ASPECTS REGARDING THE ENTERPRISE'S ECONOMIC ACTIVITY AND THE QUALITY OF STATE INTERVENTIONISM

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Abstract:State interventionism is a decisive factor in the development of financial-economic activity of the enterprise, its impact causing its "health" image, credibility, its market position. The performances of the economic agent are directly or indirectly dependent on elements that characterize the external environment in which the enterprise operates, and the state intervention is one of those elements. The purpose of this paper is to present the effect of state interventionism on enterprise, and in this regard we propose a coefficient α, which indicates the share, profitability levels modification due to this intervention.In this regard we will use a descriptive methodology, which consists of gathering data and information from the national and international literature and in practice.

Key words: State, interventionism, enterprise, economic activity, performance

Introduction

State intervention in the economy, regardless of its "pragmatic" or "regulatory" form, seems to be clear: the state should intervene into economy. But the question is: how large should this intervention be and when it should intervene? State interventionism always affects business activity, because it has implications, both directly and indirectly, manifested by: the organization and state governance, economic policy which it promotes, especially by the degree of state involvement in the economy (as subsidies, protectionist measures, antitrust policies etc.), affiliation to groups and economic and political communities, in general by the integration conception in global economic and political life that is promoted. All these elements can stimulate or hold back the activity which is carried by domestic and international enterprises.

1. Literature Review

There were two reasons why the State did not intervene in the activity of economic agents. First, the economic activity was under the influence of manual labor, the industry being predominantly manufacturing and trading of goods limited in amount and, secondly, state intervention in economic activity required financial resources, this not being able to limit only to planning, economic provisions for entrepreneurs etc. Economic life was conducted under the "laisser faire, laisser passer” principle, public spending being necessary to be minimized.

The concept of "cheap government" finds support in the argument that social and economic progress required the use of national income for industry and trade development, instead of being wasted on unproductive activities. The role of public finances is to provide resources for the functioning of public institutions.

In the period after the First World War the non- interventionist state place was taken by the interventionist one. Public finances become an intervention mean in socio-economic activity, for the exercise of a positive influence for organizing the entire activity. Maurice Duverger, referring to the modern state of our century, writes that it "is not limited to traditional and military tasks. It interferes in social life to stimulate production during the crisis in order to prevent price increases and to maintain the purchasing power of the currency during inflation to ensure the best possible use of the country's wealth and the distribution of national income ".

Pierre Lalumiere emphasizes the increasing the interventionist role of the state within the economy after the global crisis of 1929-1933. To fulfill this role they were used, on a larger scale, expenditures, taxes and other financial instruments. Public finances are defined as the science that studies the state activity, as the user of certain special techniques, so-called “financial”: expenses, taxes, loans, monetary processes etc.

According to other opinion, in the 20th century and especially after the great crisis of the years 1929-1933, the gendarme state place was taken by the providence state. State intervention is ultimately determined by maintaining economic balance, by profitability of enterprises or economic sectors considered to be strategic, solving the internal contradictions of society: inflation, unemployment, etc., and leads to public companies and trading firms with joint capital to grant subsidies to private enterprises etc

2. State interventionism- theoretical considerations

The state is a basic component of the economy functioning mechanism. It does not substitute the market but completes, rectifies market dysfunctions and ensures its good and accurate functioning through legal and economic instruments (rules, regulations, laws).

State intervention in the economy derives from the failures and weaknesses of functioning mechanisms of the market, from their inability to satisfy the requirements of balanced and efficiently operation of national economic complex.

Market mechanism refers to an abstract framework of a dynamic system in which prices are a determining factor of agents decisions, that influence the prices. Market, as automatic mechanism for adjusting the functioning economy, essentially depends on the price system - this is a system of

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signals received by economic agents; competition represents a model of behavior of economic agents.

The state is, by its area, limits and effects:

a) an autonomous center for decisions to achieve the objectives of general interest; the market is not sufficient in supplying the society with goods and services that are as merchandise - education, healthcare, public services;

b) independent economic agent and partner of private capital as shares (directly and indirectly) as producer-consumer and buyer-seller;

c) component of the economy functioning mechanism of the economy because it can intervene either for the supply side or the demand side, completing and ensuring in the same time market operations. State influences quantitatively and structurally the supply and demand by developing economic branches; also stimulates investment, distribution of production factors.

