

How to integrate Investment strategies and Finance strategies.

Case: Messukeskus

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<p>This Bachelor's thesis examines an integration process of strategic planning, where an investment strategy is defined with financial planning in order to ensure long-term company success.</p> <p>The primary objective of the study is to determine present and emerging instruments available for a case company to finance their investments activities.</p> <p>The thesis consists of a theory section and an empirical section that deals with the commissioning party, a cooperative by form.</p> <p>The theory section discusses the characteristics of cooperatives, especially governance structure and methods, financing (traditional and future sources), cost of capital, as well as different challenges faced by cooperatives, on the basis of relevant literature and various internet sources. The empirical part focuses on the effectiveness of external and non-traditional financing instruments available for the case company within its current financial policy limitations.</p> <p>The research was based on the qualitative method. Theme interviews were held with key stakeholders of the commissioning company to obtain necessary information on the company's internal strategic planning process, as well as a view on financing and investment processes.</p> <p>The metrics presented at the end of the research give a possibility to correctly evaluate various factors influencing the decision of favoring the use of one financial instrument over another.</p>	
<p>Keywords Strategic planning, financial management, integration process, sources of financing, cost of capital, financial instruments.</p>	

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1 Introduction

The ongoing challenges due to the financial crisis and unstable market situation in European Union have negatively impacted on all commercial organizations and their ability to acquire funding. Development, selection and implementation of effective financial and investment strategies are critical to the long-term success of any business, especially a cooperative by form.

1.1 Background information

The unique nature of the cooperative business model resulted from its focus on the roles of the founding organization and later owner, which provide different inputs (sources of capital) to the production process and its relationship among the other roles (e.g. member and customer), which further limits the possibilities of funding. Thus cooperative business model requires a customized approach to overcome these financing challenges. The assessment and selection of suitable strategy must be done within an integrated and comprehensive finance, strategic and risk management framework. (Choices 2011.)

1.2 Overlay matrix

The main objective of this thesis is to describe an integration process of investment strategies with finance strategies. Another research objective is to investigate various traditional and non-traditional financial instruments available for cooperatives to finance their investments, and to outline main characteristics and relevance of the funding sources with respect to a defined strategy.

The attachment (attachment 1) represents an overlay matrix of correspondent investigative questions (IQ) as derived from the main research question (RQ) defined by a case company:

How to integrate investment strategies with finance strategies?

The analysis of survey carried out by Deloitte (2012, 2) showed an increase in number of cooperatives that were trying to employ an external financing and other innovative financing instruments to meet different investment needs.

1.3 Demarcation

The primary focus of the research is to describe an integration process of investment and financing strategies for the financial managers and other interesting parties. Also the research aims to identify and evaluate an alternative (non-traditional) financial instruments currently available and used on a global market. However final recommendations and suggestions are made with respect to a present limitations set by the case company's financial policies.

Despite this fact, most of the research findings are still applicable to other cooperatives and provide valuable information and suggestions on emerging financing instruments that may help to fulfil needs of financing of various investment initiatives.

1.4 International aspect

The case company provides services also to other countries, for example to Sweden, Germany and Russia. Thus has a pure international nature. The research outlines the emerging financing instruments available through the world. There has been identified a clear trend towards cooperatives that were seeking access to sources of funding outside of their home market.

1.5 Anticipated benefits

This research provides insights into issues faced by cooperatives because of uniqueness of their structure and sheds light on how financing and investment strategies should be integrated to respond to a new market conditions.

The aim of the research is also to provide management guidelines on what kind of instruments should the commissioning company use to finance different kind of investments, as well as to give certain recommendations and suggestions with intention to update later the commissioning company's financial policy.

1.6 Introduction of the commissioning party: Messukeskus

Messukeskus (previously known as The Finnish Fair Corporation) was founded on 1919 by Finnish Fair Foundation. "Messukeskus is the leading fair and exhibition organizer in Finland and the leader in providing rented venues for exhibitions and congresses." (Finnexpo 2013a.) Messukeskus represents a group of companies comprising of "the Finnish Fair Co-operative and its wholly owned subsidiaries Standiman Oy, Suomen Videoviestintä SVV Oy, Expomark Oy, Helsingin Messut Oy and Kiinteistö Oy Wanha Satama, as well as the associated company Adforum Ab, in which the Co-operative has a 50% holding." The group has about 260 employees and its turnover in 2012 was EUR 60.2 million (14% growth, compare to prior year). About 1.1 million visitors were attracted by The Exhibition and Convention center's activities. Last year total investments were down to EUR 259 thousand (55% decrease, compare to prior year). (Finnexpo 2013b.)

According to the Report of the Board of Directors (2012, 4), "The Cooperative had 199 members holding a total of 44,283 shares."

The key contact person from Messukeskus was CFO of the group, Mr. Sami Pilkkikangas. All the company specific information was obtained by a direct communication through a series of semi-structured interviews.

1.7 Risks and risk management

The company's contact person has possessed the most reliable and accurate information required for writing this thesis. Thus reliability and quality of data can be guaranteed.

The risk areas and their correspondent risks, as well as preventive and recovery measures are presented in a table (table 1):

Table 1. Risk management

Risk Area	Preventive Measure	Recovery Measure
Research Design & Data Collection		
Data lost	Back-up data regularly	Drafts
Lack of data	Continues search for various electronic publications Continues reading of literature Set up additional interview	
Lack of time	Proper time management Plan activities in advance	
Data Analysis		
Lack of Finnish language skills	Ask for help from native speaker friends	
Lack of understanding	Ask for thesis adviser assistance Revise analysis approach Revise interview framework	Clarification through an additional interviews
Reporting challenges	Carefully study Haaga-Helia reporting guidelines	

2 Theoretical framework and visual conceptualization

This chapter describes theoretical framework, key concepts and visual conceptualization model which are essential for understanding of presented research.

2.1 Theoretical framework

The theoretical framework is based on review of relevant literature and various electronic sources. At first, general cooperative characteristics are presented since cooperative has a unique business model as such. Common cooperative governance structure and methods are presented after that. Important relationship between different cooperative financing approaches and challenges implied due to a uniqueness of cooperative business model is critical for investigation. Therefore, it is important to investigate experience of external funding (cost of acquired capital, innovative funding instruments used, etc.) gained by other cooperatives, outside of the Finnish market.

2.2 Key concepts

Cooperative business model in Finland, defined by Co-operatives Act (1488/2001) as “An organization whose membership and share capital have not been determined in advance.” (Pellervo 2013.) The purpose of the co-operative stated as “to promote the economic and business interests of its members by way of the pursuit of economic activity where the members make use of the services provided by the co-operative or services that the co-operative arranges through a subsidiary or otherwise”. (Co-operatives Act, 1488/2001.)

Financial market comprises of money market (short-term instruments) and capital market (long-term debt and equity instruments) (Van Horne & Wachowicz 2008, 27-28).

According to Fabozzi (2002, 1), financial instruments are an intangible assets (loans, bond, share etc.) that represent certain benefit or a value to its issuer as a claim to a future cash.

Corporate financial management deals with all aspects of raising and using cash and other funding sources for the short-term and long-term purposes of the organization. (Peterson 2012.)

According to Burrell (2011, 1-7), cooperatives employ a wide variety of financing strategies such as:

- Ownership rights.
- Initial funding.
- Continued financing.
- Revision of financing strategies.

Corporate strategy represents a long-term planning of company's activities to maximize owner wealth and act in a social and environmental responsible manner (Fabozzi & Peterson 2003, 934). Investment strategy, budgeting process and financial strategy have to be developed to support corporate strategy.

The figure (figure 1) represents a planning process in most of the companies.

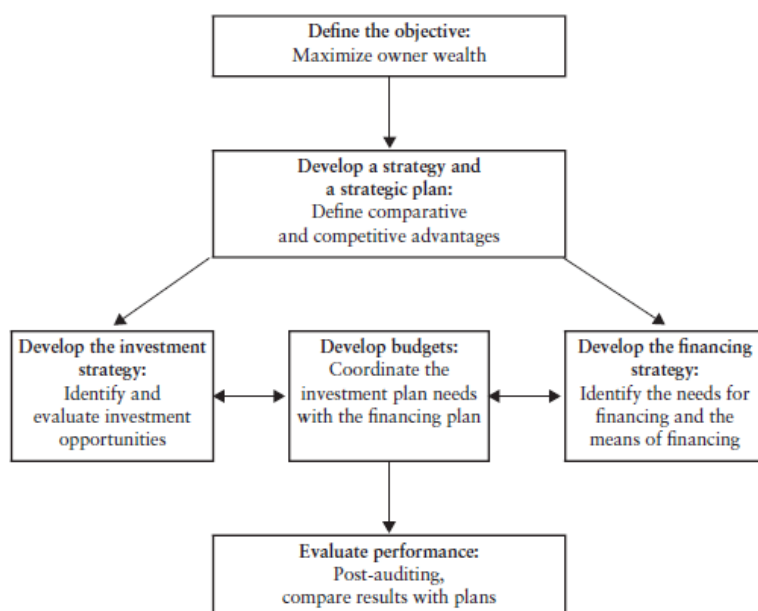


Figure 1. Planning process as is, in general (Fabozzi & Peterson 2003, 934).

