OPTIMUM FINANCIAL STRUCTURE FOR FINANCING ORGANIZATIONS

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Abstract:
The content of this article is the result of a research carried out within the training stage in order to prepare the doctoral dissertation, comprising the documentation efforts and the attempts of approaching in an own manner the various problems as regards financing the enterprise. Although financing of an enterprise has been and is still a vexed issue, even controversial, I have tried approaching it in a personal manner for this approach to be effective.

Key words: *capital suppliers, growth strategy, capital cost, financing decision, capital*

JEL classification: M - Business Administration and Business Economics; Marketing; Accounting; M2 - Business Economics; M21 - Business Economics

Enterprise's financing is a question of option. To opt for –in financing plan- means to choose the most convenient one of several types of financing. The binomial own funds – borrowed funds represented the conventional option in financing the enterprise. The option for any form of financing involves a further request of currency for the component concerned.

The financial environment of an enterprise consists of the assembly of structures that confront the request of currency of companies facing the lack of currency supply, i.e. companies having available monetary excess. The collation between supply and demand is carried out by means of market whose organization is more or less formal and whose operation is secured by financial intermediators.

The optimization concern of the enterprise's financial structure is included in the wider portfolio of financial management. All financial decision makers in an enterprise are responsible for the objective implementation of financial management defined in accordance with the general policy of the enterprise. This because the establishment development and self-sufficiency of the enterprise cannot be conceived neglecting the analysis of structure as regards assets and liabilities. Exactly this analysis of the structure of assets and liabilities in the balance sheet – with its internal and external implications in time and space- determines how is the enterprise operational in time.

Frequently, the optimum financial structure is approached by means of minimizing the capital costs used in the enterprise. The economic, financial and tax environment in our country presents some characteristics that individualize Romanian enterprises (compared to foreign enterprises) in the determination of optimum financial structure. The following may be appealed: pace of transition to the market economy, development of inflation rate, development of regulations concerning the possibility of contracting credits and the level of related interests, changes of legislative system, change of perception concerning gross capital investment etc.

Apart from suggesting myself to approach the issues of this paper as regards the diversity in unity or the unity in diversity, I have tried outlining some aspects concerning the way of financing Romanian enterprises. Of course, my conclusions related to the surveyed enterprises will not be extended to all enterprises.

Thus, the attempt to accept a generally valid financial structure for all enterprises appears as being redundant, because most factors acting over financial structure, change and individualize each enterprise. Moreover, I could say the optimum financial structure is incomprehensible because gaps may occur not only between enterprises but within the same enterprise, at different times.

On the one hand, the issues of this research are focused, on the determination of optimum financial structure in order to take profitability and risk into consideration, and on the other hand, on the definition of a combination between equity capital and borrowed capital to investigate the value of an enterprise and, at the same time, to minimize the costs of capital concerns.

The heuristic approach of issues is based on the concern to find an optimum financial structure; I am proving again the opinion according to which the optimum financial structure would be an impossible-to-reach objective for the enterprise (an ideal status that is very diffcult to carry out and it keeps a little while); also, I consider old the idea according to which a generally valid optimum financial structure can be defined; moreover, the diversity of this issues (given by the existence of several optimum financial structure typical to each enterprise) does not allow us to approach it following the principle of diversity in unity, but based on the rule, unity in diversity.

To ingrain a pragmatic character to the proposed objective, the topic of this work should be approached in correlation with enterprise's objective. Compared to this final element I should mention there was not a uniqueness of approaches concerning the main objective of the enterprise. Thus, three more important models can be defined: neo-classical model (focused on profit maximization), managerial model (focused on maximization of the function of workability as regards enterprises's management) and behavorial model (according to it the enterprise has multiple objectives, often contradictory, as a result of some negociations among stakeholders). Although these models have created along the time, the economic theory also mentions exception cases. Thus, the „father" of the term entitled *profit centre* (Peter Drucker) disclaims himself and states:*... the term entitled profit centre (that, unfortunately, I myself invented many years ago) is incorrect. Within an enterprise, there are only cost centres. There is profit only when a customer bought the product or the service and paid for it*[1]. The conclusion was that profit making is not a priority, but making products able to generate profit.