As a factor of correction and supporting the operation of the market:

- it secures "economic rules of the game" (collective work agreements procedure, establishes the legal duration of work);
- intervenes on the level of economic activity through taxes and public spending;
- controls monetary emissions;
- finances investments;
- covers some demands of international competition.

It is a factor with impact on national economic circuit, principally by assuming the role of legislative support for the economy:

- creates and develops infrastructure;
- supplies with raw materials, fuel the disadvantaged areas;
- creates and transforms information into determinant of the economy;
- changes mechanisms of formation and income distribution (given that unions and other associations introduce rigidities that can disturb the connections between income and contribution to production).

e) is a major agent for technical and technological reorganization of the activities (in terms of maturation and internationalization of leading industries that cause technical, financial or commercial problems) that private companies can not solve; contributes to the promotion of basic and applied research, to vocational training and technologicalmodernization (in some cases belonging to state property units);

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f) factor of overcoming the depressive economic phenomena as inflation, unemployment, economic budgetary deficit, monetary dysfunctions, slowing economic growth, decline in purchasing power and living standards, amplification externalities and worsening environmental problems.

The modalities of state intervention in the economy are adapted to economic domestic/ international circumstances and essentially represent:

- establishing state organisms (agencies, offices, committees) aimed at promoting / facilitating the implementation of programs for private companies;
- financial participation in some mixed activities;
- intervention in banking sector through banks under direct state control in combination with private investors.

3. State intervention at business environment level

The state must ensure a normal competitive environment, which requires the following items:

• autonomy of enterprises;
• freedom to establish any type of company;
• promoting the most profitable products in terms of the interests of each enterprise;
• equal economic and financial regulations to all economic agents, regardless of ownership, size (neutral state), etc .;
• free price formation;
• stability in the external market by budgetary rules;
• measures to promote the participation on the foreign market;
• clear regulations for sanctioning by the court, the unprofitable enterprises etc.

State intervention in the development of small and medium enterprises can have both pros and counter arguments.

Table 1 Effects of state interventionism

The intervention effect	**PROS**	**CONS**
From the economic efficiency perspective	Uses resources more efficiently and develops faster than large firms	SMEs are not by definition more effective or dynamic. It could not be demonstrated a direct relationship between firm size and efficiency. It turned out that innovation

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		is the preserve of large companies.
In terms of job generation	Creates jobs in a faster rhythm than other types of enterprises with a lower specific investment.	Destroys jobs in a proportion nearly equal to the number of those created; therefore should be assessed net gain of jobs.
In terms of the concept of market economy	Banks show no particular preference for SMEs, even in conditions of higher interest rates, therefore the state must intervene by subsidized loans for SMEs.	It is considered that SME presents a high risk because 9 out of 10 US firms fail in the first 5 years of existence. The failure of state intervention may have more serious effects than the failures of market mechanisms.

Source: Chapaud, H., 1993, Diagnostique de l'entreprise en situation de crise, Economica Publishing House

The main forms of state intervention at the micro level are:

● neutral - the intervention affects all businesses (for example, equal incentives to all economic agents, regardless of activity sector, form of ownership and firms size).

● discretionary - state intervenes with specific regulations in certain areas of activity, in certain moments.

● regulator agent- changing the legal framework determines the mechanism modification.

● as an economic agent – the state can be producer, consumer, partner in exchange operations, it participates in auctions, produces goods for society that can not be achieved by another economic agent.

It must be noted that it does not behave as any other agent, it establishes, on the one hand, the rules of the game, and participates as a player in its own rules. The state bodies are financed by taxes, not by voluntary exchange, as in the case of private businesses. Therefore, no matter how intense is the state- economic agents competition, the state can not ever be defeated, bankrupted.

4. The quality of state interventionism

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State interventionism in the market economy is measured by performance indicators, namely the quality indicators that reflect whether or not the State's action is efficient. In this regard we talk about the indicators for efficiency and effectiveness.

Measuring performance entails taking into account the distinction between the means used (input), process, the product (output) and the result, the effect (outcome). From this perspective a connection can be established, on the one hand, between the benefits taken and the means used to achieve them, and on the other hand, between the objectives achieved by these benefits.

