

FINANCIAL STABILITY – THE PRE-REQUISIT OF A SUCCESSFUL FINANCIAL ACTIVITY

Chirilă Emil

University of Oradea

Faculty of Economics

Essential component of social life, the economic activity is faced with the problems of permanent balance. General economic balance implies the existence of a correspondence between needs for material goods and goods possibly available; needs for labor force and manpower available; needs for financial resources and opportunities for their procurement; between revenues of the population and their possible coverage with goods and services; between needs for foreign currency resources and those potentially available in given circumstances. We believe that the financial balance of an company must reflect, through financing rates, the method of ensuring, allocating and using financial resources, on the one hand, and the economic-financial results obtained from the activity performed on the other hand, as well as reflect the relation between cash flows generated by operation activities, by investments and financing, on the one hand, and cash flows used for these activities, on the other hand.

The financial balance study, according to "Cross-border research programme - performance indicators of entities in the Bihor- Hajdu Bihar Euro-region" - HUORO/0901/204/2.2.3 was based on the basis of financial reporting for the years 2008-2010 for a number of 50 companies grouped in the representative activity sectors contributing to the county's GDP performance as follows: Processing industry, Building, Building materials industry, Light industry, Agricultural products processing, Forestry and wood-processing industry, Commerce, Tourism services, Transport services. The calculation of balance indicators for the examined Bihor county companies are presented in the tables from the second chapter and briefly interpreted.

It is important to note that companies which are representative for the economy of the Bihor county, possess 93,7% of the total subscribed and used capital, given that the number of public limited companies is 330 and represents only 1%, while the number of private limited companies is 21644 and represents 66,7% of the total of companies. In the same period, Hungary was on the first position by the number of companies with foreign capital, representing 1639 companies with registered capital of 21.6 million Euros.

Key words: G30, G32, O16, C63, C61

JEL Codes: Corporate finance, Financial Statements, Financial Stability

1. Introduction – Methodological Approach and Literature Review

Essential component of social life, the economic activity is faced with the problems of permanent balance. General economic balance implies the existence of a correspondence between needs for material goods and goods possibly available; needs for labor force and manpower available; needs for financial resources and opportunities for their procurement; between revenues of the population and their possible coverage with goods and services; between needs for foreign currency resources and those potentially available in given circumstances. There is a volume and a structure of resources - material, human, financial, monetary and of foreign currency nature – corresponding to the needs and possibilities of the national economy in a given period (Văcărel et al, 2000).

According to the content of economic processes and the way of expressing results of economic activities, economic balance may appear under various forms (Kiriteşcu, 1982).

a) *Material economic balances*, which expresses the relative correspondence between general offer and general demand in terms of quantity, structure and quality.

b) *Value economic balance*, which expresses, in cash standards, the relative correspondence between various value structures of economic outcomes and efforts put in their achievement, under various forms:

- monetary balance, which consists of the existence or the creation, by regulatory measures, of an optimum report between the mass of money in circulation and the amount of money needed for the normal carrying out of all economic operations which are performed through money;
- financial balance, which reflects the equivalence between the financial resources necessary for the achievement of set objectives and effective possibilities of procurement of these resources;
- foreign currency balance, which represents the correspondence that must exist between foreign currency cash in-flows and cash out-flows of a country.

The definition of economic equilibrium shows that it is difficult to achieve: the existence of mechanisms that allow businesses to adapt activities so as to achieve spontaneous reduction of imbalances (Zăpodeanu, 2002).

A company's financial balance has an important role, whereas the operation of the company implies the existence of correlations between financial applications and the resources for meeting them (Droj, 2010).

Activity continuity determines the improvement and the perfecting of the economic management and it is carried out in the context of an uninterrupted string of interrelations of stability trends with instability factors. Romanian specialized literature focuses thoroughly on the concept and methods of execution, considering financial stability to be:

