VIEWS ON THE CONCEPT OF FINANCIAL POLICY AND ITS MANIFESTATION

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The present study proposes an analysis of the main views expressed in the literature on financial policy, as well as the shaping of our own, clear and comprehensive vision, regarding the content of this concept.
The main objective of our research is to clarify the content of the financial policy concept, so that this policy may be effectively used in the service of overall development of our economy and society. Reaching such an objective has implied the research of a vast existing literature on the field, in the country as well as abroad, observing a vast variety of understandings regarding the meaning of the concept itself, the objectives stated within the financial policy as well as the main approaches (ways to follow) for achieving these objectives.
Of course the achievement of such a research is not possible without a meaningful analysis of the principles expressed in this field's literature. In relation to this matter we can see that each author has his own conception regarding the subject under review. These expressed conceptions are, in turn, based on previous research in the analyzed area. The accelerated dynamism proved by the evolution of our economy and society in this stage shows us that through the financial policy, outlined both at a micro and a macroeconomic level, clear fundamental objectives must be formulated that should be possible to achieve by partial objectives (sequential), practical methods and procedures being adapted to them.
Our research is at the present stage, a theoretical and methodological one. It is based on the comparisons we make between the views expressed in the studies of different authors, trying to draw the "red line" of these views and observing the fundamental meaning given to the financial policy concept. We express our conviction that a clear conceptual expression of the financial policy notion comes to the rescue of the general management (macro and microeconomic) facilitating the process of adopting the most appropriate decisions for achieving the objectives set by the financial policy.
The result of our research is represented by the formulation of a clear and comprehensive concept concerning the financial policy.
Removing ambiguities in formulating the concept under review as well as in the means of achieving the formulated objectives is for the benefit of achieving the monetary, financial and budgetary balance at a macroeconomic level, which is the foundation for promoting some beneficial financial policies at a microeconomic level.

Key words: financial policy, financial policy elements, investment policy, financing policy, dividend policy, evolution.
JEL Codes: G 31, G 32

1. Introduction

The financial policy is a complex and controversial, which incited our interest for elucidating its meaning.

It is a complex concept because, looking at it in terms of a system it has two elements, namely:

- macroeconomic financial policy subsystem;
- microeconomic financial policy subsystem.

At a *macroeconomic* level the following subsystems develop:

- financial policy subsystem;
- budgetary policy subsystem;
- parafiscal policy subsystem.

Within each subsystem, considered as a distinct entity, financial policy's connecting branches develop. We illustrate the statement by the budgetary policy subsystem within which we distinguish: the budgetary revenues policy, the budgetary expenditure policy, the budgetary balance policy.

At a *microeconomic* level we also observe a set of subsystems such as:

- investment policy subsystem;
- current activity financing policy subsystem;
- dividend policy subsystem.

In relation to the financial policy subsystem at a microeconomic level we can also establish the existence of policy ramifications. We illustrate this statement (finding) showing that within the investment policy we distinguish: investments financed with internal resources (national) and investments financed with external resources (international); investments financed from the company's own resources and investments financed from borrowed resources; own overhead investments and contracted out investments.

The controversial nature of the financial policy concept is generated by the fact that each researcher (author) has left his own imprint on the content of the analyzed concept. We, therefore, assumed the burden of detaching the common ideas which are the core of the concept trying to point out each time, the ultimate pursued goal and the methods and procedures used in the practice of financial activity in order to achieve this goal.

2. The financial policy concept

In a general sense, ***politics*** is understood either as a management activity or as a way of organization and leadership. Since political activity is carried out on the basis of some political programmes, politics is often portrayed as the tactics, the strategy, the methods and the means used to achieve the objectives set out in such programmes.

The way from the concept of politics in general to that of financial policy cannot be crossed without lingering, even just in passing, on the concept of economic policy. Thus, the economic policy is portrayed as an area of government policy, but it is often circumscribed to the concept of economic mechanism. In such an interpretation the economic policy is presented as part of the economic mechanism functioning. We observe that in the system theory, „the economic mechanism appears as a subsystem in economy's organization and management system and government is the most important aspect of the economic mechanism" (Tulai 2003:84-85).

An important element of the general economic policy is the financial policy which is „anchored in the development process of any society" (Onofrei 2000: 11).

Building the financial policy, organizing and managing the company's activity implies, as professor Constantin Tulai used to say: „management strategy and direct practice" (Tulai 2003:92).

