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HOW FINANCIAL FUNCTION DETERMINES THE CORPORATION VALUES GROWTH

Ion Gr. IONESCU

[1]PhD Associate Professor, "Tomis" University of Constanta, Faculty of Economic and Administrative Studies, Finances-Accounting-Humanistic Disciplines Department , Romania, E-mail: iionescu_levant@yahoo.ca

Abstract *The corporate environment and the corporation are considered to be the most complex and representative entities of the complicated economic and financial world and are always treated with seriousness. In our article, we deal with a matter that is treated as a backbone for all those interested, like a red thread - seen or unseen, which has consequences in the joint stock company or in the autonomous direction. We refer to the financial function, able to influence the capital, the behavior of the whole staff, the dynamics of the financial flows, the culture of the corporation and which, in particular, produce mutations in the increase of the value of the corporation as a whole.*

Key words:
Financial function
Value
corporation
Financial flow
Monetar flow
JEL Codes:
G30

1. INTRODUCTION

The corporation in economic and legal sense is a joint stock company, with a lucrative purpose, production, execution of works, provision of services or supply-distribution (ie marketing), own property, legally defined, at the level of which decisions can be made with patrimonial character. Corporations' relationships with third parties are conducted on a contractual basis and relations with the state, only on the basis of the provisions of the adopted laws.

In the Romanian economy the corporation appears, either in the form of commercial companies or in the form of autonomous regia, the difference between the two being given only by the character of the property.

2. PATRIMONY AND CAPITAL

The wealth of corporate corporations is privately owned, while the patrimony of autonomous government is state property. Both forms work the same in both the organization of relations with third parties and the relations with the State. Production activity, both in industry and in agriculture, takes place within joint stock companies that are able to mobilize cash resources of a large mass of owners and transform them into productive capital (Stefan, 2002).

Capital Regardless of the legal form of organization, the necessary capital is acquired through the free association of the holders of cash or material assets suitable for use. Collective partnerships, limited partnerships and limited liability companies are associations between a small number of partners, each of which holds, in the form of shares, a larger or smaller share of the capital of the company.

Associates are bound by the association agreement. The departure of an associate in society calls into question the maintenance of the company in a collective name or in a simple partnership; in the case of limited liability company, an associate can sell its share only with the consent of the other associates. We therefore assume, in a sort of personalization of the capital of society, the ownership of it or of a part of it, unable to circulate independently on the financial market.

3. SHAREHOLDING

Shareholders can sell their shares (ownership of a share of the share capital) at any time without the company experiencing any change and without the need for the other shareholders to agree. We are therefore witnessing a movement of property rights in the financial market.

"Economic phenomena are acts of will, decisions concerning the damage to resources, both aiming at and generating the" movement ", ie work flows, materials, energy, finite products and money, between places of origin and consumption "(Oncioiu-Holban and Ion-Bocănete, 1996).

4. FLOWS OF GOODS AND SERVICES

The flows of goods and services circulate throughout the economic space, the economy being represented by a network of channels through which goods, services, money pass from production sites to consumption through intersection centers, represented by real economic agents heritage assets and full economic-financial decision rights, known as business. The corporation is forced to return both upstream - to its suppliers - and downstream - to its clientele, realizing in this sense their junction.

Two complementary currents, but different senses and natures are achieved. A first real flow of "services" to corporations and another monetary flow from the corporation that balances value. Suppliers provide the industrial equipment, materials, energy and necessary services, the corporation paying the negotiable prices and tariffs; and in this case there are complementary flows of opposite sense and different natures, real flows from suppliers to corporations and monetary flows from corporate to suppliers of any kind.

The level of salaries, prices and tariffs is being negotiated, however, it can be said that monetary flows play a major role as they regulate the quantitative flow of real flows towards the corporation.

"After purchasing the goods as well as the labor, the corporation turns its face downstream to the clientele to sell its products, works and services" (Giurgiu, 1995).

Clients derive real flows, and from the clientele to the corporation, monetary flows are made as complementary flows of opposite and different nature in relation to real flows.

5. CORPORATE MONETARY FLOWS

Particularly complementary to the real complementary monetary flows in the corporation and in conjunction with the corporation, monetary flows flow without immediate connection with real flows.

"It is the monetary flows that constitute the total capital of the enterprise, which regulates, allocates the financial surplus, the profit obtained from the entire economic process, materialized in profit (Manolescu, 1995).

The enterprise's capital consists of past financial gains from outside the enterprise or corporation, accumulations that in turn resulted from past economic processes (real flows - monetary flows).

"The distribution of profit is based on future acquisitions, either to the corporation or to third parties. The equilibrium in the conduct of the complementary monetary flows downstream and upstream ensures the monetary / microeconomic equilibrium and thus one of the fundamental conditions for the efficient use of the entire capital of the enterprise " (Bocanete, 2010).

It follows that the corporation, as an economic agent, is at the center of economic processes as the basic unit of the national economic complex. In parallel with this, the corporation is also the main link in ensuring a healthy monetary flow through the flow of money from downstream to upstream and thus contributing to the acceleration of the monetary rate of rotation.

The company transits most of the money in an economy, the quality of its activity conditional not only on the production, circulation and consumption of the national product, but also on the degree of the health of the money circulation in the country.

