Scientific Papers (www.scientificpapers.org)
Journal of Knowledge Management, Economics and Information Technology

Special Issue
December 2013

Romanian Companies Performance - Approach by Value Signals

Author: **Cristina Gradea**, Romanian University of Sciences and Arts Gh. Cristea, Bucharest, Romania

The new form of competitiveness is not a quantitative but qualitative one; less goods and services with higher added value, but with significant implications on the process of funding at the micro level. Competitiveness is the ability to defeat in a competition, regardless of the environment in which it is carried out. To be competitive, the Romanian companies must establish certain goals such as flexibility, (value) position on the market, liquidity and profitability. These objectives can be achieved if: there is initiative, knowledge and rigor in the leading enterprise workers, through fiscal and monetary policy which is consistent and effective, quality of human factor (as factor of production) is increasing.

According to previous statements we notice that the concept of competitiveness at the firm level (a complex notion) will have to be analysed based on aggregate financial and economic indicators that capture all these mutations at the level of this evolved concept and that encompass all the
variables that define it. To this end, we think (infer) that such an indicator, which analyses competitiveness at the micro level, can be the firm value. Starting from this premise in our research, we turn to a financial model of the firm value (Gordon-Shapiro model generalized), considering that in understanding variables of this aggregate indicator in terms of value signals can explain competitiveness at a given time.

Keywords: *competitiveness; company; performance*

Introduction

The strategic objective of the European Union is to make Europe "the most competitive and dynamic economy in the world, capable of sustainable economic growth with more and better jobs and with greater social cohesion"(strategic objective for 2010, set at the Lisbon European Council in March 2000).

Given the context of the amplification of globalization phenomenon, this characteristic became an emblem of the system. Achieving this macro objective will be possible through the transformations that will take place at the micro level. Semantically, in the traditional economic system, competitiveness at micro level has more meaning: reduce costs, increase productivity growth, etc. The new European economic system adds new valences to competitiveness which must be found at micro level, based not so much on resources as on knowledge and innovation. 'Europe must renew their competitiveness base to increase the growth potential and strengthen social cohesion, with emphasis on knowledge, growth, innovation and optimization of human capital. To achieve these objectives, the European Union must mobilize
all national and Community resources - including the cohesion policy - in the strategy of the three dimensions (economic, social and environmental), so that their synergies may unite in the general context of sustainable development ". (Communication from the Commission: Cohesion Policy in
Support of Growth and Jobs: Community Strategic Guidelines, 2007 - 2013, Brussels, 05.07.2005, COM (2005) 0299, p.4).

The new form of competitiveness is not a quantitative but a qualitative one; less goods and services with higher added value, but with significant implications on the process of funding at the micro level.

Competitiveness is the ability to defeat in a competition, regardless of the environment in which it is carried out. To be competitive, the Romanian companies must establish certain goals such as flexibility, (value) position on the market, liquidity and profitability. These objectives can be achieved if: there is initiative, knowledge and rigor in the leading enterprise workers, through fiscal and monetary policy which is consistent and effective, quality of human factor (as factor of production) is increasing.

According to previous statements we notice that the concept of competitiveness at the firm level (a complex notion) will have to be analyzed based on aggregate financial and economic indicators that capture all these mutations at the level of this evolved concept and that encompass all the variables that define it. To this end, we think (infer) that such an indicator, which analyses competitiveness at the micro level, can be the firm value.

Starting from this premise in our research, we turn to a financial model of the firm value (Gordon-Shapiro model generalized), considering that in understanding variables of this aggregate indicator in terms of value signals can explain competitiveness at a given time.

The Concept of Signal Value

In what follows we aim to reflect on the market value of the firm (the market value calculated in financial terms in view of future flows that remunerate the investment) of investor perspective (considered in the generic sense), introducing in this way a new concept: the concept of signal value. Our efforts to explain the concept and its importance in the construction of function type variable called value of the company will take into account the following logical-conceptual approach: define the class of objects they refer to, meaning of the concept, universality of the concept.

The working hypothesis in the construction of this concept is the following: the market value of the firm is viewed in terms of buyer or investor of capital in the firm (we'll use the notion of investor in the section below), which aims at- we feel – the valuing of the initial capital (by buying a majority stake or a number of shares) at a superior rate of return than any other alternative forms of existing business at a given time of financial market.

The market value noticed or market capitalization of the firm, observed by the investors is a consequence due to a combination of causes perceived differently by them (the rate is formed depending on demand and supply for the company shares), often contradictory, in our opinion but which essentially can be embedded and explained in terms of value signals. The market capitalization of a company is increasing or decreasing at some point. This means that investors (in general) are guided in their actions (by purchase or sales of shares owned) according to certain signals, signals regarding the size of the outcome variables issued by the firm.

The first step in our scientific approach we consider to be to identify those microeconomic or macroeconomic variables which are causal factors (subjective) of the firm assessment valuation which is made by the investor. It is about independent variables and consistent with each other (which excludes as far as possible the statistical autocorrelation respectively, the mutual annihilation in determining the market value of a company).

We introduce the concept of signal value (SV) for that variable (microeconomic or macroeconomic, quantifiable even if not measurable) which has an impact that can be tested (at least in the form of inter-subjective acceptance) on the subjective evaluation that the general investor makes on the current or future value of the firm (the future value of company includes, logically, the trend of the firm value expression).