In the attempt to define this concept we should start, rightly and without exception, from the statement that the *financial policy* is an element of the economic policy, having to contribute, in its specific ways, at the fulfilment of the economic programme. It is subordinated to this goal but it must exert an active role in achieving it, which means both conception and concrete action and representing the land where the theory offers solutions, strategies confront and options take shape, decisions are taken and also actions to achieve them. Therefore in the defining of the financial policy, as the previously cited author would say, we must take into account at least the following reasons (Tulai 2003:85-86):

- it represents a specific area of the economic policy, it is subordinated to the totality it belongs to, but it carries an active influence on it;

- it implies a certain conception of the financial sector management, they are differentiated by fields of application, solutions are dynamic and always perfectible and the tools are flexible;
- it must be designed and implemented in a way that ensures the financial mechanism's functionality, to establish a proper framework for it to show its self-regulation ability and to exert a favourable influence on the functioning of the economic mechanism as a whole;
- through the specific instruments and levers the achievement of all economic decisions must be ensured under the conditions of superior resource exploitation and high economic efficiency. This means above all, to imperatively take into account, the financial reasons when underlying the economic decisions.

As shown in the literature (Halpern, Weston şi Brigham 1998: 216; Bran 1997: 315-317), defining the financial policy concept involves, by default, mentioning its sphere.

Doing a critical analysis of the financial policy sphere, C. Iuga pointed out that sometimes the sphere is restricted to the formulation of its objectives, other times it also includes the used methods and the proper organizational arrangements, pointing out that in his view „the financial policy has a broad coverage area, it establishes the main objectives of the financial activity, the strategy and the tactics of accomplishing them as well as the organizing and management system, respectively, the set of concrete principles, methods and means with regard to the relations, the institutions and financial agencies, which ensure the fulfilment of the functions and roles that belong to finance in the economic and social life" (Iuga 1977: 67).

Such an indication on the financial policy sphere allows us to observe some of its most obvious characteristics, namely:

1. it includes in its sphere, placing first, *setting the main objectives of the financial activity*, derived from the fundamental objective and integrated in the economic policy's objective;
2. the financial policy has *its own objectives*, specific to its domain, and their achievement represents its contribution in the achievement of the overall economic policy's objectives.
3. in order to achieve the established objectives, the financial policy includes financial sector specific policies, but varied in relation to the sub domain they are applied in, being achieved with an appropriate tactics;
4. the achievement of the established objectives through an appropriate strategy and tactics, requires an appropriate organizational framework, the design and use of specific principles, methods, levers and instruments in a framework created by the legislation;
5. on this field the specialized financial institutions and organisms are operating, performing exogenous financial decisions, taking and performing their own decisions, they carry out the financial policy.

Based on these issues and respecting the set out methodological requirements we can conclude that the financial policy, as a specific area of the economic policy, represents a certain conception and a certain way of direct action regarding the organization, management and financial activity deployment.

The financial policy has several characteristic features determined by the nature of the state's prerogatives, as well as by the country's economic, social, etc. objectives in that given stage.

Among the financial policy's characteristic features we mention the following:

- The financial policy's scientific nature , which is determined by the thorough knowledge of our specific features, by the study of the real, national and international conditions in each stage, by taking into account the economic law's requirements, by the correlation between the financial policy and the nation's interests. Being judiciously planned and enforced, the financial policy is required to fully contribute to the achievement of a high and increasing social work's performance capacity. The financial policy's effects are reflected in the development of productive forces, in the increasing of the gross domestic product, in satisfying the material and spiritual life requirements, of the population which are on the increase.

- The financial policy's realistic nature resides in the fact that it has to be developed and carried out based on thorough knowledge about the national economy's realities, particularities and possibilities of each stage. The financial policy is designed to help promote national interests, achieve national independence and sovereignty as well as to help collaboration and cooperation at a national level.

- The transforming, renewing character of the financial policy is generated by the judicious use of financial instruments. The financial policy is not established once and for all, it is not immutable, but it evolves, it changes, it continuously improves and it adapts both regarding the goals as well as in the use of financial instruments.

The financial policy has a certain independence from the state's general policy, because it has its own objectives, it uses specific tools and procedures, which implies the existence of its own methodologies.

Studying the issues of financial policy at a microeconomic level (Halpern, Weston and Brigham 1998: 220), we observe its main manifestation directions:

- selection of investment projects;
- identifying financing modalities;
- substantiation of the company's financial structure and ensuring an optimal ratio between equity and borrowed capital;
- choosing the optimal allocation for net profits and dividends;
- selection of optimal solutions for changing the equity's size.

