The Importance of Financing Methods in Economic Enterprises A Case Study of the Skikda Port Enterprise

Latreche sabrina*

University of Oum El Bouaghi (Algeria)

Sabrina_latreche21@yahoo.fr

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Abstract :

This study aims to highlight the importance of financing methods in economic institutions through a case study of the Skikda Port Authority. The research adopts a descriptive approach combined with a case study methodology. To achieve the study's objectives, a stratified random sample of 30 employees from the finance and accounting department was selected, and a questionnaire was distributed to them. The collected data was analyzed using the Statistical Package for Social Sciences ($SPSS_{22}$), employing both descriptive and inferential statistical methods. The findings indicate that the Skikda Port Authority relies heavily on internal financing, while leasing and external financing are used at moderate levels. The study recommends enhancing knowledge and expertise in applying internal financing determinants, as the institution primarily depends on this funding method.

Keywords: Financing, Internal Financing, External Financing, Leasing Financing.

JEL classification codes: G30 ; G32 **;** G21.

* ***Corresponding Auteur :*****Latreche sabrina,** ***Sabrina_latreche21@yahoo.fr*****.**

Introduction

The economic enterprise is considered the backbone of the national economy due to its vital role in achieving development and societal well-being throughout various phases of economic progress. In an era characterized by information technology and rapid economic transformations, every enterprise must enhance its activities and optimize its operations to achieve growth and stability. This necessitates taking into account the external environment in which it operates, considering both the opportunities it presents and the threats it poses.

As a result of these developments, enterprise financing has become one of the most critical pillars enabling the formulation and evaluation of managerial and financial decisions—not only for the enterprise itself but also for external stakeholders, such as banks.

To fulfill its role effectively, the enterprise must focus on implementing its investment projects, which in turn requires securing the necessary financing by directing financial resources toward optimal utilization.

Within this framework, enterprises resort to various funding sources to finance their projects, relying on specific criteria to assess the success or failure of these projects in achieving their objectives. These criteria also provide indicators that help determine whether the enterprise's policies are sound or require adjustments, ultimately assisting in making informed and strategic decisions.

1. Research Problem:

Financing is one of the most crucial functions of an economic enterprise, serving as the primary driver of its success in achieving objectives, expanding projects, and ultimately contributing to economic development.

This study aims to address the following central research question: **What are the financing methods utilized by the Skikda Port Enterprise?**

To answer this question, the study explores the following sub-questions:

- Does the Skikda Port Enterprise rely on internal financing?
- Does the Skikda Port Enterprise rely on external financing?
- Does the Skikda Port Enterprise utilize lease financing?

2. Research Hypotheses:

Main Hypothesis:

The Skikda Port Enterprise relies heavily on all forms of financing.

Sub-Hypotheses:

- The Skikda Port Enterprise extensively relies on internal financing methods.
- The Skikda Port Enterprise extensively relies on external financing methods.

- The Skikda Port Enterprise extensively relies on lease financing methods.

3. Research Objectives:

The primary objective of this study is to identify and analyze the significance of adopting various financing methods in economic enterprises, with a particular focus on the Skikda Port Enterprise, given its substantial role in the national economy.

4. Significance of the Study:

The significance of this study stems from the importance of the subject itself, as financing methods are among the most critical and dynamic factors influencing the success of enterprises and their ability to achieve their objectives.

5. Research Methodology:

In line with the nature of the study and its objectives, which seek to highlight financing methods, the researcher employed the **descriptive method** to describe and analyze all aspects of the topic comprehensively.

6. Structure of the Study:

To achieve the study's objectives and address the research problem, the study is divided into two main sections:

- **Theoretical Framework:** An overview of financing methods and their role in economic enterprises.
- **Empirical Framework:** A practical analysis of financing methods in the Skikda Port Enterprise.

I. Theoretical Framework of the Study

Economic institutions seek to obtain funds to manage their operations and expand their activities. Notably, the method of financing plays a crucial role in providing the required capital for the institution.

1. Definition of Finance

Finance is defined as the provision of funds when needed (Al-Haj, Principles of Finance, 2010, p. 21). This definition consists of the following elements:

- A precise determination of the time when funds are required.
- The search for financing sources.
- The risks associated with any business activity.

