Determinants of short-term value destruction for the acquiring firm: A French study

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CUPRINS

IMPACT OF GREEN MARKETING PRACTICES ON NATIONAL COMPETITIVENESS IN THE EUROPEAN UNION

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Abstract. *In recent decades, the need to protect the natural environment became a repetitive focus of attention of public opinion worldwide. Consumers are increasingly realizing the importance of protecting the environment through product choice while companies are increasingly considering the impact of their activities to the environment. At the same time, the global economic crisis resulted in increased national and international competition, stimulating the use of green marketing practices as a source of strategic competitive advantage, and contributing to an increase in national competitiveness of countries that employed these practices.*

The paper begins with a summary of scholarly literature in the field of green marketing, then offers clarifications on the concepts of organizational and national competitiveness, and defines a set of indicators to assess the results of applying green marketing principles and practices at a national economy level. On this basis, the authors propose an original methodology for calculating the Index of Green Marketing at a country level.

Later, based on the assumption that the degree of implementation of green marketing principles and practices positively influences competitiveness, the authors correlated the Green Marketing Index values calculated for European Union countries with the Global Competitiveness Index values calculated by the World Economic Forum for these countries.

Keywords*: green marketing, national competitiveness, Green Marketing Index, Global Competitiveness Index, European Union*

JEL Classification: M31, Q55.

1. Introduction

In recent decades, the need to protect the natural environment became a repetitive focus of attention of public opinion worldwide. The current ecological challenges require managers to formulate strategies that control pollution and preserve the natural resources. Although it is done on a voluntary basis, more and more companies are taking this initiative that became a main strategic approach.

Hence, many industries are adopting green business strategies to ensure sustainable growth by including green principles and practices in their business operation, as they aim for enhanced competitiveness in the markets where they operate.

Thus, the hotel and tourism industries are involved in changing their business towards green hotel and eco-tourism (Graci and Dodds, 2008; Chan, 2013). The agriculture industries respond by producing foods without harming the environment and consumers' health (Pellegrini and Farinello, 2009). The retail outlet is also promoting a green image (Yusof, Musa and Rahman, 2012).

In addition, the concept of purchasing green products became popular as the number of consumers that are willing to purchase goods that are environmentally friendly is significantly increasing. Today, consumers feel the responsibility of the state of the environment more than ever before. Many of these consumers not only pressure companies, but they also have taken personal steps to reduce their personal impact on the environment via activities such as recycling and reusing their household items (Prakash, 2002).

2. The Green Marketing concept

In 1975, the American Marketing Association introduced the term green marketing via a workshop on "Ecological Marketing". Green marketing has also been called environmental marketing, enviropreneurial marketing, ecological marketing, social marketing and

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sustainability marketing. Since then, green marketing has been well recognized as a broader concept by the scientific community and defined in various ways all over the world.

Polonsky (1994) stated that green marketing is a broad concept with three key components: 1) it is a subset of marketing; 2) it evaluates both positive and negative activities; and 3) it examines a range of environmental issues trough product modification, changes to the production method and process, packaging and modifying advertising. Sarkar (2012) also agreed that green marketing encompasses a broad range of activities, including product modification, changes to the production process, packaging changes, remodelling and stylising, as well as modifying advertising.

The term has also been described as an organization's efforts at designing, promoting, pricing and distributing products that will not harm the environment (Fuller, 1999). Fuller also states that green marketing is the process of planning, implementing and monitoring price developments, promotion and distribution of the product while simultaneously fulfilling all the criteria of satisfying the needs of the customer, achieving company goals and ensuring compatibility of the whole process with the ecosystem. Essentially, it refers to the markets of products that are less toxic than normal, are more durable, contain reusable materials or are made of recyclable materials (Ottman, 1992).

According to Dalhstrom, green marketing is the study of all efforts to consume, produce, distribute, promote, package, and reclaim products in a manner that is sensitive or responsive to ecological concerns. (Nadanyiova, 2014). Grant's definition of green marketing emphasizes its basic attributes which, according to him, are: intuitiveness, integrity, innovation, initiative and awareness (Kim and Pradeep, 2012), although not every activity that meets these attributes is an activity of green marketing.

Chamorro and Bañegil (2006) stated that the objective of green marketing is to lessen the impact on the natural environment during the process of planning and implementations of products or services, price, placing and promotion. Gogolova and Majerova (2014) emphasized that the aim of green marketing is to build long-term oriented relationships with customers that are based on trust. This is achieved by following three main principles: quality, integrity, and honesty.

From the perspective of corporate social responsibility, green marketing is understood as a full orientation of all business processes that have possible negative environmental aspects to a flow of corporate social responsibility. Principles of green marketing allow changing attitudes and values of companies while meeting the customers´ requirements and being environmentally friendly (Lee, 2007; Ottman, 2011).

From a managerial perspective, green marketing is the holistic management process responsible for identifying, anticipating and satisfying the needs of customers and society in a profitable and sustainable way (Peattie and Crane, 2005). In the managerially oriented studies that dominate the field of green marketing, the focus is on understanding how to accomplish the marketing of green products in an efficient and profitable manner (see also Dahlstrom, Macquet and Richter, 2009; Merilainen, Moisander and Pesonen, 2000).

3. National Competitiveness

Competitiveness-related issues emerged along with transforming buyers' markets into sellers' markets, amid saturation on developed markets, prompting organizations to find ways and formulate strategies that enable them to attract customers and meet their requirements better than the competition.

Expanding economic relations worldwide and creating an international business environment generated a substantial increase of competition manifested among the main actors on the international scene and turned competitiveness into the "*sole true aim - sold, propagated and defended – of the dominant economy in the Northern areas of the planet ... It* *became the priority objective not only for organizations, but also for the state and society as a whole*"(Badruş and Rădăceanu, 1999, p. 64).

In particular, **the international competitiveness of an organization** "*lies in its ability to increase revenues as a result of increased sales and / or profit margins in markets in which they compete in order to gain better positions or defend the positions they hold* "(Bradley, 1995, p. 299).

National organizations gain competitive advantage in the international market when internal buyers are the most sophisticated and most demanding customers in the world for the respective product or service. Local buyers can help national businesses to obtain benefits, if their needs anticipate or even embody those of other nations, in other words, whether their needs are continuous "warning indicators" of global trends of the market (Purcărea and Ioan-Franc, 2001, p. 196).

The competitiveness of a country is the degree to which it can produce goods and services that pass the test of international markets, in line with the real incomes of its citizens. It is the country's ability to stay ahead in terms of technology and trade on those product markets that are expected to have in the future a larger share of consumption and added value in the world (Bradley, 2001, p. 196). Competitiveness is associated with rising living standards, wealth, expanding employment opportunities and the ability of a country to meet its international obligations.

If, in the past, high quality and quality service were key factors in winning the competitive battle, today high quality and good services are deemed self-evident. Companies must learn to compete in more modern ways, including the ability to develop and deliver goods faster, the ability to win through better product design, name, branding, the capacity to improve the offer by proposing more benefits and the ability to build long-term, mutually profitable relationships with customers (Kotler, 2005, p. 49). Thus, more and more companies are using green marketing as means to create a competitive advantage (Han Hsu and Sheu, 2010).

4. Green marketing as a source of competitive advantage

During the 1990s, the argument that greening can act as a source of competitive advantage emerged, from authors such as Elkington, Azzone and Bertele, and Porter and van der Linde (Peattie and Charter, 1992). Obvious examples come from companies such as The Body Shop, who competes on the basis of strong ecoperformance and by tapping into customer demand for greener products.

Taylor, Chuang and Yang (2013) found evidence that various types of companies switch to adopt green philosophies, such as traditional manufacturing companies, and become more profitable after transforming to green manufacturing system. Porter and van der Linde also support the idea that green business is good business. Their argument is that the search for environmentally superior solutions leads to innovation and the creation of more efficient and effective technologies. Their logic is that, even tough environmental legislation (often vigorously opposed by companies) sets new challenges for companies, this legislation also prompts them to be innovative and secure improvements in competitive, as well as environmental, performance.

Chen (2008) highlights the benefits of a green business. Thus, companies focusing on the natural ecological balance in their entire operation are more environmentally friendly while maximizing profits; they reduce environmental pollution, conserve natural resources and protect the environment. They gain a unique competitive advantage and develop new markets as they improve their corporate image, their reputation and their product image from the consumer perspective.

Companies with good records in terms of environmental protection are seen as well managed and visionary. Successful marketing of green goods and services both reduces the consequences of environmentally non-sustainable business practices and improves organizational performance (Hart & Milstein, 1999; Ginsberg & Bloom, 2004). Therefore, incorporating green marketing principles into business systems creates an enormous potential to obtain sustainable competitive advantage (Nadanyiova, Kicova and Rypakova, 2015, p. 226).

Therefore, companies that include environmental responsibility into daily business practice and decrease their negative impact on the environment will gain competitive advantage in near future. So, for modern companies, the importance of green marketing is indisputable. It is the only way to create the competitive advantage and social commitment. (Majerova, 2015, p. 554).

5. Research methodology

While a number of authors have argued the importance of green marketing as a source of competitive advantage for organizations, scholarly literature doesn't offer studies linking the spread of the principles and practices of green marketing in national organizations with the competitiveness of the national economy as a whole. This is the reason that led us to carry out the following research, assuming that:

H1 - *There is a positive correlation between the degree of implementation of green marketing practices in businesses in a given country and the national competitiveness of the respective country.*

To assess the national competitiveness of a country we used the Global Competitiveness Index (Schwab 2016, p. XIII), calculated by the World Economic Forum based on a complex methodology using data on a variety of factors supporting the competitiveness of a country: infrastructure, public institutions, local market size, level of development of financial markets, labour market efficiency, capacity for innovation and business sophistication.

We chose to conduct our study on the countries of the European Union because, on the one hand, these countries use common methodologies for assessing and reporting practices of green marketing, and on the other hand, all EU countries are included the Global Competitiveness report conducted annually by the World Economic Forum. Therefore we could have real, timely and comparable data.