It must be noted that the company's financial policy is directly influenced by the macroeconomic financial policy, through instruments that at the microeconomic level are considered to be external influence (constraint) factors.

Financial policy involves not only setting goals to pursue in one area or another for a certain period of time but also establishing the means to achieve them. It is also necessary to make a critical analysis of its promotion's results, in order to correct any deficiencies, shortcomings, mistakes came up or occurred in time.

Putting together and comparatively analyzing the many definitions given to the financial policy in the literature (Halpern, Weston and Brigham 1998: 222; Bran 1997: 318), we find both common elements and some differences, not only in shades but also in the sphere coverage. Both of them relate to the three present elements, without exception, in all encountered definitions, namely: ***the reference, the purpose and the used procedures.***

Referring to the ***specific used methods***, they are portrayed as a set of methods and means; principles, methods and means; rules, principles and methods or methods, levers and mechanisms specific in the financial sector. Therefore not only the wording is different but also the number and kind of arrangements involved.

In a different way is presented the field of reference, the same in its essence, namely the ***financial sector***. It circumscribes, in different formulations, the same elements, namely:

- finance, financial relations or in a detailed presentation, their display field (creation, distribution and optimum use of funds);
-institutions and specialized institutions belonging to the financial unit;
- the legal executive legal framework , including financial regulations or legislation.

Finally, for the ***concerned purpose***, the formulations are also different. Some refer to the social and economic policy objectives as a whole, but different in each step or from one program to the other; others are confined to the fundamental strategic objective of the current phase (Chandler 1996: 63); in some of them the aim of achieving the economic policy objectives is fixed ("Help 2003: 87), and finally in others, it is stated that the financial policy is oriented towards achieving the social mission of finances (Văcărel 2007: 76), ensuring the fulfilment of their functions and roles in each phase.

Taking into account the ones mentioned above, we could shape our ***own opinion*** which means that we can define *financial policy* at a microeconomic level as ***the combination of financial methods and instruments involved in the acquisition, allocation and management of financial resources in order to achieve the ultimate objective of the firm - thus maximizing market value, increasing shareholder wealth.***

3. Company's financial policy elements

At a microeconomic level the financial policy includes a set medium and long term objectives, which relate either to all financial activity or to its major components. Among these we distinguish by their special meanings: the volume and structure of available resources, performers of various activities, financing sources, intermediary and final terms, global and partial indicators.

The specific consequences of financial policy decisions are manifested in combining the company's financial cycles (operating, investing, financial operations) whose graphical representation is depicted in Figure no. 1.

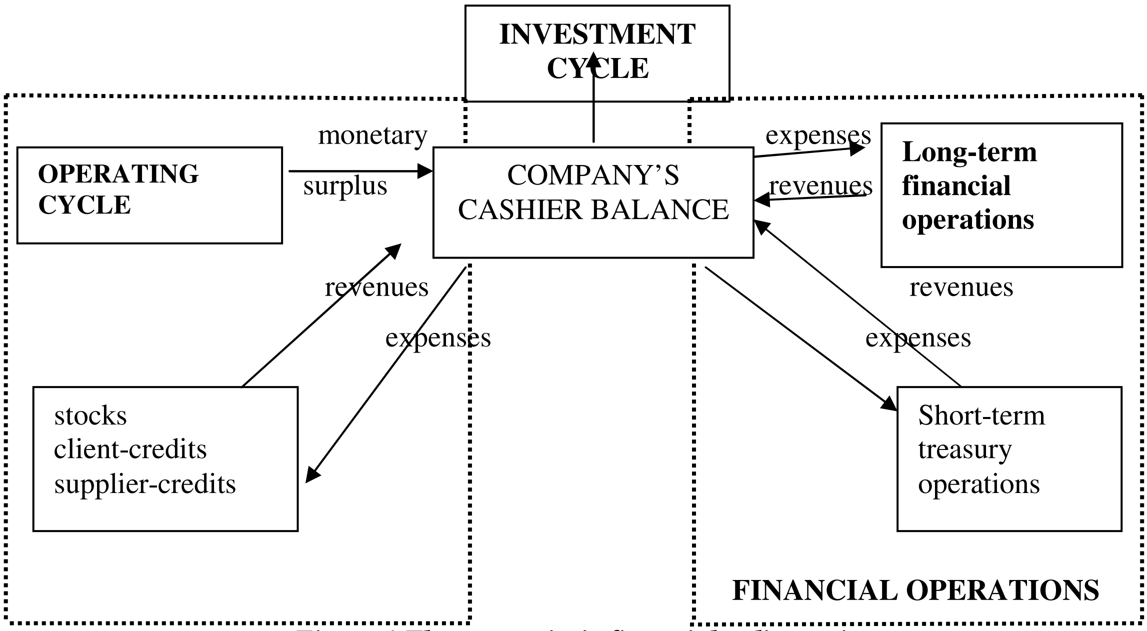

Fig.no.1.The enterprise's financial policy action range

Source: adapted by the author from (Onofrei 2000: 46)

As shown in the figure above, the financial policy's range includes a variety of decisions to be taken by the company's management about the pace and terms of capital creation, namely the financing of the company.