Finance is also defined as the search for appropriate methods to obtain and evaluate funds to achieve the optimal financing mix that aligns with the financial needs of the institution in terms of both quantity and quality (Al-Zoghbi, 2000, p. 77).

Additionally, finance is considered the fundamental core that institutions rely on to secure production requirements and meet financial obligations. It refers to the process of acquiring funds for the purpose of operating or developing the institution, which was traditionally viewed as a mere acquisition of funds. However, the modern perspective on financial management emphasizes selecting the best financing source by comparing various available options based on cost and return analysis (Malekawi, 2023, p. 40).

Many researchers have attempted to highlight the financial function and its impact on the lifespan of economic institutions. They generally agree that finance refers to the provision of monetary resources for establishing or developing a public or private project. Traditionally, finance has been understood as the process of obtaining funds for operating or expanding a project. However, the modern perspective on financial management emphasizes selecting the most optimal sources of funding by evaluating and comparing various available assets based on cost and return analysis.

2. The Importance of Finance

Institutions, the state, and affiliated organizations have a continuous need for financial resources. When necessary, they resort to external sources to meet their financial needs, whether to cover budget deficits or fulfill obligations. In this context, financing plays a crucial role in: (Houari & Haj Said, 2013, p. 16)

- Unlocking frozen financial resources, both within and outside the institution.
- Facilitating the completion of stalled projects and the initiation of new ones, contributing to national income growth.
- Supporting the institution's objectives by enabling the acquisition or replacement of equipment.
- Serving as a rapid means for institutions to overcome financial deficits.
- Strengthening connections between institutions, organizations, and international financing sources.
- Maintaining the institution’s liquidity and protecting it from the risk of bankruptcy and liquidation. Liquidity refers to the availability of sufficient cash to meet financial obligations as they fall due, or the ability to convert certain assets into cash within a short period without significant losses.

Given its importance, financing decisions are among the most critical for any institution. These decisions reflect the efficiency of financial decision-makers, as they must seek appropriate funding sources aligned with the nature of the targeted investment project, choose the most suitable option, and optimize resource utilization to achieve the highest returns at the lowest cost and risk. This, in turn, supports the institution in reaching its strategic objectives.

3. Objectives of Finance

The primary objective of every economic institution is to achieve the highest possible return to cover its operational needs, requirements, and obligations. Additionally, there are other objectives, including: (Al-Maghribi, 2018, p. 19)

- Optimal utilization of acquired resources to maximize the efficiency of institutional operations and achievements by making sound investment decisions and selecting the best available financial sources.
- Maximizing shareholder wealth by ensuring the highest possible returns, measured by the institution's market value.
- Achieving maximum profit while enhancing shareholder wealth by increasing the company's total earnings and improving earnings per share.
- Expanding and growing the institution to maximize its overall value.
- Ensuring service provision and institutional sustainability while maintaining both personal and public satisfaction.
- Enhancing societal welfare and public benefit.
- Identifying the most cost-effective financing source that generates additional revenue.

4. Financing Methods

Financing methods are essential elements that companies and institutions require to achieve growth, expansion, and strategic objectives. The choice of financing method varies depending on the institution's type, size, and nature of operations. Understanding the available options and selecting the most suitable source for the institution's needs is crucial.

4.1. Internal Financing

Internal financing refers to the funds an institution generates through its operations. It is often the first financing option, encompassing all cash flows derived from self-financing and the liquidation of certain assets.

The availability of low-cost internal funds can be utilized to acquire raw materials, support inventory, and improve production systems, allowing the institution to remain competitive. This form of financing enhances institutional performance and supports the growth and sustainability of businesses (Rita, Wahyudi, Muharam, Thren, & Robiyanto, 2022, p. 25).

4.2. External Financing:

Institutions seek new sources of financing when internal funding is insufficient to meet their needs. External financing sources can be categorized into short-term, medium-term, and long-term financing options.

