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OVERVIEW OF THE INTERNAL FIRM GROWTH AND CORPORATE FINANCE PRINCIPLES - THEORIES, EXPECTATIONS AND APPLICATION OUTCOMES

ABSTRACT:

Throughout almost a century many theories of firm growth, investments, financial leverage and dividend policy have been developed aiming to capture decisive relations among the crucial firm internal potentials. The extensive literature reveals many determinants influencing firm growth. The expectations of the relations among investment activities, financial structures and dividend policy on one hand and firm growth indicators (value, sales volume, employment, return) on the other hand exhibit clear and simple relations. Though most of the theories excerpt all relations and represent state of the art in the internal growth potentials relation, we may find a bunch of counter-expectations findings in the related literature. Namely, affected by specific circumstances firms behave in different ways with suboptimal use of internal growth potentials. Among the specific circumstances that may affect the national economy, transition, post-recession and underdeveloped financial markets deserve particular research attention and focus. In this paper, we present the existing theories overview, potential challenges of the labelled circumstances and a review of the relations between selected corporate finance principles and firm growth indicators. The research reveals the findings based on the extensive firms' dataset related to Bosnia and Herzegovina. The findings of this paper might inspire further research efforts, vivid theoretical debate on the causes and consequences of the findings as well as a clear response from the related government bodies responsible for macro-economic development.

Keywords: *Corporate Finance, Firm Growth, Capital Expenditure, Firm Financial Structure, Payout Policy, Bosnia and Herzegovina*

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1. INTRODUCTORY CONSIDERATIONS

Corporate finance principles remain an attractive area of research. Theoretically, these principles are clearly defined so it might not seem there is much to add. However, depending on the practical application level as well as intertwining factors arising from the application, there are performance differences across business areas that do not always yield firm growth or meet expected returns on investments. The capacity and influence of these principles will vary based on specific conditions of application. Thus, there is a continuous effort to verify whether principles hold under such conditions. Motivated by the lack of a uniform application approach as well as negative external constraints on companies in the post(recession) period including the genuine need for optimizing the internal performance management we have decided to shed light on the relation between corporate finance principles and internal firm growth in Bosnia and Herzegovina.

The focal point of this research is the evaluation of the aforementioned principles' impact on firm growth in a specific environment characterized by market transition but also marked by crisis and postcrisis periods. The central hypothesis in this research is: „Consistent application of the corporate finance principles affects the firm growth in the recession and post-recession period". The sample in this research are companies that continuously published financial reports in the period 2008-2010. (18,322 companies) and the period 2011-2016. (21,596 companies). Reviewing a large number of reference papers in the field of research, we have noticed that regression models are applied without exception. Starting from the fundamental advantages of the panel data set as a sample with the best potentials for measuring research relationships (such as accurate identification of intra-variations as well as between-variations) and the potential to successfully deal with shortcomings arising from omitted-variable bias, we have used a regression model with panel data set. The paper is structured as follows - introductory considerations are followed by the theoretical framework of the research, review of previous research results, review of variables used in previous research, data used in this research, regression models, empirical results, discussion and finally concluding remarks.

The empirical analysis of this research answers reasonably straightforward the crucial question of the corporate finance principle's impact on the firm growth in Bosnia and Herzegovina for the 2008-2016 period. The importance of integral or holistic influence to the firm growth has therefore been unquestionably confirmed.

2. Theoretical framework and review of previous research

Corporate finance principles related to investing, financing structure, and dividend policy are universal and applicable to all organization types and sizes. However, it should be noted that publicly listed corporations do enable a more straightforward analysis of corporate finance policy effects, but fundamental principles remain universal nevertheless (Damodaran, 2007). The dominant incorporating structure in Bosnia and Herzegovina is a limited liability company whose equity shares are not traded publicly. The existence of joint-stock companies was predetermined by the mass privatization system as well as the rigid legislative framework impeding such corporations to choose the incorporating structure best suited for their business. Thus, the capital markets development in Bosnia and Herzegovina developed side by side with the market privatization process and transformation of state ownership into private. Low market capitalization, trading illiquidity, high transaction costs, damaged trustworthiness of stock markets, the marginal influence of investment funds, and the lack of promotion related to capital markets specific advantages and characteristics are prominent features of Bosnia and Herzegovina's capital markets (Becirović and Kozarevic, 2018). The corporate sector profoundly relies on banking loans to meet financing needs thus making Bosnia and Herzegovina's financial system decidedly bank-centric.

When it comes to theoretical elaboration of corporate finance principles we have made a selection based on fulfilment criteria: principles that do not meet requirements necessary for the analysis of such approaches effects, and those whose premise is acceptable even in Bosnia and Herzegovina's corporate environment.

2.1. Investment principle and firm growth

The theoretical framework of all four basic models of investment needs assessment: Accelerator model, Neoclassical model, Cash flow model, and Q model (Kopcke and Howrey, 1994), with certain adjustments, is applicable in the presented corporate environment. These adjustments imply that the constraints arising from the fact that these companies' equity is not publicly traded on stock exchanges are taken into account when estimating the expected return on investment projects. In such circumstances, "stand-alone" risk is pronounced, thus creating upward pressure on the expected return during the selection of investment projects. Empirical research confirms the positive relationship of capital investment with earnings and firm growth in general, as well as the positive impact of capital investment on the future employee, income, cash flow, and profitability growth (Kim, 2001; Ching-Hai, Hsiang-Lan, and Yen-Sheng, 2006; Oliveria and Fortunato, 2017). Thus, well-designed investment policies are directly reflected in the performance of the company.

Conversely, inadequate investment policies will result in negative impacts on performance. In the investment segment, the aspect of expected investment movements in the recession and post-recession periods is important both theoretically and empirically. The investment activities of individual companies in a period of recession depend primarily on the extent to which a particular industry is affected by recession shocks, but also the internal financial strength of the company to finance new investments.

