term financing, while the second one is the short-term financing. The long-term financing concerns monies that the business entity engages permanently or for a long term. It is generally accepted that it is a fund whose payback period is longer than one year. As part of this financing, it is often possible to distinguish additionally the medium-term financing. It is funding with the capital payback period that does not exceed five years.

Funds raised within the long-term financing, therefore, include the capital contributed by the owners and liabilities that are in the form of credits or loans with a relatively long period of repayment, and are commonly referred to as constant capital. These resources provide a stable basis for financing of the company activities and decide substantially whether the company can maintain the long-term liquidity.

On the other hand, the second financing, called short-term, is associated with the provision of funds for the company for the period shorter than one year. These are short-term liabilities also including resources currently earned by the company itself.

Within these short-term liabilities one can distinguish credits and short-term loans alongside instalment repayment of bank credits and long-term loans that are due in a given year, as well as current liabilities, representing the obligation to make payments to suppliers, the budget or employees and other entities with preferential payment. Liabilities in the form of loans as well as credits are referred to as short-term capital. In contrast, current liabilities are not included in the capital, because the use of them does not require incurring costs in the form of interest, but only if they are regulated in a timely manner (Wypych, 2007, p 86). Short-term financing conditions the maintenance of current liquidity. The capital structure in accordance with the degree of temporal availability is reflected in terms of individual components of the liabilities in the balance sheet.

The last element, particularly important from the point of view of financial management of a company, is a classification system that includes the separation of own financing and alien financing. The basis of this classification is both a source of capital and consequently, the resulting legal position of the capital donor. Equity is the capital, which includes the funds placed at the disposal of the business by its owners. The entity, which brings the capital becomes the co-owner or the owner of the company and influences the decisions taken by it.

The importance of equity is twofold (Wypych, 2007, p 87):

a) it has the operating function, which is used to finance the company activities;

b) it guarantees the claims of creditors and has a warranty function.

The equity should not be withdrawn even at the time of liquidation of the company, which does not mean that during the operation of the entity its owner cannot be changed.

The outside funds are understood as the amount of funds that are made available to the company for a limited period by its creditors. This capital should be returned in a fixed time. In the company, it plays only an operating function; it constitutes an increase in funding sources and thus it allows extending the size of the operations.

The owner of outside funds, invested in the form of loans or credits, is also entitled to compensation in the form of interest, and in obvious situations, it may also get the power to control and decision taking in the company.

Current liabilities of the company are also sources of funding. Until the moment of their due payments, the company does not incur any costs that are associated with the provision of these resources therefore they do not count as the capital. If the company is insolvent or liquidated, creditors are in a privileged position in relation to the entities that bring the entity; their claims are in fact regulated in the first place.

There are close links between the presented classification systems, and one can even say that these systems overlap. They represent a different point of view on the same problem, which is financing of the company. All of the three classification systems play an important role in the financial management of the company and are reflected in the records and financial reporting.

It can be concluded that the most important is the division of financing according to the source of capital, which implies separation of equity and outside funds. The premise for this division is to distinguish engagement of additional funds in the business - by participating in the process of investing; the equity capital represents the direct engagement and here the compensation for the provision of the capital is profit that is the reward for risk and innovation; on the other hand, the outside funds represents the intermediate engagement, i.e. compensation for the participation in the economic process in this case is the interest.

Separation of own financing from alien financing also emphasizes the aspect of the company ownership, which is particularly important in the market economy that is based on private ownership (Wypych, 2007, p 88).

4. Strategy of company financing

Each company that operates on the market should have a consciously formulated financing strategy. The existing difference in the method of defining the strategy, presented in the Polish and foreign literature, is the result of an evolutionary process of the build-up of opinions and concepts that are associated with the development of strategic thinking in the operation of today's businesses. With a large variety of interpretation approaches to define a strategy, one can organize it around recurring thematic threads, which are (Tokarski, 2006, p.36-37):

- *the objectives thread*, i.e. strategic is any conduct based on the formulation of objectives,
- *the planning thread*, i.e. strategic is any conduct based on planning of resource engagement with a fixed term; it results from the thread that there is no strategy without a plan,
- *the environment thread*, i.e. strategic is each decision, whose primary aim is to improve, in the long term, the competitiveness of the company in relation to the competitive environment,
- *the change thread,* i.e. strategic is any decision that entails major structural changes in the management of the company (organization, types of activity, its objectives).

In the summary, we can conclude that the strategy is the process of determining long-term goals and objectives of the organization in various fields of its activity. The strategy allows to solve the most important problems of the company and to pursue the planned objectives. There are many various definitions of the strategy; this is due to the changing operating conditions of companies, their set goals, and ways to achieve them. If a company wants to get a success in the future it must build a strategy according to the old and new rules of the game, which requires, above all, an innovative approach and a reconciliation of many contradictions (Obłój, 2002, p.20).

In this framework, one can distinguish a number of functional strategies that relate to specific areas of the company activity. Among these strategies it is the financial strategy that is quoted, which is the one whose subject matter is the commonly understood finances of the company, and their formation.