Capital budgeting, as defined by Van Horne and Wachowicz (2008, 308) is “the process of identifying, analyzing, and selecting investment projects whose returns (cash flows) are expected to extend beyond one year.”

2.3 Visual conceptualization model

Visual model enables reader to map related concepts together in meaningful way and visualize multiple levels of ideas.



Figure 2. Basic conceptualization of the focal topic and key concepts (Author’s interpretation)

Conceptual framework model as depicted on the figure (figure 3) is derived from the main research question:

How to integrate investment strategies and finance strategies?

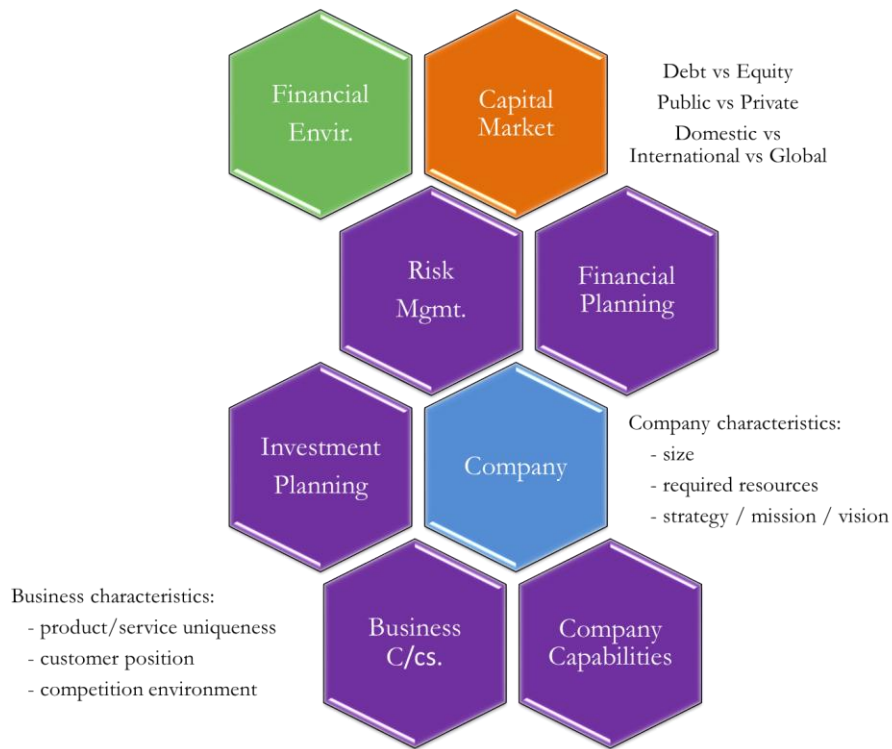


Figure 3. Visual conceptualization of the thesis theoretical framework (Author's interpretation)

As seen from the figure (figure 3), any business has and surrounded by internal environment (internal processes, capabilities, etc.) and external environment (competitors, society, external shareholders, market, government regulations, etc.).

Understanding of this phenomenon plays an important role of linking the strategic, investment, and financial management and other key concepts into one holistic framework.

3 Research design and method

This chapter describes the research approach. The qualitative research method is chosen for this thesis. The research is supported with literature and various electronic sources related to the topic. Moreover, series of semi-structured interviews were held with the key stakeholders to deepen the understanding of the commissioning company's present concerns.

As indicated in Qualitative Data Analysis (2012), main reasons to apply qualitative research method are:

- It seeks answers to a main research question.
- It is based on collected evidences and produces findings that were not determined in advance.
- It is applicable beyond the limitation of this thesis work.

The figure (figure 4) depicts research method process used during writing this thesis.

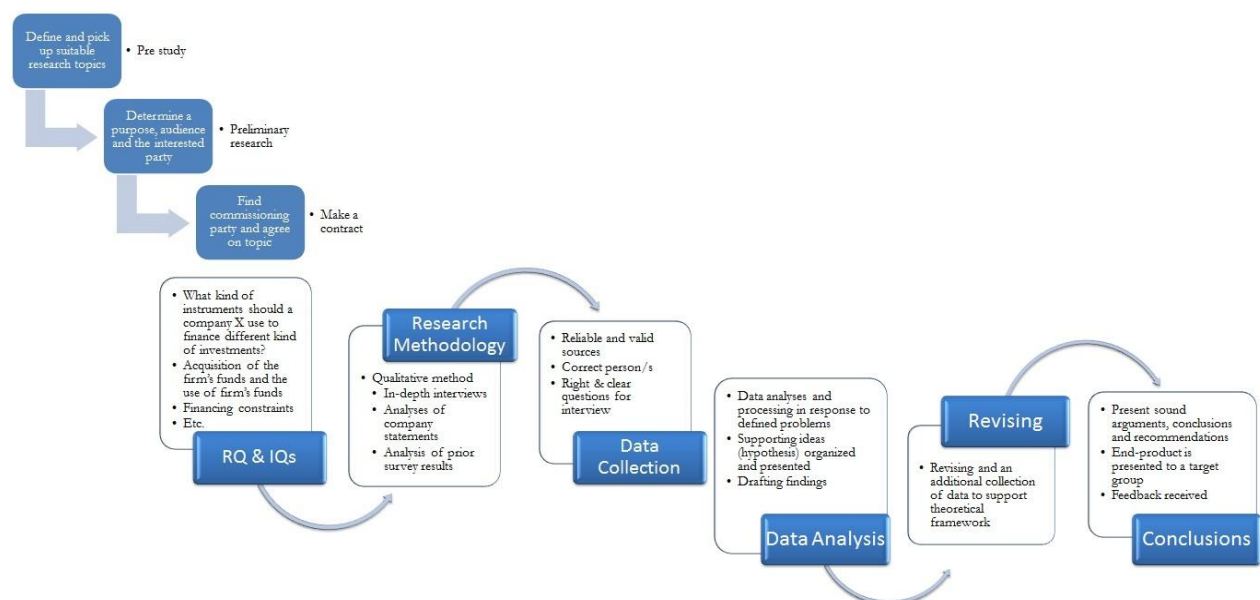


Figure 4. Research method process (Author's interpretation)

The interview questions were the same as investigative questions presented in overlay matrix attached to this research (attachment 1).

4 Overview of various strategies

This chapter gives an overview of strategies used by cooperatives of different industries. A business can grow through mergers and acquisitions (inorganic growth) or around the margins (organic growth). Also growth can be achieved by an improvements in efficacy and through product, service, and business model innovation.

4.1 Case: Allied Purchasing

Allied Purchasing is a member-owned and the oldest dairy purchasing cooperative in the United States, that helps its dairy members to stay competitive through volume purchasing. Allied has identified that most of its members rely on product diversification. Product development also helps to identify changing customer needs. To support suppliers/members in achieving its business goals, Allied Purchasing offers a unique diversified portfolio of various products thus expands its supplier/member offerings and improves pricing in a dairy industry. Members can join cooperative by purchasing a share of stock. (Dairy Foods 2013, 16.) This strategy provides members with a chance to lower its costs and be competitive while focusing on own core business operations.

4.2 Case: Metsäliitto

Metsäliitto cooperative belongs to Finnish forest society and is a parent company of Metsä Group. Cooperative's business operations consist of Metsä Forest (wood supply; total sales in 2012 were around 1.5 billion euros) and Metsä Wood (wood products; total sales in 2012 were around 900 million euros) business areas. Metsäliitto cooperative doesn't take participation in long-term investment of its subsidiaries. Instead, it follows closely group's liquidity and short-term financing needs. (Metsä Group Annual Report 2012, 6.)

The Metsäliitto cooperative purpose is "to increase the value of its members' forest assets" (has about 125 000 members). With this strategy in place, Metsä Group wants to achieve profitable growth by investing in customer-oriented product solutions and

through effective management of business risks of selected business areas. (Metsä Group Annual Report 2012, 6.) Investing in technologies and infrastructure to improve operational efficiency and meet members' expectations has been identified by Metsäliitto as a key element of reaching its defined strategic objectives.

4.3 Capitalization strategy through mergers and acquisitions

Successful organizations recognize that even financial crisis or any economic downturn provides with an opportunity that is unlikely to be found in good economic times. In fact, mergers and acquisition deals present to the business the excellent opportunity to expand its market share, various diversification benefits and chance to improve its profitability through an inorganic growth. (Deloitte 2012, 15.) Moreover, some businesses consider this strategy as a way to maintain competitive advantage and remove barriers to entry to a desired market.

4.4 Balance sheet management philosophy

Should be used when making income distribution and equity redemption payments. Reached by keeping an eye on adequate risk capital (equity) level through implementation of strict liquidity and solvency guidelines as a part of overall risk management policy and recommended by Basel committee on banking supervision. (BIS 2008, 2; Barton 2008, 3.)

