FINANCIAL RESOURCES MANAGEMENT AND THE IMPACT ON THE FINANCIAL POSITION OF THE ENTITIES IN THE ROMANIAN ENERGY SECTOR

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Abstract

The way in which resources (material, human, financial, technical, etc.) are managed within an economic entity is an issue that can have a significant influence on the financial position of an entity. Applying this axiom in the Romanian energy sector, a sector in which financial management often has a high importance in the overall management of the business due to the high investment of financial resources, we can say that the analysis of the impact that falls upon the financial position of the entity is a goal worthy of study.

This study has as main objective analysis of how different indicators of financial management can influence the financial position of an entity in the energy sector. Anticipated results of this study predict that the financial position of the entities analyzed in the Romanian energy sector is often significantly influenced by the management of financial resources by the entity.

Correlating these results with further analysis, such as those related to the risk of bankruptcy, we can say that the usefulness of the study is one wholesaler, providing interested stakeholders a set of complex and useful information for making optimal decisions in order to maximize the benefits that they can obtain.

Keywords: *financial position, financial resources, management, sustainable development*

JEL Code: *M40, M41*

1. Introduction

Financial management issues are one of the main concerns of researchers in accounting and this trend was accentuated with the establishment of the financial crisis started in 2007-2008. Various authors [19] put the financial crisis on the account of some outdated financial management systems, arguing that businesses have evolved continuously while financial management systems are still relying on outdated principles enunciated by Luca Pacioli in 1494.

Some case studies show that, especially for small and medium entities there is an influence that financial management can have on the financial position. Thus, Ispas, R. M., and Simon, D. M. [7] states that a improper financial management, characterized by mismanagement and ignorance of financial risk can affect the liquidity of an entity or even lead to insolvency or bankruptcy on the horizon extended time (3-5 years). In our view, these issues apply in the large and very large entities. However, we must admit that bending over financial management in achieving and maintaining an optimal financial position is higher in large companies than in small and medium enterprises.

2. Review of the literature

Financial management issues are complex and often treated in the literature, especially in terms of theory. Moreover, financial management approach is often founded in other sectors than the economic entities: public [12] or personal [13]. In our view, the sector that has the power to influence either of the two previously mentioned is private, and its analysis can replace all or part of certain aspects of the analysis of the other two.

Some bibliographical sources[17] emphasize the relationship between management and taxation sphere. In our opinion, tax issues are just one component of the financial management system; we believe that financial management is a more complex side of the general management of the business, where items such as financing policy, financial cycles, remuneration policies, cost standards, etc., are perhaps as important to be carefully controlled as the elements related to the taxation. Also, investment policies practiced by companies are also ways of expressing financial management, which may influence financial position of the entities.

According to the opinion submitted by Jindrichovska, I., [8], financial management is very important in the overall management of the business, or even the most important factor that can influence the general business management for small and medium companies. In our opinion, this rule can be extended and applied to large companies, and especially for large companies.

The financial position of an entity, concept whose analysis is performed most often based on information provided by accounting, is a particularly sensitive issue for optimal decision making in which financial management plays an important role. This close link between financial management and accounting is often brought to light in the specialized literature, Chiriță, I., and Grigoraş-Ichim, C., [5] in their study stating that financial management is often the result of a well-organized accounting syste, allowing the decision makers to issue the optimal directions action.

However, analysis of the impact that financial management can have on the financial position can perform more detailed analyzes, such as analysis of the concepts related to financial management which may influence financial position. In this context, we can argue that the concept ot financial position is characterized of financial balance and financial risk [11], and individual management of these concepts certainly put its mark on the overall management of the business. Obviously, this approach may in turn analyzed and deeper, for example, the influences that certain categories of financial risk (market risk, credit risk and price risk [14]), may have on the general financial risk. Moreover, there are specialized studies [4] showing that the system of risk management can often be influenced by factors that even apparently would not be related to risk factors such as corporate governance.

Although the literature emphasizes the existence of financial risk especially in areas such as equity, banking, insurance [18], etc., we must admit that the energy sector is one in which financial resources are often among the most important for doing business, it is equally a sector in which financial risk and financial management should be handled with caution. Specialized studies [9] shows that proper risk management can provide for the entity an opportunity to magnify the area of funding and investment of financial resources.

