ASPECTS REGARDING THE INFLUENCE OF THE VULNERABILITIES INDUCED BY THE FINANCIAL CRISIS AND BY THE STATE INTERVENTIONISM ON THE INDICATORS OF ECONOMIC-FINANCIAL PERFORMANCE

Phd. Candidate Nicoleta MIHĂILĂ*

Rezumat

Vulnerabilitatea, denumită şi sensibilitatea sau slăbiciunea agentului economic, reprezintă trăsătura negativă a acestuia, care, neidentificată la timp şi remediată, poate duce la faliment.

Atât vulnerabilitatea, cât şi intervenționismul statal, sunt factori decisivi în construirea performanței agentului economic, impactul acestora determinând "sănătatea", imaginea, credibilitatea, poziția pe piață.

Abstract

Vulnerability, also called sensitivity or weakness of the economic agent, is its negative feature which, if not identified and remedied in due time, may take to bankruptcy. Both vulnerability and state interventionism are decisive factors for the performance of the economic agent, its impact determining the "health", image, credibility and market standing.

Keywords: financial performance**,** vulnerability of the economic agent, state interventionism

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The Concept of performance. Financial performance

The notion of *performance* can be defined starting from the following elements:

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* *Scientific research assistant, Centre for Financial and Monetary Research "Victor Slăvescu", Romanian Academy.*

- purpose of the action (creation of “utility values”);
- potential of achievement;
- result (which can be defined in various manners);
- referential (internal or external, chosen or imposed) used to report the result;

Financial performance, particular form of performance, is the way of presentation, the “mirror”, “personality” of the economic agent in front of the potential investors. It is defined in accordance with the sustainable development, being the essential criterion of the share holders whether to invest or not in the company.

Financial performance is the desiderate of any enterprise and the motto of all those using financial information, whose purpose is the medium and ling-term continuity of the company. It operates with the notions of income, expenditure, earning and losses, economic result (financial indicators.

Impact of the economic agent’s vulnerability on the indicators of economic-financial performance

Generally, vulnerability can be understood as the proneness or susceptibility of an element to be adversely affected by external causes[1]; it has a profound quantitative character, being expressed on a scale from 0 to 1, or from 0% to 100%.

The nature of the *financial vulnerability* of the economic agent is defined by the fact that essentially, the finances, at the microeconomic level, are generated entirely within the relation between the economic agent with its environment. They are not a “product” of the economic agent, rather a “result” of its confrontation with the environment, being thus relational in its essence.

The *forms* under which the financial vulnerability manifests are very diverse and display many criteria of typology. If some forms are directly determined by the financial environment, others are generated by the perception which the economic agent has on the change of the environment: if some forms of financial vulnerability are rather short, others are quite long; if some forms are specific to the financial structure, other are specific to the financial flows.

The forms of the financial vulnerability may also be regarded in elation to the governance system, being thus directly related to the behaviour, attitude of the decision-maker.

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[1] *IADB, 2000, PAHO, 2000, IPCC, 2001.*

Vulnerability of the economic agent. Behaviour towards the financial crisis.

In terms of management, vulnerability is an element of the enterprise which may prevent accomplishing the company's goals. There are two defining aspects: internal factors which destroy the values and internal conditions sufficiently well focused so as to create competitive values under conditions of globalization[2].

Company vulnerability can be temporary or permanent function of how serious is the problem, internal or external to the company, according to the factors determining this sensitiveness.

Factors of influence pertaining to the internal environment of the economic agent

The weaknesses of the organisation usually are under managerial control but, because of the administration is not efficient (in time and correct), those elements are degrading until they prevent the company to obtain or maintain a competitive advantage.

Among the ***factors determining company weakness*** are:

- too high costs of company some activities compared to the available financial resources;
- limited material resources. This may be an impediment if they are not properly managed;
- inaccessibility of new technologies;
- inner offer of services;
- lack of experience of the company owners and the external factors on which they have no control (new competition, lack of suppliers, staff fluctuation).

Influence of the external environment of the vulnerability of the economic agent

The causes of this state of the organisation are multiple:

● **company characteristics**: size, staff number, turnover. There are weak spots if the staff is not competitive or motivated, if the turnover is below the forecasts, if the assets are depreciated etc.

● **company image, its "health state"** – is reflected particularly by the indicators of economic-financial performance: turnover or profit, rates of profitability, liquidity and solvability, state of equilibrium. They must all have positive values, satisfactory for the company

[2] *Henry Fayol, "Administration industrielle et generale", 1916.*

management, with an as low as possible indebting etc. The organisation is vulnerable if it is indebted and can not payback, id liquidities are not sufficient, if the production, sales and delivery costs are too high, if resources are limited or below the limit etc.