2.2. Financing principle as a part of managing the financial and investment structure concept

Research results within the financial leverage domain should also be considered in the context of the premises offered by theoretical models. In this sense, the starting point of the *Net Profit Approach* (Durand, 1952) should not be accepted. The cost of financing depends on the debt level, which is particularly true in bank-centric systems. The *Operating Earnings Approach* (Durand, 1952) is partly acceptable in a way that a corporate performance depends on the operating earnings generated over time, rather than distribution between the owner and the creditor of the firm. However, this approach is not acceptable when debt levels are observed through the owners' risk perspective only, disregarding creditors. In other words, obligations are largely treated as if they are risk-free, which is not in line with the real-world scenario. *Traditional Approach* (Durand, 1952) with a valid interpretation is applicable in specific circumstances marked by the recession impact, market transition, as well as underdeveloped capital markets. *Theory of Debt Insignificance* (Modiglijani and Miller, 1958) is not relevant for Bosnia and Herzegovina's corporate sector provided that it requires developed markets. On the other hand, *Trade-off Theory* (Modigliani and Miller, 1963) is understandable and acceptable in these circumstances. *Market Timing Theory* (Graham and Harvey, 2002) requires the existence of developed capital markets, unlike *Signaling Theory* (Ross, 1977) which poses no obstacles for smooth functioning. More precisely, the possibility of utilizing debts can signal good prospects, while principal offering can signal perceived difficulties. The preference for internal financing, followed by lending, and public offerings is understandable and acceptable within Bosnia and Herzegovina's corporate sector context according to *The Pecking Order Theory* (Myers and Majluful, 1984). This stems from the dominant incorporation structure but also overall capital markets and joint-stock companies functioning in Bosnia and Herzegovina. Empirical research related to the capital structure effects on corporate performance with a special emphasis on financial leverage does not provide unambiguous results (Rajan and Zingales, 1995; Bhaduri, 2002; Abor, 2005; Uchenna and Uremadu, 2009; Gill, Biger and Mathur, 2011; Antoni and Chinaemerem, 2012; Bei and Wijewardana, 2012; Arasteh and

Nourbakhsh, 2014; Shahzad, Ali, Ahmad and Ali, 2015; Anton, 2016). Certainly, financial leverage positive effects remain well researched. However, this raises the question of whether and to what extent can financial leverage be used for generating growth.

2.3. Dividend principle as a part of the results distribution policy concept

Finally, from the dividend policy aspect, it should be noted that the *Dividend Irrelevance Theory* assumptions (Miller and Modigliani, 1961) are not met in specific conditions with constrained or weak capital markets and thus should not be used to explain the relationship between dividend policy effects and growth indicators. *Dividend Relevance Theory* (Gordon and Lintner, 1962) can be considered valid in these circumstances given owners' interest in the earnings distribution. *The Residual Theory of Dividends* refers to the approach by which most earnings are reinvested in specific projects while the remaining part can be disbursed to owners. Reinvesting earnings as opposed to owners' dividend payment is the direction which Bosnia and Herzegovina's corporate sector might take without pressure from shareholders. In other words, to prioritize capital investments over residual cash dividends payments. When it comes to the *Theory of Tax Differentiation* (Linzenberger and Ramaswamy, 1979), the basic assumptions should not be considered fulfilled for Bosnia and Herzegovina's corporate sector. Namely, income that is not considered personal income and not taxed are dividends, while capital gains are considered personal income and thus are taxed.

2.4. Measures and variables used in the previous research

An overview of measures and indicators used in previous research is necessary for creating a quality basis for the selection of adequate indicators in the model that will optimally explain the phenomenon of internal growth of companies in the business conditions of B&H companies.

After a detailed review of previous research, the selection of selected indicators was performed as follows:

a) Selected indicators of firm growth: sales revenue growth, earnings before taxation increased by financing costs and depreciation growth (using logarithmic values) and return on assets (Wald, J. K., 1999; Delmar, F., Davidsson, P., Gartner, W. B., 2003; Tangen, S, 2003; Sahut, J. M., Lantz, J. S., 2003; Delmar, F., 2007; Gupta, P. D., Guha, S., Krishnaswami, S. S., 2013; Wiklund, J., Patzelt, H., Shepherd, D. A., 2009; Anton, S. G., 2016).

b) Selected indicator of investment principle: long-term assets growth (Lev, B., Thia-garanjan, S. 1993; Callen, J., Livnat, J., Rayan, S., 1998; Kallapur, S., Trombley, M., 1999; Richardson, S., 2002; Hsiao, P., Li, D., 2013).

c) Selected indicator of financing principle: the ratio of total liabilities and total assets (Rajan, G. R., Zingales, L., 1995; Bhaduri, S. N., 2002; Uchenna, E., Urema-du, S. O., 2009; Gill, A., Biger, N., Mathur, N., 2011; Antoni, O., Chinaemerem, C. O., 2012; Bei, Z., Wijewardana, W. P., 2012; Arasteh, F., Nourbakhsh, M.M., 2014; Shahzad, S. J., Ali, P., Ahmad, T., Ali, S., 2015; Anton, S. G., 2016; Hamouri, B., Al-Rdaydeh, M., Ghazala, A., 2018).

d) Selected indicator of dividend principle: ratio of paid dividends and earnings made (Abor, J., Bokpin, G., 2010; Fatemi, A., Bildik, R., 2012; Patra, T., Poshakwa-le, S., Ow-Yong, K, 2012; Subramaniam, R. K., Shaiban, M., Suppiah, S. D, 2014; Bushra, A., Mirza, N., 2015; Labhane, N. B., Mahakud, J., 2016; Kannadhasan, M., Aramvalarthan, S., Balasubramanian, P., Gopika, A., 2017).

3. Data and methodology

The database used in regression models consists of 12.316 companies registered in the Federation of Bosnia and Herzegovina for the 2008 - 2010 period, 15.391 companies for the 2011 - 2016 period, as well as 6.205 companies registered in the Republic of Srpska between 2008 and 2016. Thus, the total number of companies in our sample that regularly published financial reports between 2008 and 2010 is 18.322, while the total number for the 2011 - 2016 period is 21.596. Formally model is specified as follows:

Growth indicator = Indicator CAPEX + Leverige + Dividend/Profit + Instrumental variables indicators + Control variables indicators + Interactions + Residuals .