The financing strategy is the selection of sources of financing, which is its essential element. It is a partial strategy of the financial strategy, which means that it is its detailing. The above strategy is to adopt a specific structure of assets financing sources, in a way that creates the basis to achieve the strategic goal of the company.

In the economic literature, the financing strategy is defined as processes and phenomena associated with acquisition and allocation of the capital and realization of the company intended objective. This concept can also be presented in narrower or wider terms. In the narrower terms, it means raising capital and its allocation in order to accomplish a specific purpose, whereas in the broader terms, it is a long-term program of actions, which is associated with acquisition and capital investment in the assets elements from the point of view of the company objectives.

In practice, the adopted goals may be different depending on the legal status, the financial standing, the market position as well as many other factors that affect the functioning of the company, and especially the factors of the macro environment and the competitive environment.

Thus, the financing strategy should take into account the financial and tangible processes taking place in the company. The financing strategy includes the financing strategy of fixed assets and

working assets, as well as the strategy of acquiring equity and outside funds (Tokarski, 2006, pp.41-42):

The financing strategy of the activity is linked to the process of selecting the most important financial decisions that determine the future development of the company's financial relationship with the environment. It is a reflection of its development capacity and is an integrating element of all the activity areas of each business (Skowronek-Mielczarek, 2002, p.60).

In the company financing, one should switch to openness and communication. Today, the company has to cope with challenges that appear on the market. What matters is that the company arrives at sources and targets, despite the difficulties it encounters. In the quest to maximize efficiency, businesses are to comply with this trend, to meet relevant standards, to apply newly emerging techniques and solutions and to increase productivity because such demands are presented to us by the market today. So today's enterprise, as well as the enterprise in the future, is facing a big challenge.

In the company, the financial planning is needed because the decisions that relate to current operations as well as its future should be linked. The financial planning in a company is a process that involves seeking opportunities of the investment directions, as well as financing sources for the business operation.

The next process is to predict future financial consequences, identified opportunities and a choice of a particular investment option and an operation financing policy. The final process of planning is to use the plan for comparing the actual financial standing of the company with the planned situation (Misztal, Lublin 2011, p.10).

The primary objective of the financial planning is to create ideal conditions for observing the current financial standing and making sound decisions about the future of the company. The financial planning in a company is a continuous process that results from the study of the financial consequences of different plans for event developments, the introduction of real data, which are compared with the planned values, which - as a consequence - may lead to changes in the investment program or funding policy, or strategic objectives set out in the previously developed strategy of the company (Strużycki, 2004, p. 107-108).

Financing of the company activities can be considered due to a large number of criteria; however, the criterion relating to the ownership of capital is considered as the most important. One distinguishes such a source of the company funding as equity, which is the capital entrusted by the owners, e.g. shareholders in a limited liability company or by company members in a joint-stock company (Wypych, 2007, p. 68).

The source of financing a company is also outside funds, which occurs most often in the form of a bank credit or leasing. For companies that operate as a joint stock company we can talk about the so-called "hybrid financing”. It is a combination of financing with equity and outside funds in one financing tool, which can be, for example, convertible bonds issued by the company. One of the sources from which the company will be able to make use is a bank credit.

Depending on the purpose of financing for which the loan will be used one can distinguish working capital credits and investment credits. Working capital credits are intended to finance current operations of the company, whereas with the help of investment credits it is possible to

finance the implementation of long-term investment projects of the company. One of the conditions to get loans from a bank is creditworthiness, which the company must have. It is understood as ability to repay the loan with interest at fixed dates (Sowa, 2015, p. 264-274).

The decisions that the company takes in the selection of the source of the business financing in the future are dependent on the condition of the economy, which - in a direct way - relate to the legal regulations concerning operation of various types of institutions, mainly banks granting short-term and long-term loans. An important factor is the size of the company, as the value of total assets determines, largely, the availability of certain sources of alien financing.

In addition to the above-mentioned, an important factor is also the age of the company, with which are linked the generated net sales revenues, as well as the achieved net profit - it may be a net gain or a net loss (Ślusarczyk,2008, p. 184-191). During the formation of the company, financing of its current and future activities is carried out by the use of accumulated equity and - in the case of some companies, with the help of investments by venture capital funds. Conversely, companies, which have already been on the market for a longer period, can afford to diversify the sources of financing their activities in the future, even reaching for such sources of financing as leasing.

5. Financing with equity and financing risk

Relevant decisions taken in the management process of company financing require knowledge – of managers, and advisors – of the basic features and functions of capital. Characteristics of capital proceeds based on various criteria of divisions; the most significant is the division based on the criterion of capital ownership. The equity capital is the capital of the owners (Report, 2013).

The company equity and assets financed with it are the security and the guarantee base in raising outside funds. An important meaning in shaping of the capital structure has the financial standing of the company. If the company achieves high efficiency, which is expressed in the dynamics of profit, then as a rule, there is no difficulty for example, with increasing the share capital in the case of a joint stock company, or acquisition of outside funds in various forms.

The condition of the economy, which is characterized by growth, usually affects an increased interest of companies in making development investments. In a stable and growing economy, it is easier to gain the necessary capital. The forms of acquiring capital also depend on the efficiently functioning financial market and its segments.