4.5 Internationalization strategy

The strategy aims to expand organization growth boundaries by tapping international opportunities in search of capital. As been discovered by Deloitte (2012, 15-21), some cooperatives have already been successful in issuing debt in foreign-denominated currencies. That number is projected to be growing since other cooperatives also want to support its funding strategies (currency hedging, diversifications of investors, etc.) in a similar manner (Deloitte 2012, 21).

5 Strategic management

This chapter presents an overview on strategic management aspects. A strategic planning process walkthrough will be presented and discussed in more details.

5.1 Strategic planning framework

Strategic planning starts with development and establishment of the organization's mission, vision and values.

Messukeskus defines its vision and values as “Genuine encounters. Genuine experiences. In touch with the future.” (Messukeskus 2013a.)

In essence, strategic planning framework as shown on the figure (figure 5) and later, management process as depicted on the figure (figure 6), represents an action plan that helps management to run business over a long period of time. This plan also serves as a commitment by the management team to follow its defined strategic goals, and to support and promote vision and mission of the organization. (Niles 2010.)



Figure 5. Strategic planning framework (Author's interpretation)

5.2 Strategic management process

Any business venture, at the beginning, would start with analysis of the business environment and resources it has. Once that is identified, it would then define its strategic objectives that eventually should support an organization's mission, vision and values. After that is done, the organization would proceed with strategy development stage and following stages of this process, as shown on the figure (figure 6). Strategic management is an ongoing process that should be revised and updated on a regular basis. (Lynch 2012, 3.)

The strategic management process is presented on the figure (figure 6).



Figure 6. Strategic management process (Author's interpretation)

An inner circle of strategy implementation includes following stages:

- Planning (assessing current situation).
- Developing (what organization wants to achieve; where the organization wants to be; etc).
- Integrating (communication accros organization).
- Reviewing (what needs to be monitored: KPI, balanced scorecard).

- Updating and execution (an updated/new strategy is executed).

An outer circle of strategic management consist of three key decision elements:

- Investment decision (a business opportunity identified and evaluated based on objectives).
- Financial decision (financing sources, cost of capital are identified and evaluated).
- Management decision (go/no-go).

5.3 Strategic goals

One of the key strategic management stages is identification and evaluation of the organization's external environment for a new business opportunities, thus investments.

The process normally starts, when cooperative's board of directors determines its strategic goals for period of 3 to 5 years.

Messukeskus defines its current strategic goals as shown on the figure (figure 7):



Figure 7. Strategic goals as defined by Messukeskus (Messukeskus 2013a.)

6 Financial management

This chapter discusses cooperative financial planning, control and decision-making process in order to achieve agreed financial objectives. The capital structure, cost of capital and financial challenges in acquiring capital also presented to deepen an understanding of financial management aspects.

6.1 Financial planning process

Financial planning can be defined as the process of analyzing the financial opportunities and selecting only those ones which will provide the best return (Van Horne & Wachowicz, 2008, 2).

Two most important aspects present in cooperative governance: financial management and decision-making process. Both management team and board of directors should have a good understanding of cooperative's financial situation in order to make the best short-term decision from available ones and to guide an organization's long-term strategic planning. (Van Horne & Wachowicz, 2008, 2-4.)

6.2 Capital requirements

Any cooperative should have an adequate financing in order to operate efficiently and to grow. Sufficient capital reserves required to cover depreciation expenses, daily operation needs, growth needs (e.g. mergers and acquisitions, investments in fixed and current assets), and for unforeseen contingencies. (Baarda 2006, 35.)

Capital expenditures to purchase fixed assets, such as land, building or machinery are in most cases, financed by cooperative's members thus through equity financing (Zeuli & Cropp 2004, 59).

Capital requirements after being defined are incorporated into a capital budget. Capital budget is the form of long-term budget, developed by the finance departments together with executive management, for purchasing of assets and to ensure that it supports the organization’s mission, vision and values. (Niles 2010, 25-26.)

The process of determining how much capital is required to finance the cooperative’s needs (e.g. daily operations, investments) represented on the figure (figure 8):

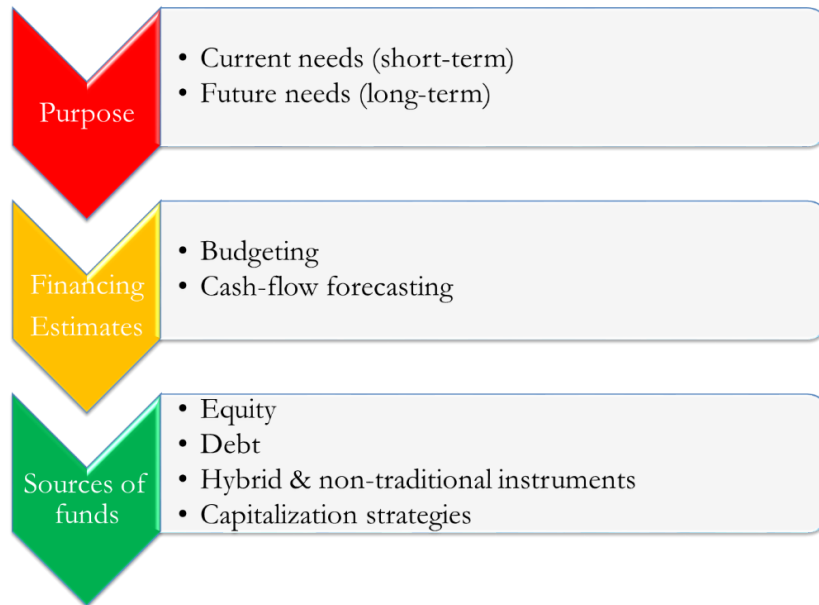


Figure 8. Capital requirements (budgeting) process flow (Baarda 2006, 35.)

A capital budget must suggest ways how a long-term investment project to be financed and if the investment to be accepted or not. More about planning and methods of project evaluation are discussed in chapters 6.4, 6.5 and through subsequent chapters.

6.3 Capital structure

One of the most important tasks in cooperative financial management is to correctly determine current and future capital requirements. Without adequate capital no business is able efficiently operate and to grow.

For cooperatives, a main source of capital derived from the membership. If member expects to get services from cooperative at reasonable price, then he or she has to take

a big part of cooperative's financing requirements over itself. (Zeuli & Cropp 2004, 59).

Plans for financing must be consistent with defined cooperative's policies on acquiring capital and with country, and local legislation. (Zeuli & Cropp 2004, 59.)

Cooperative capital structure comprises of three traditional ways (ESDD, 1997):

- Membership capital contribution.
- Retained earnings.
- External capital contribution.

The figure (figure 9) demonstrates common ways to finance cooperative activities.

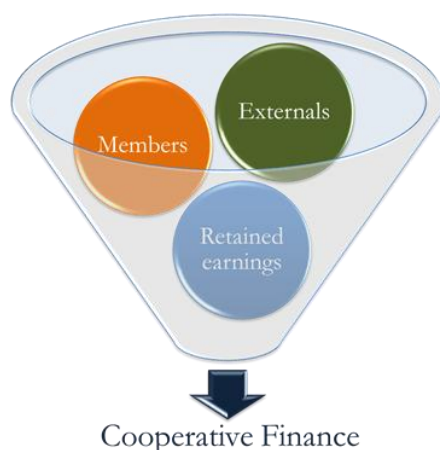


Figure 9. Traditional sources of cooperative financing (ESDD, 1997.)

The financial statement provided by Messukeskus (2012, 21), shows that gearing (also known as debt to equity ratio), which explains how the company finances its operations either through external lending (debt) or through its certificate holders (equity), was 76.5% in 2012 (compare to 71.6% in 2011; and 78.5% in 2010). This means that in 2012, the group's creditors were providing 76.5 cents of financing for each 1€ provided by its members. (Finnexpo 2013b, 21.)

6.3.1 Equity capital

Mainly supplied by cooperative's members and/or founding organization and commonly does not have a specific due date neither a stated interest rate.

According to consolidated Balance Sheet presented by Messukeskus (2012, 21), the total equity capital in 2012 was about 83 million (79 million in 2011). By further analyzing the statement of financial position, we can determine an equity ratio, which provides information to shareholders about how much would they receive in the event of liquidation. (Finnexpo 2013b, 21.)

Equity ratio = Certificateholder's equity, total/Assets, total (Investopedia 2013a.)

Table 2. Messukeskus versus The Swedish Exhibition & Congress Centre (main competitor) equity ratio distribution for period 2008 – 2012 (Finnexpo 2013b, 21; Svenskamassan 2013, 53.)

Name / Year	2012	2011	2010	2009	2008
Messukeskus equity, %	72.4	67.6	73.6	85.3	81.1
Swedish Exh & C. equity, %	22.7	20.6	19.8	18.8	17.6

From analyzing table (table 2), we may conclude that equity ratio for the Messukeskus was steadily decreasing while assets were growing. This can be a result of either inability to attract new members to join cooperative or because of previously implemented strategy that brought most of the investments into a fixed assets (especially during 2010, about 33 million; and 23.2 million in 2011). (Finnexpo 2013b, 21; Svenskamassan 2013, 53.)