The regression model referring to the central research hypothesis

H.1: *Consistent application of the corporate finance principles affects the firm growth in the recession and post-recession period.*

is presented through the following relations:

$$LogINC = \beta 0 + \beta 1 * d.LogINC + \beta 2 * \log \Delta FDFXA + \beta 3 * INDBT + \beta_4 * DVDRT + \beta_5 * LRG + \beta 6 * MID + \beta 7 * FNCRS + \sum_{i=1}^{11} \beta_{i+7} * ACTdummy_i + \beta * INTVAR + ai + Uit$$

$$LogEBITDA = \beta 0 + \beta 1 * d.LogINC + \beta 2 * \log \Delta FDFXA + \beta 3 * INDBT + \beta_4 * DVDRT + \beta_5 * LRG + \beta 6 * MID + \beta 7 * FNCRS + \sum_{i=1}^{11} \beta_{i+7} * ACTdummy_i + \beta * INTVAR + ai + Uit$$

$$ROA = \beta 0 + \beta 1 * d.LogINC + \beta 2 * \log \Delta FDFXA + \beta 3 * INDBT + \beta_4 * DVDRT + \beta_5 * LRG + \beta 6 * MID + \beta 7 * FNCRS + \sum_{i=1}^{11} \beta_{i+7} * ACTdummy_i + \beta * INTVAR + ai + Uit$$

where:

- LogINC - the logarithmic value of realized sales revenue.

- LogEBITDA - the logarithmic value of the realized earnings before taxation increased by financing costs and depreciation.

- ROA - return on assets, i.e. the ratio between realized earnings and company's assets

- d.LogINC - the logarithmic value of sales revenue from the previous period (instrumental variable)

- LogΔFDFXA - logarithmic value of the fixed assets difference for two consecutive periods calculated as: Fixed assets$_{(t)}$ - Fixed assets$_{(t-1)}$ + Depreciation$_{(t)}$. Selected representative of the investment principle.

- INDBT - the ratio between liabilities and total assets. Selected representative of the financing principle.

- DVDRT - the ratio of dividends paid and earnings made. Selected representative of the dividend principle.

- LRG - dummy variable representing large enterprises in the model.

- MID - dummy variable representing medium-sized enterprises (small enterprises used as a basis in regression when creating dummy variables).

- FNCRS - dummy variable used as „1" for the years 2008-2010, and „0" for the period 2011-2016. representing periods of recession, i.e. recovery from the recession (used only in the case of regression for the Republic of Srpska).

- ACTdummy - set of dummy variables that classify companies into one of 12 sectors (1-wood industry, 2 - energy, 3 - construction, 4 - metal industry, 5 - other activities, 6 - manufacturing, 7 - agricultural and processing industry, 8 - mining, 9 - retail trade, 10 - wholesale trade, 11 - transport and 12 - service activities).

- INTVAR - a set of interactive variables that check for specific changes taking into account different activities, sizes and indicators of corporate finance principles.

- a_i - part of the model error that relates to time-invariant variables.

- U_{it} - idiosyncratic part of the residual.

4. Empirical research results and discussion

Presented below are regression relations results for all three-panel datasets from the aspect of integral corporate finance principles impact on selected firm growth indicators.

Table 1: Integral impact of selected corporate finance principles indicators on firm growth (Federation of Bosnia and Herzegovina, recession period)

	Log FDFXA				INDBT				DVDRT			
	Coef.	SE	t	p	Coef.	SE	t	p	Coef.	SE	t	p
LogINC	0,0165	0,036	4,6	0	-0,1387	0,082	-1,69	0,091	0,003	0,032	0,12	0,906
LogEBITDA	0,0213	0,006	3,44	0,001	-1,465	0,1418	-10,33	0,000	0,1904	0,065	2,91	0,004
ROA	0,0972	0,07	1,38	0,168	-29,09	1,1637	-18,03	0,000	4,628	0,745	6,21	0,00

Source: *Authors' calculations*

Table 1 contains data on the impact coefficients of corporate finance principles (LogFDFXA, INDBT, DVDRT) for selected indicators of firm growth (LogINC, LogEBITDA, ROA). The following effects are distinguishable from the tabular overview. The impact of corporate finance principles' potential on sales volume, measured by logarithmic values of sales revenues in the recession period (2008-2010) is very interesting. Investment growth measured by the fixed assets first difference, although statistically significant (p = 0.000), has no substantial impact on sales revenue growth (with the increase of fixed assets first difference of 1%, sales growth was recorded only at 0.0165%, which is negligible). On one hand, this seems worrying because investments are aimed at business development and market share increase. On the other hand, this finding supports the conclusion that during the recession period investments are directed at maintaining the existing market share or replacing the missing market share, and serve less to perpetuate growth. Additionally, the growth of external borrowing had a negative impact on sales, which is an unexpected and unfavorable insight. Admittedly, this thesis can be confirmed only at a confidence level of 90% (p = 0.091 However, a 0.1% increase in the debt ratio resulted in a 1.4% drop in sales revenue. This relation reveals two insights. First, the borrowing potential was not utilized for growth through the financial leverage effect. And second, borrowing was obviously aimed at overcoming the ongoing business performance problems. The net profit distribution policy did not have any valid relationship with the sales revenue movement, as can be seen from the confidence coefficient (p = 0.906). Thus, the regression coefficient requires no comment. Furthermore, corporate investment levels did not result in substantial EBITDA changes: a mere 0.02%. Thus, investments during the recession period did not have a major impact on the operating profitability in the Federation of Bosnia and Herzegovina. This further strengthens our earlier conclusions regarding the investments objective in the recession period.