- equality between income and expense, which expresses the „equality between financial resources and economic means necessary for the deployment of operation and sales long and short-term activities” (Mihai, 1999).
- relation between capital needs and possibilities for their procurement on the one hand, which can be defined, from the point of view of capital use as “capitals advanced in the circuit, on the one hand, and collected capitals, which can be re-advanced or reimbursed, depending on the situation” (Giurgiu, 1995).
- component of the general balance of an company, identified under two forms: “financial balance of the activity and investment balance, i.e. between financial resources and their use” (Bătrâncea, 2000).
- balance reminds of the idea of “harmony between the various elements of a financial field system through the harmonization of resources with needs, reflected in the balance sheet; harmony is presented depending on two principles of balance sheet creation - functional and patrimonial”(Vintilă, 2005).
- equality that must exist “between resources and the need for resources, and between income and expense “(Onofrei, 2004).
- component of economic balance, “financial balance is given by the equality between economic capital and forming resources, between cash-ins and cash-outs, between funds and resources” (Hada, 1999).
- the balance sheet is the instrument of reflection of the financial balance at the end of the year, the material (through assets) reflection of the way in which equity and loans are used.
- the financial and economic balance must be understood as a set of correlations formed in the process of capital rotation. This balance can and must be predetermined by in the financing table and performed every financial year (Radu, 1999).

To conclude, we believe that the financial balance of an company must reflect, through financing rates, the method of ensuring, allocating and using financial resources, on the one hand, and the economic-financial results obtained from the activity performed on the other hand, as well as reflect the relation between cash flows generated by operation activities, by investments and financing, on the one hand, and cash flows used for these activities, on the other hand.

2. Applied Case study – Financial stability for companies located in Bihor – Hajdu Bihar Euro-Region

Financial analysis aims to highlight, on the one hand, the methods of performing the financial balance on the long term and short-term (which is the purpose of the balance analysis) and, on the other hand, the steps of cash generation, of profitability of the company (the purpose of the profit & loss account analysis). The balance sheet summarizes the company's financial position at a given moment, while the results account summarizes performance as a result of economic and financial flows in a given period. The balance sheet, established at the end of the management period, separately presents the elements of assets and debts, and equity of the company.

It is important to note that companies which are representative for the economy of the Bihor county, possess 93,7% of the total subscribed and used capital, given that the number of public limited companies is 330 and represents only 1%, while the number of private limited companies is 21644 and represents 66,7% of the total of companies. In the same period, Hungary was on the first position by the number of companies with foreign capital, representing 1639 companies with registered capital of 21.6 million Euros. The financial balance study, according to "Cross-border research programme - performance indicators of entities in the Bihor- Hajdu Bihar Euro-region" - HURO/0901/204/2.2.3 was based on the basis of financial reporting for the years 2008-2010 for a number of 50 companies grouped in the representative activity sectors contributing to the county's GDP performance as follows: Processing industry, Building, Building materials industry, Light industry, Agricultural products processing, Forestry and wood-processing industry, Commerce, Tourism services, Transport services. The calculation of balance indicators for the examined Bihor county companies are presented in the following tables:

Figure 1 The evolution of liquidity rates, profitability and financing of fixed assets – average per activity sectors

| SECTOR | RATA LICHIDITĂȚII REDUSE | | | RATA RENTABILITĂȚII ECONOMICE | | | RATA ACTIVELOR IMOBILIZATE | | |
|-------------------------------------|--------------------------|------|------|-------------------------------|--------|--------|----------------------------|------|------|
| | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| Processing industry | 1,01 | 1,39 | 1,73 | 0,0534 | 0,0587 | 0,0675 | 1,13 | 1,18 | 1,23 |
| Food industry | 0,48 | 0,45 | 0,48 | 0,1195 | 0,0977 | 0,1080 | 1,77 | 1,84 | 1,78 |
| Building | 1,52 | 1,38 | 1,34 | 0,3182 | 0,2011 | 0,1710 | 1,24 | 1,40 | 1,63 |
| Building materials | 1,00 | 0,90 | 1,03 | 0,2351 | 0,2256 | 0,2383 | 1,09 | 1,04 | 1,10 |
| Light industry | 1,72 | 2,03 | 0,94 | 0,1957 | 0,1585 | 0,1677 | 1,95 | 2,35 | 1,68 |
| Agricult. Products processing | 0,71 | 0,76 | 0,85 | 0,1092 | 0,1396 | 0,1406 | 1,01 | 0,97 | 1,19 |
| Forestry. Furniture industry | 0,55 | 0,71 | 0,80 | 0,0673 | 0,0861 | 0,0579 | 1,82 | 1,99 | 1,72 |
| Commerce | 0,97 | 1,02 | 0,93 | 0,1069 | 0,1185 | 0,0844 | 1,82 | 1,91 | 1,82 |
| Tourism services | 1,01 | 2,26 | 2,55 | 0,1045 | 0,0859 | 0,0840 | 1,02 | 1,07 | 1,08 |
| Transport services | 0,46 | 0,44 | 0,46 | 0,1442 | 0,1879 | 0,1693 | 0,84 | 0,79 | 0,77 |
| General average of activity sectors | 0,89 | 0,93 | 0,92 | 0,1430 | 0,1374 | 0,1284 | 1,16 | 1,20 | 1,24 |