6.3.2 Debt capital

Unlike equity, debt capital represents borrowed money, usually from external lenders (commercial banks, pension institutions, etc.) and always has a due date and mutually

agreed an interest rate. In some case, cooperative may borrow money from its members and if it's not against established cooperative policy, from non-members such as an external investors.

As stated by Rathbone (1995, 12), "Many cooperatives rely on equity for less than half of their capital requirements." Hence the standard practice of financing assets is managed through debt contribution. As result, cooperatives tend to increase borrowings while slightly increasing equity holdings.

According to the Messukeskus Report of the Board of Directors (2012, 3), for 2013 group projected an increase in debt ratio up to 31%, while interest payments will account for about 0.7% of group's turnover.

Debt capital comprises of short-term debt and long-term debt. Short-term debt implies a repayment of debt in a year or less than a year period. Long-term debt repayment is done in periodic installments, usually with agreed fixed interest rate, on terms stipulated in the credit agreement. (Rathbone 1995, 12.) For the long term perspective it is wise to look into a solvency ratio.

Solvency ratio = ((Net Income + Depreciation) / (Short-term + Long-term Liabilities)) (Investopedia 2013a.)

Table 3. Comparison of solvency ratios between Messukeskus and The Swedish Exhibition & Congress Centre (Finnexpo 2013b, 21; Svenskamassan 2013, 53.)

Name /Year	2012	2011	2010	2009	2008
Messukeskus solvency, %	79.3	71.6	78.5	85.3	81.1
Swedish Exh & C. solvency, %	18.6	20.6	19.8	18.7	17.6

From here we may conclude that Messukeskus, in general, tries to finance its assets mainly with own capital, unlike the Swedish Exhibition & Congress Centre, which relies more on debt capital. However as it also seen from the table (table 3), this tendency has had volatile temper with a slight downward movement for the Messukeskus.

6.4 Cost of capital

Cost of capital, also known as the cost of funds, used to finance business activities. It mainly depends on the capital source being used. When the business is financed through equity capital it refers to the cost of equity, otherwise it refers to the cost of debt. Cost of capital rate is widely used in the capital budgeting process (NPV, IRR etc.) and is also a critical factor in deciding funding sources to be pursued (debt, equity or a mix of both of them). (Investopedia 2013a.)

There can be either direct or indirect costs of capital. For example, the direct costs of equity capital are an amount of money spent on compensation to external investors. The indirect costs of getting equity capital from external investors manifested through removing or weakening strict rules and restrictions that currently implemented from financial or risk management policies and cooperative principles. (Baarda 2006, 189.)

6.4.1 Cost of debt

As most businesses raise a big portion of their capital through borrowing money (debt), a price (cost) the business should pay in return is known as a cost of debt. In simple words and without taking tax rate into a consideration, especially when the business makes losses, a cost of debt is an interest rate that business will have to pay to a lender. (Brigham & Houston 2004, 465).

The estimated cost of debt curve is positively sloped as cost increases with debt interest. However, the cost function shifts downward as an organization's collateral increases. Capital structure equilibrium for the cost of debt reached, when marginal (tax) benefit equals the cost. (Graham, Van Binsbergen & Yang 2008, 3.)

Some costs (e.g. higher wages requested) could also impact on an organization's leverage level (debt ratio). As result, these cost could offset the tax benefits of debt. (Graham et al. 2008, 5.)

If we take tax rate into account, the cost of new debt can be found as:

After-tax cost of debt = Interest rate – Tax savings (Brigham & Houston 2004, 465).

And it can be expressed as: $I_{debt} (1 - T)$, where I_{debt} is interest rate and T is business's tax rate (e.g. 24.5% in Finland). Because interest expense is deductible, it results in tax savings and therefore, it reduces the net cost of debt. Also when budgeting, we deal mainly with after-tax cash flows, thus we need to adjust the interest rate downward to consider an effect of tax treatment. (Brigham & Houston 2004, 465.)

For example, if Messukeskus borrows money at 3% interest rate, the after-tax cost of debt would equal to roughly $2.27\% = 3\% (1 - 0.245)$.

It should be also noted that calculated the after-tax cost of debt represents the cost of attracting a new (an additional) debt and not the debt already being used (Van Horne & Wachowicz, 2008, 385).

6.4.2 Cost of equity

The cost of equity capital considered to be as the most difficult cost to be measured and represents “the required rate of return on investment of the common shareholders of the company” (Van Horne & Wachowicz, 2008, 383, 385). The cost of equity can be separated into following components (Van Horne & Wachowicz, 2008, 385; Brigham & Houston 2004, 467):

- Cost of Preferred Stock (preference shares, give a holder a priority in getting dividends over common shares).
- Cost of Common Equity (issuing shares/external equity).

- Cost of Retained Earnings (return required by shareholder).

Traditionally, an equity capital can be raised either through retained earnings (profit from previous years) or by issuing new shares/certificates (external equity). As stated by Brigham & Houston (2004, 467), equity capital raised by issuing shares has much more higher cost compare to cost of retained earnings due to underwriting, legal and other expenses. The cost of retained earnings can be stated as an opportunity cost for the shareholders as they could also themselves earn on alternative investments of comparable risk. (Brigham & Houston 2004, 468.)

There are few ways to calculate the cost of equity (Van Horne & Wachowicz, 2008, 385-390):

- Dividend capitalization model.
- Capital-asset pricing model (CAPM).
- Simple model.

The cost of equity (COE) found through dividend capitalization model will show “the compensation that the market demands in exchange for owning the asset and bearing the risk of ownership.” (Investopedia 2013b.)

$$COE = \frac{\text{Dividends per share (for next year)}}{\text{Current market value of share}} + \text{Growth rate of dividends} \text{ (Investopedia 2013b.)}$$

The key element in a formula above is an accurate measurement of the growth rate of dividends (Van Horne & Wachowicz, 2008, 386).

Another way to find COE is through CAPM approach by “estimating the required rate of return on the company’s common stock.” (Van Horne & Wachowicz, 2008, 387.)

$$COE_{CAPM} = R_f + (R_m - R_f)\beta \text{ (Van Horne \& Wachowicz, 2008, 387).}$$

Where R_f is the risk-free rate (no risk), R_m is the expected return on a general stock market, e.g. S&P 500 Index (systematic risk), $(R_m - R_f)$ is the market risk premium and β is beta coefficient that measures risk using “volatility” compared to the general stock market (unsystematic risk). By calculating COE using this formula we get “the rate of return that investors expect the company to earn on its equity.” (Van Horne & Wachowicz, 2008, 387-388.)

From the above can be concluded that if an investment project expects to generate earnings less than a required rate of return, then the project considered to be too risky and therefore, should not be pursued.

A more simplified approach, although not that accurate as it does not use beta information, can be roughly based on the company’s before-tax cost of debt (interest rate on the long-term debt, e.g. bond) plus a judgmental risk premium (in expected return for stock over debt, e.g. 3-5%) (Van Horne & Wachowicz, 2008, 389). For example, if the company has a bond that generates certain percentage in return (yield), therefore, its cost of equity (COE) could be then expressed as:

$$COE_{simple} = Bond_{yield} + R_{premium} \text{ (Van Horne \& Wachowicz, 2008, 389).}$$

There are also other approaches of finding COE, however those mentioned above are considered to be most common and widely used.

6.4.3 Weighted average cost of capital

A business can finance its new asset projects by different means. For this, the cost of capital must reflect the average cost of the various capital sources used.

Weighted average cost of capital (WACC) states for the minimum rate of return required by all capital providers (Braun, Tietz & Harrison 2010, 636). Also for the investors, WACC represents the opportunity cost or the risk associated with investing money into the company instead of pursuing other investment alternatives.

For most of the companies where debt, preferred stock and equity are used as the main capital sources, the total cost of capital (COC) is then expressed as:

$$COC_{WACC} = \textit{After - tax cost of debt}(\textit{Weight}_{debt}) \\ + COE_{preferred}(\textit{Weight}_{preferred}) + COE_{common}(\textit{Weight}_{common})$$

(Van Horne & Wachowicz, 2008, 390.)

And also can be presented as:

$COC_{WACC} = \sum_{x=1}^n k_x(W_x)$, where k_x is the after-tax cost of the xth method of financing and W_x states for the weight given to that method of financing as a percentage of the company's total financing. (Van Horne & Wachowicz, 2008, 390.)

For the Messukeskus, the above mentioned WACC equation can be rewritten as:

$$COC_{WACC} = \textit{After - tax cost of debt}(\textit{Weight}_{debt}) \\ + COE_{certificates}(\textit{Weight}_{certificates})$$

Moreover, as Messukeskus does not pay any dividends to its certificates holders, the total cost of equity is simply equal to the net (after-tax deduction) interest rate (percentage) charged by bank (in some cases, plus any premium payable on repayment). However, would company pay dividends to its investors, then the total cost of capital is found as it is given in the formula above. For example, let's consider a hypothetical investment project financed with 20% debt (bank loan) and 80% equity (retained earnings). Where debt capital providers require 10% return and equity capital providers require 20% return. Thus the after-tax cost of debt would equal to $10\% * (1 - 0.245)$ or 7.55%. Furthermore, assume that a risk-free rate of 5% is expected and β is 1. Thus the cost of equity would equal to $0.05 + (0.20 - 0.05) * 1$ or 20%. This is the rate of return that investors expect company to earn on its equity. By further multiplying each cost component and its proportion of total financing, we may find weighted cost of debt that is equal to $(7.55\%) * (20\%)$ or 1.5% and then, weighted cost of equity that is equal

to $(20\%)(80\%)$ or 16%. Therefore, the overall COC_{WACC} as a project's required rate of return is equal to $(1.5\%)+(16\%)$ or 17.5%.