In line with the insights regarding the effects of external financing on sales, the debt ratio had a negative impact on operating profits in the recession period. Thus, each increase of the debt ratio by 0.1 (10 percentage points growth of external financing in the overall corporate financing structure) resulted in an operating profitability drop of as much as 14.65%. This finding, at a confidence level of 99% (p = 0.000), further indicates that external financing was primarily used for overcoming short-term business fluctuations, and much less in the function of firm growth. A positive relationship between the dividends distribution policy and operating profitability is expected at all times, including the recession. Given that it is not of much practical significance, we will not elaborate on this point further. A positive relationship between the dividends distribution policy and operating profitability is expected at all times, including the recession. Given that it is not of much practical significance, we will not elaborate on this point further. Consistent with the previous two findings on the effects of the investment during the recession period, it is not surprising that there is no valid relationship between realized investments and returns on assets as the third indicator of firm growth (p = 0.168) for the observed period. The effect of corporate indebtedness growth had a negative impact both on sales and operating profitability. Thus, both statistical significance (p=0,000) and the share increase of external financing to return on assets come as no surprise. An increase in the share of external financing within the overall financing structure by 10 percentage points, lowers a return on assets by almost 2.9 percentage points. Finally, the increase of dividends share within the realized net profit by 0.1 (e.g. from 0.2 to 0.3) affects return on assets growth by 0.46 percentage points. The integral impact of selected corporate finance principles indicators on firm growth results for the post-recession period (2011-2016.) are summarised in Table 2.

Table 2: Integral impact of selected corporate finance principles indicators on firm growth (Federation of Bosnia and Herzegovina, post-recession period)

	Log FDFXA				INDBT				DVDRT			
	Coef.	SE	t	p	Coef.	SE	t	p	Coef.	SE	T	p
LogINC	0,03	0,001	20,39	0,000	-0,328	0,039	-8,39	0,000	0,159	0,014	11,37	0,000
LogEBITDA	0,042	0,002	19,44	0,000	-1,187	0,041	-28,62	0,000	0,400	0,021	19,00	0,000
ROA	0,002	0,0003	5,90	0,000	-0,246	0,013	-19,13	0,000	0,083	0,005	17,00	0,000

Source: *Authors' calculations*

Primarily, there is indisputably a substantial connection or integral impact of corporate finance principles on firm growth for the Federation of Bosnia and Herzegovina in the post-recession period (2011-2016). The impact of fixed assets investments first difference growth (ceteris paribus) although statistically significant does not have a substantial effect on sales revenues and operating profitability growth (0,03%, 0,04%).

These results do not deviate significantly from the results reported for the recession period. However, unlike the recession period, for which no valid relationship between investment and return on assets movement could be determined, an insignificant difference was detected this time. Namely, the fixed assets first difference growth of 1%, there is an essentially negligible return on assets increase (0.00002 percentage points), although statistically significant. The negative effect of external financing growth persisted during the post-recession period in the Federation of Bosnia and Herzegovina too. Thus, indebtedness growth by 0.1 leads to a drop in sales revenues by 3.2%, as well as a decline in operating profitability by 11.87%, and the return on assets by 0.024 percentage points. For all three relationships, the confidence level is over 99% ($p = 0.000$). The results of this research indicate that leverage is consistently used for purposes other than firm growth. Hence, there is a need for strategic application of leverage in a way that enables maximizing growth potential but also less reliance on external financing in overcoming short-term challenges. The increase of dividends shares indicates a statistically significant impact on all three growth performance metrics. Thus, the increase in the dividends share by 0.1 has a positive impact on the sales growth revenue by 1.6%, the growth of operating profitability by 4%, and the return on assets growth by 0.0083 percentage points. As previously mentioned, this effect is expected. However, it should be observed through the potential cointegration effect prism. This is because it is not reasonable to propose that net profits policy distribution has a substantial positive effect on firm growth when the other two corporate finance principles reject such a claim. Table 3. contains a summary of the integral impact of selected corporate finance principles indicators on firm growth results for the Entity Republic of Srpska.

Table 3: Integral impact of selected corporate finance principles indicators on firm growth (The Republic of Srpska Entity, 2008-2016.)

	Log FDFXA				INDBT				DVDRT			
	Coef.	SE	t	p	Coef.	SE	t	p	Coef.	SE	t	p
LogINC	0,2221	0,067	33,18	0,00	-0,018	0,078	-0,23	0,818	-0,0210	0,0530	-0,39	0,696
LogEBITDA	0,2610	0,005	57,96	0,00	-1,002	0,056	-17,77	0,000	0,4178	0,0490	8,54	0,000
ROA	-0,2680	0,047	-5,73	0,00	-17,836	0,588	-30,33	0,000	10,623	0,5116	20,76	0,000

Source: *Authors' calculations*

We have already stated that the result of the integral impact of selected corporate finance principles indicators on firm growth is undeniable in all three-panel datasets. Table 3 shows that *ceteris paribus*, the fixed assets investment first difference growth of 1% implies a sales revenues increase of 0.22%, an increase of 0.26% in operating profitability, and a decrease, albeit insignificant (-0.003) for the return on assets.