Source: Made by the author

Fig. 2 The evolution of FR, NFR, TN balance indicators

| | CA | CPM | AIN | FR | NFR | TN |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| PLASTOR S.A. | | | | | | |
| 2008 | 64499468 | 40743157 | 32900947 | 7842210 | 8394361 | -552151 |
| 2009 | 69117572 | 42443916 | 30958192 | 11485724 | 13100176 | -1614452 |
| 2010 | 71261098 | 47396278 | 29394225 | 18002053 | 10048154 | 7953899 |
| ZAHARUL S.A. | | | | | | |
| 2008 | 152868674 | 84320994 | 31028367 | 53292627 | 35562210 | 17730417 |
| 2009 | 207651321 | 96102669 | 38062293 | 58040376 | 64211020 | -6170644 |
| 2010 | 240996777 | 111750955 | 46411315 | 65339640 | 57649298 | 7690342 |
| SELINA S.R.L. | | | | | | |
| 2008 | 104335410 | 32647802 | 24372178 | 8275624 | 21598166 | -13322542 |
| 2009 | 104451320 | 36568082 | 24410533 | 12157529 | 23647620 | -11490091 |
| 2010 | 133030941 | 46906915 | 24334515 | 22572400 | 35798549 | -13226149 |
| ADEPLAST S.R.L. | | | | | | |
| 2008 | 100114538 | 45342405 | 44671984 | 985483 | 12189672 | -11204189 |
| 2009 | 114113719 | 99340101 | 105336650 | -5694176 | 9859315 | -15553491 |
| 2010 | 113589375 | 108595529 | 101710917 | 7174297 | 25493212 | -18318915 |
| LLOYD SHOES ROMANIA S.R.L. | | | | | | |
| 2008 | 97792385 | 22126029 | 2434078 | 19691951 | 16165476 | 3526475 |
| 2009 | 120384036 | 29096671 | 2273679 | 26822992 | 26324424 | 498568 |
| 2010 | 99212387 | 6178088 | 1727188 | 4450900 | 2574654 | 1876246 |
| NUTRIENTUL S.A. | | | | | | |
| 2008 | 25649717 | 27183507 | 24027657 | 3155850 | 13703394 | -10547544 |
| 2009 | 63007417 | 28583361 | 25268614 | 3314747 | 22896764 | -19582017 |
| 2010 | 131916712 | 30803944 | 25358937 | 5445007 | 34157022 | -2871201 |
| LEMN FOREST TINCA S.R.L. | | | | | | |
| 2008 | 8322387 | 2884194 | 1005267 | 1878927 | 1774910 | 104107 |
| 2009 | 8821682 | 2956311 | 805695 | 2150616 | 2056645 | 93971 |
| 2010 | 9211035 | 2999812 | 770213 | 2229599 | 2038106 | 191493 |
| COMAU ROMANIA S.R.L. | | | | | | |
| 2008 | 27418558 | 15254433 | 3146118 | 12108315 | 5640690 | 6467625 |
| 2009 | 31338562 | 18334222 | 5117389 | 13216833 | 5961598 | 7255235 |
| 2010 | 37962765 | 20019919 | 6561546 | 13458373 | 6291983 | 7166390 |
| TURISM FELIX S.A. | | | | | | |
| 2008 | 55448042 | 181317283 | 180732936 | 584437 | -8832486 | 9416833 |
| 2009 | 52019303 | 208200219 | 202347567 | 5852652 | -910590 | 6763242 |
| 2010 | 48499100 | 207054636 | 200118985 | 6935651 | -2309092 | 9244743 |
| FRIGOEXPRES S.A. | | | | | | |
| 2008 | 74530771 | 92126725 | 114299801 | -22173076 | -9775142 | -12397934 |
| 2009 | 74318985 | 74879388 | 102623505 | -27744117 | -9789229 | -17954888 |
| 2010 | 59949981 | 67046566 | 95904632 | -28858066 | -14825907 | -14032159 |

Source: Made by the author

The financing rate of fixed assets, the general average of activity sectors (Figure 1) recorded supra unitary values of 1,16 in 2008 and 1,24 in 2010, except for the transport sector, which recorded sub unitary declining values, from 0,24 in 2008 to 0,77 in 2010.