All above can be summarized as, every euro of new capital that the company is able to attract consists of 20 euro cents of debt with an after-tax cost of 7.55 percent and 80 euro cents of certificateholder's equity (retained earnings) with a cost of 20 percent. As long as the company keeps its capital structure on target, its calculated WACC will stay the same.

The table (table 4) highlights the most common sources of financing and their correspondent costs (cost of capital).

Table 4. Most common sources of financing and their cost of capital (Hill 2008, 73.)

Source of finance	Cost of capital
Retained earnings	Shareholder's return (dividend yield plus growth rate)
Loan	Interest payable plus any premium payable on repayment
Sale of debt instrument (share issue)	Earnings per share; dividend yield plus growth rate; flotation costs (underwriting, legal, listing costs, etc.)
Research and development	Opportunity cost
Depreciation	Opportunity cost
Deferred taxation	Opportunity cost
Short-term loans	Market interest rate
Sale and leasebacks	Leasing cost plus capital appreciation costs
Debenture (bond issue)	Alternative yield (yield to maturity)

6.5 Investment management decision

Once the investment goals are identified and the cost of all capital providers are known, the management team must then establish policy guidelines to meet those investment goals. Thus when developing an investment strategy we should eventually

reach a certain asset investment decision as whether to buy, sell, keep or dispose of an asset. (Figure 10.) This decision should fully reflect and support an overall business strategy chosen by the management team.

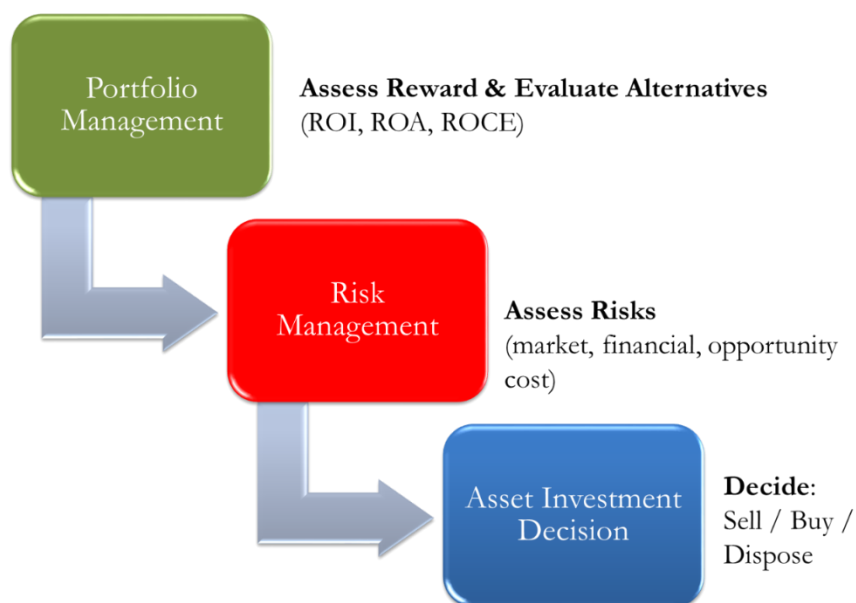


Figure 10. Asset investment decision process (Barton 2008, 5.)

The asset investment decision process will take into consideration any investment constraints and restrictions. Also some important factors such as (Fabozzi 2002, 16):

- Financing constraints (accessibility, cost of capital).
- Governance and regulation constraints (Basel III, Solvency II).
- New accounting rules (IFRS) and tax implications.

6.6 Risk management

Risk management is one of the important aspects of financial management. All financial risks are managed in accordance with the financial policy confirmed by group's Board of Directors. The main purpose is to reduce uncertainty, improve predictability and risk assessment criteria's, as well as to balance cash flow and what is more important, to get enough time to adjust business operations and strategy.

Risk management serves as an inner layer placed between strategic and financial management. Depending on how well risk management is integrated and applied within both of them, will result on ability of the cooperative to stay profitable in a long run.

Naturally, cooperatives with help of risk management view and consider themselves as a portfolio of assets, which have a diversifiable and not diversifiable (e.g. currency) risks (Barton 2008, 4). Those risks related as not diversifiable should be taken with a great attention and correspondent actions to minimize the impact to be developed.

Barton (2008, 4) identified and categorized following high-level risks:

- Operations.
- Marketing.
- Financial.
- Legal-governance.
- Human resource.



Figure 11. Risk versus benefits valuation (Author's interpretation)

As stated by Fabozzi (2002, 23-25), systematic (market-related risk) can be classified as:

- Inflation risk arises due to an asset value fluctuation because of inflation mechanism.
- Credit risk arises due to solvency issues of the issuer that will lead issuer into bankruptcy.
- Liquidity risk arises due to inability to meet short-term obligations.
- Currency risk arises due to value fluctuation of currencies.
- Interest rate risk (of a bond) arises due to a change in price of a bond.

Diversifiable risks are those, which could be managed through an asset (portfolio) diversification. (Fabozzi 2002, 23-25.)

6.7 Financial challenges

One of the most significant implications caused by the economic crisis has been access to sufficient capital and financing. Organizations of all industries and sizes have been impacted. Cooperative organizations have suffered no less. A survey carried out by Deloitte (2012, 5) and shown on the table (table 5) provides a valuable insights on most of the critical questions concerning financing indicated by cooperatives.

Table 5. Survey carried out by Deloitte (Deloitte 2012, 5.)

Concern	Percentage of respondents agreed on concern
Access to funding as a key priority	68%
Anticipate difficulties in accessing financing	87%
Strict banking regulations (Basel III)	75%
Shift towards operational efficiency	43%
Shift towards inorganic growth	53%
Use of non-traditional instruments	50%
Collaboration as a funding strategy	63%

According to Deloitte (2012, 5-13), out of those indicated concerns, three of the most of the critical ones, which require a specific attention, are:

- Lack of sufficient cash flow to run day to day operations (impact on liquidity, operational efficiency).
- Availability concern (limited access to sources of funds due to a weak macro environment, weak financial conditions, poor product/service outlook, etc.).
- Liquidity concerns have a crucial impact on lending decision.

6.7.1 Market challenges

The access to capital and the price of capital are heavily dependent on the conditions prevailing in the financial markets, industry dynamics, government regulation initiatives and cooperative's own financial position.

The prolonged European Union debt crisis continues to have an impact on the international financial markets and the operations of and lending provided by banks. (Deloitte 2012, 5-13.)

In addition, increasingly stringent regulation of the financial markets requested by ECB will make the availability of financing tighter. (Metsä Group 2012, 39.)

6.7.2 Cooperative structural challenges

The structural constraints of the cooperative business model also impacts on its ability to raise capital. The top three challenges due to cooperative structure identified by research performed Deloitte (2012, 2) in 2012 were:

- Heavy dependence on retained earnings from daily operations.
- Conflict of interests between short-term and long-term goals.
- Inability to raise capital within the cooperative's member base.

6.7.3 Regulation challenges

As result of major regulations reforms (Basel III Capital, Basel III Liquidity) that were developed by the Basel Committee on Banking Supervision, “to strengthen the regulation, supervision and risk management of the banking sector”, most of the cooperatives have seen an uncertainty related to the application of these changes. (BIS 2013.) Thus an additional guidance would be required to provide more clarification on the impact of the planned reforms.

6.8 Environmental and social responsibility

Cooperatives, as other businesses, should also aim to meet, beside the economic needs of their members, its social (social equity, human rights, community development, etc.) and environmental (carbon footprint, energy and waste management, etc.) objectives of their external stakeholders (community, suppliers, customers, etc.).

Messukeskus (2013b) has stated its key environmental objectives as following:

- Reduce an amount of generated waste.
- Optimize an energy consumption.
- Promotion of public transportation.

The organization is a member of Scandinavian Sustainable Meetings Region of ICCA. It's been also the first meeting venue to introduce a carbon footprint calculator. (Messukeskus 2013b.)

Environmental and social responsibility are an important aspects of ensuring a strong and sustainable profitability of the organization in a long run.

6.9 Performance measurement

While normal investor will always seek for the maximum return on his investment, this is not always true for the member of the cooperative.

Traditionally, members of cooperative expect to get benefits (e.g. in a form of various services) associated with their membership, such as (Fabozzi 2002, 33-48):

- Quick access to market.
- Reasonable pricing.
- Various support (e.g. marketing, networking).
- Risk diversification.