To assess the implementation of green marketing practices by organizations from EU countries we have identified relevant key indicators, as follows:

- ***NPE - The number of green products and services*** (http://ec.europa.eu/environment/ecolabel/facts-and-figures.html) is a relevant indicator because, according to opinion polls, 40% of consumers are demanding green options and are willing to pay a premium price (Young, et al., 2010). On the other hand, despite the great amount of awareness and knowledge on green marketing, the market share of green products is still significantly small, only 4% of consumers buying green products (Bartels and Hoogendam, 2011). So there is a gap between the stated intention of consumers to purchase green products and services and their actual purchase.
- ***NE – The number of eco-labels***. *Licensing through eco-labels* is an indicator that shows the number of "EU Flower" licenses issued in EU countries, granted for products and services with low impact on the environment (http://ec.europa.eu/environment/ecolabel/facts-and-figures.html). Consumer green marketing awareness is materialized when customers have confidence in eco-labels and eco-brands, which influences their green product purchase behavior (Norazah, 2013; Rahbar and Wahid, 2011).
- ***NCI – Number of ISO 14001 certificates***. *ISO 14000 certification* provides organizations with practical tools to identify and control their environmental impact, "from conception, design, through supply of raw materials and energy and continuing through the stages of production, distribution, use and post-use, stage in which reuse or return to nature must be ensured" (Dinu, Schileru and Atanase, 2012, p.9). Thus, ISO 14000 certified organizations

adapt their tools and marketing practices according to the requirements of protecting the natural environment (ISO 14000 Europe 2015 available at http://www.iso.org/iso/iso-survey).

- ***ER - Renewable energy as a percentage of total energy consumed***. The UN conference in Rio de Janeiro started a global true race to maximize the benefits of renewable energy motivated primarily by environmental degradation (global warming) and the anticipated increases in prices for resources such as coal, oil and gas, which are declining in quantity. In turn, the European Union has set a series of **targets for renewable energy**: 20% of energy from renewable sources by 2020, at least 27% of EU energy from renewable sources by 2030, which is why it is estimated that in the near future, the renewable energy industry will be the most important and powerful economic sector (https://europa.eu/european-union/topics/energy_ro).
- ***RRD - The rate of recycling (including composting)***. EU economy uses **16 tonnes of materials per capita annually**. Of these, 6 tonnes become waste, half of them reaching landfills. Many Member States still rely on landfills, even if they are not a sustainable solution. Faced with these challenges, the European Commission asked Member States to recycle 70% of municipal waste and 80% of packaging waste by 2030. It also banned storing recyclable waste in landfills starting from 2025 and set targets for reducing marine, as well as food litter. (http://ec.europa.eu/eurostat/statisticsexplained/index.php/Waste_statistics/ro).
- ***EEI - Eco-Innovation Index***. According to Chen, Lai and Wen (2006), green innovation can be divided into green products and processes, including the innovation in technologies that are involved in the design of green products, energy saving, waste recycling, and technology to prevent pollution. The Eco-Innovation Index is a Resource Efficiency Indicator based on 16 indicators from eight contributors in five areas: eco-innovation inputs, eco-innovation activities, eco-innovation outputs, environmental outcomes and socio-economic outcomes. It has been chosen for the assessment of the progress towards the objectives and targets of the Europe 2020 flagship initiative on Resource Efficiency (http://ec.europa.eu/eurostat/cache/metadata/DE/t2020_rt200_esmsip.htm).

These indicators have been taken from Eurostat documents for the years 2014-2015. To ensure comparability of primary data, indicator values were normalized using the min-max method, with the following formula:

Normalized value = (Value – Minimum value)/(Maximum value – Minimum value) (1)

On the basis of the six indicators presented above, we calculated the Green Marketing Index for the 28 European Union countries (Table no. 1) using an original methodology and the following calculation:

Green Marketing Index = (NPS + NEL + NIC + RE + RR + EII)/6 (2)

(where, NPS – Number of green products ad services; NEL – Number of eco-labels; NIC – Number of ISO 14001 certificates; RE – Renewable energy as a percentage of total energy consumed; RR – The rate of recycling (including composting); EII – Eco-Innovation Index).

6. Analysis and interpretation of results

Data processing was done in Microsoft Excel using the Data Analysis module. In Table no. 1 we recorded the values of the Green Marketing Index and the normalized values of the Global Competitiveness Index for the 28 member countries of the European Union.

Table no. 1. Ranking of EU countries based on the values of the Green Marketing Index

Country	Green Marketing Index	Global Competitiveness Index	Normalized Global Competitiveness Index
Italy	0,669000246	4,5	0,318471338
France	0,480544643	5,2	0,76433121
Germany	0,459851998	5,57	1

Sweden	0,444848791	5,53	0,974522293
Austria	0,420029804	5,22	0,777070064
Denmark	0,395614644	5,35	0,859872611
Spain	0,385760626	4,68	0,433121019
United Kingdom	0,378414283	5,49	0,949044586
Finland	0,372096285	5,44	0,917197452
Netherlands	0,255231147	5,57	1
Ireland	0,254195456	5,18	0,751592357
Slovenia	0,252285504	4,39	0,248407643
Belgium	0,250514127	5,25	0,796178344
Portugal	0,240783146	4,48	0,305732484
Estonia	0,226609361	4,78	0,496815287
Luxembourg	0,226216945	5,2	0,76433121
Romania	0,199496565	4,3	0,191082803
Latvia	0,196881159	4,45	0,286624204
Czech Republic	0,192098206	4,72	0,458598726
Lithuania	0,158282868	4,6	0,382165605
Hungary	0,152108943	4,2	0,127388535
Croatia	0,151865217	4,15	0,095541401
Poland	0,138887431	4,56	0,356687898
Greece	0,127043355	4	0
Bulgaria	0,125266283	4,44	0,280254777
Slovakia	0,106035059	4,28	0,178343949
Cyprus	0,084751562	4,04	0,025477707
Malta	0,053129441	4,52	0,331210191

We tested the hypothesis using the statistical correlation and regression methods. The statistical correlation result is shown in Table no. 2. The value of **0.591428** of the correlation, greater than 0.5, demonstrates that there is a positive correlation between the analysed factors.

Table no. 2. The results of the statistical correlation between the Green Marketing Index and the Global Competitiveness Index

	Column 1	*Column 2*
Column 1	1	
Column 2	**0.591428**	1

Therefor, the H1 hypothesis that there is a positive correlation between the degree of implementation of green marketing practices in business activity in a country and that country's national competitiveness is validated through the statistical correlation method.

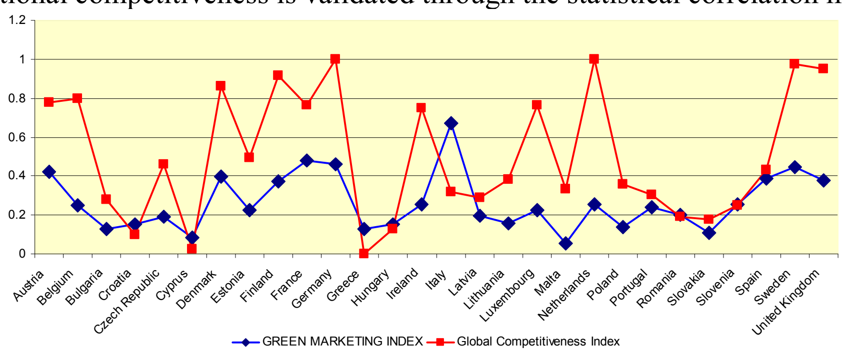

Figure no. 1 Correlogram between the Green Marketing Index and the Global Competitiveness Index

Applying the regression method required the development of a regression model, as follows:

$$\mathbf{NGCI}_i = \mathbf{b}_0 + \mathbf{b}_1 \cdot \mathbf{GMI}_i \qquad (3)$$

(NGCI = Normalized Global Competitiveness Index; GMI = Green Marketing Index; i = EU states, from 1 to 28).

The results of the regression are shown in Table no. 3.

The multiple correlation coefficient of 0.57740 indicates a moderate link between the Normalized Global Competitiveness Index and the Green Marketing Index. The coefficient of determination - Rsquare - has a value of 0.33339 and expresses the fact that 33.3% of the Normalized Global Competitiveness Index variation can be explained by the application of green marketing practices in the examined countries. The adjusted correlation ratio shows that 0.30673 of the total variance is due to the regression line, taking into account the number of degrees of freedom. The F test shows the role of the independent variables in explaining the evolution of the dependent variable. The F test value (12.50325) and the materiality threshold (0.00161 <0.05) show that the regression model is valid and can be used to analyse the dependence between variables.

The free term of the regression equation is b0 = 0.15522 and the point where all explanatory variables are 0. This coefficient has a standard error of 0.10885. The coefficient of the GMI variable is 1.30443, a positive value that indicates a direct link between GMI and NGCI, so that an increase of one unit of GMI increases the NGCI with 1.30443 points. Because the P-value = 0.00161 <0.05, the coefficient is significant.

Table no. 3 The results of the regression method

Regression Statistics	
Multiple R	0.57740
R Square	0.33339
Adjusted R Square	0.30673
Standard Error	0.27290
Observations	27

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.93115	0.93115	12.50325	0.00161
Residual	25	1.86181	0.07447		
Total	26	2.79296			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.15522	0.10885	1.42604	0.16623	-0.06895	0.37939	-0.06895	0.37939
0.4200298	1.30443	0.36890	3.53599	0.00161	0.54467	2.06420	0.54467	2.06420

7. Conclusions

The results of the research carried out for the EU member states show that, in the current economic, social and ecological conditions, organizations that integrate a concern for the natural environment in their current marketing practices can transform marketing activity into a source of strategic competitive advantage contributing to an increase of the overall competitiveness of the national economy in which they function.

In the future, the research could be extended across multiple states, to the extent that comparable data can be obtained. Also, the relevance of the Green Marketing Index could be considerably enhanced if its determinants would include several indicators, such as an index of green behavior of use and consumption or an indicator that assesses green practices in the advertising market.