Supra unitary values reflect the existence of a working capital at the end of the financial year, as an outcome of the coverage of permanent expenses (fixed assets) with permanent sources; respect of financial balance rules and existence of surplus of permanent sources usable for the financing of temporary needs of permanent nature, are thus possible.

The analysis of absolute values of balance indicators (Table II) for most representative companies in each activity sector, generally confirms the conclusions of the analysis of fixed assets financing rates.

The analysis of working capital in absolute values confirms its existence as positive value, except for the Frigoexpres S.A. company in the transport services sector, where there is generally, the possibility for self-financing and respect of financial balance rules.

The working capital need, as main indicator of financial balance, has recorded positive values, except for SC.C FRIGOEXPRES S.A. in the transport services sector and S.C. FELIX S.A. in the tourism sector, which confirms the fact that circulating assets have partially been financed through temporary sources. The negative values recorded by the two companies confirm the full financing of circulating assets through temporary sources, and operation debts. These negative values of the working capital need may be interpreted as an advanced collection of payments of the value of contracted services; there is a beneficial disparity between the liquidity of circulating assets and the payability of debts.

The analysis of net treasury as synthesis indicator of financial balance confirms the fact that permanent sources surplus reflected by the working capital has only partially covered the circulating assets financial needs, which led to a negative net treasury in companies in the processing industry -S.C. PLASTOR S.A., building – S.C SELINA SRL, building materials - S.C ADEPLAST S.A., agricultural products processing - S.C. NUTRIENTUL S.A. In conclusion, the analyzed companies have respected the financing principles according to which negative treasuries were covered by short-term credits, except for S.C. FRIGOEXPRES S.A in the transport services sector, where financial imbalance resulting in a negative treasury was generated because of the non-respect of financing principles, where, for the financing of fixed assets, temporary sources have been used (negative working capital need), creating the possibility of a liquidity crisis

Figure 3 focusing on the evolution of NFR coverage rates and FRN, NFR rotation speeds

| SECTOR | FR/NFR | | | FR/CA x 360 | | | NFR/CA x 360 | | |
|-------------------------------------|--------|--------|--------|-------------|--------|--------|--------------|--------|--------|
| | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| Processing industry | 1,0268 | 0,9195 | 1,0383 | 89,25 | 117,95 | 139,89 | 86,92 | 128,27 | 134,74 |
| Food industry | 1,2639 | 0,8859 | 0,9327 | 98,58 | 82,86 | 83,04 | 77,00 | 93,54 | 89,03 |
| Building | 1,1507 | 1,5264 | 1,3097 | 49,81 | 64,28 | 77,60 | 43,28 | 42,12 | 59,25 |
| Building materials | 0,3954 | 0,2603 | 0,4282 | 17,10 | 11,92 | 34,86 | 43,25 | 45,77 | 81,42 |
| Light industry | 1,1898 | 1,0697 | 1,2102 | 66,17 | 76,12 | 37,58 | 55,61 | 71,47 | 31,05 |
| Agricult. Products processing | 0,0424 | - | 0,1704 | 2,00 | - | 13,28 | 46,55 | 62,67 | 77,95 |
| Forestry. Furniture industry | 0,6600 | 0,6393 | 0,7405 | 59,98 | 54,21 | 48,98 | 90,87 | 84,79 | 66,15 |
| Commerce | 2,7268 | 1,9897 | 1,9053 | 65,56 | 89,85 | 61,39 | 24,04 | 45,15 | 32,22 |
| Tourism services | - | 3,1591 | 5,6066 | 17,98 | 60,38 | 75,30 | - | 19,11 | 13,43 |
| Transport Services | - | - | - | - | - | - | - | - | - |
| General average of activity sectors | 1,0111 | 0,8368 | 0,8367 | 42,98 | 48,17 | 50,96 | 42,51 | 58,50 | 60,91 |

Source: Made by the author

Under the circumstances of the economic crisis, this situation has been engendered by the engagement of investments (the purchase of transportation vehicles in leasing) in the period prior to the crisis, with a debt maturity date taking place in the analyzed period, when crisis led to the decline in the volume of activity and of profitability previously forecast for the repayment of

contracted debts. The analysis of the coverage level through own sources – working capital, and of needs related to operation activities – NFR, in the case of the average per activity sector (Table III), confirms a decline of this indicator, from supraunitary value of 1,01 in 2008 to subunitary value of 0,83 in 2010. The analysis also confirms the conclusions of the balance indicators analysis.

