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Identification of Sources of Finance in Growing Companies Operating in Food Industry in Tehran

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Abstract

This research by identifying and classifying finance sources can largely contribute in releasing companies' finance challenges and prevent bankruptcy. The paper first identified various finance sources following reviewing the finance and investment literature; then, final classification provided in term of what sources was more used in active food industries firms. Research statistical population consisted of senior executives of growing companies operating in food industry in Tehran. Research participants included 12 senior executives selected by convenience sampling method. Research methodology initially reviewed the literature and offered an elementary framework; then, it semi structurally interviewed managers, and finally analyzed findings through using Atlas software. Research findings show that finance is a critical success factor in firms; further, debt-based finance sources, capital-based, credits-based, entrepreneurial finance sources, and private sources are the most critical finance sources in order. Applying research findings causes forming a coherent finance thought in national food industries managers, it also paves the way for academic and scientific studies. If managers properly identify and utilize finance sources, finance source operations and fundraising may develop at national level.

Keywords: Financing, financing methods, Food industry, development stage, Iran

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Introduction

Any business unit requires investment to initiate and reinvestment to develop and sustain the activity. Both requirements met by financing. Access to finance is an important success factor and a critical concern for firms in different life stages that may last for months and even discourage managements from business management profession. This is particularly important when firms are less informed about different types of financing as well as financing strategies (Nasiri, 2011; Soudehi, 2011; Bigdel Lou, 2005; Soufai et al, 2006). Managers are provided with different financing alternatives and many finance sources, which consist of business investment portfolios. When business financing introduced, banks are traditionally referred; whereas, banks are often reluctant to risky investment. Banks and credit institutes are not the only finance sources, rather there are a wide range of finance sources (Muñoz-Leiva et al., 2012; Inderst and Müller , 2009; Kotler, 2004; Dong Lou, 2006). Innovations increasingly extended global capital market so that the competition to attract investment has never been so intense like now (Inderst and Muller, 2006). The largest impact in the type of financing source used by a company is the firm's life stage. Firm's life stages include launching, growth, maturation, and decline which have different finance sources (Kotler, 2004; 21).

In the last five years, 4383 food industry companies revoked and 2459 companies remained inactive i.e. progress percent within 0-100% (Statistics of Ministry of Industries and Business, 2014).

Reviewing the researches which studied firms' cancelation and inactivity factor reveals that ignoring financing at business growth step is one of the important factors. Regarding high failure rate and inactive businesses at growth step as well as lack of timely finance as one failure cause, this research identifies and classifies finance sources at this step (Balcaen and Ooghe, 2006). Active firms with over 3 years foundation considered as developing companies. According to the statistics of Ministry of Industries and Businesses, more than ten thousands active food industry companies in Tehran province actively participate in the market (statistics of Ministry of Industries and Businesses, 2014). In recent years, food industry companies increasingly grown and many entrepreneurship firms operate in food industry. On the other hand, the industry encounters high failure rate and inactive businesses; thus, finance sources play a critical role in food industry and active food industry companies are proper foundation of financing.

The purpose of the present research is to identify different finance sources of companies operating in food industry at growth step, and to study and classify interviews' results by using Atlas Ti software. Thus, regarding qualitative aforementioned variables, research adopted qualitative methodology and semi structured interview.

Research literature

Finance

Finance refers to collecting funds to purchase required items for producing goods or services delivery. In other word, it provides the required funds for economic projects

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investment whether the fund is cash flow or capital accumulation in intermediate goods (or semi-finished goods) (Ghasemkhani, 2009). Managers apply different finance tools (means) which have their own particular properties utilized in specific conditions. According to competition market, the present world necessitates determining suitable finance method to increase profitability and extend firms' lifetime (Soudehi, 2001).

Different financing methods

There are several different ways of financing businesses classified differently. This section, reviewing the literatures, provides different classifications of financing methods as follows.

- Financing methods based on time
- Financing methods based on place
- Financing methods based on life stages
- Financing methods based on formality or informality
- Financing methods based on international and national
- Financing methods based on capital or debt
- Financing methods based on being internal and external

Growth step

Financial management requires considering life stages to assign finance sources. Firm's life stages largely contribute in selecting the type of tools used for financing. Firms, at this stage, not only focus on private financing, but also appeal to risky investors, business angels, banks, large institutes (Rahnamye Roud poshti, F, 2013).

The present research tries to find the answer to this question that what the most critical finance sources at growth step are.