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DETERMINANTS OF SHORT-TERM VALUE DESTRUCTION FOR THE ACQUIRING FIRM

Hicham SBAI[3]

Abstract

These paper analyses bidder short-term returns of 86 takeovers bids that occur between 1997 and 2002 on the French market. Furthermore, the determinants of this performance are examined to improve understanding of the sources of value creation or destruction arising from M&A. The event study methodology is used to estimate bidder value creation. Two findings are shown in this study. First, we find strong evidence that the announcement of a takeover bid destructed of value for the bidder. Second, these results show that the relative size of the target and the announcement period transaction is associated with value destruction for the bidder.

Keywords: tender offer, event study, value destruction, explanatory factors

JEL Classification: G3, G34, G340

Introduction

Most empirical studies have concluded, unanimously, that the announcement of an M&A operations creates value for shareholders of the target firm. However, various studies that have examined the effect of M&A on the wealth of shareholders of the acquiring firm have presented conflicting results. In this way, Bradley (1980), Asquith (1983), Hamza (2007), Masulis and al. 2007 and Ben Amar and al. (2010) reported gains for the bidder firms, and conversely, Dodd (1980), Firth (1980), Walter and al. (2007), Campa and Hernando (2008) and more recently Sbai (2010), show losses (see table 1).

The character mitigates these results met several explanations in the theoretical and empiric literature: economical synergy and financial, the replacement of the incompetent managers, the managers the hubris hypothesis, the free cash flow from operating and the managing ambition. Bradley and Sundaram (2004) note that it is only partial explanations and that some acquisitions are fully justified. Among the various determinants of this process, the characteristics of the offer and of the bidder company are factors that can explain the destruction of value.

In this study, we investigate bidder short-term abnormal returns of 86 takeovers that occur between 1997 and 2002 on the French market. It is important to note that the literature includes very few studies that examine the determinants of short-term value creation for the bidder, and focus specifically on takeovers in the French case[4]. We adopt a framework of multivariate analysis to study the relationship between the characteristics of the takeovers, the bidder and the destruction of value for the bidder firm. We study successively: the impact of the method of payment, the relative target size, the similarity of the active, the Tobin's q, the announcement period, the prior toehold of the bidder, the cross-border M&A, the hostile offer, the bidder's size, the free cash flow and the debt level around announcement date of acquisition the bidder firm.

The results of this study indicate that the shareholders of bidder firms generate returns negative around the announced date of tender offer. This destruction of value is negatively and significantly related to the relative size of the target and to the announcing period due to a upward cycle. In contrast, for other factors impact is not significant on the CARs bidder.

The paper is organized as follows: section 2 summarizes the literature review to the determinants of acquiring firm's returns. Section 3 describes the methodologies followed in this paper and section 4 presents the empirical results. Finally, section 5 concludes this study. Finally, section 5 discusses the implications and offers conclusions.

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[4] Dumontier and Pecherot-Pettit (2002) and Hamza (2009).

Table 1. Results of events study in literature

Authors	Period	Sample	Results
Short-term destruction value for the bidder			
Langetieg (1978)	1950-69	149	NS
Lang and al. (1991)	1968-86	101	NS
Frank et al.(1991)	1975-84	399	S
Charlety-Lepers and Sassenou (1994)	1985-88	80	NS
Maquieira and al. (1998)	1963-96	55	S
Fuller and al.(2002)	1990-00	456	S
Bradley and Sundaram (2004)	1990-00	12476	NS
Masulis and al. (2005)	1990-03	3333	S
Walters and al. (2007)	1997-01	100	NS
Campa and Hernando (2008)	1998-02	244	S
Sbai (2010)	1998-03	48	S
Sbai (2013)	1996-2010	74	S
Short- term creation value for the bidder			
Asquith and al. (1983)	1963-79	211	S
Dumontier and Humbert (1996)	1977-92	47	NS
Maquieira and al. (1998)	1963-96	47	S
Bessière (1999)	1991-97	41	S
Eckbo and Thorburn (2000)	1964-83	1846	NS
Pécherot (2000)	1977-93	80	NS
Phèlizon (2001)	1991-97	49	S
Kohers and Kohers (2001)	1987-96	3268	S
Moeller and al. (2004)	1980-01	12023	S
Hamza (2007)	1997-05	58	S
Masulis and al. (2007)	1990-03	3333	S
Ben Amar and al. (2007)	1998-02	273	S
Dutta and Jog (2009)	1993-2002	1300	S

1. Literary review

We consider two categories of factors that are related to acquirer returns: bidder characteristics and deal characteristics.

1.1. The purchaser's characters

Like many studies, especially on M&A (Moeller and al., 2004; Masulis and al., 2007) we selected the size of the firm, the Tobin's q, the free cash flow and the leverage.

1.1.1. Firm size

Moeller and al. (2004) find robust evidence that bidder size is negatively correlated with the acquirer's announcement-period CAR. They interpret this size effect as evidence supporting the managerial hubris hypothesis (Roll, 1986), since they find that on average larger acquirers pay higher premiums and make acquisitions that generate negative dollar synergies. An alternative explanation is that large firm size serves as a rather effective takeover defense, since it takes more resources to acquire a larger target. Thus, we should expect that managers of larger firms are more entrenched and more likely to make value reducing acquisitions. Masulis and al. (2007), confirm this result.

1.1.2. The Tobin's q

Prior studies find that an acquirer's Tobin's q has an ambiguous effect on CAR. Lang and al. (1991) and Servaes (1991) document a positive relation with the acquirer's Tobin's q, respectively, while Moeller and al. (2004) find a negative relation in a comprehensive sample of acquisitions.

1.1.3. The free cash flow

Jensen (1986) free cash flow hypothesis argues that managers realize large personal gains from empire building and predicts that firm with abundant cash flows but few profitable investment opportunities are more likely to make value-destroying acquisitions than to return the excess cash flows to shareholders. Lang and al. (1991) test this hypothesis and report supportive evidence. Morck and al. (1990) identify several types of acquisitions (including diversifying acquisitions and acquisitions of high growth targets) that can yield substantial benefits to managers, while at the same time hurting shareholders. However, Harford (1999) shows that cash-rich firms are more likely to make value-decreasing acquisitions. Cash-rich bidders destroy seven cents in value for every excess dollar of cash reserves held. Cash-rich firms are more likely to make diversifying acquisitions and their targets are less likely to attract other bidders. In contrast, Masulis and al. (2007) find no significant relationship between these two variables.

1.1.4. The level debt

A high level of debt can lessen agency conflicts between managers and shareholders (Jensen, 1986). Specifically, high debt levels lessen the availability of free cash-flows that managers might otherwise use in ways profitable to them but not to shareholders in general. Although Maloney et al. (1993), Masulis and al. (2007) and Sbai (2013) documented a positive relationship between debt levels and the short-term performance of acquirers in the U.S., Moeller and al. (2004) , Cosh and al. (2006) and Ben Amar and al. (2011) did not.

1.2. The characteristics of the transaction

Among the important characteristics that we have identified in empirical studies, we consider the method of payment, the industry relatedness, the relative size of the target, the cross-border acquisitions, the pre-bid toehold shareholding by bidding companies, the hostile attitude and the period of announcement.

1.2.1. The method of payment

Myers and Majluf (1984) argue that information asymmetry between the bidder's management and outside investors implies that the bidders prefer to pay using stock when they think that the market overvalues their shares and cash when the stock is undervalued. Martynova and Renneboog (2006) suggest that the method of payment is generally considered an important signal of the potential synergy value of the target. Several studies (Travlos, 1887; Walters and al, 2007; Al-Sharkas and Hassan, 2010; Ben Amar and al., 2011) documented a positive association between cash financing and the short-term financial performance of an acquiring firm. In contrast, Becher (2000) and Delong (2001) report that the method of payment does not affect overall merger gains. Likewise, In the French context, Dumontier and Pecherot-Pettit (2002) Hamza (2009), and Sbai (2013) find no significant relationship between these two variables.

1.2.2. The industry relatedness

Several studies (Agrawal and al., 1992; Maquiera and al., 1998; Dumontier and Pecherot-Petitt, 2002, Devos et al (2008, 2010)) show that horizontal corporate acquisition implies more value creation (managers' expertise, economies of scale, market share) than the conglomerate acquisition. Agrawal et al. (1992) examined this hypothesis and found that the underperformance of acquirers is worse in conglomerate than in non conglomerate mergers. They suggest that the conglomerates may have access to lower-cost financing sources to improve the stability of profits. In addition, by building conglomerates, companies intend to reduce financial risks and the probability of the company going bankrupt, and to increase value by combining the debts of both companies. Nonetheless, diversifying a firm's strategy induces a number of disadvantages such as rent-seeking behavior by divisional managers, bargaining problems within the firm, or bureaucratic rigidity. Furthermore, there may be an outgrowth of the agency's problems between managers and shareholders. The M&A examined in this research framework corroborates this view (i.e., that non-conglomerate acquisitions can be value-enhancing events). It illustrates that most French M&A show actors' engagement in horizontal acquisition strategies. Eckbo (1992) and Datta and al. (1992) show more contrasted empirical results: diversifying takeover leads to a market-dominant position by reducing the intensity of competition on prices, thereby creating value.

1.2.3. The relative size of the target

Asquith and al. (1983) argued that if acquisitions create value for shareholders, such gains should be larger when the size of the acquired firm is large relative to the acquirer. Both Asquith and al. (1983) and Moeller and al. (2004, 2005) in the US report a significant positive correlation between bidder returns and the target size relative to bidder one. Kane (2000) confirms this, and argues that large deals generate high excess returns because the resulting institution may benefit from being «too big to discipline adequately». In contrast, Al-Sharks and Hassan (2010) show a significant negative relationship between abnormal returns of the acquirer and the relative size of the target and it suggests the market reacts more unfavorably when the relative size increases. In the French context, Hamza (2009) find no significant relationship between these two variables.

1.2.4. The cross-border mergers and acquisitions

Eun and al. (1996) noted that the cross-border acquisitions can generate value for shareholders of both firms, especially when managers of the acquiring firm are able to take advantage of imperfections in foreign markets. The empirical studies confirm that shareholders of the purchased enterprises get abnormal and positive return when they achieve cross border acquisitions. Eun and al. (1996) found that shareholders of foreign acquiring who carried out acquisitions in the U.S obtained significant abnormal return of approximately 2%. In Canada, Ben Amar and al. (2011) shows a positive correlation between bidder abnormal returns and cross-border acquisitions. In contract, Cokici and al. (1996), Seth and al. (2000), Eckbo and Thorburn (2000), Goergen and Renneboog (2004) suggest that the cross-border corporate acquisitions destroy shareholder value.