All three recorded *ceteris paribus* effects are valid at a confidence level of over 99% (p = 0.000), but the essential effect is not substantial. The corporate indebtedness growth in the Republic of Srpske during the 2008 - 2016 period did not have a statistically significant impact on sales (p = 0.818) observed in the context of the integral impact of all three corporate finance principles. On the other hand, the effect of additional borrowing is significant but negative for both profitability aspects. Thus, the indebtedness increase by 0.1 contributes to a drop in operating profitability by as much as 10% and a lower return on assets by 1.78 percentage points. The dividend policy effects in the Republic of Srpska are almost identical *ceteris paribus* to those identified in the Federation of Bosnia and Herzegovina. The high value of the p-coefficient for the relationship with sales revenues (p = 0.696) does not indicate a connection between net profits distribution policy and sales revenue movements. On the other hand, as expected, the increase of dividends share within realized net profits by 0.1 (e.g. from 0.2 to 0.3) has a positive impact on operating profitability growth by 4% and return on assets increase by 1 percentage point. But, as previously mentioned, due to cointegration effects this relation should not be interpreted literally. Thus, further research regarding the impact of dividend policy on corporate performance is necessary. As already stated, the fixed effects model has been used to regress all relations relevant for the stated hypothesis. Therefore, the regression model removed all variables which are of the time-invariant nature, like dummy variables for size (LRG, MID), activity (ACT) and time period (FNCRS). Interactions as combinations of the time invariable indicators (INTVAR) and other variables included in the model have been excluded from the interpretations of the results while not being statistically significant to suggest any important remarks against hypothesis tests. In this regard, all the abovementioned variables are not included in the regression results interpretations, as being irrelevant. In the case of the panel regression model to decide between fixed and random effects the Hausman test, as the most relevant statistical test for this purpose, is applied. Without any doubt, in all the cases the results of the Hausman test indicated the fixed effects model as the most appropriate. The results of the Hausman test are attached to each regression table in the Appendixes. In addition, robust standard errors term has been used in order to tackle the issue of heterogeneity. The elaboration of the integral impact of corporate finance principles on firm growth should serve only as an introduction for a deeper analysis of these effects, observed through the prism of isolated influence. Observed individually, ceteris paribus, selected indicators effects do not have a significant practical purpose and arise solely from the need to verify integral effects of internal growth potentials from investing, financing, and earnings distribution principles. Therefore, there is a need to verify the effects of isolated influences for each of these principles with the inclusion of appropriate control variables and potentially more important interactions.

5. CONCLUDING REMARKS

The empirical analysis of this research answers reasonably straightforward the crucial question of the corporate finance principle's impact on the firm growth in Bosnia and Herzegovina for the 2008-2016 period. The importance of integral or holistic influence to the firm growth has therefore been unquestionably confirmed. We confirm the impact of investments on the sales revenues, EBITDA and ROA growth, although this effect is not substantial. However, corporate indebtedness growth has a significant negative impact on all three growth performance indicators (sales volume, EBITDA, and ROA). Furthermore, the net profits distribution policy did not have a major impact on the performance growth indicators. Although the relationship between investments and firm growth indicators has been distinguishable throughout the analysis the recognized lack of the investment potentials serves as an important signal that the tax and other investments incitement policies should be regarded as one of the most important priorities for Bosnia and Herzegovina. Additionally, financing structure as a factor in growth potential is not utilized appropriately. External financing is used mostly to overcome business short-term fluctuations, and to a lesser extent as a potential for profitability and return on assets growth. Further research is needed to shed light and elaborate on the causes of the weak or even opposite effect of external financing on firm growth. Dividend policy does not present a potential that consistently contributes to the firm growth performance. This fact can be taken as a useful basis to further advancement of the tax policy in the dividend payment aspect. Research within this domain should be implemented continuously. Corporate finance principles' impact on firm growth should be a consistent area of research including the continuous database updates and close cooperation of academia and government institutions. It is indisputable that integral application of the corporate finance principles has an impact on firm growth in Bosnia and Herzegovina, it seems rather important to research and interpret the results of the individual effects for each principle.

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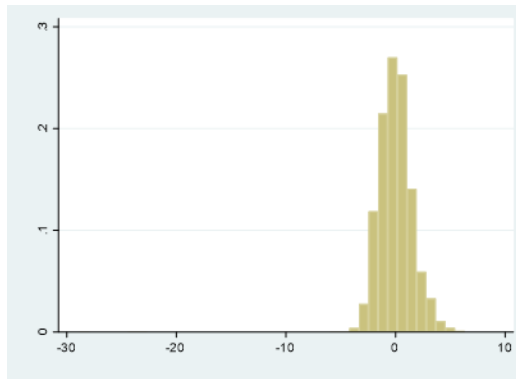
APPENDIX

Appendix I: Regression results for the relation: LogINC vs. LogFDFXA, INDBT, DVDRT (Federation of Bosnia and Herzegovina, recession period)

Fixed-effects (within) regression				Number of obs		= 10,351	
Group variable: ID				Number of groups		= 7,313	
R-sq:				Obs per group:			
within = 0.0117				min = 1			
between = 0.1950				avg = 1.4			
overall = 0.1881				max = 2			
corr(u_i, Xb) = 0.4048				F(3,7312) = 8.09			
				Prob > F = 0.0000			
LogINC	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
LogFDFXA	.0165599	.0035967	4.60	0.000	.0095093	.0236104
INDBT	-.1387017	.0821668	-1.69	0.091	-.2997723	.0223689
DVDRT	.0038296	.0324451	0.12	0.906	-.0597722	.0674314
_cons	13.20142	.0581054	227.20	0.000	13.08752	13.31532
sigma_u						1.6396485
sigma_e						.30511822
rho				.96653042 (fraction of variance due to u_i)		

Hausman test result (chi2(3)=(b-B)'[(V_b-V_B)^(-1)](b-B)=18210.35,Prob>chi2= 0.0000
Source: *Authors' calculations*

Appendix II: Distribution of residuals for the relation: LogINC vs. LogFDFXA, INDBT, DVDRT (Federation of Bosnia and Herzegovina, recession period)

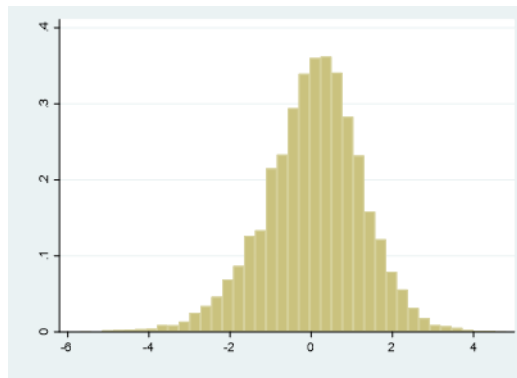

Source: *Authors' calculations*

Appendix III: Regression results for the relation: LogEBITDA vs. LogFDFXA, INDBT, DVDRT (Federation of Bosnia and Herzegovina, recession period)