Thus, considering many factors that affect their ability to raise capital, companies should shape their optimal structure from the point of view of maximizing the assumed objective. If the goal is to maximize the wealth of the company owners, then shaping the capital structure, they should take advantage of the positive effects of leverage as far as possible. From the point of view of the company the main advantages of the equity consists, in particular, in the fact that it is a stable source of the company funding; it increases its liquidity and is the guarantee base for creditors; while engaged for an indefinite period it is the basis for the formation of ownership, according to which the right to participate in the distribution of profits ensues (Wypych, 2007, p.68).

Companies that decide to equity financing, must be aware of the fact that the essential feature of it are the domineering powers of the owner towards the company in which the capital has been invested. Such powers give the rights to take decisions both of the current nature and of the strategic importance in the further development of the entity. In addition, they are also the rights to information about the standing of the company, its finances, and trade policy. Equity gives the owner the right to participate in profits, but it also carries the risk of loss and in the case of unlimited liability companies, the risk extends to the property of the owner (Report, 2003).

Depending on the legal form of the company and the terms of the agreement, a co-owner participates (or does not) in its losses. Important is the fact that the losses deplete the equity. In the event of bankruptcy and liquidation of the company, the owners' claims are met after the settlement of obligations to various creditors.

It should also be noted that an important feature of equity is the absence of interest on it, which does not mean that one cannot talk about the cost of equity capital, which is manifested as an alternative cost, i.e. the possibility to invest in other types of ventures (Report, 2003).

Each company in the phase of its life faces variable availability of the resources and capital as well as the changing conditions of their acquisition. Besides, it faces different conditions of competition, the constantly changing behaviour of customers and their varying needs. This creates uncertainty in action, which is overlapped by imperfections of own operation of the company due to lack of adaptability to a changing environment, or lack of awareness of its own limitations (Zadora, 2009, p 149).

An entrepreneur taking each economic decision, which applies to both the current business activity of the company and development projects, should prepare and use predictions about the future economic conditions. An inseparable element of each decision is the risk and uncertainty because it is not possible to determine in a certain way how the individual factors underlying the present decision will be shaped. The greater is the risk, the more extended period applies to taking of the decision. Consequently, the decision taken today may be wrong and in fact, in the future it may bring fewer benefits (revenue, income) than those anticipated at the project start-up or in the future; it may also bring no benefit and may lead to a loss.

The risk occurs when the decision-taker cannot predict with absolute certainty future events; however, they know not only different effects of the decision, but also the probability associated with each of the factors. The risk is defined as a statistical probability of a random event, which is negative for the affected entity. It occurs when the likelihood of achieving the intended task for the fulfilment of certain conditions is in the range of $0 < P(x) < 1$, where $P(x)$ is the probability of a random variable (Wypych, 2007, p 290).

Statistically, the risk concept refers to the situation in which at least one of the elements of it is unknown, but the probability of its occurrence is known. If this parameter is poorly estimated or omitted, the outcome of the decision can be catastrophic. Many risks can be classified using the appropriate criteria. The most general division of risk allows distinguishing the proper risk, which operates on the principles of the law of large numbers, and the subjective risk, which is related to human imperfection, subjectively assessing the occurrence probability of certain events (Janik, Paździor, 2011, p 17).

Every company faces a financial risk, which depends on the structure of its financing sources. If the share of outer funds (capital) increases in financing of the company assets, the financial risk of the company also increases. At the same time, in some cases, the increase in the share of outside funds in financing of the company can increase the profitability of its equity over the profitability of the total capital in the company.

An excessive increase in the share of outside funds in the financing of the company's activities can result in a lack of liquidity in the company, or a lack of ability to settle its obligations to its contractors and other entities. If an entrepreneur undertakes a project accompanied by a higher risk, they also expect greater benefits. At the same time, they must also take into account that in case of failure the suffered loss may be much higher.

The financial risk is the greater, the larger is the share of debt bearing interest in the capital of the company. A characteristic feature of the financial risk is its measurability and the possibility to capture directly its impact on the financial result.

6. Conclusion

Each company that operates on the market should have a formulated strategy to finance its activities; this strategy makes it possible to solve most of its problems and the implementation of the planned objectives. The financial strategy of the activity is associated with the process of selecting the most important financial decisions that determine the future development of the company's financial relationship with the environment.

Financing of a company with internal capital on the market must contend with the inevitable financial risk and uncertainty of economic activity. This is due to the fact that the taken decisions will be implemented in the near or distant future that is not fully known.

It should be emphasized that proprietary transformations directly affect the evolution of liquidity and, consequently, the internal supply with funds.

This process is mainly a result of realizing the revenue from sale of goods or services. The second major source of internal financing is the depreciation fund and the used mechanism of its calculation. A company can also get monies by selling those assets that have no impact on its overall production capacity and general proper functioning.

In a summary, it is clear that running a business, especially in the current market economy conditions requires from partners continuous taking of decisions, including financial, and their inseparable attribute is the actual responsibility of the company for their effects.

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