4.3. Lease Financing:

Lease financing is a modern financial technique used by banks or specialized financial institutions to acquire movable assets or real estate for leasing to companies operating in various sectors such as industry, commerce, agriculture, crafts, and liberal professions. These companies, in turn, have the option to repurchase the leased assets at a residual value, which is typically lower at the end of the contract period. Payments are made in agreed-upon installments, known as rental payments. Lease financing can be classified into: (Alwan, 2009, p. 322).

- Operational Leasing.
- Financial Leasing.

5. Financing Risks

Financing risks can be classified into physical risks and economic risks (Malikaoui, 2023, p. 44).

5.1. Physical Risks

Physical risks refer to the potential damage or loss of physical goods that result from the financed activity. In such cases, the institution may be unable to repay borrowed funds, leading to additional costs and financial losses. Examples of this type of risk include damage to inventory or destruction of factory facilities due to fires, floods, or other disasters.

5.2. Technical Risks

Technical risks arise when the producer’s skillset does not align with the requirements of the planned operations. Despite the availability of necessary resources, a producer may fail to achieve the desired outcome due to a lack of technical expertise, particularly in operating modern machinery and utilizing production inputs efficiently. Alternatively, even if the production process is successful, it may consume more resources than initially planned, leading to unexpected losses. To mitigate these risks, companies prioritize hiring skilled technicians, even if their labor costs are high.

5.3. Economic Risks

Economic risks stem from purely economic factors and can be categorized into two main types:

- **Demand Risk**: This occurs when demand for the financed product declines, preventing the institution from generating sufficient revenue to cover financing repayments and other obligations. Factors contributing to decreased demand include competition, declining consumer income, and product characteristics.
- **Supply Risk**: This arises when the necessary resources for production become insufficient or unavailable, making it impossible to manufacture the planned product.Bas du formulaire

II. Section Two: The Applied Framework of the Study

Financing is one of the fundamental functions in an economic enterprise, holding a special position and playing an indispensable role in facilitating corporate growth, enhancing investments, and achieving objectives. Consequently, it serves as a key driver in accelerating economic growth.

With continuous developments, the concept of financial function has evolved from merely managing the procurement of necessary financial resources to a function centered on decision-making in both investment and financing.

1. Study Population

The study population is defined as a set of elements (individuals) sharing common characteristics that distinguish them from other elements under investigation. Our study population consists of all employees working in and affiliated with the Finance and Accounting Directorate of the Skikda Port Authority, totaling 35 employees.

2. Statistical Analysis Methods

For the statistical analysis of the questionnaire data, the SPSS 22 software was used. After data entry, descriptive statistical methods such as the arithmetic mean and standard deviation were applied, along with inferential statistical methods, including Cronbach's Alpha test.

3. Validity and Reliability Testing of Study Data

To assess the validity and reliability of the questionnaire data, Cronbach's Alpha test was used. This test measures the consistency and reliability of the study instrument through the Cronbach's Alpha coefficient. The following table presents the results of this test.

Table (01): Cronbach's Alpha Coefficient

No.	Items	Reliability Coefficient (α)
01	Internal Financing	0,890
02	External Financing	0,919
03	Leasing Financing	0,957
Total	**Overall Dimension**	**0.957**

Source: Prepared by the researcher based on SPSS 22 outputs.

From the table above, it is evident that all dimensions and sections of the questionnaire have a high reliability coefficient, exceeding 0.6. Since the overall **Cronbach's Alpha** coefficient for all questionnaire items is **0.957**, this indicates a high degree of reliability and internal consistency.

4. Normality Test

The Kolmogorov-Smirnov test was used to determine whether the data follows a normal distribution. The following table presents the test results and the significance level for each dimension of the questionnaire.

Table (02): Normality Test for Study Dimensions

Kolmogorov-smirnov			
Dimensions	**Z-Value**	**Sig***	**Test Result**
Study Dimensions	0.534	0,938	Follows a Normal Distribution

Source: Prepared by the researcher based on SPSS [22] outputs.

From the previous table, the test result shows that the significance level is greater than **0.05** for all dimensions. This indicates that the data follows a normal distribution.