1.2.5. The pre-bid toehold shareholding by bidding companies

The results of empirical research in this are mixed. Indeed, Hull and al. (1991) obtained a non significant result for the Belgian market while Holl and Kiryazis (1997) show for them that the British target have a high participation screening is less efficient than others. In the French context, Husson (1988), Bessière (1999) confirm these results. In contract, Hamza (2007) find a positive and significant associated between the CAR and pre-bid toehold.

1.2.6. Hostile versus friendly offers

M&A literature supports the notion that hostile takeovers have a larger impact on short-term wealth effects for the target shareholder than do friendly operations. Moreover, friendly corporate acquisitions allow a better value distribution (Schwert, 2000). According to Goergen and Renneboog (2004), Gregory (1997), Franks and Mayer (1996) and Servaes (1991), the bidder returns on the announcement day are significantly lower in hostile bids than in friendly M&As. In respect to the acquisition strategy, Fishman (1988) defends the preemptive takeover bidding to guarantee the success of the bid. In France, hostile acquisitions are rare, which is why we could not test, in our sample, the effect of this variable on value destruction for the bidder.

1.2.7. Transaction announcement period

In a recent study in Canada, Ben Amar and al. (2011) have analyzed the link between the period of transaction announcement and creation value of bidder about the announcement of acquisition on sampling of 273 transactions of F&A realized in Canada between 1998 and 2002. These authors two periods: the upward cycle between January 1, 1988 and February 29, 2000 and the downward cycle between March 1 and December 31, 2002. The authors emphasize that the announcement of period of transaction doesn't have a significant impact on the creation of value of acquiring firm.

2. Sample and methodology

2.1. The sample selection

Our study deals with tender offer in France according to a normal and simplified procedure, intervened between January 1997 and December 2002. This period is characterized by variation in economic cycles (January 1997/ February 2000 and March 2000/ December 2002).

The sample was constituted from basic date of Thomson financial and annual report of AMF (Autorité des Marchés Financiers). We excluded the acquisition for which the historical quotations of the bidder were unavailable, these where the bidder was not a listed company, and those that offered non financial and securities data because of the bidder was recently established. The final sample is included 86 takeovers.

2.2. The description of variables

The table 2 presents a description of dependent and independent variables of on model.

Table 2. Variable definitions

Variable	Definitions
Bidder performance	
CAR	Cumulative abnormal return around announcement date of transaction
Bidder Characteristics	
Free cash flow	Free cash flow / total asset
Leverage	Long-term debt / total asset
Tobin's q	Market value of equity / book value of equity
Firm size	Log of book value of total asset
Deal Characteristics	
Cash	Dummy variable: 1 if cash offer, 0 otherwise
Related acquisitions	Dummy variable: 1 if related acquisition, 0 otherwise
Cross border	Dummy variable: 1 if the firm acquired was non-French, 0 otherwise
Relative size of target	Logarithm of the ratio of the market value of shareholder equity of the acquired firm and the market value of the shareholders equity of the acquirer
Announcement period	Dummy variable: 1 if the announcement was between January, 1997 and February 29, 2000, 0 otherwise
Theolid	Dummy variable: 1 if the precedent participation is superior to 50%, 0 otherwise

2.3. The dependent variable

Andrade and al. (2001) argue that examination of the reaction of stock price around the date on which transactions are announced is the best way of analyzing the creation or the destruction of value generated by M&A. Thus, we employed the event study methodology (Brown and Warner, 1985) to assess the variation in wealth of acquirers' shareholders around announcement dates. Bacmann (2001), made reference to brown and Warner's study (1985), shows that the model of market, despite its simplicity, constitutes a norm for the assessment of returns around the announcement and that this methodology provides good results. The estimation period covered the two hundred day period between 190 and 11 days before the transaction announcement date. Firms which did not have at least 100 historical stock returns during the estimation period were excluded from the sample. Daily abnormal returns estimated for each of the days of the event windows were summed (across either the − 3 to + 3 day window or − 5 to + 5 window) to arrive at individual cumulative abnormal returns (CARs) values.

The abnormal returns (ARi,t) are the difference between the actual observed returns and those estimated using a market model:

$$AR,t - Ri,t - E(Ri,t)$$

$$AR,t = Ri,t - (\hat{\alpha} + \hat{\beta}Rmi,t)$$

ARi,t: abnormal return. Ri,t Real return. E (Ri,t): Expected or theoretical return in the situation of absence of event. $(\hat{\alpha}, \hat{\beta})$: Coefficients obtained by OLS over the pre-event period (-190,-11). Rm,t: Market return at time t during the event window.

The cumulative ARi,t for acquiring firm share: $CARi,t = \sum_{t=t1}^{t2} ARi,t$, with $t1 \leq t \leq t2$.

2.4. The independent variables

Method of payment (CASH). Thus we used a dichotomous variable coded as 1 when the acquisition was funded by cash and 0 when it was not.

Industry relatedness between of the acquirer and the target firm (Related). In any case, we used the Thomson Financial database to create a dichotomous variable coded as 1 when the firm had the same SIC code and 0 when they did not.

Cross border M&A (CROSSBORDER). In any case, a dichotomous variable was coded as 1 if the firm acquired was non-French and 0 if it was not.

The Tobin's q ratio (Q). This variable is me assured like Denis and al. (1994) in its reduced version[5], by the relation between market value and accounting value of net assets (Market to book ratio), at the end of the financial year preceding the transaction announcement.

Free cash flow (FCF). This variable is measured by the ratio of free cash flow on the total asset of the bidder firm at the end of the financial year preceding the transaction announcement.

Relative size of the acquired firm (RELATIVE SIZE). This variable is measured by the logarithm of the ratio of the asset total of the acquired firm and the asset total of the acquirer at the end of the financial year preceding that of the announcement of the acquisition.

The debt level (LEVERAGE). This variable is measured by the ratio of acquirer's long-term debt to their total assets at the end of the financial year preceding the transaction announcement.

Transaction announcement period (PERIOD). In our model, we test the effect of stock exchange cycles obtained by the shareholders of the acquiring firm around the announcement date of acquisition. Like the study of Ben Amar and al. (2011), we have created a dichotomous variable coded as 1 if the announcement was between January 1, 1997 and February 29, 2000 (a upward cycle) and 0 if it occurred between March 2000 and December 2002 (a downward cycle).

Size of acquiring firm (SIZE). Like Masulis and al. (2007) this variable is me assured by logarithm of value of assets accountable value.

Bidder toehold (TOEHOLD). We use a dichotomous variable that takes value 1 if the precedent participation is superior to 50% and otherwise.

3. Results and discussion

3.1. Descriptive statistics

Means and standard deviations for all study variables are presented in Table 3. The results show that takeovers destroy value for shareholders of acquiring firms in France. The cumulative abnormal returns (CARs) averages observed around the announcement date are negative and different from zero at the 5%. These results confirm those obtained by previous studies of French and Langhor Eckbo (1989), and Sanssenou Charlety-Lepers (1994), Mezz (1997) and Vandelanoite (2002), Sbai (2010), but generally different from those obtained by American studies document a positive abnormal return by the shareholders of the acquiring firm (Moeller et al.2004; Masulis and al.2007). However, our results are consistent with those obtained from studies of M&A in the European context (Campa and Hernando, 2008) where shareholders of acquiring firms an average negative abnormal return around the announcement dates. As proposed by Berkovitch and Narayanan (1993), the observation of negative abnormal returns suggests that takeovers initiated by firms in our sample are motivated by the ambition of leaders. However, the returns obtained by shareholders may vary from one company to another depending on the characteristics of the acquiring company or by characteristics of the transaction.

Table 3 also presents statistics on characteristics of acquisition transactions. Half of these acquisitions occurred between 1999 and 2000, these acquisitions are mostly friendly nature (95%), and these acquisitions are characterized by a diversification in terms of industry sector and low near the involved parties. The acquiring firms use in 59% of the payment in cash as a mode of financing. These

[5] Tobin's q is the ratio of the market value of a firm's assets (as measured by the market value of its outstanding stock and debt) to the replacement cost of the firm's assets. To overcome the difficulty of estimating the replacement cost of assets, the commonly accepted measure is the sum of book values of equity and debt. Perfect and Wiles (1994) conduct a comparison of five different Tobin's q sometimes assuming the market values of nerve elements in the calculation of the parameter, now on book values. Each assessment produces results different from others. These results show, however, a strong correlation between various measures of Tobin's q deductions. Calculated by the ratio between the market value of equity and book value (Market to book ratio), this smaller version of Tobin's q may be regarded as an acceptable estimate of the presence or absence of good investment opportunities. In the French context, Poincelot (1999) finds no significant differences in the results that it is incorporated or not the value of debt in the calculation of Tobin's q.

descriptive statistics also indicate that the operations of takeover target, on average, smaller companies. Indeed, the ratio (target / acquirer) of total assets at book value (37.62%).

Finally, acquiring firms that hold a participation exceeding 50% advance 34% of our sample as cross-border transactions make up 33% of all acquisition transactions.

Finally, Table 3 presents statistics on characteristics of the acquirer. The carrying value of acquiring is 22 million $.

Table 4 shows the correlation among the study variables. This table shows that the highest correlation between the size of the acquirer and the relative size of the target (r= -0.586) between the size of the acquirer and the level of free cash flow (r=-0,399) and between the size of the acquirer and the announcement period (r=0,357). These results lead us to eliminate one of the four variables in the calculation of regression models to ensure stability of the estimated coefficients. We therefore proceed to the estimation of various models by removing the variable size of the acquirer.

Table 3. Descriptive statistics

The sample consists of 86 completed French acquisitions by tender offer (listed in SCD and annual report AMF) between 1997 and 2002. Variable definitions are in the appendix.

