

THE IMPACT OF FINANCIAL EXPENDITURE ON THE PERFORMANCE OF TRADE IN SERBIA

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Abstract

Due to the economic crisis and the risk of doing business, the issue of the efficiency of managing financial expenditure in all enterprises, including trading is raised. It especially relates to the trading enterprises in transition countries, such as Serbia. The comparative research showed that financial expenditure of trading enterprises in transition countries are incomparably higher compared to the countries with developed market economy. The aim of the research in this work is to envisage the importance of the financial expenditures in modern trade companies, with special insight into Serbia. In contrast to the countries with developed market economy, significantly higher financial expenditures in trading companies in Serbia reflected badly on their performance. Such condition is caused by following factors: high interest rate, indebtedness, high business risk, total financial instability, inadequate strategies and business politics, etc. Regarding this, it is necessary to take all relevant measures so as to increase the competitiveness and the efficiency of managing financial expenditures in trading enterprises in Serbia.

Keywords: interest, negative exchange rate difference, efficiency, cost of debt, Serbia.

1. INTRODUCTION

As it is known, the total expenditures are significant determinant of the performance of all enterprises, including trading. The structure of total expenditures of trading enterprises comprises of: business expenditure (acquisition value of goods and operating costs), financial and other expenditures. By the definition, financial expenditures are total costs which provide project financing or business arrangements. The costs of financing can include the interest payment, the financing of compensation to the indirect financial institutions, as well as compensation or wages of staff which participate in financing process conduct. According to the International Accounting standard 23, borrowing cost are defined as "interest and other costs incurred by an entity in connection with the borrowing of funds" (Greuning, 2011).

The subject of the research in this work is specific features of financial expenditures of trading enterprises, with special insight into Serbia. The financial expenditures of trade enterprises in Serbia are mostly interests and negative exchange rate difference.

The aim of this work is to thoroughly explore the specifics, importance and factors of the dynamics of size and structure of financial expenditures of trading enterprises, especially in Serbia. Based on the original empirical data for the period 2008-2013 we made detailed analysis of financial expenditures of trading enterprises in Serbia. Great number of trading enterprises which are lawfully obliged to give annual financial reports to Business register of Serbia were analysed in each year, thus providing valid statistical sample.

We recognise scientific-professional contribution of this work in its basic role for taking relevant measures in stimulating the competition and efficiency of managing financial expenditures and, consequently, the performance of trading enterprises in Serbia in the future. Likewise, it gives prominent theoretical contribution, because there is hardly any paper completely devoted to the issues of cost management, especially in Serbia.

The empirical research limit of this work manifests in lack of concordance of annual financial reports due to unequal application of relevant accounting and other legislative in trading enterprises. Nevertheless, it does not substantially lower the value of this work in envisaging the efficiency of managing financial expenditures in trading enterprises, especially in Serbia.

The recommendation is to continuously research the efficiency of managing financial expenditure in trading enterprises in the future.

As it is known, there is hardly any paper completely devoted to the specifics of the impact of financial expenditures on competition and performance of trading companies (wholesale and retail) (Anhin, 2014). In literature, this problem is partially researched in the context of general research of specifics and importance of adequate financial strategies in trading companies (Abdou et al 2012; Anhin, 2014; Berman, 2010; Bilawal, 2014; Chevalier, 1995; Evans, 2005; Gleason, 2000; Gleason, 2000; Kamath, 2013; Kaya, 2014; Lee, 2014; Levy, 2007; Li et al. 2014; Little et al. 2011; McGloldrick, 2002; Moatti et al. 2014; Mokhova, 2013; Paries, 2014; Phillips, 2010; Plath, 1991; Svatoš, 2014; Thangam, 2015; Van der Wijst, 1993; Yu, 2014; Murfin, 2015). It is specially the case with the literature in Serbia (Lukić, 2011, 2012, 2013a,b, 2014a,b, c, 2015a, b, c).

In other words, according to our knowledge, there is no complete work which is devoted to the research of the specifics of the impact of financial expenditures, as significant determinant of competition and performance of trading companies in Serbia. This gap should be filled with this work which, in its essence, timing and manner of the research, should give adequate theoretical, methodological and empirical basis for efficient managing of financial expenditures as a function of improving competition

and total performance of trading companies in Serbia in the future. In that we find its scientific-professional contribution to the literature in the field of managing costs in Serbia.