Fixed-effects (within) regression				Number of obs = 10,385		
Group variable: ID				Number of groups = 7,338		
R-sq:				Obs per group:		
within = 0.0370				min = 1		
between = 0.0781				avg = 1.4		
overall = 0.0769				max = 2		
corr(u_i, Xb) = 0.0626				F(3,3044) = 38.99		
				Prob > F = 0.0000		
LogEBITDA	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
LogFDFXA	.0212821	.0061894	3.44	0.001	.0091463	.0334179
INDBT	-1.464966	.1417675	-10.33	0.000	-1.742936	-1.186996
DVDRT	.1903697	.0654608	2.91	0.004	.0620178	.3187216
_cons	11.2687	.0968675	116.33	0.000	11.07877	11.45863
sigma_u						1.8065789
sigma_e						.64678368
rho				.8863871 (fraction of variance due to u_i)		

Hausman test result (chi2(3)=(b-B)'[(V_b-V_B)^(-1)](b-B) = 285.35, Prob>chi2=0.0000
Source: *Authors' calculations*

Appendix IV: Distribution of residuals for the relation: LogEBITDA vs. LogFDFXA, INDBT, DVDRT (Federation of Bosnia and Herzegovina, recession period)

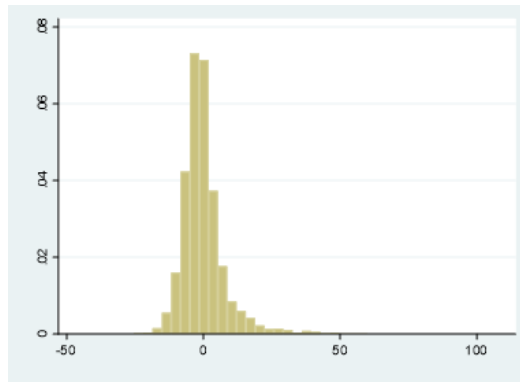

Source: *Authors' calculations*

Appendix V: Regression results for the relation: ROA vs. LogFDFXA, INDBT, DV-DRT (Federation of Bosnia and Herzegovina, recession period)

Fixed-effects (within) regression			Number of obs		=	10,385	
Group variable: ID			Number of groups		=	7,338	
R-sq:			Obs per group:				
within = 0.0991			min =		1		
between = 0.0661			avg =		1.4		
overall = 0.0690			max =		2		
corr(u_i, Xb) = -0.3357			F(3,3044) = 111.65				
			Prob > F = 0.0000				
ROA	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]		
LogFDFXA	.0971807	.0704517	1.38	0.168	-.040957	.2353184	
INDBT	-29.09089	1.61369	-18.03	0.000	-32.25492	-25.92685	
DVDRT	4.627957	.745118	6.21	0.000	3.166971	6.088942	
_cons	22.82713	1.102609	20.70	0.000	20.66519	24.98906	
sigma_u						14.145789	
sigma_e						7.3621146	
rho					.78686645 (fraction of variance due to u_i)		

Hausman test result (chi2(3)=(b-B)'[(V_b-V_B)^(-1)](b-B) = 285.35, Prob>chi2=0.0000
Source: *Authors' calculations*

Appendix VI: Distribution of residuals for the relation: ROA vs. LogFDFXA, INDBT, DVDRT (Federation of Bosnia and Herzegovina, recession period)
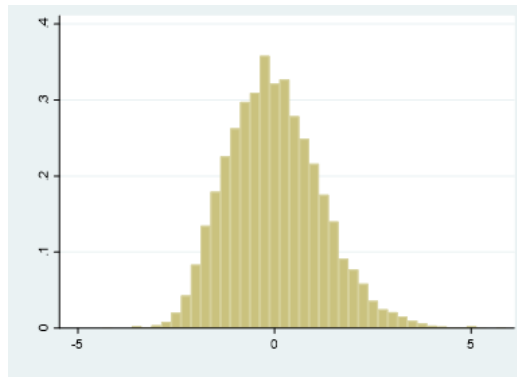

Source: *Authors' calculations*

Appenix VII: Regression results for the relation: LogINC vs. LogFDFXA, INDBT, DVDRT (Federation of Bosnia and Herzegovina, post-recession period)

Fixed-effects (within) regression				Number of obs	=	31,103	
Group variable: ID				Number of groups	=	11,175	
R-sq:				Obs per group:			
within	= 0.0438			min =	1		
between	= 0.2199			avg =	2.8		
overall	= 0.2012			max =	5		
corr(u_i, Xb) = 0.3823				F(3,11174) = 192.05			
				Prob > F = 0.0000			
LogINC	Coef.	Std. Err.	T	P>|t|	[95% Conf. Interval]		
LogFDFXA	.0302092	.0014819	20.39	0.000	.0273044		.0331139
INDBT	-.32876	.0391978	-8.39	0.000	-.4055946		-.2519253
DVDRT	.1595168	.0140244	11.37	0.000	.1320264		.1870072
_cons	13.27319	.0242402	547.57	0.000	13.22567		13.3207
sigma_u							1.6175261
sigma_e							.34771441
Rho					.95583039 (fraction of variance due to u_i)		

Hausman test result (chi2(3)=(b-B)'[(V_b-V_B)^(-1)](b-B) = 4852.18, Prob>chi2=0.0000
Source: *Authors' calculations*

Appendix VIII: Distribution of residuals for the relation: LogINC vs. LogFDFXA, INDBT, DVDRT (Federation of Bosnia and Herzegovina, post-recession period)

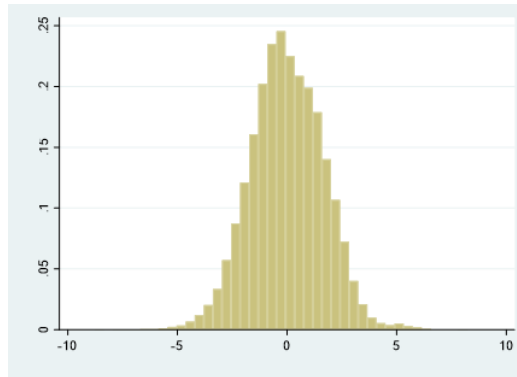

Source: *Authors' calculations*

Appendix IX: Regression results for the relation: LogEBITDA vs. LogFDFXA, IN-DBT, DVDRT (Federation of Bosnia and Herzegovina, post-recession period)