Variable	Average	Median	Standard deviation	Maximum	Minimum	
Bidder performance						
CAR (-3,3)	-0,022***	-0,015	0,153	0,470	-0,479	
CAR(-5,5)	-0,029***	-0,005	0,224	0,775	-0,0651	
Bidder characteristics						
Free cash flow	7,32%	7,17%	6,03	28,66%	-13,83%	
Leverage	15%	13%	0,105	72,3%	0%	
Tobin's q	0,47%	0,19%	2,06	18,69%	0,003%	
Firm size	22,85%	6,18%	56,91	30,10	1,05	
Deal Characteristics						
Cash (dummy)	59%	100%	0,495	100%	0%	
Related (dummy)	37%	0%	0,488	100%	0%	
Cross-border (dummy)	33%	0%	0,473	100%	0%	
Relative size	37,62%	15,23%	70,00	525%	0,0009%	
Hostile (dummy)	5%	0%	0,213	100%	0%	
Period (dummy)	52%	100%	0,504	100%	0%	
Theolid (dummy)	34%	0%	0,479	100%	0%	
Deal value (E million)	1 859,507	259,015	6 647,56	53 339,6	0,117	
Distribution per year	1997	1998	1999	2000	2001	2002
	6	13	20	23	14	9

Table 4. Pearson Correlation Matrix

The sample consists of 86 takeovers bids that occur between 1997 and 2002 on the French market.
Variable definitions are in the appendix.

	THEOLID	FOCUS	CROSSBORDER	PERIOD	CASH	SIZE	LEVERAGE	TOBIN'S Q	RELATIVE SIZE	FCF
THEOLID	1	-0,09	**-0,30***	-0,154	-0,004	**0,27***	0,06	0,17	**-0,31***	-0,06
RELATED		1	0,15	-0,09	**-0,28***	-0,004	0,003	-0,12	0,08	-0,13
CROSSBORDER			1	**0,34****	**0,38****	0,16	0,03	-0,103	-0,17	-0,05
PERIOD				1	0,15	**0,36****	-0,13	-0,13	**-0,30***	-0,16
CASH					1	0,13	-0,11	0,10	-0,21	0,02
SIZE						1	-0,22	0,004	**-0,59****	**-0,4****
LEVERAGE							1	-0,12	**0,25***	**0,29***
TOBIN'S Q								1	0,07	-0,17
RELATIVE SIZE									1	0,17
FCF										1

Table 5. Multivariate regressions

Table 2 presents a series of models intended to test our various hypotheses employing − 3 to + 3 day cumulative abnormal returns as our dependent variable. (Although we do not report the results for − 5 to + 5 day CARs, the results were qualitatively the same as those employing − 3 to + 3 day CARs).

	Model 1		Model 2		Model 3	
Variable	Coefficient	t-stat	Coefficient	t-stat	Coefficient	t-stat
Bidder characteristics						
FCF	0,158	0,471			0,033	0,233
LEVERAGE	0,020	0,175			0,075	0,520
TOBIN'S Q	-0,404	-0,544			-0,044	-0,319
Deal characteristics						
CASH			0,008	0,196	0,046	0,293
RELATED			0,001	0,019	0,011	0,076
CROSSBORDER			0,021	0,042	0,056	0,340
RELATIVE SIZE			**-0,048**	**-1,929****	**-0,308**	**-1,917****
PERIOD			**-0,062**	**-1,71***	**-0,277**	**-1,799***
TOEHOLD			-0,038	-0,983	-0,149	-0,963
CONSTANT	-0,109	-0,799	-0,027	-0,689	-0,046	-0,838
R^2	1,60%		11,55%		12,6%	
Max VIF	1,929		1,885		1,929	
Min Tolérance	0,518		0,530		0,530	

Signification : + p < 0.1 * p < 0.05 ** p < 0,01 *** p < 0,001

3.2. Multiple regression analysis

Table 5 shows multiple regression results involving the relationship of deal characteristics and bidder characteristics to the abnormal returns obtained by shareholders of the acquirer. The variance inflation factors associated with the models are below 3 reflecting the lack of multicollinearity problems in the models (cf. Tenenhaus, 2006).

Model 1, which did not included the variables of deal characteristics, predicted 1,6% of the variance in cumulative abnormal returns whereas the comparable figures for models 2 and 3, which included the variables of deal characteristics, were 11,5% and 12,6% respectively. Our discussion will focus on model 3.

The results presented in table 5 show that relative size of the target is negative and significant explanatory factor of the CAARs. This result is similar to those of Al Sharks and Hassan (2010), Bradley and Sundaram (2004) and Moeller and al. (2005). These authors suggesting that the market favours acquisitions of low relative size. In contrast, our results are not similar with those obtained from studies of M&A in the European context (Goergen and Renneboog, 2004), or the creation of value is not correlated with the relative size of the target.

Regarding the announcement period, the results show a significant negative relationship between announcement period abnormal returns and obtained the announcement date. This result suggests that the market reacts is unfavorably to the acquisitions made during upward cycle that is to say between January 1997 and February 2000. In contrast, Ben Amar et al. (2010), we note that of transaction announcement period is not determinant factor of creation value.

The effect of bidder toehold is not associated with short-term value destruction. This result is similar to those of Moeller and al. (2004) and Nguyen (2005). In contrast, this result is contradiction with conclusion of Hamza (2007). This author finds that toehold has significant and positive impact on the CAR's of French bidder.

Contrary to US and UK research, we note that method of payment is not a determinant factor of destruction value. Our result is in line with Duomntier and Pechérot-Petitt (2002) and Hamza (2009) we report, in French context, that bidder returns do not appear to be related to the method of payment.

We notice that market reaction is not different in regards to domestic and cross-border takeover announcement. This result is similar to those of Hamza (2009), in the French context. However, this result is contradictory to Cakici and al. (1996), Seth and al. (2000), Eckbo and Thorburn (2000), and Goergen and Renneboog (2004). These authors suggest that the cross-border corporate acquisitions destroy shareholder value.

The industrial proximity has no significant effect on the RAC. This result consistent with studies of Eckbo (1986) Eckbo and Thorburn (2000) and with Datta and al. (1992). In contrast, this result is inconsistent with the results of walker (2000), Delong (2001), Ueng and wells (2001), Dumontier and Pecherot-Petitt (2002), and Martynova and Renneboog (2006). These authors found that the similarity between the activities of corporate bidder and target has a positive impact on the CARs.

The Tobin's q does not factor in explaining the abnormal return of acquirers at the announcement of takeovers. This result is consistent with the results of Moeller and al (2004) Masilus and al. (2007). However, these results contradictory by Lang and al. (1989) and Doukas (1995), who report that acquirers with high Tobin's Q ratio have significantly higher returns than acquirers with low Tobin's Q ratio. Finally, the debt effect on the RAC is not significant. These results also not confirm the impact of leverage of acquiring firm on their returns at tender offer announcements. This is consistent with the results of Lang and al. (1991), but inconsistent with the results of Maloney and al. (1993).

Conclusion

This study examines the determinants of destruction of value in the short-term of acquiring, based on a sample of 86 takeovers conducted in French between 1997 and 2002. The empirical results show the one hand, a destruction of the short-term value for the acquiring around the announcement, and on the other hand, a significant explanatory nature of the relative size of the target and the announcement period of transactions with a negative causality in relation to cumulative abnormal return (CAR). Meanwhile, the method of payment, the Tobin's q ratio, the debt level, the free-cash flows, prior participation of the bidder, the similarity of sectors as well as the cross-border character de not seem to have a significant explanatory character.

Our results on the French market are in contradiction with the previous studies, usually conducted in the US or the UK. Concerning the effect tender offer on the Wealth shareholders of the acquiring firm, we not confirm gains associated with these operations control operations. With regard to the determinants of bidder return, the results are contraction. On the one hand, we observe that the abnormal return of acquiring is negatively influenced by the relative size of the target and by the period of announcement related to the upward cycle. On the other hand, unlike to the USA and the UK, we not find an association between the mode of payment, the debt, or their shareholdings in targets prior to the bid, the hostile attitude, the Tobin's q, the free cash flow and the short-term financial performance of an acquiring firm.

This study includes a limited relative to the size of the sample instigator firm with regard to the works affected within this context. Further, of the remaining work possible. Thus, without claiming completeness, it will be useful to examine the relationship between board of directors, ownership structure and the abnormal return of acquiring firm around the announcement date in the French context.

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CITY MARKETING: CONCEPTS AND PRACTICE IN ROMANIA

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Abstract: *Starting from the idea that cities have become the engines of European economic regions and that the EU is currently faced with challenges imposed by globalization, the international crisis and migration, we believe that city marketing can be a tool for implementing urban policies in European urban areas.*

The purpose of this paper is to address the competitiveness of cities in the current context of economic and social development, highlighting the aspects of competitiveness and the necessity of competition between cities by permanently increasing the demand for goods and public services, and by reorienting the attitudes of local authorities from administration to management and city marketing.

Keywords: *city marketing, economic and social crisis, competitiveness, urban management.*

JEL Classification: M31, M38, H83

1. Introduction

In recent decades, marketing underwent a profound change of its sphere of interest in all countries, moving from the *traditional stage* when meeting consumer needs for goods and services played an essential role to the *modern, holistic stage*, reflecting the evolution of society as a whole, the increase of global competition and aiming mainly to meet consumer needs that are more sophisticated, sometimes unexpected, in the form of products characterized more by image than by tangible attributes. It is noteworthy that among the main categories of entities to which the present stage principles, methods and techniques of marketing apply we find: *goods, services, experiences, events, people, places (cities, states, regions, nations), properties, organizations, information, ideas* (Kotler, Keller, 2012). In this context, it appears that marketers' actions are moving towards conceptualization and implementation of marketing in economies with different stages of economic development and towards identifying new practical marketing activities that are closely related to the dynamic of the global market, a market in which *cities are negotiated more than any good in capitalist society* (Goodwin, 1998).

In an increasingly competitive world, cities compete with other cities, near and distant in terms of space, to ensure a complex development and to access new human resources, advanced technology, and bigger investments. Thus, cities become more competitive by increasing their capacity to attract resources and use them more efficiently and by developing an attractive offer for the public, tourists, and the business environment. A significant number of researchers addressed the importance of urban marketing as *a factor in the formation of high urban competitiveness* (Ashworth Voogd, 1990 Kotler et al, 1993), but urban marketing is also a *main factor in the implementation of policies and urban strategies* (Bailey, 1989).