In the conditions of ongoing economic crisis and business risk, financial expenditures are important factor of competition and performance of trade enterprises, especially in transition countries, such as Serbia. Under these circumstances, the hypothesis in this work is: H1 – the efficient management of financial expenditure can significantly improve the competition and performance of trading enterprises. This especially relates to trading enterprises in Serbia. For that purpose, it is necessary to have close acquaintance of the dynamics of size and structure of their financial expenditures. The empirical survey conducted in this work (on the sample of considerable number of trading enterprises in Serbia for each observed year in the period 2008-2013) proved this hypothesis.

The methodology of research of the efficiency of managing financial expenditures on competition and performance of trading enterprises, with special insight into Serbia, is founded on: literature survey, norm, comparative analysis, ratio analysis and statistical analysis. Based on correlation analysis, the impact of financial expenditure on profit per employee (as a measure of profitability) in trade in Serbia was researched.

For analysis of the given issue, empirical data were collected from literature, websites, and especially from Business registers agency of Serbia – for each analysed year (2008-2013) data were collected on great number of trading enterprises which are lawfully obliged to submit annual financial reports (see Table 7) – thus providing the relevant statistical sample.

2. THE SIGNIFICANCE OF FINANCIAL EXPENDITURE IN THE TRADE OF DEVELOPED MARKET ECONOMIES

In order to make international comparison, we will analyse the size and structure of financial expenditures in trading enterprises of selected countries, especially developed market economies. Due to the influence of many factors, the size and structure of financial expenditures differ among countries. The differences are influenced by the bank system development, financial market, stability of the total financial system, strategy and politics of trading enterprises' financing. Long term instability of financial system is characteristics of Serbia. It reflected on the size and the structure of financial expenditures of all the enterprises, including trading.

Table 1 shows the interest expense of retail in the United States of America with the assets 50 million dollars and more.

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TABLE 1- INTEREST EXPENSE OF RETAIL TRADE CORPORATIONS IN THE UNITED STATES OF AMERICA WITH THE ASSET 50
 MILLION DOLLARS AND MORE

	1Q 2015	4Q 2014	1Q 2014
Interest expense (million dollars)	4,480	4,400	4,190
Interest expense (cents per dollar of sales)	0,70	0,63	0,67

Source: U.S. Census Bureau News. First Quarter 2015 data from the Quarterly Financial report: Large U.S. retail trade corporation. U.S. Department of Commerce, Washington, D.C. 30233. For Release Monday, June 15, 2015 AT 10 A.M. EDT. CB 15-100. (https://www.census.gov/econ/qfr/retail/current/qfr_rt.pdf)

The data in the given table show that the percent share of interest expense in net sale is less than 1 in retail corporations in the United States of America.

The interest expenses differ in selected retail companies and they are affected by the size of retail companies, the type of their business and the structure of the capital. Table 2 shows interest expense of global retailer Wal-Mart and its competition for the period 2011-2015.

TABLE 2- THE INTEREST EXPENSE OF SELECTED RETAIL COMPANIES, 2011-2015

	2011	2012	2013	2014	2015
<i>Wal-Mart Stores Inc</i>					
Total revenues (million US dollars)		446,509	468,651	476,294	485,651
Net interest expense (million US dollars)		2,159	2,063	2,216	2,348
Net interest expense (percent of total revenues)*		0,48	0,44	0,46	0,48
<i>Costco Wholesale Group</i>					
Total revenues (million US dollars)	88,915	99,137	105,156	112,640	
Net interest expense (million US dollars)	75	46	55	61	
Net interest expense (percent of total revenues)*	0,08	0,04	0,05	0,05	
<i>Target Corp</i>					
Total revenues (million US dollars)		69,865	73,301	71,279	72,618
Net interest expense (million US dollars)		779	684	604	597
Net interest expense (percent of total revenues)*		1,11	0,93	0,84	0,82
<i>Dollar General Corp</i>					
Total revenues (million US dollars)		14,807	16,022	17,504	18,909
Net interest expense (million US dollars)		204	127	89	88
Net interest expense (percent of total revenues)*		1,37	0,79	0,50	0,46
<i>Sears Holdings Corp</i>					
Total revenues (million US dollars)		41,567	39,854	36,188	31,198
Net interest expense (million US dollars)		248	173	47	181
Net interest expense (percent of total revenues)*		0,59	0,43	0,12	0,58

Note: * Author's calculation

Source: <http://www.bloomberg.com/research/stocks/snapshot/snapshot.asp?ticker=WMT> (accessed 18/7/2015 10 AM)

As we observe the retail companies in the given table we see slight differences in percent share of interest expenses in total revenues. But, what we find as a characteristic is that it is lower than 1 percent in all observed retail companies.