Fixed-effects (within) regression			Number of obs		=	31,103	
Group variable: ID			Number of groups		=	11,175	
R-sq:			Obs per group:				
within	= 0.0676			min =	1		
between	= 0.1794			avg =	2.8		
overall	= 0.1792		max =	5			
corr(u_i, Xb) = 0.2474			F(3,19925) = 481.58				
			Prob > F = 0.0000				
LogEBITDA	Coef.	Std.Err.	T	P>|t|	[95% Conf. Interval]		
LogFDFXA	.0421284	.0021673	19.44	0.000	.0378804	.0463765
INDBT	-1.187427	.0414919	-28.62	0.000	-1.268755	-1.1061
DVDRT	.4001305	.0210631	19.00	0.000	.358845	.441416
_cons	11.38458	.0284354	400.37	0.000	11.32884	11.44032
sigma_u						1.7649284
sigma_e						.60930002
rho					.89351026 (fraction of variance due to u_i)	

Hausman test result (chi2(3)=(b-B)'[(V_b-V_B)^(-1)](b-B) = 2370.74, Prob>chi2=0.0000
Source: *Authors' calculations*

Appenix X: Distribution of residuals for the relation: LogEBITDA vs. LogFDFXA, INDBT, DVDRT (Federation of Bosnia and Herzegovina, post-recession period)

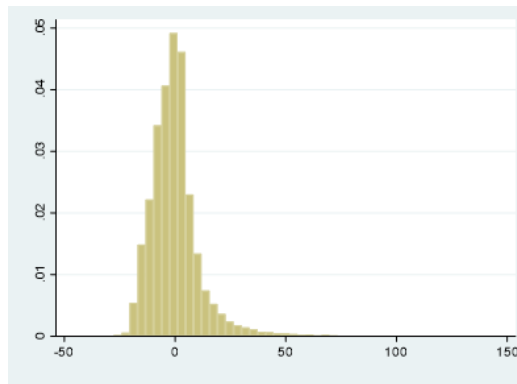

Source: *Authors' calculations*

Appenix XI: Regression results for the relation: ROA vs. LogFDFXA, INDBT, DV-DRT (Federation of Bosnia and Herzegovina, post-recession period)

Fixed-effects (within) regression				Number of obs		= 31,103	
Group variable: ID				Number of groups		= 11,175	
R-sq:				Obs per group:			
within	= 0.1088			min =	1		
between	= 0.0008			avg =	2.8		
overall	= 0.0005			max =	5		
corr(u_i, Xb)	= 0.0093			F(3,11174) = 248.91			
				Prob > F = 0.0000			
ROA	Coef.	Std. Err.	T	P>|t|	[95% Conf. Interval]		
LogFDFXA	.0021425	.0003631	5.90	0.000	.0014309		.0028542
INDBT	-.2462202	.012871	-19.13	0.000	-.2714496		-.2209908
DVDRT	.0835677	.0049169	17.00	0.000	.0739297		.0932056
_cons	.2225397	.0065821	33.81	0.000	.2096377		.2354418
sigma_u							9.4965366
sigma_e							.08644511
rho					.99991715 (fraction of variance due to u_i)		

Hausman test result (chi2(3)=(b-B)'[(V_b-V_B)^(-1)](b-B) = 32.7, Prob>chi2=0.0000
Source: *Authors' calculations*

Appenix XII: Distribution of residuals for the relation: ROA vs. LogFDFXA, IND-BT, DVDRT (Federation of Bosnia and Herzegovina, post-recession period)

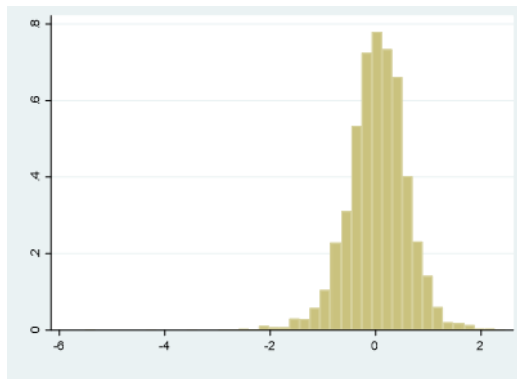

Source: *Authors' calculations*

Appenix XIII: Regression results for the relation: LogINC vs. LogFDFXA, INDBT, DVDRT (Entity Republic of Srpska)

Fixed-effects (within) regression			Number of obs	=	15,316	
Group variable: ID			Number of groups	=	5,514	
R-sq:			Obs per group:			
within	= 0.1915		min =		1	
between	= 0.2944		avg =		2.8	
overall	= 0.2667		max =		7	
corr(u_i, Xb) = 0.2426			F(3,5513) = 374.91			
			Prob > F = 0.0000			
LogINC	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
LogFDFXA	.2221746	.0066963	33.18	0.000	.2090472	.2353019
INDBT	-.0179821	.0779421	-0.23	0.818	-.1707794	.1348152
DVDRT	-.0206758	.052913	-0.39	0.696	-.1244062	.0830545
_cons	11.22117	.0856567	131.00	0.000	11.05325	11.38909
sigma_u	1.4339597					
sigma_e	1.1375281					
Rho	.61376453				(fraction of variance due to u_i)	

Hausman test result: chi2(4)=(b-B)'[(V_b-V_B)^(-1)](b-B)=1587.85, Prob>chi2 = 0.0000
Source: *Authors' calculations*

Appenix XIV: Distribution of residuals for the relation: LogINC vs. LogFDFXA, INDBT, DVDRT (Entity Republic of Srpska)