International experience shows that city marketing can operate efficiently by *promoting and supporting the image of a place as a commodity designed to become attractive and competitive on potential target markets* (McCann, 2002). Existing approaches of urban marketing insist on a separate analysis of terms, but experts, whether they are sociologists, geographers, planners or marketers, support the topic of urban marketing policy implementation, the role of local authorities, the successful contribution of city marketing to the whole process of local economic development.

The aim of this paper is to present different approaches to city marketing in scholarly literature, focusing on conceptual and practical peculiarities of this new and exciting area for modern urban development. We highlight some examples of urban marketing in

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European countries that have developed and have been promoted in recent decades, focusing on issues raised by the evolution of cities in the economic and social crisis of recent years. Finally, we describe some best practices and opportunities for implementing urban marketing in Romania.

2. Literature Review of City Marketing

Urban marketing is a relatively recent topic of academic research (Kotler, 1993), even if the promotion of cities dates after 1850 (Ward, 1998). We use different terms (Suchacek, Sed'a, 2011) from *territorial marketing* or place marketing in English literature, to *komunales marketing* in German literature, but most authors prefer *local and regional marketing, spatial marketing, municipal marketing or city marketing*. O'Leary and Iredale (1976) are among the first authors to identify urban marketing as a challenge of the future, describing *urban marketing as activities that are designed to create favorable disposition and behavior through geographic location*.

Used in the last three decades as a factor supporting the policies of development and promotion of cities, city marketing evolved slowly, passing through *discrete phases, different in sophistication, approach and objectives* (Kavaratzis, Ashworth, 2008) and developed using models taken from marketing and other related disciplines, becoming a selling tool of city image regardless of geographical location or characteristics. International experience shows that urban marketing as an activity is linked to local development and investment promotion in cities aiming to build and develop their image for the external environment.

In recent years, city marketing has become one of the most exciting areas of research, especially in Europe where cities promoted policies to support their image and have become more competitive as a result (Ashworth and Voogd, 1990).

Addressing issues of design and organization of cities, regions or nations, urban marketing, also called *strategic urban marketing* (Kotler, 1993), requires community design to meet the needs of the main constituent groups within that respective community (made up of citizens, workers and companies, visitors, new businesses and investors) interested in urban development and which are, from this perspective, target markets of city marketing (Kotler, 2001).

The core of urban marketing lies in promoting the values and image of the place so that potential users are aware of its advantages; thus, urban marketing becomes a tool to manage urban space. Urban marketing fulfils its purpose when the community is satisfied with the urban and socio-economic environment and when visitors and investors' expectations are met at the highest level.

As indicated by Kranz and Schatzl (1997), *city marketing has more to offer than a new term for what is called urban development policy*, although scholarly literature makes no separation between the concepts of urban marketing and local economic development or cities' competitiveness. The role of urban marketing is sometimes limited to the concept of city promotion policy, minimizing the importance of specific activities in the local strategies of economic development. Other times, urban marketing is perceived as a simple strategic planning process and is not integrated into local economics or city competitiveness.

Analysing scholarly literature, it appears that the term "city marketing" is used in *different approaches* (Corsico, 1994):

a) *as a promotion of the city*, of its characteristics and prospects, to attract foreign investments and visitors, an approach criticized in theory, but applied in current urban marketing practice;

b) *as an alignment of policies of urban development,* from conception to implementation, to the requirements of local economic factors and the expectations of external factors that must be met to promote the local economy as the driving force of the city's welfare;

c) *as a reorganization of city administration*, to support the city *product* (citizens, companies, institutions, investors, visitors)

Whatever the approach, city marketing is based on two concepts that differ according to the location of marketing actions:

- the first concept refers to *city marketing as a tool* used by cities to prepare to face competition in the market of urban areas, as the city defines all its actions to attract new players able to support the local economy;
- the second concept *emphasizes the role of competition between cities*, as urban marketing allows effective reorganization of urban policies, acting so as to enhance what already exists; only the city that manages to satisfy its own citizens will attract new players.

It's worth noting an interesting point of view according to which urban marketing (Corsico, 1994):

a) *takes place in the city*, the city being the place where goods and services are sold that has a system of commerce; *the city is*, in other words, *a market*;

b) *is city marketing*; the city is, in terms of marketing, a good sold, *a commodity*.

c) *is marketing implemented by the city;* the city, as a subject, performs a marketing activity, operating as a market actor, according to its marketing philosophy and acting as *a business*.

These three meanings do not cover the complexity of existing relations in the urban system; the concept of urban marketing suggests the notions of *market, commodity and enterprise* as three possible metaphors for the city, focusing attention on issues related to the negotiation between actors operating in the market, the formation of values and exchange mechanisms, and the idea of the market as a perfectible regulatory tool for urban development. The city is a market in which supply must meet demand, but is also a product able to attract or stimulate future demand, while at administrative level, the city is a business that reorients through its actions towards a new concept.

The principle of urban marketing is to be found in the urban planning process, in the formulation of development policies, incorporating in every sectoral policy four crucial aspects that characterize marketing practice:

1. product - city configuration, what products and services are there on the market?;
2. position - how does the city product reach the customer, where are services and urban functions located?
3. price – what is the price of services; does it ensure a fair distribution for target groups?
4. promotion - through advertising, public relations, direct communication.

Different definitions of urban marketing or city marketing extracted from scholarly literature are shown in Table no.1:

Table no.1 The concept of city marketing

Author(s)	Definition
Ashworth, Voodg, 1988	Urban marketing describes various ways in which cities can improve their competitive position in a market...Urban marketing can be described as *a process that facilitates the connection between urban activities and the demands of targeted customers, so as to maximize the efficient social and economic functioning of the area concerned in accordance with whatever goals have been established*. This idea can be applied at various spatial scales and thus urban marketing can be viewed as a part of the broader regional and even national marketing.
Van der Meer, 1990	Urban marketing can be described as *the set of activities intended to optimize the balance between the offer of urban functions and the demand from inhabitants, companies, tourists and other visitors.*
Kotler, Haider, Rein, 1993	Strategic marketing calls for designing *a community that satisfies the needs of target-markets*. Urban marketing succeeds when stakeholders, such as citizens, workers, and businesses derive satisfaction from their community, and when visitors, new businesses and investors have their expectations met...urban marketing means designing a place to satisfy the needs of its target markets.
Gold, Ward, 2002	City promotion is the conscious use of publicity and marketing to communicate selected images of specific localities or geographical areas to a target audience.
Kotler, Gertner, 2002	City marketing is used to accomplish several goals, such as creating a positive image for the community, attracting companies, institutions, tourists and skilled work force, as well as finding new markets for exports and using instruments of strategic marketing management in order to create an urban brand.
Bradley, Hall, Harrison, 2002	City marketing is presented more as a strategic process, without being analysed in correlation with local economic development or cities' competitiveness.
Kavaratzis, 2004	The way in which city-brand communication takes place through the choice and appropriate treatment of different variables, which have both functional and symbolic meaning.
Braun, 2008	The coordinated use of marketing tools supported by a shared customer-oriented philosophy, for creating, communicating, delivering, and exchanging urban offerings that have value for the city's customers and the city's community at large.

City marketing means adapting the traditional marketing model of the 4 Ps (product, price, place, promotion) and its performance in urban marketing. In the case of urban marketing, *the product* is a place or a city that has certain characteristics of economic, social or cultural and touristic interest. According to Short and Kim (1998), implementing urban marketing as a procedure is based on the realization of urban marketing as a science and as a practice.

The most significant aspect of urban marketing is that the city's vision; its development objectives and strategies depend on the distinctive local characteristics and peculiarities of each individual city.

Urban marketing is different from urban planning (Deffner, Metaxas, 2006); city marketing complements, but does not replace urban planning. Complementary fields to urban planning refer to: a) urban development, b) urban management; c) urban governance, d) cultural planning, e) city branding, f) planning of demonstration actions, g) urban regeneration, h) urban policy.

Implementing policies of urban marketing as a *tool of urban development* expanded in certain sectors such as tourism, sport, recreation, arts, media (Bianchini, 1993), creating strong cultural industries with activities such as fashion and design, architecture, local history, entertainment, that give the city an identity and an external image.

The procedure of city marketing must be assessed under *the philosophy of urban management* (Ashwort Voogd, 1990), in the same way as the marketing promotion process. The process of strategic planning is related to the analysis of the internal and external environment of cities (SWOT and PEST analysis). City marketing depends on cooperation between a plurality of local actors and building social consensus, and thus relates to urban governance.

The approach of cultural planning as an area of urban development highlights the link with urban development, contributing to the emergence of a sense of place / city. A successful city must be branded, or vice versa; thus, city marketing is interrelated to city branding (Kavaratzis, 2004).

Table no. 2: Overview of the components of theoretical frameworks

Ashworth, Voogd (1990)	**Kotler et.al. (1999)**	**Kavaratzis(2004)**
Promotional measures	Design	Primary communication
Spatial and functional measures	Infrastructure	*Landscape strategies* *Infrastructure projects* *Organisational structure* *City behaviour*
Organisational measures	Basic services	
Financial measures	Attractions	
		Secondary communication
		Advertising, Public Relations, Graphic Design, Logo and slogan
		Tertiary communication
		Word of mouth, Media representations

Source: Boisen M., (2007). The role of city marketing in contemporary urban governance, Conference Future of cities:impact-indicators.… www.bestplaceinstytut.org

Concluding on the role of city marketing, it must serve to achieve four goals: 1) improving urban products, which is the city with everything in it; 2) improving the incentives for consumers to make use of the city's products; 3) improving infrastructure and institutions that provide or improve access to the city's products and; 4) communication of the city, making potential customers aware of the products the city has offer (Arcarani, Valade, 2000).

3. City Marketing practice in Europe

The city is a set of traditional and modern values, of material and human resources, through which people identify with its values. As, for example, a product is bought and sold not necessarily for the raw materials that it's made of, but for the value that consumers get, a city is more than a mix of streets, buildings, institutions, parks, shops, restaurants, as it becomes a brand that builds during a lengthy and complex process that reveals *the sum of all the perceptions and associations that people have in relation to that particular city* (Smith, 2007). They refer to previous experiences, movies, news, advertisements, access to information, climate, prices, and opinions of friends and citizens of that city.