In order to thoroughly compare the efficiency of managing financial expenditures of American retailers to similar in other countries, the Table 3 shows the percentage of interest expenses in sales revenues of Sainsbury's (United Kingdom).

TABLE 3- THE INTEREST EXPENSE IN SALES REVENUE, SAINSBURY'S, 2011-2015

	2015	2014	2013	2012	2011
Sale (with added value tax) (million pounds)	26,112	26,352	25,632	24,511	22,943
Basic net financial expense (million pounds)	107	111	111	109	97
Basic net financial expense (in percent of sales)*	0,41	0,42	0,43	0,44	0,42

Note: * Author's calculation

Source: Annual financial report (www.sainsburys.co.uk; accessed: 19/7/2015 10 AM)

The data in the given table show that percentage of net financial expenses in sales revenue in Sainsbury's is less than 1 - slightly less compared to Wal-Mart. It leads to the conclusion that managing of the financial expenditures in Sainsbury's is on high level.

So as to have better insight into the efficiency of managing financial expenditures of global retailers (especially food) we will show the percent share of interest expenditures in sales revenue of the company Fast Retailing, Japan (Table 4).

TABLE 4- INTEREST EXPENDITURES IN SALES REVENUE OF THE COMPANY FAST RETAILING JAPAN, 2010-2014 (FISCAL YEAR)

	2010	2011	2012	2013	2014
Net sales (million yen)	814,811	820,349	928,669	1,143,003	1,382,907
Interest expenditure (million yen)	500	532	568	633	931
Interest expenditure (in percent from sales)*	0,06	0,06	0,06	0,05	0,07

Note: * Author's calculation

Source: Annual financial report (www.fastretailing.com; accessed: 19/7/2015 10 AM)

Distinguished Japanese retailer has relatively low percentage share of interest expenditures in sales revenue. It is significantly lower compared to above analysed retail companies in the United States of America and Great Britain. We reached the conclusion that the company has very high efficiency of managing interest expenditures.

The percentage of financial expenditures (interest and bank charges) in total revenue of trade (wholesale and retail) in Canada is also lower than 1 percent, and the data in the Table 5 show that.

TABLE 5- THE SHARE OF FINANCIAL EXPENDITURES IN TOTAL REVENUE OF TRADE IN CANADA, 2015

	Interest and bank charges in total revenue, (%)	Interest coverage ratio
Wholesale	0,60	-
Retail	0,70	8,1

Note: Interest coverage ratio = net profit + interest and bank charges / interest and bank charges

Source: Canadian Industry Statistics (CIS)

(<https://www.ic.gc.ca/app/scr/sbms/sbb/cis/definition.html?code=41&lang=eng>)(accessed 20/7/2015 10 AM)

The cost of financing – cost of debt (as well cost of capital) differs among specific retail sectors based on the character of business. So, for example, in the United States of America the cost of debt in retail sectors is as follows: retail (automotive) 3,17%, retail (building supply) 3,67%, retail (distributors) 3,67%, retail (general) 3,17%, retail (grocery and food) 3,67%, retail (online) 4,17%, retail (special line) 3,67%, and total retail 3,67% (Cost of capital by sector (US) – NYU Stern School Business) (http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/wacc.htm) (accessed 20/7/2015 10:AM).

The cost of debt differs among specific global retail companies. So, for example, cost of debt in Fast retailing in 2014. amounted 2,47% (author's calculation based on annual source: www.fastretailing.com) (accessed 19/7/2015 10:AM). The same year, in Tesco retail company they amounted 4,87% (Korkos, L. and Makri, M., April 2014, Corporate Case Study – Tesco PLc, International Hellenic University; http://www.academia.edu/9189245/Corporate_Case_Study_Tesco_Plc, accessed 19/8/2015 10:AM).

3. THE CHARACTERISTICS AND DETERMINANTS OF FINANCIAL EXPENDITURES OF TRADING ENTERPRISES IN SERBIA

As it is known the size of financial expenditures of trading enterprises is affected by interest rate and the amount of bank loans for property financing. The trade participated in total number of approved loans in Serbia from 13,6% up to 17,3% (Table 6). This number is also high in certain types of property (investments in turnover and capital assets) financed from credit sources.