5. Hypothesis Testing

The hypotheses can be tested by calculating the arithmetic mean and standard deviation for the statements, as follows:

- **Arithmetic Mean and Standard Deviation for Internal Financing Methods**

The statements related to internal financing methods can be summarized as follows:

Table (03): Arithmetic Mean for Internal Financing Methods Statements

Rank	Statements	Arithmetic Mean	Standard Deviation	Approval Level	No.
1	The institution relies on retained earnings to finance its investments.	3.31	1.090	Moderate	6
2	The institution depends on depreciation to finance its investments.	3.25	1.016	Moderate	7
3	The institution utilizes depreciation to assess its tangible assets.	3.50	0.879	High	3
4	The institution relies on provisions to cover potential losses and expenses.	3.59	0.837	High	2
5	Undistributed profits are among the most important self-financing methods adopted by the institution.	3.43	0.981	High	4
6	The institution relies on reserves to finance its investments.	3.37	1.008	Moderate	5
7	The institution utilizes the value of divested investments that are no longer needed.	3.50	0.879	High	3
8	The institution relies on the value of divested investments that are no longer needed.	4.06	0.618	High	1
Total	**Internal Financing Methods**	**3.50**	**0.695**	**High**	

Source: Prepared by the researcher based on SPSS [22] outputs.

The table above presents the responses of the sample participants regarding internal financing methods, with an overall mean of 3.50 and a standard deviation of 0.695, indicating a high level of agreement. The responses varied as follows:

The highest-rated statement in this category was Statement (8), with a mean of 4.06 and a standard deviation of 0.618, reflecting a strong level of agreement. This suggests that the study participants perceive internal financing as a significant factor in enhancing the financial independence of the institution.

Conversely, the lowest-rated statement was Statement (2), with a mean of 3.25 and a standard deviation of 1.016, indicating a moderate level of agreement. This implies that the institution relies to some extent on depreciation to finance its investments.

Based on the above findings, **the first hypothesis can be confirmed**:**"The Skikda Port Authority relies significantly on internal financing methods".**

- **The arithmetic mean and standard deviation for the dimension of external financing methods**.

The statements regarding external financing methods can be summarized as follows:

Table (04): Arithmetic Mean of External Financing Methods Statements

Rank	Statements	Arithmetic Mean	Standard Deviation	Approval Level	No.
1	The institution relies on trade credit to finance its current operations.	3.09	1.088	Moderate	4
2	The institution depends on open account financing for its investments.	3.25	0.983	Moderate	3
3	The institution utilizes trade credit for purchasing goods and raw materials.	3.28	1.054	Moderate	2
4	The institution relies on bank credit to finance its investments.	3.06	0.981	Moderate	5
5	The institution depends on bank loans to secure the necessary funds.	2.87	1.211	Moderate	7
6	Does the institution obtain sufficient loans to cover its needs?	2.65	1.207	Moderate	8
7	Have external financing methods helped solve the institution's financial issues?	3.00	1.047	Moderate	6
8	External financing can contribute to the institution’s sustainability and growth.	3.34	0.937	Moderate	1
Overall	**external Financing Methods**	**3.07**	**0.852**	**Moderate**	

Source: Prepared by the researcher based on SPSS 22 outputs.

The table above presents the responses of the sample participants regarding external financing methods, with an overall mean of 3.07 and a standard deviation of 0.852, indicating a moderate level of agreement. The responses varied as follows:

The highest-rated statement in this category was Statement (8), with a mean of 3.34 and a standard deviation of 0.937, reflecting a moderate level of agreement. This suggests that external financing can somewhat contribute to the institution’s sustainability and growth.

Conversely, the lowest-rated statement was Statement (6), with a mean of 2.65 and a standard deviation of 1.207, also indicating a moderate level of agreement. This suggests that the institution does not receive sufficient loans to cover its needs to a significant extent.

