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Fundamenting of the companies lending decision and implications on the real economy

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SUMMARY

SUMMARY OF THE DOCTORAL THESIS

INTRODUCTION

Socio-economic development of a nation depends largely on the proper functioning of economic and financial mechanisms that facilitate the development of cash flows in correspondence with real flows that are carried out in an economy. Given the essential role as institutional components that banking sector, on the one hand and companies on the other hand, they have within these mechanisms, how they relate each other significantly marks on the quality of economic and social life at the macro level.

One of the most sensitive problems, which is always found between theoreticians and specialized practitioners concerns it is represented by the ensuring of the proper functioning of the mechanism represented by companies lending. Management of lending activity, both from the perspective of the banks and economic operators, has as fundamental aims the protection of the institutions' investments and the optimization of cash flow.

As a comprehensive study on companies lending seen as mechanism, ***the main purpose*** of my research is to highlight the complexity of the decision-making process of contracting of a bank loan or commitment by a company, from both perspectives, focusing on aspects that can be improved to achieve a balance of credit relationship established between the two entities.

Throughout the research ***the objectives*** pursued are the following:

- Assess the importance of bank lending to companies in ensuring of profitability and stability of banks;
- Confirmation of the fundamental place of bank loan within the company financial policy regarding the identification and selection of the best sources of financing of the short, medium or long term projects;
- Detailed analysis of lending both the at the level of banks and the companies;
- Identification of the measures to streamline the (decision) lending process;

- Observing how the quality of the credit relationship between the bank and the company influences the macro economy;
- Analysis of the main causes that can induce distortions in bank - economic operator credit relationship and the effects which such imbalances can generate.

It is essential for future financial and economic activity of both the company and the bank, that the bank loan financing decision should be made based on a thorough fundamenting at the level of financial management of the company and at the level of departments involved in the bank.

STRUCTURE OF THE DOCTORAL THESIS

To achieve the aim in my doctoral research, the thesis follows as main idea the analysis of lending decision management both from the perspective of bank and economic operators and the validation of the significant implications of bank-company relationship has on socio-economic development of a nation.

Synthesis of the chapter I

TECHNICAL ELEMENTS OF THE BANK LENDING OF COMPANIES

As its title suggests itself, the first chapter is a synthetic analysis both of current trends of approaching of the credit relations between banks and companies, as well as the methodological concepts and principles governing this relationship with particular importance for economic and social development of a nation.

Synthesis of the chapter II

DECISION OF COMPANIES LENDING AND BANKING PROFITABILITY

The second chapter provides a first picture of the importance of credit in general and particularly to economic operators have in the placement policy of banks. A special place in this chapter is the analysis of the bank lending process as a sequence of actions, operational flows and departments involved with a focus on credit issues making decisions: its importance in ensuring the quality of the loan portfolio, the steps to take, empirical analysis of the indicators of profitability, solvency and liquidity bank depending on the quality of loan portfolios

Synthesis of the chapter III

FUNDAMENTING OF THE DECISION REGARDING THE CONTRACTING OF THE BANK LOANS BY ECONOMIC OPERATORS

The third chapter aims to clarify the concept of financial management of the company and especially highlighting the fundamental role of financial decision. There were analyzed and compared the main ways of companies funding by quantifying of the positive and negative effects they can have on their financial and economic situation.

A special importance is given to financing through bank loans detailing the stages of decision-making process that involves this type of financing. In the final of the chapter it was analyzed statistically the place of bank loan in companies financial policy at the level of European Union.

Synthesis of the chapter IV

IMPLICATIONS OF THE CREDIT RELATIONSHIP BETWEEN BANK AND COMPANIES ON THE REAL ECONOMY

The last chapter is an analysis of the relationship between banks and companies (in terms of lending), both in times of economic growth and in the recession, highlighting the positive or negative effects transmitted to the real economy by the way of this relationship evolving. A statistical study of the correlation between lending to businesses to gross domestic product, in

Romania, highlights the effects of bank lending relationship - client on economic and social life.

CONCLUSIONS

The relationship bank (lender) - company (debtor) seen as a set of processes and information flows, has always been a favourite subject of study and analysis of both economics and for specialty practice, emphasizing such constant concern for its improvement given its importance to the quality of economic and social life of a nation. Depending on the layout in terms of which the credit was made analyzing the relationship between the bank and the company, there are several approaches: management of lending and credit control as its primary function; credit as process; credit risk and the management techniques and procedures; the importance of bank-company lending relations in social and economic development of a nation, etc.

The management of the lending activity at the bank level has many common features at the company level. In both types of organizations need to implement a decision-making system to guide regarding the following issues: the maximum amount of credit that may be granted, or the type of credit and the maximum amount that should be given taking into account the credit risk.

At the bank management level, achieving profitability and solvency goals is directly influenced by this factor sensitive to changes in decision-making, the relationship bank - client. For most banks, companies are one of the main categories of customers, both in terms of the place in asset structure, in terms of asset and liabilities products sold and their contribution to the revenues of banks and hence in composing of the final financial results.