TABLE 6- THE PERCENTAGE STRUCTURE OF LOANS PER ECONOMY SECTORS IN SERBIA, 2008-2015

	2008	2009	2010	2011	20012	2013	2014	Q1 2015
Agriculture loans from total loans (%)	3,3	3,1	3,0	2,8	3,0	2,7	3,5	3,4
Industrial loans from total loans (%)	18,4	17,9	19,3	17,2	17,9	18,4	19,2	18,8
Trade loans from total loans (%)	16,9	17,3	16,6	14,7	15,0	13,5	13,9	13,6
Construction loans form total loans (%)	5,8	5,3	6,9	6,2	5,8	4,6	4,2	4,1
Other loans to enterprises from total loans (%)	8,1	9,8	9,7	10,9	12,8	11,4	11,5	12,0

Source: National Bank of Serbia

So, for example, in 2012 the percentage of financial credits in financing investments of basic funds in Serbia amounted: total economy 19,86%, agriculture, forestry and fishing 25,08%, mining 3,02%, processing industry 18,12%, electrical, gas and steam supply 11,12%, water supply and waste water management 8,89%, construction 34,92%, wholesale, retail, vehicle repair - total 16,16%, wholesale, retail, vehicle repair 22,17%, wholesale except motor vehicle trade 14,01%, retail, except motor vehicle trade 17,66%, traffic, warehousing and communication 16,65%, accommodation and food 9,02%,

information and communication 22,29%, financial and insurance business 33,44% (author's calculation based on Statistical Yearbook of the Republic of Serbia 2014, The statistical Office of the Republic of Serbia) (<http://pod2.stat.gov.rs/ObjavljenePublikacije/God/SGS2014.pdf>) (accessed 20/7/2015 10:AM). Based on these data (percentage ratio) it can be concluded that financial share of credits in financing investments of basic funds of trade in Serbia is significant.

It is also high in financing of turnover assets. Beside bank credits, there is significant percentage of suppliers in stocks financing. Collection period is long, much longer than the "industry standards" in countries with high financial discipline. The substantial share of total financial credits in financing of trade in Serbia reflected, beside very high interest rate and unfavourable exchange rate, on the size of financial expenditures as one of the determinants of competitiveness and overall performance.

The capital structure is also significant determinant of financial expenditure. Table 7 shows the capital structure of trade in Serbia for the period 2008-2013.

TABLE 7 – CAPITAL STRUCTURE OF TRADE IN SERBIA, 2008-2013

	Number of enterprises	Assets/capital	Long-term liabilities/assets, (%)	Short-term liabilities/assets, (%)	Total liabilities / Assets, (%)	Total liabilities / Shareholders capital, (%)	Long-term liabilities / Shareholders capital, (%)	Long-term liabilities / Total capital, (%)
2008	37,077	2,637	13,88	48,27	61,65	162,59	35,29	13,44
2009	34,982	2,747	13,22	49,93	63,15	174,13	36,33	13,25
2010	35,474	3,490	13,30	57,55	70,86	247,33	46,43	13,36
2011	33,451	3,237	11,59	57,05	68,64	222,24	37,53	11,64
2012	33,393	3,333	13,48	55,81	62,29	230,97	44,96	13,58
2013	33,341	3,224	11,77	56,55	68,32	220,30	37,96	11,80

Note: Author's calculation

Source: Business registers agency

TABLE 8- FINANCIAL REVENUES AND EXPENDITURES OF TRADE IN SERBIA, 2008-2013

	Financial revenues		Financial expenditures			Net financial expenditures	
	Amount (thousand dinars)	Share of financial revenues in total revenues, (%)	Amount (thousand dinars)	Share of financial expenditures in total revenues, (%)	Share of financial expenditures in total expenditures, (%)	Amount (thousand dinars)	Share of net financial expenditures in total revenues, (%)
2008	57,370,872	2,13	111,033,904	4,44	4,49	53,663,321	2,14
2009	46,191,911	1,99	102,912,314	4,35	4,38	56,720,403	2,40
2010	54,509,059	2,08	117,641,904	4,49	4,49	63,132,845	2,41
2011	59,770,004	2,11	92,750,578	3,28	3,32	32,980,074	1,16
2012	60,049,082	1,92	116,042,075	3,71	3,72	55,992,993	1,79
2013	37,450,796	1,26	65,668,167	2,20	2,23	28,217,371	0,94

Note: Author's calculation

Source: Business registers agency

The structure of capital of trade in Serbia is unfavourable. In Serbia, the financial indebtedness is high and has reflected on interest rate as a determinant of trading enterprises performance.