Means →	**Products →**	**Effects**
Resources	**Achievements**	**Impacts**

Efficiency means optimizing the results of activities in relation to the resources used, the measurement being performed by reporting outputs (results) at the inputs (efforts); managers take into account the fact that the efforts for meeting social needs are measurable, usually quantified in value (cost of material, human, informational) while social effects are difficult to assess and may not be provided entirety.

Effectiveness - concerns the relationship between the result and the objective to be achieved. In an organization, effectiveness involves attainment of the standards, objectives, which determines a pre-defining of objectives and a subsequent measurement of results.

We can not speak of efficiency without effectiveness because "it is more important to realize well what you proposed - effectiveness - better than to realize something else - efficiency" (Drucker, P., 2001)

Internationally, the performance falls within the definition of International Accounting Standards for Public Sector. In this regard, the financial statements must provide users with aggregated information useful in evaluating the entity's performance in terms of service costs, efficiency or achievements.

The development of models for measurement the financial and non-financial performances of public sector entities represents a permanent concern for the IFAC Professional Accountants Staff Committee. Performance reporting based on International Accounting Standards for Public Sector promotes good public governance, as it is the method to have a single framework for analysis and information of the state performance and its entities, comprehensible to all partner entities.

The quality of state interventionism in the economy determines the level of the business environment performance. The more qualitative the interventionism is, the more performant the entities are. We suggest in this context that in the economic mechanism should exist a body to monitor the quality of the intervention, and also to be a minimum transmission channel, a channel that should be permanent, representing the regulation, the flow in the economic environment.

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We believe that the company's performance is closely related to state involvement in the market. Therefore, intervention should result in an increase of SMEs results, the action being particularly effective than efficient.

The indicators expressing the quality of State interventionism are based on the way the state is involved in the business. The preferred indicator for measuring the effectiveness might be the net profit of the company related to costs, taking into account, in its determination, the constant prices, eliminating as much as possible the effect of price variations.

State intervention at the economic agent level is achieved in particular through fiscal levers: direct and indirect taxes, fees and contributions.

Consequently, the impact on enterprise's performance of state interventionism, measurable by the financial and economic indicators, can have the following form:

Intervention → transmission channel → performance
(taxes) c (indicator)

where **c** – quota for state interventionism. By **c** the indicator's level decreases.

5. The influence of state interventionism on economic agent's performance

State intervention at the economic agent level is achieved by taxation measures (taxes), provision of guarantees, facilities (sometimes also suspension of some of these facilities) through policies etc.

Company performance will always be influenced by state intervention, either neutral or discretionary, or regulatory (corrective or compensatory). This may lead to a favorable situation for the firm (compensatory interventionism) or a negative one (discretionary, corrective interventionism).

Entities particularly affected are the small, young ones (especially the newly founded, start-ups) with a not very good financial condition, their performance indicators having values below those expected and with a high degree of indebtedness, firms operating in various fields, vulnerable to the financial crisis (industry, construction, services)

State intervention is reflected in the structure of firm performance by a factor **α**, which indicates the share, profitability level modification due to this intervention, respectively the enterprise-State relationship.

α has positive values, $\alpha \in [0,1]$:

$\alpha = 0$ neutral interventionism, the firm is not affected;

$\alpha = k$ discretionary interventionism, the state measures manifest as forms of vunerabilities, with negative implications for the entity

$\alpha = 1$ the state strongly influences the firm, there is an interdependence relationship between the two entities.

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The coefficient α is perceived differently by the two sides, as the coefficient itself is "divided" into a potential coefficient (α p-desired, expected), and an effective one (α e – certainly, achieved); each of them are interpreted differently by the firm, implicitly by the state.

We note:

α a - modification at economic agent level;

αs - modification at state level;

α ap – potential modification at firm's level;

α sp - potential modification at state level;

α ae – effective modification at firm's level;

α se - effective modification at state level.

α p at the company level aims to be as limited as possible, therefore the interventionism should be weak, without significant effects, small difficulties and satisfactory taxation, so the performance to be maintained at the expected values.

α p at the state level requires an intervention by taxes, through which the budget revenues to increase.

Usually **α** is achieved in detriment of the agent, because of the taxes imposed: α ea <α es; but it can be the reverse situation, when α ea> α es, because the company avoids the payment, the shadow economy and the tax evasion are encouraged. The less the state interferes, the higher the performance level is and the results are the desired ones.