Delimitation of the relationship that is set between optimization of financial structure and the objective (obiectives) of enterprise – regardless the approach connotations (purely financial or management-marketing, on the one hand, and conventional or modern, on the other hand) – is based on the pre-requisite that a financial structure may favour or hidden the fulfillment of the enterprise's objectives.

Under the circumstances, we can ingrain the shift from the conventional theory of profit maximization to the modern theory of enterprise's market value maximization. The modern enterprise does not exclude the issues stated by the conventional theory, but it adds a high concern to it: maximization of shareholders' health. Thus, determination of an optimum financial structure that minimizes the cost of capital purchase and maximizes the enterprise's market value is required.

The issue of capital formation and distribution of investments represents a concern of all enterprises, as the long term profitability of enterprise depends on the quality of solutions to these problems, and their disposal requires the knowledge of the types of capital and costs involved.[2] A good management as regards the enterprise's capital involves the practical disposal of two problems: capital attraction (formation) and money allocation on different purposes.

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[1] Drucker F. Peter, *Postsocialist society,* Editura Image, Bucharest, 1999, pag. 46

[2] Maynard H.B., Management of economic activity, vol.V, second part, Editura Tehnică, Bucharest, 1974, pag.41

Any enterprise cannot reach its objectives (production of goods and/or services, realization of profit, maximization of enterprise's value) without having resources, called capital. The economic capital experiences an on-going transformation process, within it the financial assets convert into real assets, and inversely. Financial assets are required to acquire real assets and human capital; real assets – exploited by human capital- produce goods (services) and following their selling financial assets are obtained.

Henry Fayol[3] suggested a first rational grouping of all enterprise's activities. Based on the analysis of the entire group of activities within the enterprise, he defined six functions: technical, financial, commercial, accounting, safety, administrative. The notion of function has represented afterwards, the topic of various studies and research, providing modifications repeatedly.

I agree with the opinion the financial function of an enterprise is represented by all activities ar regards assurance and appropriation of money funds required to carry out the activity continuosly and with a profit, as well as the analysis and control of achieved results[4]. Consequently, this function has a triple role:

- To ensure the enterprise's funds at the lowest costs currently;
- To control the proper use of funds;
- To follow profitability of operations whose financial resources are affected.

According to the opinion of other authors[5], financial function aims to implement a system of financial management methods and techniques in order to determine the rise of an enterprise's value, the rise of market value as regards shares of enterprises quoted on exchange, or ensurance of financial self-sufficiency and profitability in case of small and medium sized enterprises. This function ensures the operation of an enterprise because it provides and maintains the capital resources and provides the management of a package of financial tracking and control indicators that contribute to the orientation of all activities.

Although financial function aims the capital factor, both at the time of its acquisition, and its placement, it also interferes with the other non-financial functions, as financial flows precede, go with and follow the real activity. „Designating the means funds set by enterprises- financial funds-, does not mean that in the process of economic activity, they cannot be concomitently in several operational types and a particular aspect – a special material."[6]

The development of financial markets, diversification of financing sources and accentuation of competitive pehnomena, and the rise of financing needs within an enterprise, entailed the financial function to orient and find new opportunities of capital acquisition in optimum conditions and for its better use.

In the world, the internal financing/ foreign financing ratio has varied differently in the course of time. These gaps concerning the approach manner of an enterprise's financial structure have taken shape in two types of financial policy:

- The „Latin" model (France, Belgium, Italy and Spain), focused on indebtedness, especially, in the medium and long term, and less in the short term;
- The „Anglo-Saxon" model (Great Britain and Germany), characterized by the presence of own and attracted funds in a proportion of 40-43 %, and the drop of interest for indebtedness[7].

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[3] Fayol H., Administration industrielle et generale, Editura Dunod, Paris, 1956, taking-up after T.Oroveanu. Administration science handbook, Editura Cerma, Bucharest, 1996, pag. 25.

[4] Neagoe, Ion, Finance of an enterprise, Editura Ankarom, Iaşi, 1997, pag.47.

[5] Mandache R. ş.a., Economico-financial diagnose in agro-alimentary enterprises, Editura Ledo & Muntenia, Constanța, 2000, pag.17.