Table 8 shows financial revenues and expenditures of trade in Serbia for 2008-2013 period.

Based on provided data we can make a conclusion: 1) percentage share of financial revenues in total revenues ranged from 1,26 – 2,13% in the observed period; 2) percentage share of financial expenditures in total revenues ranged between 2,20 – 4,49%; 3) percentage share of financial expenditures in total expenditures ranged from 2,23 – 4,44% in observed time period; and 4) percentage share of net financial expenditures in total revenues ranged from 0,94 – 2,41%. Therefore, net financial expenditures of trade in Serbia were the highest in 2010.

The share of financial revenues in total trade revenues in 2013 was 1,26% and lower than in total economy in the Republic of Serbia (which amounted – 2,46%). The share of financial expenditures in total expenditures of trade in Serbia in 2013 (2,23%) was also lower compared to total economy of the Republic of Serbia (2013 – 3,83%). The share of net financial expenditures in total revenues of trade in 2013 (0,94%) was lower than in total economy of the Republic of Serbia (2013 – 1,34%). (Author's calculation for total economy of the Republic of Serbia based on the data of the Business registers agency.) Compared to net financial expenditures in trade of countries with developed market economy, they are incomparably higher in Serbia. It is due to high bank interest rate and negative fluctuation of exchange rate concerning the fact that the credits given to the economy are indexed in foreign currency (mostly in Euros). High risk of business in Serbia is also significant determinant of the size of financial expenditures (interest expenditures) of all enterprises, including trading. In the context of the analysis of influence of financial expenditures on competition and performance of trade in Serbia it is necessary to envisage the interest coverage ratio. In this work interest coverage ratio is calculated as follows: $\text{interest coverage ratio} = (\text{interest} + \text{net income}) / \text{interest}$. Table 9 and Figure 1 show the interest coverage ratio of trade in Serbia for the period 2008-2013.

TABLE 9- INTEREST COVERAGE RATIO OF TRADE IN SERBIA, 2008-2013

	Interest coverage ratio	
2008	1,76	
2009	1,72	
2010	1,68	
2011	1,98	
2012	1,80	
2013	2,36	

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Interest coverage ratio	6	1,68	2,36	1,8833	,25563
Valid N (listwise)	6				

Note: Author's calculation of interest coverage ratio and descriptive statistics with the application of SPSS
Source: Business registers agency

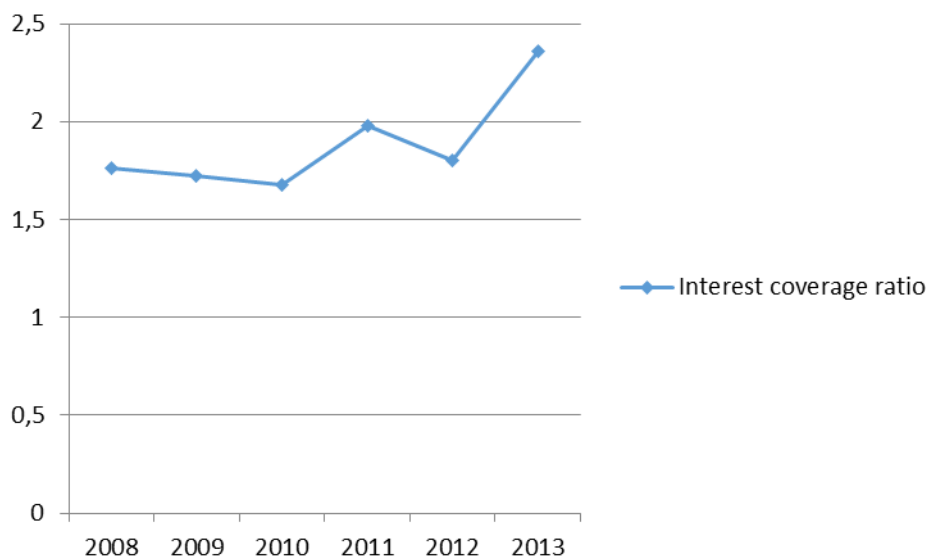


FIGURE 1- INTEREST COVERAGE RATIO OF TRADE IN SERBIA
 Source: Table 9

In Serbian trade in all observed years, except 2013, one dinar of interest was covered with less than one dinar of net income, 0,88 dinars on average. Dynamically observed, in analysed period the interest coverage with net income had cyclic movement, in which significant increase was recorded in 2013.