A key element in ensuring a proper financial management (leading to a balanced financial position) is represented by minimizing the financial risk. This occurs most often by the existence of an insurance against fraud and error in the information in the annual financial statements, ensuring that most often takes the form of audit reports. At the same time, we subscribe to the idea presented by Puican, L., [15], which states that it is imperative for the financial managers to familiarize with knowledge in the field of planning and financial control, evaluation of investment techniques, financial management and economic diagnoses, as a prerequisite for insuring the performance of the entities.

The source data for analysis and interpretation of the manifestation of financial management in assessing how it can affect the financial position of entities is represented by the annual financial statements. However, we must admit that in order to make optimal decisions, information taken from the annual financial statements must reflect reality [20]. This is often reinforced by the existence of audit reports are presented unqualified opinion.

In our view, a simple defining of the financial management could be that it represents all the actions or inactions of persons engaged in the entity, leading to optimal management of financial resources available or accessible to the entity in order to maximize its short term, medium and long term goals. In other words, a proper financial management will cancel the idea that high profits are the result of high financial risks [2].

On the other hand, neither financial equilibrium, the specific financial management tool should not be neglected; in the opinion presented by Costi, B., et. al., [6], maintaining a financial balance involves careful management of two important aspects, namely, investment decisions and financing decisions. We subscribe to this view, and furthermore, emphasize that information (or raw data to assist in obtaining information) to assist in making the best decisions are most often available to all stakeholders, particularly those within the entity.

Although to ensure proper financial management should be paid attention to all aspects of the entity, we believe that each stakeholder must admit that there is a clear distinction between financial and non-financial elements that influence the activity of the entity. An example of this is provided by Berk, J., et. al., [3], which draws attention to the differences between the concepts of "operational cycle" (one that refers to the amount generated by running the entire chain of transactions), and "financial cycle" (which covers only the intervals between receipts and payments).

Often, the perception of the financial management of an entity may be affected by factors including subjective and independent by the entity: for example, in a study published by Anderson, R., et. al., [1] it is highlighted that the entities with large number of governing bodies have easier access to cheaper funds due to the trust emerging in creditors vision, the trust being generated by the existence of more rigorous filters for taking the final decision.

Since the financial position of an entity is given mainly by the indicators presented in the balance sheet (or other indicators compiled using data from the annual financial statements), we can say that the financial position is affected by the manner of accounting recordings (whose finality is founded in the financial statements) but also of financial decisions taken by management.

According to the aspects outlined above, it is obvious that the financial management of an entity can influence the modes of expression of the financial position, whether we refer to financial balance or financial risk. However, we believe that controlling these instruments of manifestation of the financial management (and thus the financial position) must be made by taking and implementing financial control systems adequate [16].

In order to analyze empirically how these issues manifest in the Romanian energy sector, it was intended to analyze a sample of entities whose shares are traded on the Bucharest Stock Exchange, respectively Romgaz (SNG), Petrom (SNP), Electrica (EL), Transgaz (TGN), Transelectrica (TEL), Nuclearelectrica (SNN), Conpet (COTE), Rompetrol Rafinare (RRC), Oil Terminal (OIL), Petrolexportimport (PEI) and Dafora (DAFR).

3. Results and discussions

It is obvious that the analysis of the impact that financial management can have on the financial position, must start from choosing an indicator of expressing the financial position. The literature devoted many indicators as well as many ways to analyze financial position. In our opinion, among the most eloquent indicators we can mention the overall solvency, general liquidity, indebtedness degree, etc.

However, choosing an indicator from those ones (or other specific indicators) is a sensitive and often subjective issue. Each category of stakeholders has its own interests and their own vision over an entity's financial position and therefore any firm choice of one of the named indicators can be easily challenged.

Thus, it is necessary that choosing a particular indicator that expresses generally the financial position, has to be confirmed by specific mathematical methods. In our view, a healthy financial position is expressed by a low financial risk, which has a direct result a decreased risk of bankruptcy. Thus, we believe the risk of bankruptcy might be a more suitable indicator to express the financial position of the entities, but only to the extent that we can prove that this is dependent on the evolution of classical indicators for assessing the financial position.