Cities *have become goods, were standardized, grouped, promoted and became the subject of negotiations more than any other commodity in capitalist society* (Goodwin, 1993). A city is a combination of products or services known as *distinctive local* *characteristics* (European Commission -LODIS Programme, Anshworth Voogd, 1990) whose role is to build the image of a place as a whole (Metaxas, 2003). Modern cities are trying to be attractive on potential target markets to satisfy needs and perceptions.

One notable aspect of city marketing is *the evident discrepancy between theory and practice* (Kavaratzis, 2009). The scholarly literature mentioned above has attempted to provide, on the one hand, clarifications concerning the exact nature of the activity and its potential to assist urban development and, on the other hand, effective guidelines on practical implementation.

The practice of city marketing shows that there is a limited understanding of the concept, with two main characteristics:

1. marketing is not implemented as a process, but as a set of fragmented actions;
2. marketing is still mistaken for one of its elements, namely promotional activities.

There are examples of cities (shown in table no. 3) that planned and implemented successful worldwide campaigns.

Table no. 3: Types of urban marketing policies in Europe

City	Main goals
Amsterdam, Berlin (Aalst, Boogaarts, 2002)	Focusing on the emergence of the museums' role on cities' economic development in order to increase attractiveness
Amsterdam (Dahles,1998)	Re-imaging the city as a tourist destination focused on evaluating the behavior of tourists
Coimbra, Aveira (Balsas, 2000	Seeking cities as centers of economic development and reimaging
Bilbao (Gonzales, 1993)	Analysis of the relationship between culture, citizens and quality of life (emphasis on the role of culture in strategic planning)
Bologna (Bloomfield, 1993)	Planning and development of cultural policies and actions; culture as a field of production of urban economic development
Bradford (Hope, Klemm, 2001)	Transforming the city in order to make it a tourism pole by creating an effective image
Paris, London (Chevrant-Breton, 1997)	Analyse and compare two cities' promotional activities in a global and competitive context
Czech and Slovak areas (Johnson, 1995)	Measure the visitors' impacts on the development of Czech and Slovak areas, through the visitors' demand and the supply of attractions.

Source: Metaxas T., (2007). City marketing and City Competitiveness: An Effort of reviewing the last 25 years, 2007

Traditional industrial cities in the UK, such as Glasgow, Bradford, Manchester, etc., that gave signs of decline in the industrialization period have enhanced their image, development and competitiveness by planning and implementing marketing action schemes. Each city implements specific urban marketing policies according to its objectives (Metaxas, 2007), with representative examples of implementation of urban marketing in Amsterdam and Berlin (for the role of museums in economic development), Coimbra and Aveiro in Portugal (for cities as centers of economic development and reimaging), Bilbao (for the relationship between culture, citizens and quality of life), Bologna (for planning and developing policies and cultural activities), Paris and London (for the promotional activities of the two cities in a global and competitive context). These examples of cities prove that the design and development of concrete strategies aimed at meeting potential target markets increases the efficiency of promotional policies adopted by competitive cities.

4. City Marketing in Romanian Cities

The countries of Central and Eastern Europe began applying urban marketing taking into account the international economic climate and the ability of the private sector to participate in city projects. Urban marketing can be defined in these countries as an attempt by local government to adapt to new conditions in the industry and world trade, where the development of new technologies in computing and telecommunications influence decisions related to new investments in economic activities.

In the context of the past few years, companies can choose from several possible alternative locations. The European integration process and the development of multinational corporations contribute to increasing the flexibility of companies and the creation of a new international division of labor. Cities compete for jobs and form new strategic coalitions extending beyond borders of nation states, but in the competition for international projects, Eastern European cities do not occupy the same position as the West, which is a problem for European integration (Dekleva, 1994).

Urban marketing requires a public-private partnership that is consistent at town level, as this ability is the difference between European cities. The private sector is underrepresented in European countries with transition or emerging economies, and the public sector has a different attitude in these countries.

Competition between cities in Eastern and Western Europe is not conducted on equal terms as Eastern cities do not have a sufficiently developed private economic sector and the state's attitude is still not market-oriented.

In these countries of Central and Eastern Europe, urban marketing must become a tool that is used in a way that *precedes, accompanies and continues urban planning* (Ave, 1994), thus ensuring that development trends correspond to the vocation of the city, the development of international markets and the aspirations and expectations of citizens.

In Romania, there are few examples of cities that apply urban marketing principles; there are *only isolated successful urban interventions in various stages* - Sibiu, Cluj, Pitesti, Brasov, Timisoara and Oradea (Ianas, 2014).

Of those cities, only Sibiu has a coherent urban program, in which we can find urban marketing principles and policies. This program was developed in the context of assuming the role of European Cultural Capital in 2007 and has been a program of rehabilitation of public spaces benefiting from the existence of external financing and continuous managerial support.

Sibiu was the first European Capital of Culture (ECOC) to be staged in one of the post 2004 EU accession countries under the theme “City of Culture-City of Cultures” and even if it was a risky bet at first, due to lack of experience in managing large scale cultural projects, insufficient funding, or the fact that Romania was just joining the European Union, in the end it proved to be a success story. Beyond the ECOC programme itself, the city managed to capitalize the advantages offered by the programme and transformed itself in a “best practice model” for many Romanian cities which were stuck in the “nothing to offer kind of town” paradigm.

5. Conclusions

For the future, the present study aims to continue to identify urban marketing peculiarities in Romanian cities where urban development has become a reality and public administration authorities design a new organizational culture in administrative structures.

The purpose of future research efforts in the field of urban marketing is to identify and analyse urban development projects implemented in Romanian cities, projects that are efficient both economically and socially.

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CASH FLOW AND FINANCIAL PERFORMANCE OF INSURANNCE COMPANIES: EMPRIRICAL EVIDENCE FROM NIGERIA

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Abstract

The study examines the relationship between cash flow and financial performance of insurance companies in Nigeria using time series data for the period 2009-2014. Twenty seven (27) listed insurance firms were selected as sample size. The study uses both descriptive and inferential statistics to determine the relationship among the variables. It also employs the series of diagnostic tests to ensure stability of the time series used as well as to ensure the model meets the assumption of OLS. The findings reveal that Cash flow was observed to determine insurance firms' financial performance and is statistically significant. Cash flow from operating activities was observed to significantly increase financial performance of the insurance companies in the period examined. Cash flow from financing activities was found to increase the financial performance of the sampled insurance firms, but was not statistically significant. The size of the insurance company did not increase the financial performance of the insurance firms and was also not statistically significant. The paper recommends that managers in insurance firm should regularly change the extent of the cash outflows under each activity to avoid negative cash flow position as well as financial crisis. Adequate investment appraisal is really a concern that insurance firms need to take into consideration when customers are taking up insurance coverage. The costs have to be weighed against the benefits accruable therefore.

Keywords: *cash flow from operating activities, cash flow from investing activities, cash flow from financing activities, firm size, cash flow, Return on equity.*

1. Introduction

Cash flow is integral to the financial health status of firms. Cash in organization usually takes two direction, inflow and outflow. The difference between these two concepts results in cash flow. The financial manager in organizations takes it a priority to ensure cash outflow does not out- weigh the cash inflow. Net positive cash flow connotes there is prudent management of cash under the three activities in the organization, viz – a – vis operating, investing and financing activities. Different investors usually take a cursory look at each of these activities prior to making investment decision. Similarly, cash flow from each of these activities has a way of influencing the performance of quoted firms for a period. For instance, excess of cash outflow over the inflow may indicate poor expense, debtors, inventory, cash management, weak investment skills/management and inability of the finance managers to critically engage in optimal financing decision for a period. Internally, managers need to know the current financial position of the firm (performance and problems); continuing with problems and control functions (Bodie, Kane & Marcus, 2004). In corroboration with this view, Fabozzi and Markomits (2006) stress that for example, suppliers are interested in the firms' liquidity because their rights are generally on a short – term and in this case the company's ability to pay is best reflected by the liquidity indicators. Bingilar and Oyadonghan (2014) stated that cash flow of a company is a crucial factor that enhances its operations. Uremadu (2004) sees cash flows of an organization as those pools of funds that the company commits to its fixed assets.

As noted by Efobi (2008), the ability of the company to effectively choose adequate source of funds to finance its operations will differentiate strong cash flow governance and

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poorly managed cash flows. Cash flow is an index of the money that is actually received by or paid out by a firm for certain time period (Albrecht, 2003). This index is not inclusive of non – cash accounting changes such as depreciation; cash represents the firm's vascular system; if it dwindles, the business will not survive; the fact that a firm is profitable does not mean that it is also solvent in that the profit is not cash (Bingilar & Oyadenghuan, 2014). Turcas (2011) surmises that the solvency, flexibility and the financial performance of the firm are set on the firm's ability to generate positive cash flows from the operating, investing and financing activities. Knechel, Salterio, Stephen, Ballon and Brian (2007) posit that the information contained on a cash flow statement stresses the existing differences between the operating profits of a firm and on the other hand, the decrease or increase in bank/cash balance over a similar accounting period. They opine further that this is because a cash flow statement shows whether activities of investing have either been financed externally for example, borrowing or internally for example working capital management or generated profits. Cash flow analysis is thought to be more effective in determining enterprises effectiveness and competitiveness in the market because it is a more dynamic examination of actual return on assets and equity (Amuzu, 2010). Cash flow information assists financial statement users in obtaining the relevant information concerning the use and source of virtually the entire financial resources over a given time period. Specifically, the kind of information that the cash flow statement contains include details of operating, investing and financial activities (Shahmoradi, 2002).