From time to time, the investor should evaluate the performance of his investment. This is normally done by calculating the return realized over the certain investment period (e.g. ROI, IRR, Payback period). The result is then compared to the industry average (benchmark) return. This comparison will give an insight on whether the investment outperformed, matched or underperformed the benchmark return.

(Fabozzi 2002, 33-48.)

However, financial success is not the only true measure of overall success. Membership growth, effective governance, environmental and social objectives that are successfully met, are all the final indicators of the true management success.

7 Integrating investment and financial planning

The integration of investment and financial strategies is done through strategic and financial planning process integration. This integration process represents a transformation of strategic plan into detailed activities that align people, processes, resources and systems with financial planning objectives required to get an efficient governance of an organization.

7.1 Overview of strategic and financial planning integration steps

A main goal persuaded by integration of strategic and financial planning is to align defined strategic goals with the allocation of available resources, and to coordinate activities to get an adequate financing of planned investments.

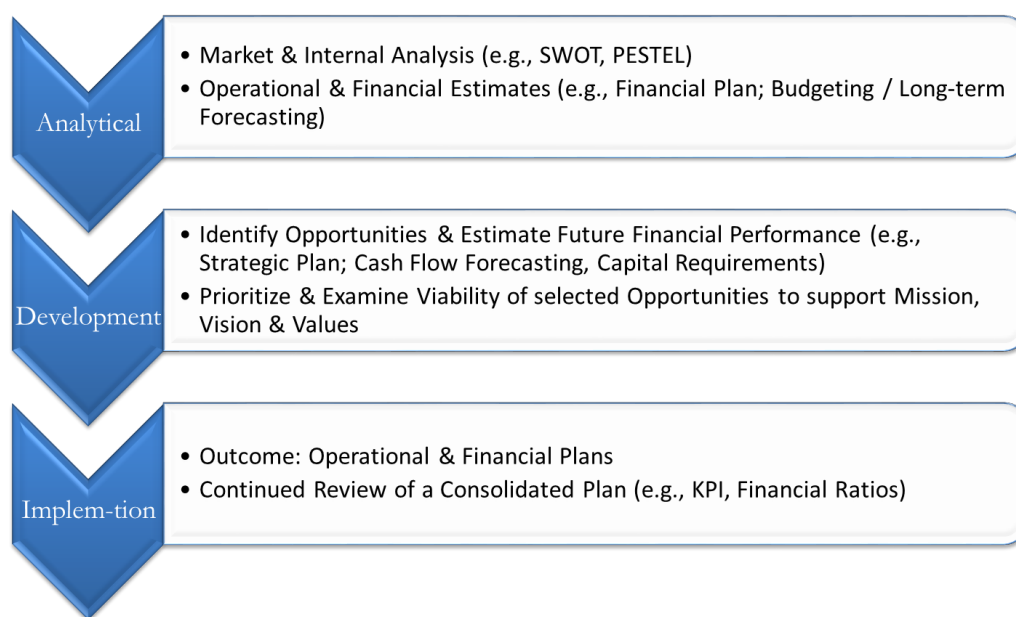


Figure 12. The process flow of the integration of financial and investment strategies (Author's interpretation)

As seen from the figure (figure 12), the first step taken by organization in integrating strategic and financial planning is analytical. During execution of this step a market (by use of SWOT; PESTEL, etc.) and an internal analysis (e.g. Balanced Scorecard) are carried out. As a final outcome, an operational and financial estimates are given to a management team for a further analysis.

After all necessary information about internal and external environment was collected and analyzed, a long-term forecasting is produced that is similar to a budgeting process.

In the development step, an organization identifies and evaluates its external environment for a new business opportunities. A cash-flow forecasting and capital requirements (capital budgets) are produced. This forecasting helps management team to understand future sources and uses of funds, and to prepare for a possible future cash flow concerns.

During final, implementation step, an organization gets a final outcome of the whole integration process: an operational and financial plans that will be consolidated into a single document. Based on a results received (e.g. KPIs, financial ratios), the consolidated plan is then reviewed and updated, on a regular basis. The figure (figure 13) depicts an inner process of financial planning, where monitoring and evaluation of financial goals aligned with strategic objectives.

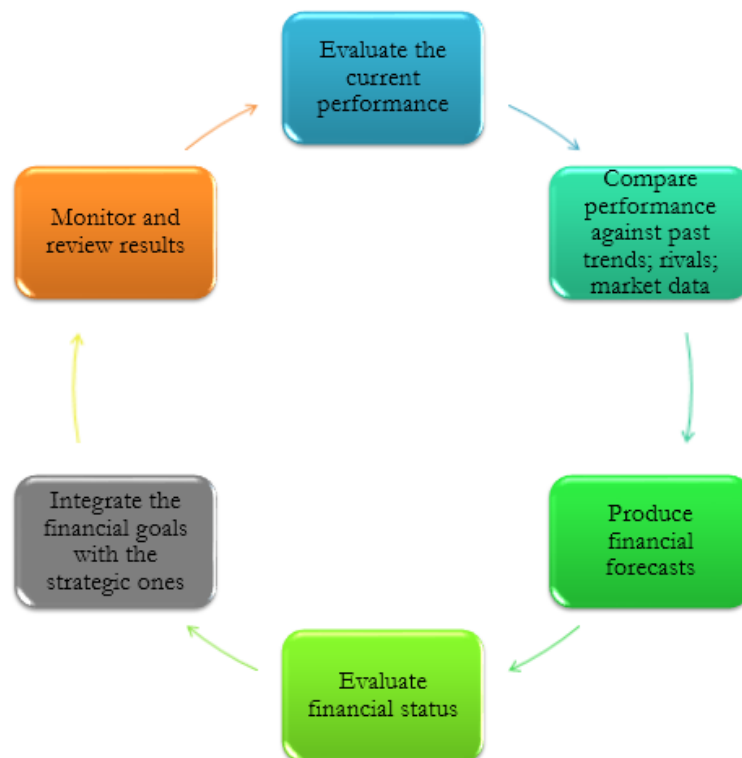


Figure 13. An evaluation of financial goals within financial planning process (Author's interpretation)

An attachment (attachment 2) concludes with strategic financial management integration process to maximize return (income) to an organization’s primary stakeholders.

7.1.1 Scenario planning

When integrating financial and investment strategies, it is always recommended to evaluate expected end results and then modify both of the strategies to get a best possible benefits, using “what if” scenario.

What if scenario, also known in business as sensitivity analysis or scenario planning, as shown on the figure (figure 14) represents “a technique that asks what a result will be if a predicted amount is not achieved or if an underlying assumption changes.” (Braun, Tietz & Harrison 2010, 496.)

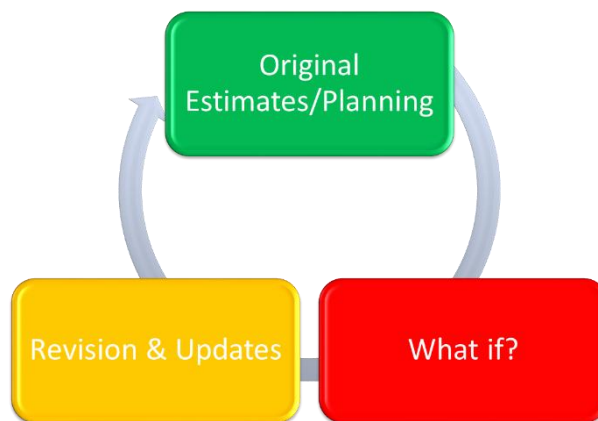


Figure 14. Sensitivity analysis (Author’s interpretation)

Management team equipped with a better understanding of how possible changes may impact on organization’s bottom line (profitability) and cash position (liquidity), can be better prepared to react and lead organization when business environment changes. (Braun et al. 2010, 496-497.)

Following methods of sensitivity analysis are available (Laidre 2013):

- Scenario management using MS Excel.

- Brainstorming technique through generating “what if” questions and impact analysis.
- Modeling and simulation using ERP and other software.

7.1.2 Capital structure decision

Capital structure decision deals with taking a decision on how to finance the investment once an asset investment decision has been made (Barton 2008, 5).

The figure (figure 15) manifests a funding sources and their possible usage within organization.