Modern financial theory holds that, at the firm's level, there can be identified three broad categories of policies (Stancu 2007: 47), which are considered interdependent, namely:

- investment policy (internal / external);
- financing Policy (own sources and / or borrowed);
- dividend policy (distribution and / or reinvestment of dividends).

The investment policy is considered primal, whereas it affects capital for a longer period of time. Involving significant capital expenditure in the hope of obtaining a successful future, underlying the investment decision (policy) should aim at:

- the investment's participation in the total value of assets (net present value);
- payback period of invested capital and hence the starting moment of net gaining from that

investment;
- alternative analysis of investment‘s further exploitation or disinvesting and seeking other forms of investment (decision tree method).

The financing policy is determined and in the same time it is determining the investment policy. The financing policy’s foundation is represented by the proposed amount of investment, by the existing capital and the one necessary to continue to run the investments. Of particular importance is the company's financial structure, namely the relationship between equity and borrowed capital.

The dividend policy is determined by the predilection and in the same time the investor’s wish to receive annual dividends. Although theoretically, in perfect market conditions, dividend policy does not affects the firm’s value, recent studies have demonstrated the favourable effect of maintaining and possibly increasing the rate of distribution (dividend/share) on the course of shares, namely the awareness effect on the dividend. Some researches (Walter 1996: 29-35) mainly the agent theory, demonstrated the role of dividends distribution in settling conflicts between shareholders and managers on one hand and between the groups “shareholders and managers” on one side and creditors on the other.

Since dividend policy distributes the net profit between cash flow and net profit share distribution, it affects both the firm's financing policy and, indirectly, the investment policy. Each of these policies involves certain types of decisions and, most often it is considered that the company’s main financial decision is the choice of a certain financial structure (Manolescu 1997: 486). This is followed closely by three other coordinates as the dividend distribution policy, increasing the company's equity and its debt.

“The existence of a power structure - P. Conso was saying – is the support for the internal decision-making process. The decision’s degree of rationality depends on the role of people and on the values system they agree to join. The nature of power is thus an important determinant of company behaviour "(Conso 1981: 159).

In our opinion, the influence of the internal power structure of a company must be analyzed in terms of number of partners / shareholders in it. Thus, an individual firm holding the power and capital monopoly will have a very simple internal structure; in the case of a company formed by association (as a society), the internal structure becomes complex and dependent on the number and diversity of partners (businesses, banks, state, citizens, etc.) leading to the phenomenon of power distribution among its shareholders.

Therefore, financial policy-making requires knowledge of business environment and anticipating its evolution, based on foundations coming from the financial information system and from power relation correlations with the help of legal norms.

Having clearly defined the coordinates of its development, the company has the necessary autonomy to decide and to choose the way to follow. But not always financial decisions taken at a microeconomic level can be accepted at the macroeconomic one, which highlights the relative character of this autonomy, suggesting the idea of a competition between the company and the state. In this sense Jean-Paul Betbeze's finding takes on a special significance: “with every business modulation the state considered that it had to sustain it and with every acceleration that it had to brake. It has also created the habit of being the judge of other‘s performance, measured in terms of growth, employment (labor), price or foreign exchange. This is how it turned the interests towards facing the major problems: growth, distribution, planning [...] passing over in silence the fact that it should not manage the results of the billion operations of these organic cells in the economic universe - companies "(Betbeze 1983: 3) .

Financial policy is a component of the company’s management being decisive in the strategic options, which is those fundamental options that deeply engage the future as well as in the current management decisions.