[6] Filip, Gheorghe, Contributions to finance theory, Scientific Annals of the „Al.I.Cuza", University Iași, tome xxv, 1979, pag.83.

[7] Onofrei, Mihaela, Impact of financial policy on society, Editura Economică, Bucharest, 2000, pag.50

In an article published by Oliver Robert de Massy in Revue Banque no.501, in 1990, the following was mentioned[8]:

- Before 1985, enterprises had a clear preference for indebtedness that was not in the favour of taking resources on the financial market;
- Between 1985-1987 a reduction of preference for loan and a rise of operations related to financial market bonds was recorded; if in 1981, financial intermediaries were ensuring almost 80 % of the economy's financing requirements, in 1986, they were only covering 40 % of these requirements.

At present, a structure of capitals to mix the advantages provided by the two financing sources and that provides a maximization of the results as costs are minimized. This combination should be in accordance with the enterprise's specific organization, operation and development, with the requirement of funds, with necessity of ensuring funds opportunely and with profit-sharing of all those involved in getting maximum results.

All this different trends and developments are based on some specific factors occurred worldwide, namely: internationalization of financial operations; deregulation of the '80s, having as a result, abandonment to the limits imposed to the interest rate in the USA and Japan, and with the liberalization given to financial institutions to provide the customers a wider range of services; extension of bank derivatives, that enabled the diversification of the ways to capital investment and enlistment; disintermediation, that provided recovery of judgement to enterprises that could remove banks from the money circuit from the initial lender to the final beneficiary; innovation, entailed by an increasingly fierce competition; privatization, that provided opportunities to financing. However, the crisis phenomena in the past decade have emphasized the need of correlating the internationalization, liberalization and universalization processes with emphasizing surveillance and compliance with prudential measures. Thus, as an example, the Directive no. 93/6/EEC, issued in 1993, can be mentioned. This Directive is in connection with the work of investment companies and banks. The Directive has updated and developed the definition of own funds, has set the requirements concerning the initial capital according to the type of activity carried out, has specified the manner of monitoring large scale reports and has completed the requirements of the entire surveillance. Elaboration of financing and fund attraction strategies, knowledge of possible alternatives and obtaining of funds represent the key tasks for the enterprise's success.

Of course, the attempt to accept a generally valid financial structure for all enterprises appears as being redundant, because the various factors acting over financial structure changes and individualize each enterprise. Moreover, we could say that even the versions of optimum financial structures are incomprehensible because gaps can occur not only between enterprises, but within the same enterprise, in different times.

Enterprises develop in a financial environment that provide them specific tools and possibilities, but they entail them certain restrictions at the same time. These opportunities and restrictions generated by the financial environment enable the definition of the aim of financial management or enterprise's finance.

Generally speaking, theoretical and applied enunciations related to financial management embrace a prescriptive conception and lead to the formulation of some all purpose analysis and behavioural rules, without neglecting the influence of internal and external context related to enterprise exerted over financial management. Therefore, the issues of financial management and its technical content are in close connection with the enterprise's internal and external context. Under the circumstances, it is necessary to identify and emphasize all purpose aspects proved in financial theory and practice, and

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[8] Idem

also the occasional, circumstantial and local aspects, specific to the type of enterprise, or the national context.

Elements that could represent the general purpose base of financial theory and practice are related to the characters common to all economies that apply monetary exchanges and credit. Thus, an enterprise, regardless its profile, will approach financial management issues whenever it makes an operation requiring acquisition, currency and bond holding or releasing. As a result, all enterprises comprised within an economy where currency and other receivables circulate, facing the finance related opportunities and restrictions should put into practice suitable financial management procedures.

In exchange, certain aspects of finance have a specific character visibly. On the one hand, the stage and types of development as regards the domestic and foreign financial system influence the nature and diversity of tools, institutions and mechanisms affecting the financial management. On the other hand, the strength and orientations of each enterprise drives equally its financial action possibilities.

In conclusion, a relevant study of the financial management requires the consideration of unexpected influences, due to the enterprise's own characteristics, as well as the inherent characteristics of the financial system. These influences affect the general purpose and tasks of the financial management, as its alloted responsibilities. In other words, the content of the financial management can be approached by means of reference to its purpose, the deserved basic tasks, operational responsibilities that are entrusted to financiers.

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