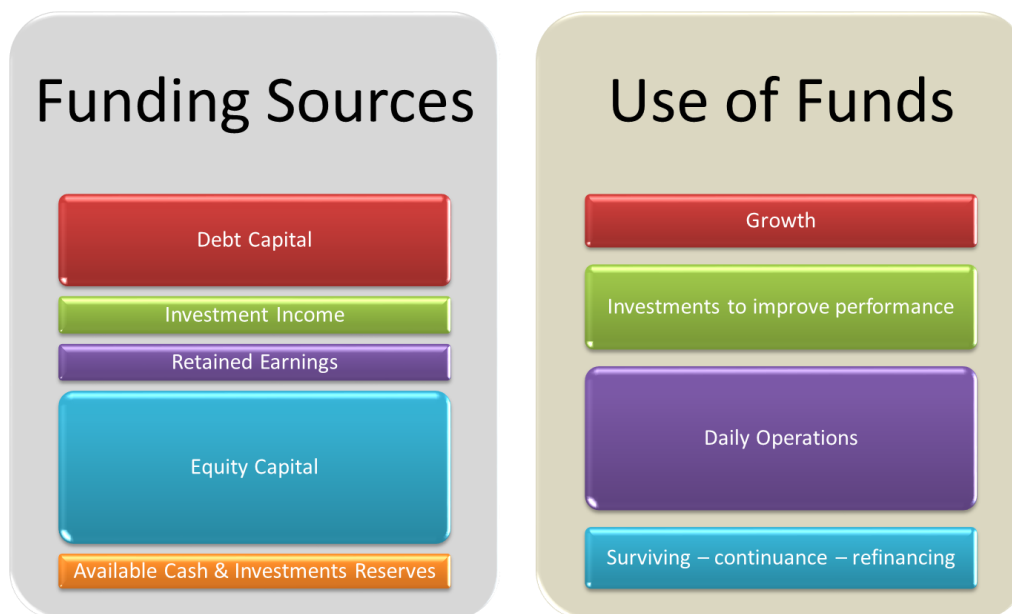


Figure 15. Funding and capital allocation structure (Author’s interpretation)

From strategic perspective, most of cooperatives prefer to cover various financing risks from unstable market situation with working and equity capital. It is also foreseen that financing through equity capital would be more appropriate in a long run, especially due to a lack of adequate financial sources (low availability) on the market.

7.2 Overview of financial instruments

The figure (figure 16) depicts various traditional and non-traditional equity and debt instruments available for cooperatives.

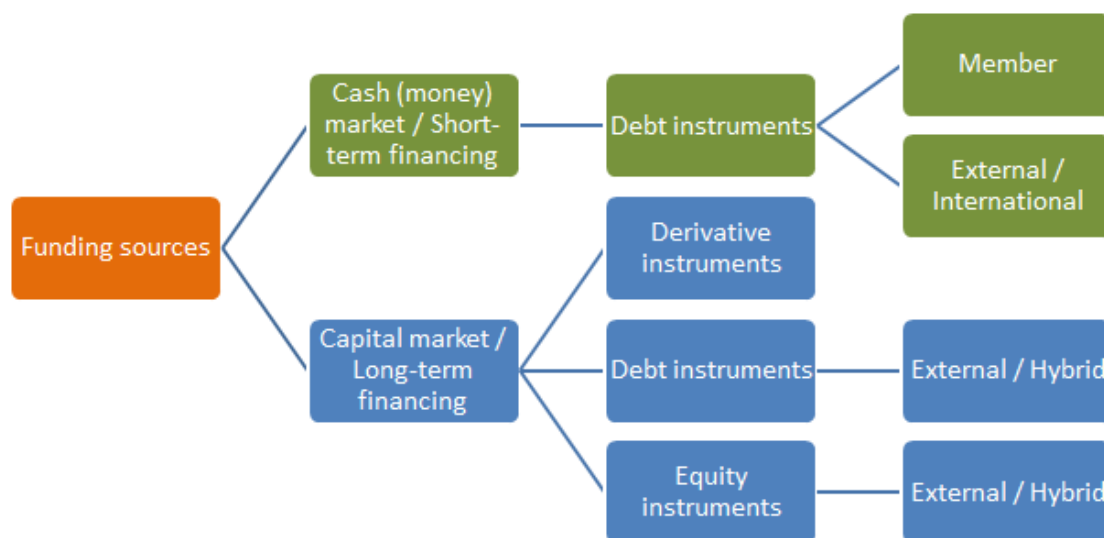


Figure 16. Overview of funding sources (Author's interpretation)

7.2.1 Traditional equity and debt instruments

A debt instrument, as defined by Fabozzi (2002, 2), imply a requirement to pay a fixed amount and can be presented as following (Deloitte 2012, 20):

- Credit lines.
- Loan facilities (short-term; long-term).
- Leasing.
- Bond market (notes issuing).

Main characteristics of debt instrument can be defined as following:

- Maturity of debt obligation (also known as due date).
- The par value (also known as principal or maturity value).
- Nominal rate (also known as contract rate). (Fabozzi 2002, 3-4.)

In contrast, an equity instrument, imply a requirement to pay an amount based on earnings (Fabozzi 2002, 2).

As stated by Deloitte (2012, 16-20), following equity instruments are widely used:

- Preferred shares.
- Convertible bond (converts debt to equity).

7.2.2 Non-traditional instruments

Within this subchapter, we present some of the non-traditional financial instruments that could be used by the commissioning company. We first review the non-traditional debt instruments such as:

- Senior debt to members and non-member investors.

It is issued to a members, has a defined long-term maturity date and a fixed or a floating interest rate. (Deloitte 2012, 16-20.)

- Subordinate debt to members and non-member investors.

In contrast to senior debt, this financial instrument is issued to outside investors and has a defined long-term maturity date. It also holds non-voting rights and has a fixed or floating interest rate. (Deloitte 2012, 16-20.)

According to Deloitte (2012, 16-20), main benefits could be summarized as:

- A longer maturities than traditional bank loans.
- An opportunity to diversify the investor base.

Some of the non-traditional equity instruments presented below (Deloitte 2012, 16-20):

- Preferred shares/certificates to members and non-members.
- Tradable cooperative shares and investment certificates.

As stated by Deloitte (2012, 16-20), main benefits of these instruments are:

- Improves an equity position.
- Possibility to issue either by the cooperative itself or by a separate legal entity.

7.2.3 A debt-equity mix instrument

Real estate investment (e.g. commercial) is a hybrid type of financial instruments that has two unique debt-like and equity-like characteristics. For example, if building is leased for more than a year it becomes more equity-like since the risk and return are influenced by interest rate fluctuation and the creditworthiness of the tenant. However, if the building is leased for a very long-term period it becomes more debt-like instrument. One of the significant features of real estate investment is that its (residual) value almost never falls to zero. (Fabozzi 2002, 699.)

Real estate investment can be used as a leverage technique to (Fabozzi 2002, 717-718):

- Increase the total return on an asset (source of cash).
- Serve as security (collateral).
- Serve as hedging strategy (against inflation).
- Serve as a diversification strategy.

7.3 Bottom line: profitability

To stay profitable and competitive in this challenging economic time and rapidly changing market environment, requires from a cooperative a strong management commitment and know-how in product and service development (new product/service offerings).

Another requirement charged against management team is to invest in and keep only profitable assets. Any asset in possession should produce an expected return on assets before interest and taxes (EBIT/asset) that is greater than or equal to an acceptable level set by the management team. (Barton 2008, 95.)

Let's quickly review current rate of return on total assets (ROA), which gives an information how was efficient management at using organization's total assets to generate earnings and can be found as:

$$\text{ROA} = \text{Earnings before interest and tax (EBIT)} / \text{total assets (Investopedia 2013c.)}$$

Table 6. Rate of return on total assets between Messukeskus and The Swedish Exhibition & Congress Centre for period 2008-2012 (Finnexpo 2013b, 21; Svenskamassan 2013, 29-30, 52.)

Name /Year	2012	2011	2010	2009	2008
Messukeskus					
ROA, %	5.3	2.7	6.1	7.1	5.8
Swedish Exh & C.					
ROA, %	6.4	4.3	5.4	4.4	4.9

Return on capital employed (ROCE) reflects an organization's profitability and the efficiency in using invested capital (equity plus debt) and can be expressed as:

$$\text{ROCE} = ((\text{Earnings after tax. (Extraordinary expenses eliminated)} + \text{Interest}) / (\text{Interest-bearing Liabilities} + \text{Equity})) \text{ (Investopedia 2013c.)}$$

Table 7. Rate of return on capital employed between Messukeskus and The Swedish Exhibition & Congress Centre for period 2008-2012 (Finnexpo 2013b, 21; Svenskamassan 2013, 29-30, 52.)

Name /Year	2012	2011	2010	2009	2008
Messukeskus					
ROCE, %	5.7	3.5	7.8	8.5	7.6

Swedish Exh & C.	8.0	5.6	6.7	5.6	6.3
ROCE, %					

Return on owner's equity (ROE), shows the amount of profit an organization is able to generate with help of money invested by shareholders and expressed as:

ROE = (((Earnings before extraordinary items and tax) - tax) / (Equity)) (Investopedia 2013c.)

Table 8. Rate of return on owner's equity between Messukeskus and The Swedish Exhibition & Congress Centre for period 2008-2012 (Finnexpo 2013b, 21; Svenskamassan 2013, 29-30, 52.)

Name /Year	2012	2011	2010	2009	2008
Messukeskus					
ROE, %	n/a	3.7	6.2	6.0	5.5
Swedish Exh & C.					
ROE, %	n/a	6.3	9.3	6.9	9.8

7.4 Profitability versus growth

The interviews with representatives of the case company and similarly structured organizations operating in a different industries, have brought out, in both cases, a clear focus on improving an operational efficiency of the organization. This trend is currently prevailing on a troubled market. In simple words, a main idea behind the focus on profitability is not simply get an increase in organization's total sales but to follow up more closely its cost structure, thus to get stable cash flows and eventually become more profitable. The primary objective of this strategy is to survive. As result, this may require execution of certain difficult decisions (e.g. redundancy, sell of fixed assets), which has a dramatic impact on overall growth expectations.