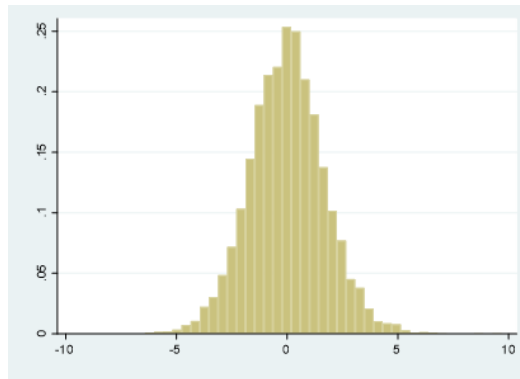

Source: *Authors' calculations*

Appenix XV: Regression results for the relation: LogEBITDA vs. LogFDFXA, IN-DBT, DVDRT (Entity Republic of Srpska)

Fixed-effects (within) regression				Number of obs	=	15,247	
Group variable: ID				Number of groups	=	5,503	
R-sq:				Obs per group:			
within = 0.2810				min =	1		
between = 0.4616				avg =	2.8		
overall = 0.4100				max =	7		
corr(u_i, Xb) = 0.3225				F(3,9741) = 1268.87			
				Prob > F = 0.0000			
LogEBITDA	Coef.	Std. Err.	T	P>|t|	[95% Conf. Interval]		
LogFDFXA	.2609933	.0045026	57.96	0.000	.2521672		.2698194
INDBT	-1.002247	.0563993	-17.77	0.000	-1.112801		-.8916925
DVDRT	.4178439	.0489326	8.54	0.000	.3219258		.5137621
_cons	9.262356	.058733	157.70	0.000	9.147227		9.377485
sigma_u							1.2786704
sigma_e							1.0911747
rho	.57862513 (fraction of variance due to u_i)						

Hausman test result: chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B) = 4113.93 Prob>chi2 = 0.0000
Source: *Authors' calculations*

Appenix XVI: Distribution of residuals for the relation: LogEBITDA vs. LogFDFXA, INDBT, DVDRT (Entity Republic of Srpska)
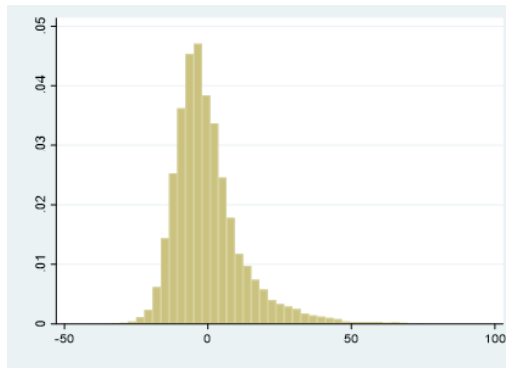

Source: *Authors' calculations*

Appenix XVII: Regression results for the relation: ROA vs LogFDFXA, INDBT, DVDRT (Entity Republic of Srpska)

Fixed-effects (within) regression			Number of obs		= 15,241	
Group variable: ID			Number of groups		= 5,505	
R-sq:			Obs per group:			
within = 0.1142			min =	1		
between = 0.1422			avg =	2.8		
overall = 0.1414			max =	7		
corr(u_i, Xb) = -0.0114			F(3,9733) = 418.42			
			Prob > F = 0.0000			
ROA	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
LogFDFXA	-.2677288	.0467127	-5.73	0.000	-.3592954	-.1761622
INDBT	-17.8366	.5880451	-30.33	0.000	-18.9893	-16.68391
DVDRT	10.62316	.5116547	20.76	0.000	9.620215	11.62611
_cons	21.50854	.6114707	35.18	0.000	20.30993	22.70715
sigma_u						11.70993
sigma_e						11.332737
rho					.51636495 (fraction of variance due to u_i)	

Hausman test result (chi2(3)=(b-B)'[(V_b-V_B)^(-1)](b-B) = 290.46, Prob>chi2=0.0000
Source: *Authors' calculations*

Appenix XVIII: Distribution of residuals for the relation: ROA vs. LogFDFXA, INDBT, DVDRT (Entity Republic of Srpska)

Source: *Authors' calculations*

Jasmina Džafić

Nedžad Polić

PREGLED O INTERNOM RASTU PREDUZEĆA I PRINCIPIMA KORPORATIVNIH FINANSIJA - TEORIJE, OČEKIVANJA I ISHODI PRIMJENE

SAŽETAK:

Tokom gotovo jednog stoljeća razvijeno je mnogo teorija o rastu preduzeća, investicijama, finansijskoj poluzi i politici dividendi s ciljem da se obuhvate značajni odnosi među ključnim internim potencijalima rasta preduzeća. Opsežna je literatura koja otkriva determinante koje utječu na rast preduzeća. Očekivanja relacija između investicijskih aktivnosti, finansijskih struktura i politike dividendi s jedne strane i pokazatelja rasta preduzeća (vrijednost, obim prodaje, zaposlenost, prinos) s druge strane predstavljaju jasne i jednostavne odnose. Premda se iz većine teorija izvode odnosi i predstavljaju najnovija dostignuća u odnosu na interne potencijale rasta u skladu sa očekivanjima, u povezanoj literaturi pronalazimo značajan broj rezultata koji nisu u skladu sa očekivanjima. Naime, pod utjecajem specifičnih okolnosti, preduzeća se ponašaju tako da na različite načine suboptimalno koriste interne potencijale rasta. Među specifičnim okolnostima koje mogu utjecati na nacionalnu ekonomiju, tranzicija, post-recesijsko i nerazvijeno finansijsko tržište zaslužuju posebnu pažnju i fokus istraživanja. U ovom radu predstavljamo pregled postojećih teorija, potencijalne izazove označenih okolnosti i pregled odnosa između odabranih principa korporativnih finansija i pokazatelja rasta preduzeća. Istraživanje otkriva rezultate zasnovane na opsežnom skupu podataka preduzeća u Bosni i Hercegovini. Rezultati ovog rada mogu potaknuti daljnje istraživačke napore, teorijsku debatu o uzrocima i posljedicama rezultata, kao i jasan odgovor povezanih državnih tijela odgovornih za makroekonomski razvoj.

Ključne riječi: *korporativne finansije, rast preduzeća, kapitalni izdaci, finansijska struktura preduzeća, politika dividendi, Bosna i Hercegovina.*

JEL: *G300, G310, G320, G350*