● **area of activity** – key-factor for company vulnerability, by the area of activity, by the level of state involvement in terms of taxes, by the unpredictable events (draught, floods, natural disasters).

The financial structure of an entity, reflected in its balance sheets, varies function of its area of activity[3].

In principle there are no standard structures of the accounting balance sheet; the peculiarity of the activity or the special situation of the company may cause significant variations of the accounting balance sheets.

A specific economic context (economic growth or recession) may denature the way in which the balance sheet reflects the objective reality of the analysed business.

● **competition, company standing on the market etc.**

Vulnerability and the level of performance of the economic agent

Under conditions of crisis, the smaller enterprises are especially exposed to the financial difficulties because sometimes they don't have the resources to adapt rapidly to the changing market. It is essential that they **pay special attention to their financial situation**, particularly since the potential problems are not always immediately visible.

However, the small companies too may get beyond successfully this period with advantage compared to the large companies:

- *Flexibility* – it is sometimes easier for the smaller companies to change the business strategy function of market conditions (exploit new sales channels, new markets).

- *Financial control* – it is easier to cut the costs on a smaller company, to change headquarters or employ on a temporary basis.

- *Fast answer (quick reaction*) – the entrepreneur/owner is closer to the client than the boss of a great corporation; he can infer the state of spirit, anticipate the demands and therefore act faster to maintain the clients of the company.

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[3] *Crecană Cornel Dumitru, „Economic-financial analysis", Economic Press, Bucharest , 2006.*

- *Access to support and assistance* – mainly from the governmental agencies, most of these purposely created measures and institutions being addressed the small and medium enterprises.

The small companies also have disadvantages in getting successfully beyond this period of global crisis.

- Vulnerability at delayed payments - *the cash-flow* will suffer when the customers delay payments, particularly since the small companies – unlike the big companies – don't have provisions for such situations.

- Low power of negotiation with the suppliers – low purchasing power and therefore they can't get lower prices. The big companies which order very large quantities are in a favourable position and can make the price drop.

Company vulnerability is an essential factor in the evolution of company performance. The organization may be strongly vulnerable, its profitability being compromised from the beginning, or it may be vulnerable in some sectors of activity. Quite rarely there are strong companies that may have weaknesses (we think there is no flawless company on the market), but their performance still holds and they grow.

We use **β as coefficient expressing the influence of vulnerability** on the indicators of company performance, with positive values between 0 and 1 (or 0% - 100%), $\beta \in [0;1]$.

Therefore we have: **β = 0**, when the company is not vulnerable, and **β = x,** a value which shows that vulnerability impacts on the company. The closer to 1 is β, the more vulnerable is the company and its market standing is compromised, its credibility affected, etc.

Performance of the economic agent and state interventionism

The state is a basic component of the mechanisms driving the economy. It doesn't substitute the market, it completes or corrects market disfunctionalities and ensures, via economic and legal instruments (norms, prescriptions, laws) the proper and correct functioning of the economy.

The main forms of ***state interventionism at the micro-level*** are:

- **neutral** – the intervention affects the entire business environment (for instance, equal incentives for all economic agents irrespective of their area of activity, form of property or size);

- **discretionary** – the state intervenes with special regulations in some areas of activity, a specific moments;
- state intervention as **regulator agent** – by changing the legal framework determining the modification of the mechanism;
- state intervention as **economic agent** – the state can be producer, consumer, partner in exchange operations, it can attend tenders, it can produce goods for the society which no other economic agent can.

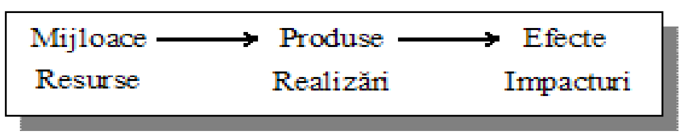
Quality of state interventionism

State interventionism on the market is measured by performance indicators, quality indicators which show whether state intervention is efficient or not. We can speak here of ***indicators of efficiency*** and ***efficacy*.**

Performance measurement presumes considering the distinction between the used means (*input*), the process (*throughput*), the product (*output*) and the result, effect (*outcome*). We can thus make a link between the services and the means used to get them, on the one hand and between the goals achieved by these services, on the other hand.

Figure 1

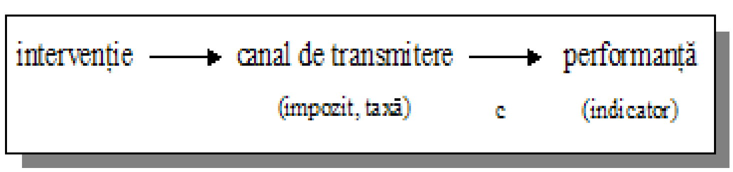
Relation resources-achievements-effects



State intervention on the economic agent is mainly done through **fiscal levers: direct and indirect levies, taxes and contributions.** Therefore, the influence of state intervention on the performance of the economic agent, measured through economic-financial indicators, may have the following shape:

Figure 2

State intervention on company performance



In this diagram, c is the rate of state intervention. Through c the level of the indicator decreases.