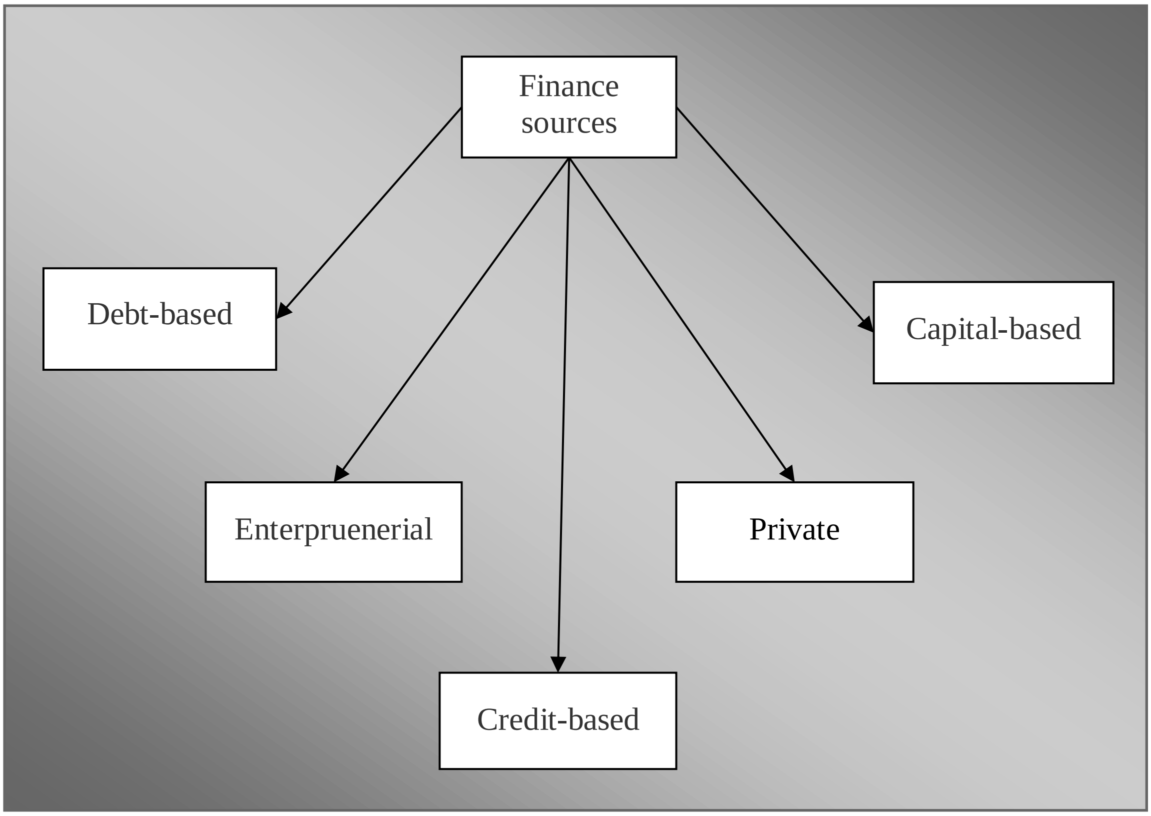

Figure 1 Research conceptual framework

Research methodology

This study is a development-applied research in term of purpose and a qualitative research respecting data collection method in which managers of companies operating in food industries are asked in an individual semi-structured interview to determine finance sources; then, once the content analyzed and the components classified, a comprehensive classification of the critical finance sources will be provided. Research time scope was within September 2014 to April 2015. Since financing is not the mere responsibility of marketing director or chief financial officer, senior managers often come to play along with marketing director and chief financial officer. Thus, the research statistical population included senior managers of companies operating in food industries.

According to GEM definition, companies operating in the market with over 3 years from foundation are called growing companies (GEM, 2014). Ministry of industries and businesses reported more than ten thousands growing companies operating in food industry. Therefore, there exist 1420 active food industry companies at growing step, which is the research population (Statistics of Ministry of industries and businesses, 2014).

Regarding the large research population and scattered food industry companies throughout Tehran province, the present research used a convenience sampling method. According to data adequacy principle, statistical sample selection continues until sample volume determined in terms of obtaining theoretical information adequacy or saturation. It means that no predetermined sample volume is allowed; sampling continues until new testees give no new information or have no impact in developing model or research theory (hypothesis) (Gaoueri, Gronhak et al, 1995 as cited in Danaiefar, 2006).

The present research conducted in five phases. In the first phase (initial studying), wide search conducted for gathering literature relevant to finance methods. Then, the collected literature carefully analyzed. In the second phase, research methodology and data gathering tools selected. Academic and food industry experts surveyed, in the third phase (designing interview questions and method validation), respecting finance sources. Research tools face and content validity verified following interview questions and proper sampling method provided. The survey piloted by two experts to increase measuring tools' validity. Next, measuring tools and method received required adjustments and finally confirmed. In the fourth phase (data collection), individual sessions held with each interviewee. In the last phase (analysis, interpretation, and conclusion), raw data were entered in Atlas Ti software and analyzed. Then, obtained data interpreted and compared with other studies; and finally, concluded following discussion.

