

ROMANIAN COMPANIES INCREASING PERFORMANCE UNDER THE INFLUENCE OF THEIR CAPITALIZATION STOCK

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Abstract: : These Increasing importance and usefulness of the capital market mechanism functioning market economy of our country was emphasized more than ever lately, because it contributes to the achievement of two major objectives namely: financing economic activity and ensure mobility capital on economic efficiency principles. Using the stock market as a form of mobilization of capital resources and financing activities of a company, is a common practice in mature stock markets, many of these developing markets and offers dedicated primary sectors. Given the importance of this form of financing economic activity, the main purpose of this article is to investigate the role of stock exchange in Romanian companies improve performance and to evaluate the impact performance of companies on their market capitalization.

JEL classification: G17, G32

Key words: performance, market capitalization, regression, turnover, return

1. INTRODUCTION

Increasing importance and usefulness of the capital market mechanism functioning market economy of our country was emphasized more than ever lately, because it contributes to the achievement of two major objectives namely: financing economic activity and ensure mobility capital on economic efficiency principles.

Over our country's economy functioning market economy status, the capital market is moving towards its maturity stage, its main function is to mobilize quickly and cost of domestic savings and attracting foreign capital a

sustainable basis. In addition to these two objectives, to the fulfillment of which the capital market is the defining contribution in any economy, emerging market economies, where its operating mechanism of the emerging market economy, the stock market is called upon to contribute to meeting a further objective: the formation and consolidation of private capital.

Capital market in Romania, as well as in any country, is one of the most important pillars of development and long-term economic growth. Pita capital has become a viable means by which foreign capital is attracted to our economy and thus the trend of globalization of the economy is becoming more visible. It is well known that the capital market has become a barometer for measuring a nation's economic global growth. Thus, increasing the market share of a company by selling its shares, it will raise capital for expansion and is encouraged to achieve a high level of productivity.

In this article we study the correlation between the performance of Romanian enterprises of oil and the sale of shares of the company to BSE. Although performance is a function Unia companies on several variables, a crucial factor in this study is the company's market capitalization, calculated as the number of shares traded multiplied by the share market shares.

Econometric testing we considered corporate data over a period of seven years, available on the website Bucharest Stock Exchange.

2. OBJECTIVES

The main objective of the study is to investigate the role of stock exchange listed companies in performance and performance assessment of the impact on market capitalization of their companies.

For this we considered the largest oil company in Romania, Petrom, listed on the stock exchange since 2001.

In 2001, after only a few months of trading, Petrom holds the record in loss to investors, with a decrease of -43.14%. With a 36% share of total market capitalization, SNP Petrom illustrated very well need to adjust the average market yield on maximum weight limit the action and the adjustment for the number of months of trading for each action. Following these adjustments share of Petrom shares in exchange capitalization was 10%, achieving a yield of 69.66% nominal stock market in 2001.

After the years 2001, 2001, 2003 and 2004 the shares have known SNP successive increases followed a series of declines in 2005, 2006, 2007. This decline coincided with the privatization of SNP Petrom, OMV became Perom SNP. 2008 was one of the most difficult capital market in Romania, BET has lost 70.5% in value, which is the biggest annual fall in the history of the index. Contributed to this decline and fall action SNP with a record -60.36%.

In 2009 there was a return of the Bucharest Stock Exchange, many of the actions listed have risen significantly, among which 37.6% with SNP. Capital market in 2010 experienced a year of stagnation following the return part of 2009, as confirmed by the evolution of SNP actions, which recorded increases of 34.5%.