The analysis of FR and NFR rotation durations based on turnover, confirms an abasement of financial balance conditions. Although the average per activity sectors, in 2008, confirm a balance between FR and NFR rotations (42,98; 42,51 days), in 2010 the rotation duration of working capital became lower than the NFR's one (850,96; 60,91 days), which reflects the decrease in the financing capacities, in general, of owned resources, and the increase of external financing resources.

Conclusions

Essential component of social life, the economic activity is faced with the problems of permanent balance. General economic balance implies the existence of a correspondence between needs for material goods and goods possibly available; needs for labor force and manpower available; needs for financial resources and opportunities for their procurement; between revenues of the population and their possible coverage with goods and services; between needs for foreign currency resources and those potentially available in given circumstances. We believe that the financial balance of an company must reflect, through financing rates, the method of ensuring, allocating and using financial resources, on the one hand, and the economic-financial results obtained from the activity performed on the other hand, as well as reflect the relation between cash flows generated by operation activities, by investments and financing, on the one hand, and cash flows used for these activities, on the other hand. The financial balance study, according to "Cross-border research programme – performance indicators of entities in the Bihor- Hajdu Bihar Euro-region" – HURO/0901/204/2.2.3 was based on the financial reporting for the years 2008-2010 for a number of 50 companies grouped in the representative activity sectors contributing to the county's GDP performance as follows: Processing industry, Building, Building materials industry, Light industry, Agricultural products processing, Forestry and wood-processing industry, Commerce, Tourism services, Transport services. It is important to note that companies which are representative for the economy of the Bihor county, possess 93,7% of the total subscribed and used capital, given that the number of public limited companies is 330 and represents only 1%, while the number of private limited companies is 21644 and represents 66,7% of the total of companies. In the same period, Hungary was on the first position by the number of companies with foreign capital, representing 1639 companies with registered capital of 21.6 million Euros.

Bibliography

1. Giurgiu, A.I. *Finanțele firmei*. Cluj-Napoca. Editura: Presa universitara Clujeana. 2000
2. Bătrâncea. *Analiza financiară*. Cluj-Napoca. Editura: Dacia. 2000
3. Chirilă. E. *Finanțele întreprinderii*. Oradea. Editura: Universității din Oradea. 2001
4. Costin C. Kirițescu. *Moneda-mică enciclopedie*. București. Editura: Științifică și Enciclopedică. 1982
5. Droj L. *Financial Indicators for the Implementation of an European Funded Investment Project under SOP IEC Programme – Case Study Of A Romanian SME*, published in *Analele Universității din Oradea, seria Științe Economice*, Tom XIX 2010, available at: <http://ideas.repec.org/a/ora/journal/v1y2010i1p344-350.html>,
6. Feleagă N. *Sisteme contabile comparate*. vol II, Norme Contabile Internaționale. București. Editura: Economică. 2000
7. Giurgiu. A.I. *Mecanismul financiar al întreprinzătorului*, Cluj-Napoca Ed. Dacia. 1995

- Hada. T. *Finanțele agenților economici din România*, Deva. Editura: Intelcredo.1999
8. Halpern, P., Fred Weston, P. J. , Brigham, E. F. *Finante manageriale-Modelul Canadian*.București. Editura: Economica.1998
9. Mihai I. *Analiza economico-financiară*. Timișoara. Editura: Mirton. 1999
10. Onofrei M. *Finanțele întreprinderii*. București. Editura: Economică. 2004
11. Vintilă *Gestiunea financiară a întreprinderii*. București. Editura: Didactică și Pedagogică. 2005
12. Văcărel și colab. *Finanțele publice*. București. Editura:Didactică și Pedagogică, R.A. 2000
13. Zăpodeanu, D., *Politici monetare*, Editura Dacia, Cluj-Napoca, 2002.