TABLE 10- THE COST OF DEBT IN SERBIAN TRADE, 2008-2013

	The cost of debt, (%)
2008	8,51
2009	7,33
2010	7,92
2011	6,23
2012	7,04
2013	3,96

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
The cost of debt (%)	6	3,96	8,51	6,8317	1,60633
Valid N (listwise)	6				

Note: Author's calculation of the cost of debt and descriptive statistics with the application of SPSS
 Source: Business registers Agency

In order to thoroughly envisage the interest coverage ratio in Serbian trade it is necessary to analyse the relationship between the capital and interest (capital/interest) which, for the period 2008-2013, was as follows: 2008 – 7,17, 2009 – 7,80, 2010 – 5,06, 2011 – 7,16, 2012 – 6,08, and 2013 – 11,32 (author's calculation based on the data of Business registers agency). In all observed years one dinar of interest was (averagely) covered with seven dinars of capital, except 2013 when coverage exceeded 11 dinars. In the context of the interest coverage ratio analysis it is necessary to envisage the relationship between the ratio and net cash flow from operating activities (interest/net cash flow from operating

activities). This indicator shows how much one generated dinar of net cash flow from operating activities covers interest.

The cost of debt (showed as percentage relationship between financial expenditure and total liabilities: financial expenditure/total liabilities) is significant determinant of performance of all enterprises, including trading. Table 10 and Figure 2 show the cost of debt in Serbian trade for the period 2008-2013.

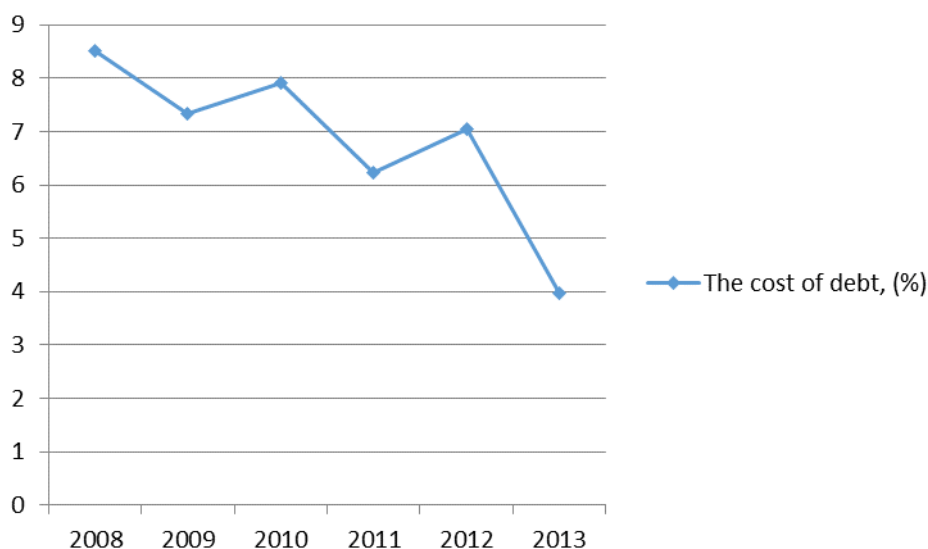


FIGURE 2- THE COST OF DEBT IN TRADE OF SERBIA
 Source: Table 10

The cost of debt of trade in Serbia ranged from 3,96% (2013) up to 8,51% (2008) in the given period. On average, they were 6,83%. Dynamically observed, they had cyclic movement, with significant decrease in 2013. All in all, the cost of debt of trade in Serbia was much higher (almost double) compared to the trade of developed market economies.

The cost of debt affects profitability of all enterprises. Considering the goals, the profitability in trading enterprises is expressed differently. In this work, in order to measure the profitability of trading enterprises in Serbia we will use the indicator – profit per employee, because there is no need to make any accounting adjustment considering the unequal application of accounting and other regulations. Besides, we can envisage the influence of intangible assets (intellectual capital, knowledge, talent and skills of employees) on the performance of trading companies. Profit per employee in Serbian trade for the period 2008-2013 is showed in Table 11.