6. FINANCIAL FUNCTION IN ACCORDANCE WITH MAXIMIZING THE CORPORATION VALUE

The specific character of monetary operations, the allocation and use of surplus, are the content of the enterprise's financial position.

Thus, the corporate financial function refers to the achievement of the essential objectives, but the objectives are multiple, which implies an attempt to define and group them.

Maximizing profit and corporations Economic theory classifies the formula as the sole objective of the enterprise's financial function: "maximizing profits"; it is considered that this objective is achieved when the marginal revenue margins and the marginal cost of the enterprise are achieved.

The definition of this objective raises several issues: (Vintilă, 2000)

- classical theory does not specify what kind of profits it was, short-term or long-term profit; maximizing both types of profit at the same time is impossible;

- maximizing profits involves a monopoly situation that is not operational in a competitive market;

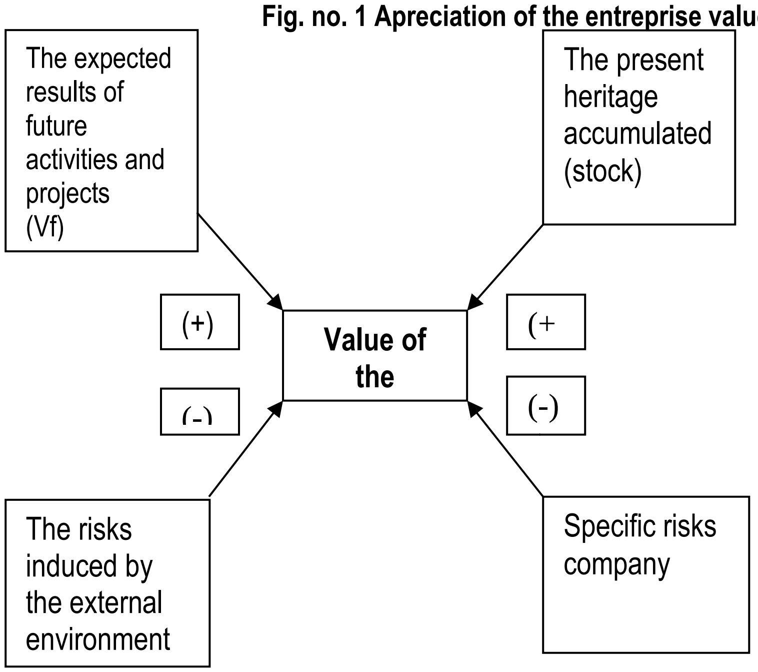
- The objective of maximizing profits does not take into account uncertainty and risk.

"Private finance is the subject of corporate practice, implicitly and explicitly, the object of action to achieve a fundamental objective: maximizing the value of the enterprise, and increasing the wealth of its owners" (Nicolescu, 1996). This value can not only be assessed in relation to the net asset (Total Asset - Total Debt) or the wealth presented by the corporation (Heritage Value), but must also be analyzed in relation to the future projects and activities where the patrimony is and will be employed (Financial Amount = Vf).

7. EXPECTED RESULTS IN THE FUTURE

Therefore, the expected results in the future should be taken into account as a result of capitalizing on the accumulated assets. "As a result, the value is an anticipated value, which corresponds to the current value at which we add the expected expected future earnings to be achieved by that corporation. This is the reason why value is inseparable from the quality of the projects where the patrimony is hired. (Figure no. 1)

Fig. no. 1 Apreciation of the entreprise value



Source – Author
Where: (Stancu, 2002)

- The value of the enterprise is an actual value, ie the current equipment of the expected future results. This value is determined on the basis of the earnings expectations that the corporation will bring with its accumulated heritage to date. The value is not a static size (of a stock) but a dynamic size that is inseparable from the process of using the patrimony. Perceptions regarding the quality of projects, the indications gathered on the future prospects of the results permanently influence the value of the enterprise.

The value is sensitive to all risks that may affect the future level and stability of the expected results. These risks may be related either to the company's own characteristics or to the evolution of the external environment (increase in electricity prices, increase in bank interest). In all cases, however, the perception of a worsening of the risk translates into a depreciation of the value of the enterprise.

At the same time, the maximization of the value of the enterprise appears to be tributary to the level of performance provided by the enterprise's activity and to the mitigation of bankruptcy risks and financial risks in general.

8. CONCLUSIONS

The current financial theory is defined as an essentially operational objective "maximizing corporate value" as follows:

- the corporation belongs to the owners (shareholders, shareholders, individual entrepreneurs) having the interest to maximize the value of the investment;
- the goal of M.V.I. take into account uncertainty, risk and especially time;

The operational objective, meaning that any financial decision to maximize value is good.

By formulating the key objective of the financial function, it must be said that the corporation has other objectives, which are subordinated to the first.

"Finances, no matter how modern they are, are nothing, without an intense economic activity to support them, fulfilling three functions: (Modigliani and Miller, 1958).

1) valuation (measurement) of wealth;

2) distribution of results;

3) investor protection. "

Finance is not an environment where wealth is created from nothing. They have the mission to measure wealth in the economy and transfer it to different participants in obtaining them, ensuring that an effective risk distribution is in place.

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