Justification for the choice of the concept of signal value can be explained by the fact that of all concepts subject to express the impact of certain economic variables and / or the financial impact on market value of the company (present or future), I think it (SV) is the more appropriate, for the following reasons:

- Assessment of overall company or investment portfolio by an investor is a subjective process, sensitive not only to show certain variables but their connotations, so it is, for an investor, a certain signaling or suggestions on determining the –
- One of the functions of the company in the market economy is to build and transmit to the environment external signals on the structure, dynamics and its economic and financial performance;
- Not all economic and financial variables generated by a firm mean something in terms of firm value, the concept of signal value proposes to select, after a certain methodology (which is still in the making), those variables that represent really, for the investor, credible and accepted inter-subjective indicators or if possible, accepted in theory on the size or development of the company's value.

The reference of the signal value concept: the concept of value has the extension (notation) many economic, financial variables or of other nature which are taken into consideration by an investor, as the proof of credible indicators on firm value.

The meaning of the signal value concept: the concept of signal value has as background a certain value of the firm, seen from the investor perspective. Universality of the concept: the concept of signal value is a concept as such, namely it has a unique meaning for any investor, non-ambiguous and not anchored locally (as space and time). This means that our ambitious attempt tries to identify a set of such value signals that are able to be a methodological basis for analysis of forming the firm value in general. The concept character of the signal value is essential in terms of logical research, because otherwise we have to deal with a simple notion or term, thus reducing considerably, at this level, the theoretical impact of our study and then if we succeed, of methodological impact.

We believe that the research of value signals must be based on certain initial assumptions that subsequently have to be relaxed to capture reality in the investment process. The initial assumptions considered in part: at the work of mainstreaming concept of signal value stipulate the following assumptions (which, depending on the context, may suffer future reference relax):

1. investitors (generally) have the same utility function, namely the same model in which the current value of the firm is evaluated, this implies the same set of rational anticipations for each investor;
2. There are no transaction costs (for information about the value signals issued by the companies) or if there are, they are the ones for all investors;
3. The investors are atomic, namely the intervention of an investor on the secondary market capital (for example, transactions of a number of shares) does not change (in general) the model of reasoning of other investors (this assumption can be relaxed later if we take into account aggregate investors that transactions discrete packages of shares).

Other specifications: we consider that the value signals selected should express: the current value of the company, direction toward which it is heading its value: tendency trend, speed which varies, the speed it varies with, thresholds or points of inflection. For the purpose of scientific evaluation of the firm value (from the perspective of a real shareholder or potential, hereinafter investor) requires a set of criteria necessary and sufficient (inter-subjectively accepted) that are led, according to a model to a dimension of the objective value of the company.

Assuming that each investor interested in the firm value or value of its shares will have their own subjective perceptions on forming value (the value determined by him will be subjective). This perception is formed based on their own model of assessment model investigating in an analytical way, its own criteria (subjective) explained by the value signals.

Based on value signals, each investor forms his perception on the value at the level of the subjective value and his economic decision is based on the difference between the objective and subjective value. We can call this difference value gradient (gradient is a vector which characterizes a scalar field, whose value is given by the variation speed of the field on a direction given), which will act the stronger the higher the absolute value will be. Of course the decision will also depend on the algebraic sign of the gradient.

Conclusions

In essence, the concept of signal value, we believe it can explain the market value of the firm expressing the initial cause, primary source, starting point, the energy which is propagated, on certain channels leading to an increasing effect on the value increase or drop, their scientific importance being given by the multitude of theories and models for determining the
firm value. Introducing the concept of profit cost is particularly useful for systematization of mathematical and economic type of reasoning on behavior at investment level.

Setting margins of substitutability, respectively of coefficients of elasticity is more important for both the investor and the manager than the absolute values or the relative ones that enter in economic reasoning on regarding investment, or long term business financing. A number of hypotheses considered in the present developing are still too restrictive and they will have to be modified in subsequent research;

References

[1] Kraybill D., Kilkenny M. - *Economic Rationals For and Against Place based Policies*, 2003

[2] Kuhn T.S. - *The Structure of Scientific Revolutions*, Chicago, Chicago University Press, 1970
[3] Kuhnen F. - *The Concept of Integrated Rural Development*, Korean Journal of Economics, 1997
[4] Popescu I., Bondrea A., Constantinescu M. - *Globalizarea, mit şi realitate*, Ed. Economică, Bucureşti, 2004
[5] Popescu M. - *Globalizarea şi dezvoltarea trivalentă*, colecţia sec. 21, Ed. Expert, 1999
[6] Porter M.E. - *Competition in Global Industries*, Boston, Mass, Harvard Business School Press, 1986
[7] Postelnicu Ghe., Postelnicu C. - *Globalizarea economiei*, I, Ed. Economică, Bucureşti, 2000
[8] Raymond L. - *L'impact des systèmes d'information sur la performance de l'entreprise*, în volumul „Faire de la recherche en systèmes d' information, Paris, Vuibert, 2002
[9] Raymond L. - *Mondialisation, économie du savoir et compétitivité: un cadre de veille des tendances et enjeux stratégiques pour la PME*, în volumul „Gestion", Paris, 2000
[10] Rouch Theo, ş.a. - *Rural Regional development: A Regional Response To Rural Poverty*, Wiesbaden, 2001