TABLE 11- PROFIT PER EMPLOYEE OF TRADE IN SERBIA, 2008-2013

	Number of employees	Net profit (000 dinars)	Net profit per employee (000 dinars)*
2008	215,540	84,995,251	394
2009	207,325	75,376,369	363
2010	197,677	79,198,098	400
2011	200,801	91,822,735	457
2012	193,954	93,687,650	483
2013	191,653	89,440,797	466

Note: Author's calculation
 Source: Business register agency

In Serbian trade, profit per employee ranged from 363,000 (2009) up to 483,000 (2012) dinars in the observed period. It is significantly lower (expressed in Euros) than in the European Union trade (see Eurostat).

In further analysis of the treated problem we will research the impact of the cost of debt on profit per employee in trade in Serbia for the period 2008-2013 by using the statistical analysis (descriptive statistics and correlation analysis). Regarding the number of huge number of trading enterprises for each year, the statistical sample is valid (see Table 7).

Table 12 shows the descriptive statistics of the cost of debt and net profit per employee in trading enterprises of Serbia, 2008-2013.

TABLE 12- DESCRIPTIVE STATISTICS OF THE COST OF DEBT AND NET PROFIT PER EMPLOYEE IN TRADING ENTERPRISES OF SERBIA, 2008-2013

	N	Minimum	Maximum	Mean	Std. Deviation
The cost of debt (%)	6	3,96	8,51	6,8317	1,60633
Net profit per employee (in 000 dinars)	6	363,00	483,00	427,1667	47,89746
Valid N (listwise)	6				

Note: Author's calculation of with the application of SPSS

TABLE 13- CORRELATION BETWEEN THE COST OF DEBT AND NET PROFIT PER EMPLOYEE, 2008-2013

		The cost of debt, (%)	Net profit per employee (000 dinars)
The cost of debt, (%)	Pearson Correlation	1	,611
	Sig. (2-tailed)		,198
	N	6	6
Net profit per employee (000 dinars)	Pearson Correlation	,611	1
	Sig. (2-tailed)	,198	
	N	6	6

Note: Author's calculation of with the application of SPSS

According to the given results, the statistical values of the cost of debt of trade in Serbia in observed period are: minimum – 3,96%, maximum 8,51% and average 6,83%. That same values for net profit per employee are following: minimum – 363,000, maximum 483,000, and average 427,167 (dinars).

Table 13 shows the correlation between the cost of debt and net profit per employee of trade in Serbia for the period 2008-2013.

In the observed period there was significant negative correlation between the cost of debt and net profit per employee in trade of Serbia. (The results of regression analysis for the period 2008-2013 also show the significant impact of the cost of the debt per employee in trade enterprises in Serbia; Adjusted R Square ,217, Std. Error of the Estimate 42,39339, F 2,383, Sig. F ,198, Durbin-Watson 1,777) (Author's calculation with the application of SPSS). It means that efficient management of capital structure, financial leverage, net financial expenditures can improve competition and overall performance of trading enterprises in Serbia in the future.

Considering the fluctuation of exchange rate in Serbia, the significant determinant of financial expenditure, i. e. profitability of all sectors, including trade is negative exchange difference. The transactions in Serbia are mostly expressed in Euros. The fluctuation of average annual exchange rate (euro vs. dinar) in the period 2008 – 2013. was as follows: 2008 – 79,98, 2009 – 93,95, 2010 – 103,04, 2011 – 101,95, 2012 – 113,13, 2013 – 113,14. Table 14 shows the influence of exchange rate difference on financial expenditures and profitability (net profit per employee) in trade of Serbia for the period 2008-2013.

TABLE 14- CORRELATION (THE INFLUENCE OF EXCHANGE RATE ON FINANCIAL EXPENDITURES AND PROFITABILITY IN TRADE OF SERBIA, 2008-2013)

		Exchange rate	Share of financial expenditures in total revenues, (%)	Net profit per employee (000 dinars)
Exchange rate	Pearson Correlation	1	-,657	,754
	Sig. (2-tailed)		,157	,083
	N	6	6	6
Share of financial expenditures in total revenues, (%)	Pearson Correlation	-,657	1	-,737
	Sig. (2-tailed)	,157		,095
	N	6	6	6
Net profit per employee (000 dinars)	Pearson Correlation	,754	-,737	1
	Sig. (2-tailed)	,083	,095	
	N	6	6	6

Note: Author's calculation of with the application of SPSS

The data in the given table show that the exchange rate changes had significant negative correlation impact on financial expenditures, i. e. positive correlation on profit per employee as a measure of profitability of trade in Serbia.