However, even with primary focus on improving profitability, it is still possible to grow. To pursue this mixed strategy, the organization should have access to capital and

ensure that any single business opportunity (investment) is efficiently evaluated and exploit. (Growing Business 2013.) Also, growth strategy through new product or service offerings (e.g. creating an artificial demand) or international expansion is always an effective approach. But it doesn't necessary mean that it is a low-cost or low-risk approach. Therefore, correspondent metrics on growth indicators such as market share and competitive positioning (competitive matrix) to be monitored and followed up closely.

History has shown that those businesses that were constantly looking for a new business opportunities to grow, even in a troubled economy, were always successful in a long run compare to those who were less active and reluctant.

7.5 Strategic capital formation

Access to adequate financing continues to be a problem for many organizations that plans to grow or improve its profitability.

Until recently, the private equity, venture capital, debt issuance to externals investors and access to international debt market, were fully recognized by the cooperatives. (Deloitte 2012, 5-12.) Focus on balance sheet management philosophy, participation in the merger and acquisition game and consistent demonstration of financial appreciation and profitability have played a crucial role in providing access to affordable capital.

Before examining the capital formation strategies which may be available, the management team should understand the capital requirements of the (investment) initiative to be pursued. Even less capital-intensive initiatives like IT projects or training for human resources still require a solid capital structure.

In general, strategic capital formation can be characterized by the time factor (short, medium and long terms) of capital and an objective to be achieved.

For many cooperatives the table (table 9), outlines a present strategic capital formation.

Table 9. Strategic capital formation: Today (Author’s interpretation)

Time	Short-Term Capital: 1-2 yrs. (Operational Needs)	Medium-Term Capital: 3-10 yrs. (Investment Opportunities)	Long-Term Capital: > 10 yrs. (Long-term investments)
Common Products:	Bank loans Credit lines Working capital	Medium term loans Leasing	Bonds Mortgages Fixed assets (real estate) Sale & Lease-backs
Objective:	Secure cash flow and ongoing capital requirements	Generate an additional income Control expenses Regulation requirements	Support long-term growth strategy and market positioning.

This research suggests that this formation will be changed in a nearest future as result of present severe market conditions, high competition and regulations reforms coming into force. The table (table 10) suggests a new approach on capital formation to be evaluated by the management team.

Table 10. Strategic capital formation: Tomorrow (Author’s interpretation)

Time	Short-Term Capital: 1-2 yrs. (Operational Needs)	Medium-Term Capital: 3-10 yrs. (Investment Opportunities)	Long-Term Capital: > 10 yrs. (Long-term investments)
Suggested Products:	Get rid of an un-productive (current) assets “Flipping” (real estate reselling)	Debt issuance to ext. investors (international & secondary markets) Preferred shares to non-members	M&A Venture Capital (PE) Collaboration with CRAs (Credit Rating Agencies)

	Term deposits Credit line from parent or group company	Collaboration & networking with other organizations Cross-guarantees; Private equity (PE)	Collaboration with NGOs & NPOs Green funds (SRI) or bonds Exchange-Traded Fund
Objective:	Boost liquidity	Bolster equity position Widen access to the bond market Achieve greater diversification (hedging) Expand product range	The diversification in investment strategies Engagement with investors and CRAs Develop strong public reputation

7.6 Factors to be considered: metrics

There are a number of variables influencing the decision of favoring the use of one financial instrument over another.

As a first thing, the management team should decide what strategy to be pursued: growth or profitability, or a mixture of both of them.

Table 11. Growth vs. Profitability (Author's interpretation)

Growth	Profitability
<ul style="list-style-type: none"> - New markets, segments, niches - Wide product/service line (innovation) - M&A (inorganic growth) - Time frame vs. market share - Shareholders vs. Management - High demand for cash/negative cash flow 	<ul style="list-style-type: none"> - Focus on profitable customers - Product differentiation - Cost efficiency - KPIs, ratios vs. organic growth rate - Risk vs. Return
Debt financing is more preferred here	Equity financing is more preferred here

A second decision to be taken is to value time over amount or vice versa.

Table 12. Time vs. Amount (Author's interpretation)

Time	Amount
<ul style="list-style-type: none"> - How long? (realistic) - Priority - ROI - Uncertainty 	<ul style="list-style-type: none"> - How much? (meaningful) - Supports strategy - Cost of borrowing (affordability) - Risks & Impact
Equity financing is more preferred here	Debt financing is more preferred here

A last decision point is to agree on either to borrow or to gain.

Table 13. Borrow vs. Gain (Author's interpretation)

Borrow	Gain
<ul style="list-style-type: none"> - Current debt levels - Terms (affordability) - Internal policies & risk mgmt. - Security (collateral) - Regulations (covenants) 	<ul style="list-style-type: none"> - Opportunity cost - Rate of return - Taxation
Debt financing is more preferred here	Equity financing (retained earnings, members, externals) is more preferred here

Let's now evaluate few hypothetical examples. An IT investment initiative to acquire an accounting software from external vendor (worth 200K €). And second initiative is a real-estate investment to acquire an additional venue for congresses and other events (worth 15000K €).

The IT investment initiative is less capital-intensive and doesn't require special arrangements like extra warranties or negotiation with local government. This kind of initiative, in most cases, aims to improve an operational efficiency (particularly, productivity

of an accounting department) by taking advantage from latest technologies. However it does require to consider time factor as all IT projects desire to be implemented in a short period of time. As no borrowing would have to be asked, this initiative would favor more financing from own capital reserves (retained earnings). In other cases, a bank loan can be requested that could be repaid in a short-time period.

The real-estate investment (e.g. commercial, residential, and industrial) is subject to many regulations and have to be considered more carefully. It could also be seen as inorganic growth (in case of acquiring a rival company's properties) and an amount to be borrowed plays a crucial role in organization's ability to afford it. The value of time factor would not be that critical if an organization could demonstrate a healthy balance sheet and its ability to generate a robust, and sustainable cash flow in a long run.

8 Conclusions and recommendations

One of the most difficult tasks faced by the management team of any organization is the development and maintenance of an adequate capital structure and access to the funding sources that the organization will need to stay strong and competitive.

The optimal capital structure has a dynamic nature and following factors have an impact on it – the organization itself, the management team, industry dynamics, the capital market condition (e.g. availability, affordability), government regulations, and social and environmental trends. Over the past few years, many organizations have struggled with the maintenance of an optimal capital structure. A decision to increase or decrease leverage mainly depends on a prevailing market conditions, organization strategy and the management ambitions.

For any business, once company has identified a new business opportunity and correctly evaluated it, next step has always been to find the source of capital required to exploit it.

Global financing crisis has had a negative impact on access to financing and raising capital. Financial market is no longer an automatic function where financing is available. Also not all can access it. Cooperatives and other businesses are now looking for ways to diversify the array of financing options.

The intention of this thesis was to provide management team with insights on the integration process of investment and financial strategies, and to give an overview of traditional and emerging (non-traditional) financial instruments available on the market to finance the investments.

Integrating investment and financial strategies through strategic financial planning is the most efficient way for the organization to ensure that money spent wisely. The strategies to be integrated should be based upon a socially responsible philosophy which will aim to maximize social and economic returns.

A primary concern associated with the cost of capital is to use it during capital budgeting process, as to verify if a new investment initiative is able to get a return greater than the cost of the capital required to finance it.

The metrics presented at the end of the research give a possibility to correctly evaluate various factors influencing the decision of favoring the use of one financial instrument over another.

It may also be concluded that an equity financing would be more preferred in a long run than a debt. Also access to non-member capital sources (e.g. subordinated debt, investment certificate) and to international debt markets would play bigger role than it currently does.

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Attachments

Attachment 1. Overlay matrix of investigative questions

Research Question (RQ) How to integrate investment strategies with finance strategies?		
Investigative Questions (IQs)	Theoretical Framework	Interview Topic Areas
IQ1: How Strategic Financial planning is done at company?	Cooperative characteristics as defined by law and cooperative society, books, articles	Decision-making process
IQ2: How Financial management (an acquisition of the firm's funds) is carried out?	Company characteristics as defined by law and cooperative society, books, articles	Financial planning process
IQ3: How Investment management (the use of firm's funds) is carried out?	Cooperative characteristics as defined by law and cooperative society, books, articles	Investment planning process
IQ4: What the company financial policies and limitations are currently in place?	Company characteristics as defined by law and cooperative society, books,	Company strategic planning Financing limitations

	articles	
<p>IQ5: What kind of instruments should the company use to finance different kind of investments?</p>	<p>Financial management, survey analysis, research papers</p>	<p>Traditional and non-traditional sources Cost of capital Challenges in acquiring adequate funding</p>
<p>IQ6: What possible suggestions and recommendations to the current financial policies are?</p>	<p>Cooperative characteristics as defined by law and cooperative society, books, articles, prior survey analysis</p>	<p>All interview topics</p>

Attachment 2. Strategic financial management to maximize EVA