As in any activity also for companies lending the decision is the highest form of expression of management. Each loan is defined and characterized by a number of factors of which shall be the result of a complex process of decision-fundamenting.

Credit Committee is the supreme body in terms of decision-making powers, duties and responsibilities in line of analysis and monitoring. Credit application is reviewed by the Credit Committee, only after following certain steps that make the lending process. Each stage involves flows of information and documents, departmental interaction and especially decisions that materialize into concrete actions, with direct effects on both the bank and the applicant company. The main departments involved in bank lending to companies are: corporate department, risk management department, administration department.

Lending to companies is a complex activity that is based mainly on the analysis of business viability and realism to be funded to identify and assess their ability to pay, their real opportunities to observe its obligations under credit contracts, particularly concerning the repayment of principal at maturity and pay interest thereon. Determination of an economic creditworthiness is done through an analysis based on principles that ensure the consideration of all relevant aspects of the company's financial and economic activity

Persons involved in decision-making activity in terms of lending (along all steps involved) should be familiar with the economic reality, should possess expertise in risk management with all its implications, but also in relationship management, so that communication between the bank and the company to be as transparent and as beneficial to both organizations. However, for the same reasons, it is appropriate in all the departments involved in the lending to be a constant concern to identify and implement efficiency measures that are part of each stage of the process.

The companies can appeal to various ways of procuring the necessary funds, each presenting both benefits and risks for the company: equity finance, bond loan, loans from specialized financial institutions, leasing and bank credit. What matters, however, to the financial stability of the company is the extent to which its financial management has the expertise necessary to identify the most suitable financing solutions and especially the ability to substantiate as rigorous economic criteria decision.

Despite various alternatives to raise the funds needed to cover capital needs arising from current or investment activity of the companies, bank loans are the main source of funding for most companies. This dominance is assured by the benefits offered to companies by the bank loans and which directly and positively influence their economic and financial situation: obtaining additional funds above their own, access the company's other products and services provided by the respective bank or other commercial banks, increasing of the visibility of the company and of the degree of confidence in the viability of its business, etc.

There are some risks involved in bank finance: the risk of losing collateral mortgaged to the bank, involving an external factor in the company's management, exposure to new risks to the company or increase exposure to the existing ones, credit disruption risk if occur adverse events for business or the contract obligations are not observed.

A negative response from the bank at a loan request, however, can guide the company's management in two ways: either bank lending is not the optimal solution to the financing of the company's financial resources needs, whether it is a warning on the economic and financial situation of the company.

As the company financial management has many common features with the management of lending activity at the level of banks, the fundamenting of decision regarding the bank financing of activity involves the completion of several steps, starting from the analysis of their business, namely identifying strengths and weaknesses, continuing with determining the actual financing needs in the short and / or medium to long term and choosing the right bank and ending with contracting and proper implementation of the funding.

In Romania, bank loan was always one of the main forms of financing for companies, both in the period before the onset financial crisis and in the years thereafter. Similarly, at the level of the European Union, a significant number of the economic operators use the bank lending products with differentiation between large corporations (a lower extent) and small and medium enterprises (a higher extent).

Through statistical analysis, it was confirmed the importance of bank lending in the financial policy of the company, being observed the evolution of financial performance recorded by them in relation to the volume of loans they have contracted. The analysis was conducted in all of the 27 countries of the EU (before joining Croatia), for the period between 2002 and 2011. Variables defining the regression equation were: lending to businesses as the dependent variable, number of companies, number of employees and value added calculated at cost of factors of production generated by them, as independent variables.

The credit relationship between bank and company faces both periods of equilibrium, characterized by open communication between the two entities, with respect to contractual terms by the company or accepting exemptions thereto by the bank without any position force of any party and the most tense periods when any aspect of the contract that defines the relationship is negotiated strictly by the financing bank financing or the credited company.

If the credit relationship is unbalanced, the effects will be felt primarily in the quality of communication between the two entities, namely the disruption of the flow of information between the bank and the company. Depending on the duration of the crisis, it may have limited effects or by contrast, the effects may worsen, affecting the operational side, the fundamental side of credit relationship. In the latter case both sides are affected, and if the situation knows a tendency to generalize (at the portfolio of a bank or worst case scenario at the banking sector / domain of the real economy), the effects are reflected at macroeconomic level.

This becomes more obvious in situations where either in the overheating or the recession periods of the economy. At these moments it is necessary that credit relationship between banks and companies to keep a balance between the expectations of both parties, the people involved in having a role in this respect by promoting actions to maintain a certain level, or conversely, to restore trust as a fundamental aspect of the credit relationship.

Among the most significant negative effects that can affect the social and economic life are the follows: increasing of interest rates, increase in money supply in circulation, inflation, rising unemployment, etc.

From the perspective of the economic and financial crisis, the effects that it had and continues to have both on the banking sector and on the real sector, now more than ever, there is need to rethink the relationship between the two sectors by the criteria of a partnership. It must be exceeded the creditor - debtor position, a position in which each party sees its singular, isolated self-interest only. And this precisely because, in the end, the interest is a common one: profitability.

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