Impact of state intervention on the performance of the economic agent

The organisations affected most are the small, young organisations (particularly the start-ups), with a not so good financial situation, their performance indicators having values below the expected ones, the companies heavily indebted. There are companies working in various fields of activity, vulnerable to the financial crisis (industry, constructions, services).

State interventionism is reflected in the structure of the performance by a **coefficient α**, which shows how much has profitability changed due to this intervention, the enterprise-state relations. α has positive values, α є [0,1]:

α = 0 neutral intervention, the company is not affected;

α = k discretionary intervention, the measures taken by the state are displayed as vulnerabilities which affect the company adversely;

α = 1 the state influences strongly the company, a relation of interdependence exists between the two entities.

Coefficient α is perceived differently by the two sides, and the coefficient itself is “divided” in a **potential coefficient (α p** – wanted, expected), and an **effective coefficient (α e** – sure, achieved); each of them is interpreted differently by the company and by the state.

We note:

α a – modification at the economic agent;

α s - modification at the state;

α ap – potential modification at the economic agent;

α sp - potential modification at the state i;

α ae - actual modification at the economic agent;

α se - actual modification at the state.

α p modification at the economic agent should be as low as possible, therefore a poor intervention, with no significant effects, with little difficulties and satisfactory fiscality, so that performance can remain at the expected values.

α p at the state presumes intervention through levies and taxes which increase the revenue to the state budget.

Usually, the **actual α** is in disfavour of the agent because of the multitude of imposed taxes: **α ea < α es;** but there can also be the reverse situation, when **α ea > α es,** because the company dodges payment, the informal economy and tax evasion are encouraged.

The less intervenes the state, the higher is the performance, the outcomes being the expected ones.

The interventionism is achieved particularly by increasing fiscality. If the state takes positive measures (decrease the profit tax) simultaneously with a negative measure (higher VAT), this may have a lower impact in the companies and a higher impact on the population.

If the interventionism is potential, if a measure is announced but it is not sure in the future, the implications on the company will be much smaller than in the situation with definite measures. Therefore, *α* will be closer to 0 for the potential measures.

However, irrespective of situation, **actual *α* > *potential α***, which either boosts or inhibits the business.

Coefficient *α,* ranges between [0;1]; its value gives the ***economic agent – state relation***. Therefore:

α є [0;0,1] – relation of independence state-company; performance is not affected;

α є [0,1;0,4] – relative independence; the state intervenes but it doesn't produce significant effects on the company finance;

α є [0,5;0,7] – light dependence, the intervention "feels", but the impact is bearable;

α є [0,8;1] – total dependence, the interventionism has strong effects on the performance indicators (turnover, profitability rates, liquidity, running funds decrease, concomitantly with higher credits).

Table 1

Type of state interventionism	Modification of the performance from the perspective of the state α s	Modification of the performance from the perspective of the company αa
neutral	α = 0	α = 0
discretionary	*α* s *α* є [0,1;1] α s > α a	*α* a *α* є [0,1;1] α a > α s

The *quality of the state interventionism* is achieved through the difference **[α p - α e]>>0**

→ **α p > α e**

The quality of the interventionism is positive, beneficial for the company, when **α p > α e.** Thus, we no longer speak of quality, rather of abuse, which affects adversely the company and its results define its state of "health".

In conclusion, company performance is definitely influenced by state intervention, with coefficient **$\alpha \in [0;1]$**, reflecting the weight of the measures which the state took in relation with the company in the economic financial indicators of company performance (increase or decrease), implicitly the state-organisation relation.

When $\alpha = 0$, we have neutral interventionism, the company is not affected; when $\alpha = k$, we have discretionary intervention as vulnerability, with adverse implications for the company; when $\alpha = 1$, the state has a strong influence on the company, a relation of interdependence exists between the two entities.

The quality of the state interventionism is reflected by the difference **[α p - α e] >> 0** $\rightarrow$ **α p > α e,** where **α p** is the potential modification, and **α e** is the actual modification. We are speaking of quality, within this context, when the state intervenes in the company by positive measures (lower levies and taxes, granting various facilities) which stimulate company activity, while maintaining the performance indicators. Otherwise, the measures which introduce or increase levies and taxes will "inhibit" the business.

The resistance of the agent to negative state interventionism depends on several factors:

- the financial state of the company (before the intervention);
- area of activity;
- used technology;
- governance and staff competence;
- competition;
- level of the demand etc.

By the peculiarities of these elements the company may bear easier the fiscal burden or, on the contrary, it may have difficulties which may eventually close it.

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