For this purpose, in the following we simulate through an econometric model how risk of bankruptcy of energy sector companies listed on the Bucharest Stock Exchange, achieved by scores method using Conan-Holder model (model proposed and supported by Miron , V. C. I., et. al., [10]), is influenced by the classic indicators of expression of financial position (overall solvency, liquidity and indebtedness degree). The dependence between this model and remembered indicators is based on data sets from an interval of 4 consecutive years (2011-2014), cumulating over 40 datasets.

The statistical simulation result generated the following function:

$$a[t] = -1.66297 + 0.015722b[t] + 14.9943c[t] -27.4662d[t] + e[t] \quad (1)$$

in which:

a[t] – the score of banckrupcy risk given by Conan-Holder model;
b[t] – overall solvency;
c[t] – liquidity;
d[t] – indebtedness degree.

From the analysis of the functional relationship between the analyzed indicators, there is a fairly high dependence of bankruptcy risk to the elements of expression financial position, especially general liquidity and indebtedness degree. These issues confirms the hypothesis initially assumed, that the bankruptcy risk score calculated by the Conan-Holder model is a good indicator of expression of the financial position of the entities in the energy sector.

Model validation is reflected by statistical tests as shown in Table 1.

Table no. 1 - model validation

Multiple Linear Regression - Regression Statistics	
Multiple R	0.4073
R-squared	0.1659
Adjusted R-squared	0.1017
F-TEST (value)	2.585
F-TEST (DF numerator)	3
F-TEST (DF denominator)	39
p-value	0.0669
Multiple Linear Regression - Residual Statistics	
Residual Standard Deviation	100.3
Sum Squared Residuals	3.923e+05

Source: Own processing using Wessa P., (2015), Multiple Regression (v1.0.38) in Free Statistics Software (v1.1.23-r7), Office for Research Development and Education, URL http://www.wessa.net/rwasp_multipleregression.wasp/

Thus, we can conclude that Conan-Holder model of risk analysis is a favorable indicator that can reflect the financial position of the entities in the energy sector.

Since the main purpose of financial management is to ensure a state of financial balance, we believe that the best indicators manifesting financial management are even those who express financial balance. In this regard, we will continue our analysis by testing (calling and this time the econometric modeling) possible correlation between the score of risk produced by the method Conan-Holder (as exogenous variables tested above as an indicator of expressing financial position) and indicators expression of financial management as part of financial balance, proposed by Miron, V. C. I., (2015), namely the net situation, working capital and the need for working capital, as endogenous variables. Dismissed inclusion Net cash index as endogenous variable because, given that it is determined as the difference between the working capital and the need for working capital, we have faced a double dependency on the same indicator.

$$a[t] = -0.0811685 -0.000461715b[t] + 0.0640157c[t] -0.0609233d[t] + e[t] \quad (2)$$

in which:

a[t] – the score of banckrupcy risk given by Conan-Holder model;
b[t] – net situation;
c[t] – working capital;
d[t] – the need for working capital.

Model validation is reflected by statistical tests as shown in Table 2.

Table no. 2 - model validation

Multiple Linear Regression - Regression Statistics	
Multiple R	0.341
R-squared	0.1163
Adjusted R-squared	0.04834
F-TEST (value)	1.711
F-TEST (DF numerator)	3
F-TEST (DF denominator)	39
p-value	0.1806

Multiple Linear Regression - Residual Statistics	
Residual Standard Deviation	103.2
Sum Squared Residuals	4.157e+05

Source: Own processing using Wessa P., (2015), Multiple Regression (v1.0.38) in Free Statistics Software (v1.1.23-r7), Office for Research Development and Education, URL http://www.wessa.net/rwasp_multipleregression.wasp/

The determined model show a correlation between the calculated risk score based on the Conan-Holder method and the proposed indicators for assessing financial management.

4. Conclusions

From the above analysis it can be seen that there is a close correlation between financial position (expressed by Conan-Holder model risk) and financial management (expressed by net situation, working capital and the need of working capital). We note in particular the manifestation of a higher intensity by the need for working capital and working capital, and less influence for the net situation. In other words, we can conclude that the financial position is strongly influenced by the practical way of managing the balance between economic resources and sources of origin (financing current assets in the short term sources) than the property owners (in our case the net situation). This is essential information, which should be understood to be a motto for any owner: financial management of the business itself is more wealth than the wealth generated by the business in anticipation of liquidation (theory enshrined based on net situation approach, showing wealth business owners subtracting total liabilities from total assets as if the entity would cease to exist).

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