Table no. 1

Year	Starting price	Closing Price	Return
2001	700	398	-43.14%
2002	414	1260	212.32%
2003	1320	1470	11.36%
2004	1470	3320	96.77%
2005	0.349	0.477	37.81%
2006	0.487	0.565	18.25%
2007	0.565	0.497	-9.38%
2008	0.497	0.181	-60.36%
2009	0.181	0.249	37.60%
2010	0.249	0.335	34.50%

Source: www.bvb.ro

SNP Petrom OMV shares return evolution is presented in the chart below:

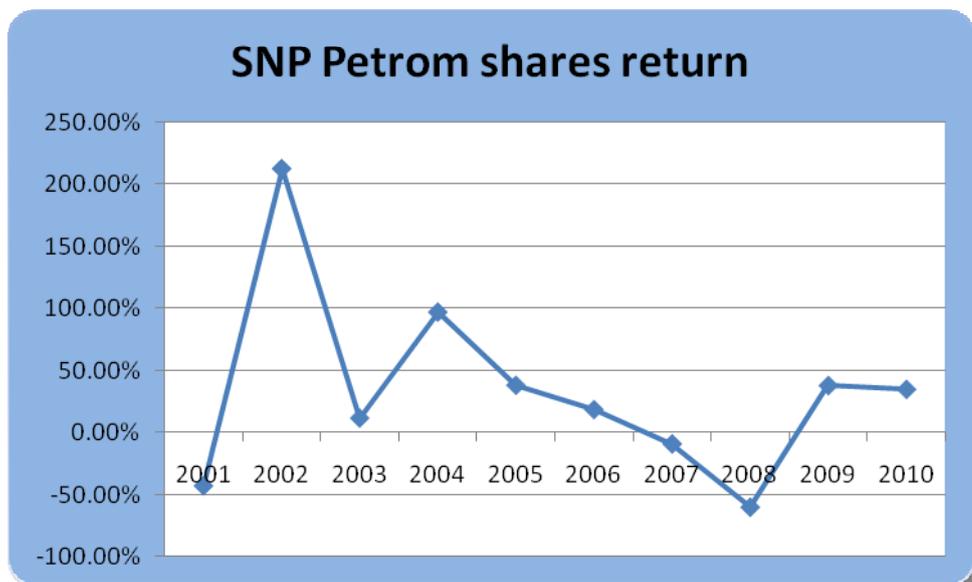


Figure no. 1

Year 2010 marked the continued recovery of the most important economies in Western Europe after the financial turmoil emerged in late 2008, in contrast to the persistent recession in South-East European countries. The Romanian economy has continued to remain in recession in 2010, with a very

restrictive fiscal policy and government spending low. According to the National Institute of Statistics, GDP decline was only 1.3% in 2010 compared with 7.1% in 2009. However, the Romanian economy has shown signs of stabilization over the last quarter of 2010, as the level of domestic economic activity began to increase towards the end.

In the context of deteriorating market conditions in our country, the company SNP Petrom OMV we chose for our study showed strong financial results. After a complex process of restructuring and modernization, which led to strengthening the operational and financial performance of the company and the position of the largest oil and gas in southeastern Europe, Petrom aims to become a leader in energy integrated in the region.

3. METHODOLOGY

To study the correlation between a company's performance and its market capitalization, we considered the largest oil field in Romania, taking into account the available data for a period of seven years, 2004-2010.

Using the regression model, we performed a double correlation between company performance and its stock capitalization, taking into account the independent and dependent variables.

Thus, in a first model we considered as the dependent variable constructed market capitalization indicator, denoted K_b , and as independent variables: equity (C_p), turnover (CA), profit before taxes ($EBIT$) and dividends (Div).

Linear equation model estimated is:

$$K_b = \alpha_0 + \alpha_1 \cdot C_p + \alpha_2 \cdot CA + \alpha_3 \cdot EBIT + \alpha_4 \cdot Div + \varepsilon$$

This equation expresses that the dependent variable is obtained as a combination K_b linear independent variables C_p , CA , $EBIT$, Div , plus an error ε . To estimate the model parameters we considered data from the company's financial statements, receiving a first table of results, which contains general statistics of the regression equation.

Table no. 2

<i>Regression Statistics</i>	
Multiple R	0.947000855
R Square	0.896810619
Adjusted R Square	0.690431856
Standard Error	4412.425319
Observations	7

Multiple correlation coefficient is 0.9470 and the coefficient of determination, which is equal to the square of multiple correlation coefficient is 0.8968. This means the proportion of the variation in the dependent variable explained by independent variables. In other words 89.68% of the variance is explained by changes in market capitalization of the four indicators will be

included independent variables in the model, leaving about 10% which is explained by other factors.