The company's financial policy is called to secure answers for at least the following questions (Ana 2001: 47):
a. resolving issues related to insufficient funds;
b. setting destinations and rational use of funds;
c. ensuring financial stability;
d. price stability;
e. the continuous cost reduction.
Another direction of the company's financial policy is the tendency to maximize the economic capital through the options related to investment and funding. The capital increase has implications related to the financing cost and at the same time, issues related to the proportion between equity and borrowed capital for financing fixed and current assets.
In relation to capital cost, practical experience shows that it lowers through a judicious use of loans and will become a burden the optimal indebtedness level is exceeded. The increase of debt ratio over an accepted optimum entails the risk of lower profitability and increases the degree of insolvency.
The role of financial policy at a microeconomic consists in selecting the investment projects that can contribute greatly to increasing the company's value in providing resources necessary for a normal activity performance with low cost, achieving optimal stock and debt management as well as establishing a consistent strategy to pay shareholders. The purpose of this policy should be represented not only by increasing the value of the company but also the harmonization of the interests of all stakeholders involved in the business (shareholders, managers, employees, lenders, state, local community). These complex interactions are expressively shown in Figure no.2:

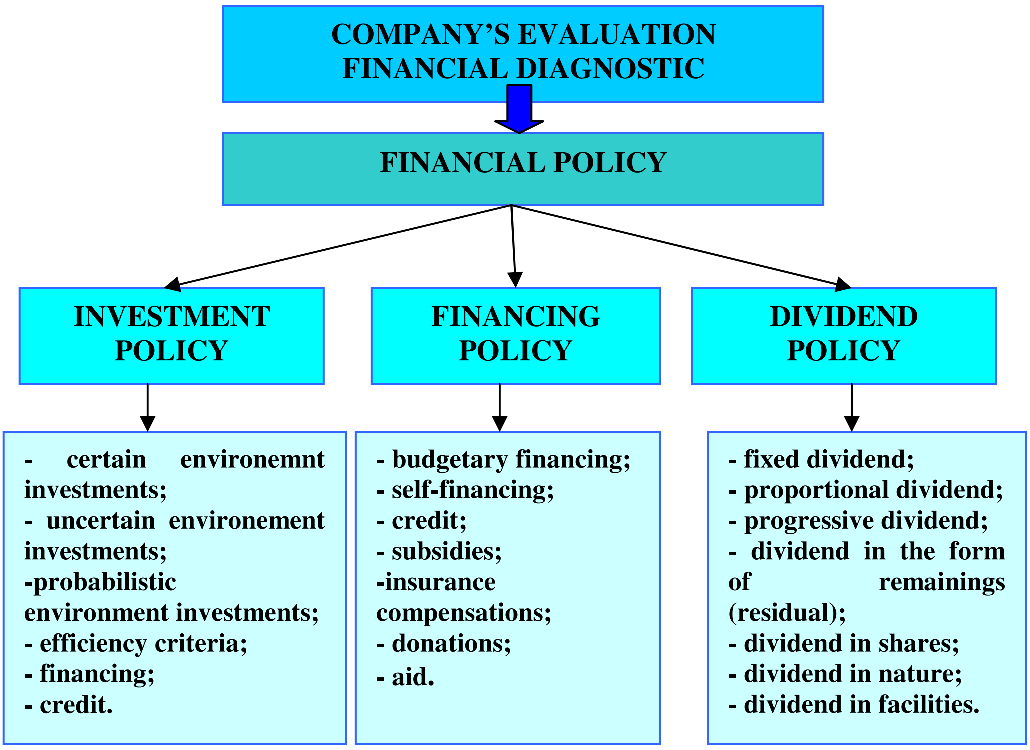

Fig.no.2. Financial policy's structure

Source: author's own conception (based on the present financial theory and practice)

Based on information provided by the financial and policy analysis we can make an assessment of the company 's patrimony assets and liabilities, an assessment of future income streams, which is expected to be released by the company or a mixed assessment of the present and future capacity of paying capital investors.

4. Conclusions

From the above we detach a first conclusion linked to the expression of the financial policy concept, namely that it is complex and controversial. It is complex and in the same time synthetic, because it reflects a variety of subsystems, already shown, in the introduction of this study. It is a controversial system, in that researching a vast literature in this field we found it difficult to find the same definition given to the concept by two or more authors. A second conclusion drawn is that a range of influences that come from both internal and external environment act upon the company's financial policy components adopted by its management. On behalf of associates and shareholders as owners of the company who are interested in at least maintaining it as well as in the consistent dividends remuneration. On behalf of the lenders either by shrinking or expansion the volume of loans or by interests charged considered by the firm as elements of cost. On behalf of the state, either by tax policies or within the general legal system, that favours or inhibits business. Besides all these there are also other factors in the company's external environment, objective or subjective, such as: market reaction, direct partnership relations, crisis phenomena, extreme natural phenomena (earthquakes, fires, floods, landslides), etc..

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