4. FINANCIAL REVENUES AND EXPENDITURES OF SELECTED TRADE ENTERPRISES IN SERBIA

In order to thoroughly explore the issues in this work we will analyse the financial revenues and expenditures of selected (the biggest) trade enterprises in Serbia. They are shown in Table 15.

TABLE 15- FINANCIAL REVENUES AND EXPENDITURES OF SELECTED TRADE ENTERPRISES IN SERBIA, 2013

	Financial revenues		Financial expenditures			Net financial revenues/ (expenditures)	
	Amount (thousands dinars)	Share of financial revenues in total revenues, (%)	Amount (thousands dinars)	Share of financial expenditure s in total revenues, (%)	Share of financial expenditure s in total expenditure s, (%)	Amount (thousands dinars)	Share of net financial revenues/ (expenditure s) in total revenues, (%)
Delhaize Serbia	619,568	0,79	269,564	0,34	0,36	350,004	0,44
Mercator-S	112,447	0,17	778,680	1,21	1,22	(666,233)	1,03
IDEA	140,864	0,25	1,262,233	2,26	2,18	(1,121,369)	2,01
Knez Petrol	30,463	0,08	48,133	0,12	0,12	(17,670)	0,04
OMV Serbia	55,764	0,17	76,854	0,24	0,24	(21,090)	0,06

Note: Author's calculation

Source: Business registers agency

Data in the given table show that Delhaize Serbia had bigger financial revenues than financial expenditures, so as a result there is net financial revenue. The percentage share of financial expenditure in total revenues in Mercator-S and IDEA, which sell food, is higher from West companies (some already analysed earlier, see Tables 2, 3 and 4). On the contrast, percentage share of financial expenditures in total revenues in Knez Petrol and OMV Serbia, which sell fuel, is similar to companies of the West.

Interest coverage ratio differs among five biggest trade companies in Serbia, what data in the table 16 show.

TABLE 16- INTEREST COVERAGE RATIO OF SELECTED TRADE COMPANIES IN SERBIA, 2013

	Interest coverage ratio
Delhaize Serbia	16,18
Mercator-S	1,66
IDEA	5,16
Knez Petrol	(0,77)
OMV Srbija	(6,10)

Note: Author's calculation

Source: Business registers agency

In Delhaize Serbia in 2013 one dinar of interest was covered with 16 dinars of net income. Similar interpretation of interest coverage ratio is in other analysed trading companies.

Interest covered with capital, as well with the profit, differs among trading enterprises. So, for example, in selected trade enterprises in Serbia interest covered with capital in 2013 was as follows: Delhaize Serbia – 132,41, Mercator-S – 31,46, IDEA – 4,03, Knez Petrol – 21,07, OMV Serbia – 93, 74 (dinars). It means that among retailers Delhaize Serbia covered one dinar of interest with 132 dinars of capital. Similar interpretation of the given indicator is with other observed trading companies.

For the sake of analysing the impact of the cost of debt on profit per employee Table 17 shows the cost of debt and profit per employee of the selected trading enterprises in Serbia in 2013.

TABLE 17- THE COST OF DEBT AND PROFIT PER EMPLOYEE OF THE SELECTED TRADING ENTERPRISES IN SERBIA, 2013

	The cost of debt, (%)	Profit per employee (000 dinars)
Delhaize Serbia	1,28	552
Mercator-S	2,63	110
IDEA	4,98	(566)
Knez Petrol	1,12	427
OMV Serbia	1,40	(12999)

Note: Author's calculation

Source: Business registers agency

The data in the given table show that the cost of debt of analysed trading companies, except IDEA, are similar to that of the West.

In order to improve competition of the performance of observed trading companies in the future it is necessary to efficiently manage the structure of capital, financial leverage, i. e. financial expenditure. The strategy and the business politics should be defined. It will positively affect the market competition, and overall performance.

5. CONCLUSIONS

The conducted comparative research in this work brings the following conclusion: the financial expenditures of trading enterprises are lower in countries with developed market economies than those in transition, such as Serbia. In other words, the efficiency of managing financial expenditures of trading enterprises in Serbia is on very low level compared to developed countries.

Such trend was affected by numerous factors, such as: high interest rate, indebtedness, negative exchange difference, high business risk, significant financial indiscipline etc. The efficient control of this and other factors can improve the efficiency of managing financial expenditures in the trading

companies in Serbia in the future. Due to this, the strategy of the business should be defined. It will positively affect the competition and overall performance.

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