The second table of results is panel regression analysis of variance associated with estimates.

Table no. 3

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	4	338415670.5	84603918	4.34546	0.19573
Residual	2	38938994.39	19469497		
Total	6	377354664.9			

In this table the number of degrees of freedom df : $4 = p-1$, $2 = np$, $6 = n-1$, p is the number of model parameters and $n = 7$ the number of observations. Source of variation indicates the variance decomposition of total variance explained by the regression and residual (unexplained) sum of squares SS according to decomposition.

The third panel contains results for the coefficients of the model estimates and statistics needed to verify the usual assumptions on the coefficients.

Table no. 4

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	70535.1765	17429.57	4.046869	0.055982	-4458.21	145528.6
C p	-3.3877763	1.609087	-2.1054	0.169886	-10.3111	3.535565
CA	-1.4656897	1.10242	-1.32952	0.315046	-6.20902	3.277641
EBIT	8.4237122	2.769045	3.042101	0.093197	-3.49052	20.33795
Div	5025.14419	28996.04	0.173305	0.878365	-119735	129785

Shown that the values estimated model is:

$$K_p = 70535,17 - 3,387 \cdot C_p - 1,465 \cdot CA + 8,423 \cdot EBIT + 5025 \cdot Div$$

These results indicate direct dependence between market capitalization and earnings before taxes and dividends, ie as EBIT increases and even Div market capitalization increases.

So there is a positive relationship between capitalization bursiră and EBIT. When profit is high, the company's tendency to give dividend, and this will lead to a course of action the company stock higher, which will mean a higher market capitalization.

Also, a good history of dividend, will induce a trust company and will encourage an increase in company share price and therefore increase its market capitalization.

The other two variables have negative effects on market capitalization, meaning that an increase in company debt is to lower market capitalization.

The second model constructed dependent variable takes into account the turnover of the company, and as independent variables: economic profitability (ROA) and market capitalization.

ROA is an indicator that shows how profitable a company is relative to its total assets, that gives an overview of how effective asset management company to obtain income.

Estimated linear function is:

$$CA = \beta_0 + \beta_1 \cdot ROE + \beta_2 \cdot K_2 + \varepsilon$$

Applying the regression model we obtain the following general statistics:

Table no. 5

<i>Regression Statistics</i>	
Multiple R	0.860473178
R Square	0.740414091
Adjusted R Square	0.610621136
Standard Error	1573.141455
Observations	7

The coefficient of determination is 0.7404 RSqare, which means that 74.04% of the variance is explained ciferi business profitability and economic change in market capitalization.

Panel regression estimates and associated variance estimates for the model coefficients are presented in the tables below.

Table no. 6

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	2	28235085.27	14117543	5.704578	0.067385
Residual	4	9899096.155	2474774		
Total	6	38134181.43			

Table no. 7

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	15047.35	1822.79	8.2550	0.001	9986.45	20108.25
ROE Market	21532.22	7165.95	3.0047	0.039	1636.33	41428.11
capit	0.2149	0.08634	2.489	0.067	-0.4546	0.0248

The data presented is noted that:

$$CA = 15047 + 21532 \cdot ROE + 0,241 \cdot K_b$$

This means that economic profitability and capitalization have positive effects on stock turnover. A high market capitalization of a company, perhaps due to a good historical dividend will result in increased sales company. The higher capitalization for a company with both market funds available for companies are higher and therefore will increase turnover.

Also a high economic return, ie a company's profit growth will lead to increased turnover, and this will help improve company performance.

4. CONCLUSIONS

The study we conducted found that our hypothesis that there is a positive relationship between market value of the shares of a company and its performance proved to be valid. We also found that the performance of companies in terms of turnover, profit before tax, dividends and market value of a company are dependent on each other.

When a company has a high turnover, it usually records a high profit. Given a large profit, the company can distribute dividends to shareholders, which will drive a market share of the shares. Investors will be drawn for a good dividend history, which will be maintained and this will increase the amount of equity the company. Consequently, more funds would be available to companies for development projects and economic growth, which will then lead to an increase in turnover. So there is an interdependence of correlations in one way and another, the dependent variables can devin independent variables and vice versa.

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