Based on the above findings, the second hypothesis is **rejected**: **The Skikda Port Authority does not rely heavily on external financing methods; rather, it relies on them to a moderate extent.**

- **Arithmetic Mean and Standard Deviation for Leasing Financing :**

The statements related to **leasing financing** can be summarized as follows:

Table (05): Arithmetic Mean of Leasing Financing Statements

Rank	Statements	Arithmetic Mean	Standard Deviation	Approval Level	No.
1	Leasing financing facilitates the acquisition of fixed assets.	3.09	High	High	2
2	Leasing financing is one of the available alternatives for financing fixed asset investments.	3.25	High	High	4
3	Leasing financing is less costly than other alternatives.	3.28	High	High	3
4	Leasing financing simplifies the procedures related to the leasing process.	3.06	High	High	4
5	The institution relies on leasing financing to meet temporary needs.	2.87	Moderate	Moderate	7
6	The institution benefits from the tax advantages of leasing financing.	2.65	Moderate	Moderate	6
7	Leasing financing can serve as a good alternative to internal financing or external borrowing.	3.00	Moderate	Moderate	5
8	Leasing financing can enhance the institution’s financial flexibility.	3.34	High	High	1
Overall	**Leasing Finance**	**3.38**	**0.906**	Moderate	

Source: Prepared by the researcher based on SPSS 22 outputs.

The table above presents the responses of the sample participants regarding leasing financing methods, with an overall mean of 3.38 and a standard deviation of 0.906, indicating a moderate level of agreement. The responses varied as follows:

The highest-rated statement in this category was Statement (8), with a mean of 3.56 and a standard deviation of 0.913, reflecting a high level of agreement. This suggests that leasing financing can increase the financial flexibility of the institution.

Conversely, the lowest-rated statement was Statement (5), with a mean of 3.12 and a standard deviation of 1.157, indicating a moderate level of agreement. This implies that the institution somewhat relies on leasing financing to meet temporary needs.

Based on the above findings, the third hypothesis is **rejected**: **The Skikda Port Authority does not rely heavily on leasing financing methods; rather, it relies on them to a moderate extent.**

Based on the above, we present the following table, which represents the overall arithmetic mean of the dimensions of financing methods to test the main hypothesis.

Table (06): Overall Arithmetic Mean of Financing Methods Dimensions

Dimensions	**Overall Arithmetic Mean of Financing Methods**
Internal Financing	3.50
External Financing	3.07
Leasing Finance	3.38

Source: Prepared by the researcher based on SPSS [22] outputs.

From the previous table, it is observed that internal financing ranks first with a mean of 3.50, followed by leasing financing with a mean of 3.38, and finally, external financing with a mean of 3.07. This indicates that the institution relies on financing methods to a moderate extent.

Accordingly**, the main hypothesis is rejected**: **The Skikda Port Authority does not rely heavily on all financing methods but rather adopts them at a moderate level.**

III. Conclusion

Financing is a vital and essential element for ensuring the continuity of an institution’s activities, achieving its growth, implementing its investment programs, and reaching its predetermined objectives. **Internal financing** grants the institution financial independence from external entities; however, it remains insufficient to meet all its financial needs. Consequently, the institution resorts to **external financing sources**, whether short- or medium-term, allowing it to seize various investment opportunities and expand its activities. Additionally, the institution sometimes opts for **leasing financing** to alleviate financial burdens, as it does not require an upfront payment for the asset being leased. Each financing source entails a cost, making financing a crucial factor in the institution’s financial decision-making process.

Through this study, the theoretical framework was applied in practice by selecting the **Skikda Port Authority** as the subject of the study. The findings can be summarized as follows:

- The Skikda Port Authority relies heavily on internal financing methods.
- The Skikda Port Authority relies moderately on external financing methods.
- The Skikda Port Authority relies moderately on leasing financing methods.

Based on the study’s findings, several recommendations have been proposed to enhance the institution’s financial management and optimize its financing strategies:

- Establishing a financial information database to enable decision-makers to analyze financial structures more accurately and avoid unnecessary efforts in retrieving financial data.
- Developing a profit distribution strategy, where a significant portion of profits is allocated to strengthening the institution’s financial position.
- Enhancing knowledge and expertise to improve the implementation of self-financing mechanisms.
- Formulating financial strategies that ensure profitability, effective cost management, and the utilization of financial analysis insights to identify growth opportunities and enhance financial performance.
- Expanding investment in available resources to improve financial outcomes.

- Ensuring compliance with tax laws and regulations to maximize financial resources, capitalize on available opportunities, and reduce reliance on external financing when internal capabilities remain underutilized.

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