To ensure questionnaire validity, the semi-structured interview offered to the experts to make the necessary adjustments. Moreover, the interviewee was requested to express its perception of the questions, and ask if there is any vagueness such that the responses measured according to research objectives.

To verify the questionnaire reliability, a summary of interview and researcher interpretation of interviewee provided by the end of interviewee; therefore, the individual could confirm or correct the material to avoid any misunderstanding so that the exact meaning and intention correctly recorded and interpreted. Further, sessions recorded by interviewees' permission.

Findings

The semi-structured interview texts initially studied to identify finance sources. Next, the texts tabulated and significant sentences separated to extract research various notions. These notions were encoded in conceptual classes relying on visual content, which indeed indicate an independent notion. Finally, the tables integrated to get the meanings of the presented tables once the interviewees' sentences studied and qualitatively analyzed.

In first column, any interviewees assigned a code from P1 to P12. The second column in detail represents verbal statements and what experts state on finance components. The two next columns illustrate important concepts of verbal statements in finance sources form.

In order to answer research questions, different finance sources classified following literature review and studying interviewees' responses:

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Table 1: Coding data

Central coding	Open coding	Verbal statements	Individual code
Finance sources	Capital-based	• Machinery purchase benefited finance facilities issue as abroad machineries are used. • Profit returning and reusing is another finance method.	P1, P12, P3
	Debt-based	• Banks and bank loans are utilized for developing. • Usance is used as one finance method. • The credit is used for finance meaning deferred payment purchase in which payment postponed as much as possible. • Long-term loan maturity is used for machinery purchase meaning that the payment is after one year used in contribution form. • Credit line is a proper facility for working capital. • Bank loans differ in contracts, for instance, partnership is used in working capital, which needs due settling.	P1, p2, P3, P4, p5, p6, p7, p8, p9, p10
		• In production, the government provides some facilities and support; the issue most concern the state announcements issued for banks. The banks grant facilities according to these announcements by which some costs reduces and more attraction emerge. • Institutes and loans' debt • Credit cards taken from banks and the amount returned in a specific time and the card will be recharged.	P1 P4, P7, P10, P12
		• Machinery and equipment rent • Raw materials credit purchase	P3, p5, p7
	Private finance sources	• First, the private capital is used. The person and family savings are used. • The enterprise initiates by private investment and help of relative and friends. Other finance method is use of others' investment and paying interest for the received amount.	P1, p2, p3, p4, p6, p10, P11, P12,
	Entrepreneur ship sources	• **Pre-sale** to known customers and get the amount before product delivery • Borrowing from those who financially afford and have willing to apply this capital. • Using local capital market (capital of locals requiring a place for investment). • Using small individual capitals • Specific investors for specific investment • Using facilities of raw materials' producer	P2, p5, p7, p10
		• Specific investors for specific projects	P4
		• Utilizing surpluses	P5
	Based-on credits	• The expertise and skills create a credit most companies require. If this factor exists, investors will recognize investment companies to invest on business.	P5

a. Capital-based finance sources
b. Debt-based finance sources
c. Entrepreneurship finance sources
d. Credit-based finance sources
e. Private finance sources

Each class of finance sources of growing companies includes components presented in Table 2 according to research literature and interview responses.

Figure 1 illustrates different types of finance sources according to Atlas ti graph each used differently. For instance, debt-based finance embraces loan, borrowing, partnership, etc. Figure also shows that interviewees referred to more than one finance sources. For instance, 11 types debt-based finance sources mentioned.

Finally, for further studies, it recommended to study finance elements in detail in different industries. It also suggests applying different and innovative software in order to get the better, applicable results.

Table 2: Finance sources components

Finance sources	Components	Frequency (%)
Capital-based finance sources	• Finance and refinance • Returning profits inside the company	10%
Debt-based sources	• Bank loans • Usance • Credit finance • Long-term purchases • Longer-term loan maturity • Using credit lines • Partnership	50%
	• Governmental support and facilities • Loan debts • Using credit cards	
	• Machinery and equipment rental • Raw materials on-credit purchase	
Private finance sources	• Private capital • Self and family saving sources • Get help from family and friends • Using others' capital	5%
Entrepreneurship sources	• Presale to customers • Withdraw money from affordable individuals • Using local capital market • Using individual small capitals • Specific investor for specific provider • Using raw materials' manufacturer facilities	30%
	• Particular investor for specific project	
	• Utilizing surpluses	
Credit-based sources	• Skills and expertise-based credits	5%

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