Interventionism is achieved in particular by measures to increase taxation. If the state takes positive action (for example, the profit tax reduction), simultaneously with a negative measure (VAT increase), this may cause lower impact on firm and a higher impact on population.

If the interventionism is potential, meaning if it is announced a certain measure that is not certain in the future, the implications for the company will be much smaller than if the measures are certain, therefore α will be closer to 0 for potential measures.

However, regardless the situation, effective α > potential α, generating either stimulation or inhibition of business. The coefficient α is within the range [0, 1]; depending on its value is identified the state-economic agent relationship.

Therefore:

α є [0;0,1] – state-firm independence relationship; the performance level is not affected;

α є [0,1;0,4]- relative independence; the state intervines, but does not produce semnificative effects at firm's finances level;

α є [0,5;0,7]- gentle dependence, meaning that the intermentionism is "felt", but the impact is tolerable;

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α ϵ [0,8;1]- total dependence, the interventionism has strong effects on the performance indicators(turnover, rates of return, liquidity, working capital decrease, simultaneous with the enhancement of loans).

Table 2The Enterprise-State relationship

State interventionism type	**Modification of performance from the state perspective α s**	**Modification of performance from the firm perspective αa**
neutral	α = 0	α = 0
discretionary	α s α ϵ [0,1;1] αs > α a	α a α ϵ [0,1;1] αa > α s

Source:table processed by the author

The quality of state interventionism is achieved by the difference [α p- α e]>>0

→ α p > α e

The quality of interventionism is positive and beneficial to the firm, when α p> α e. Otherwise, it is not about quality, but abuse, aspect that affects negatively the company and the results that define its state of "health".

In conclusion, the performance of the company is certainly influenced by state intervention, the influence being achieved by a coefficient α ϵ [0, 1], reflecting the share of state measures against the firm in the economic and financial indicators (by increasing or decreasing performance), and implicitly the state-entity relationship.

When α = 0 we have neutral interventionism, the firm is not affected;

α = k discretionary intervention the state measures are expressed as forms of vunerabilities, with negative implications for the entity

α= 1 the state strongly influences the firm, there is an interdependence relationship between the two entities.

The quality of state intervention is reflected by the difference [p α- α e] >> 0 → α p> α e, where **p** is the potential change **αp** and **αe** is effective modification. We talk about quality in this context, when the state intervenes at enterprise's level by positive measures (reduction of fees, providing various facilities) that would stimulate its activity and the performance indicators to maintain values.

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Conversely, when restrictions are imposed and when there are measures by which certain taxes are introduced or increased, the business is inhibited.

The firm’s resistance at negative state interventionism depends on several factors that "help" at bearing the tax burden easier, or, conversely, it determines the firm not to face the difficulties, causing, in worst case, cessation of activity: the financial condition of the firm (before interventionism); field of activity; the technology used; management and staff skills; competition; the level of demand etc.

6. Some conclusions

Economic and financial activity of the enterprise is vulnerable to economic changes, so by default will be affected by financial imbalances, or state intervention. In times of crisis, smaller businesses, in particular, are the most exposed to financial difficulties, as they often do not have enough resources to adapt to changing market conditions. It is essential that they give special attention to their financial situation, especially as potential serious problems are not always immediately visible.

It is desired that the interventionism to be qualitative, positive, by taking measures (by the State) to stimulate activity, for example:

- Facilitating access by SMEs to European funds, facilities provided to SME to ensure the necessary financing, meaning the Guarantee Fund, the Guarantee Scheme for SMEs, etc.
- Loans with subsidized interest rates;
- Grants in various areas;
- Tax deductions for investments.

There is a number of causes hampering the development of companies and on which it should be acted, causes relating both to the external environment of Romania, and the internal one. According to the latest press release of NCSME, Romania's external contextual elements in the international environment - the global economic crisis, the IMF and World Bank policy towards Romania, military conflicts in areas outside Romania had small influence on the activity of SMEs. We remark that the biggest negative impact on the business environment in Romania belongs to the global economic crisis.

Internal contextual elements, on which national management has or may have a major influence negative influence, have a strong negative impact on the functionality and performance of firms, namely: evolution of the legislative framework; excessive bureaucracy; corruption and lack of capacity of the authorities to counter the economic crisis and its consequences; policy banks in Romania towards companies and predictability of environmental failure; insufficient economic management training and entrepreneurs.

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