Insurance firms usually engage in different financial services to meet the need of various policy holders. Insurance companies differ in size and 'products' or services they offered to customers. The size of the insurance firms may determine the number of customers they could have; and by implication if the size is large, this will required much cash flow to meet administrative and non- administrative charges. Thus, size should contribute to the competitiveness, dominance of insurance companies; it could also engender their ability to satisfy customers' demand as the need arises in the insurance sector. The nexus between cash flow and financial performance of firms in the financial sector, specifically the insurance companies has become an area of keen interest to numerous researchers both in developed and developing countries. There are very little or no studies that have examined the relationship between cash flow and the financial performance of Insurance companies in Nigeria at least to the best of the knowledge of the researchers. It is this gap this study addresses. The specifically the focus of this study is to examine the relationship between cash flow from operating activities and the financial performance of insurance firms; investigate if cash flow impact on the financial performance of insurance firms; ascertain the relationship between cash flow from investment activities and the financial performance of insurance firms; and determine if cash flow from financing activities impact on the financial performance of insurance firms in Nigeria. section of this paper concerned with a brief review of both theoretical and empirical existing literature; this is followed by section three which presents the methodology employed to undertake the study; next is section four which is devoted to the empirical analysis of data, interpretation of results and discussion of findings; and the last section presents conclusion and recommendations arising from empirical results obtained.

2. Review of Related Literature

There are plethora of studies that have examined the relationship between cash flow and firm performance both in developed and developing countries and such studies include Khoshdel (2006); Ashitiani (2005), Miar (1995); Shahmoradi (2002), Bingilar and Oyadonghun (2014), Nwokoye and Ogbeide (2015), Watson (1955); Amuzu (2010), Chikaghi (2013). The empirical findings from these studies are mixed and inconclusive, thus necessitating a further re-examination of the subject matter. For example, Zhou, Yang and Zhang (2012) report shows that there is a negative relationship between cash flow and firm performance in China. Ali, Alireza and Jala (2013) study revealed that company's performance and cash flow have a significant negative relationship. The study of Ashitam (2005), shows that the relationship between operating cash flows, investments, financing and stock return, a proxy for financial performance in Tehran Stock Exchange are insignificant and negatively correlated. Nwanyanwu (2015) investigates the association between cash flow and organizational performance in hospitality and print media in industry in Nigeria. Data were collected through questionnaire. The analyses were performed by means of descriptive statistics and Pearson product moment coefficient of correlation. The result indicates a statistically significant strong positive relationship between cash flow position and net profit. They concluded that cash flow position determines the extent of net profit performance of organizations in the hospitality and print media.

Ogbonnaya, Ekwe and Uzoma (2016) examined the relationship between cash flow and financial performance of listed banks in emerging economies using Nigeria as an example. The data were obtained from the annual report and accounts of the selected banks. The data were subjected to statistical analysis using correlation technique. The result they obtained showed that operating cash flow has a significant and strong positive relation with performance in the banking sector in Nigeria. Duru, Okpe and Chitor (2015) determined the effect of cash flow statement on company's performance of food and beverages companies in Nigeria. Data were obtained from the annual reports and accounts of six (6) companies sampled for the study. The data were analyzed using multivariate regression technique. The result revealed that operating and financing cash flows have significant positive effect on corporate performance in the food and beverages sector in Nigeria. The result also showed that investing cash flow has significant negative relationship with corporate performance. The research recommended that regulatory authority should encourage external auditors of quoted food and beverages to use cash flow ratios in evaluating the performance of a company before forming an independent opinion on the financial statement as this will give detailed information on the company to enable investors make rational investment decisions.

Amuzu (2010) studied the relationship between accounting ratios, operating cash flows, investments, financing and stock returns in Tehran stock exchange. The researcher used the pearson correlation and simple linear regression method to analyze the data for a sample of 650 listed companies for the years 1998 to 2004. The results showed that there is a meaningful relationship between among the growing of operating earnings, net profits, operating cash flows, investing cash flows with stock returns. It is also worthy to note that the relationships between firm size and performance (profitability) have received mixed results on the empirical fronts. While some studies have ascertained a positive relationship between firm size and profitability on the contrary, others have reported a negative relation between firm size and profitability (Chikashi, 2013). For instance, Watson (2005), found that firm size does not have an effect on profitability. One thing peculiar to all these empirical studies is that they did not critically examine the association between firm size and profitability of insurance firms. The need to bridge the gap on the empirical fronts necessitates this study.

Empirical evidence has not been able to clearly verify the "size does matter", hypothesis; and much of the early works that tried to prove that size does matter was based on markets in the U.S and the UK in the early 1960s and 1970s (Ashtiani, 2005). Also, Boodhoo (2009) study using oligopoly model indicates that size is positively related to a firms' ability to produce technologically complicated products which in turn leads to concentration. The empirical relationship between a firm's size, structure and profitability has found that size is positively correlated with profitability, with profit rate of the market positively correlated with the concentration ratio and negatively correlated with the marginal concentration ratio (Elliot and Elliont, 2002). So, larger firms are able to leverage on economies of scale. Some other studies have showed that there exist non-significant results between firm size and profitability (e.g. Bingilar and Oyadenghan). Another plausible argument to justify the possibility of a negative firm size – profitability relationship can be found in the concept of x-inefficiency; x-inefficiency or organisational slack is a measure of the degree to which costs are higher than they need be (Akintoye, 2008). It is stressed further that whilst diseconomies of scale refers mere to the inadequacy in matching resources requirement to produce more, x-inefficiency reasons that general managerial or technological inefficiency in larger firms cause higher production costs which end – up in reduction in the bottom line, i.e profit rate decline.

The import of this is that is prettily difficult to argue straight and establish with empiricism that firm size predominantly determine profitable, particularly across all industries. Thus there is need for re-verification in this study for the purpose of contributing to existing literatures. The measurement of firm size differs from one researcher to the other. The majority of the studies have reported that firm size affect profitability; they have found results indicating positive direction between firm size and profitability; the majority of these studies have used total assets, total sales or number of employees as firm size indicators (Fabozzi and Markomitz, 2006). The result of the study has indicated that firm size affects firm profitability in a positive way.

3. Methodology

This study is both explanatory and experimental. The population of the study is the entire insurance firms in Nigeria in the period under considerations. The sample size of twenty seven (27) of the insurance companies for the period 2009-2014 was selected using the purposive sampling method. The data were collected from the secondary source, basically from the annual financial statements of the insurance companies. For the purpose of empirical validation of the variables in the above model, the panel estimates generalized least squares (EGLS) is used for analysis. Employing the econometric package of E-views version 7.0, the pooled and panel data estimates of the multiple regression models was used, after carrying out diagnostic tests, correlation analysis and inferential statistics.

3.1 Model Specification

The model employed in this study is underpinned to the work of Duru, Okpe and Chitor (2015) where they examined the effect of cash flow statement on company performance of food and beverage companies in Nigeria for the period 2007 to 2011. The model is modified and used in this present study. It is specified in a stochastic form as follows:

$$Roe_{it} = \beta_o + \beta_1 cshf_{it} + \beta_2\, cshfop_{it} + \beta_3 cshfinv_{it} + \beta_4 cshffin_{it} + \beta_5 fsize_{it} + \varepsilon_{it}.$$

Where

$\beta_1 - \beta_5$ are the coefficients of the parameters of estimation.

ROE represents return on equity, a proxy for firm financial performance and is the dependent variable.

Cshf represents cash flow.

Cshfop represents cash flow from operating activities

Cshffin represents cash flow from financing activities

Cshfinv represents cash flow from investing activities

Fsize represents firm size

ε represents the stochastic error term, β_o is the intercept i= represents cross- section and t is the time period, 2008 -2015 the study covers.

3.2 Apriori Expectation

The a priori expectation in the model is of the form; β_1—β_5 >O. What this connotes is that all the independent variables are expected to have a positive relationship with firms' financial performance.

4. Empirical analysis

The aim of this section is to present the result of the various Econometric Estimation of robustness purpose. The data analyses entail descriptive and inferential analyses. The outcomes are sequentially presented as follows:

Table A: Diagnostic Tests Results

Ramsey RESET Test
Equation: UNTITLED
Specification: RETOE C CASFO CASFI CASFF CASHT TASST
Omitted Variables: Powers of fitted values from 2 to 4

	Value	df	Probability
F-statistic	1.522564	(3, 144)	0.0000
Likelihood ratio	4.777790	3	0.1888

Variance Inflation Factors
Date: 05/31/16 Time: 03:35
Sample: 1 189
Included observations: 153

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	15.03391	3.988277	NA
CASFO	2.98E-06	2.392722	2.176674
CASFI	1.42E-06	1.984924	1.925280
CASFF	2.26E-06	1.661096	1.652231
CASHT	0.022116	2.305824	1.072899
TASST	7.78E-08	4.886147	1.754337

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.021706	Prob. F(4,143)	0.0000
Obs*R-squared	0.092838	Prob. Chi-Square(4)	0.9990

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.792721	Prob. F(5,147)	0.0000
Obs*R-squared	4.017069	Prob. Chi-Square(5)	0.0000
Scaled explained SS	48.23677	Prob. Chi-Square(5)	0.0000

Source: Researcher's computation, 2016.

The Ramsey RESET test which reveals the adequacy of the model specification based on the table above shows that the F – statistical probability value of 0.0000 exceeds 5%, thus indicating no evidence of model misspecification. The variance inflation factor (VIF) test reveals the presence or not of multicollinearity among the variables using center variance inflation nine of the variables shows factor (VIF), sign of multicollinearity. Basically, VIF test above 10 is seen as a cause of concern for the presence of multicollineariy. The result of the Breusch-Godfrey serial correlation langranger multiplier test shows that the prob –chi-square value of 0.0000 is greater than the prob. F – statistical value of (4,143) of 0.0061 at 5%. It thus suggests that the problem of serial autocorrelation in the regression result is unlikely. The autoregressive conditional Heteroscedasticity test (ARCH Test) result show that the prob-chi-square value of observed R – squared (0.000) exceeds 5%, hence the conclusion drawn is that no Heteroscedasticity exists in the regression result. The implication of the above diagnostic tests result is that there is no violation of the OLS assumption.

Table B: Correlation Matrix

	RETOE	CASFO	CASFI	CASFF	CASHT	TASST
RETOE	1		0.083	-0.023	0.181	0.107
CASFO	0.158	1	-0.393	-0.126	0.145	0.634
CASFI	0.083	-0.393	1	-0.507	0.087	-0.307
CASFF	-0.023	-0.126	-0.507	1	-0.101	0.039
CASHT	0.181	0.145	0.087	-0.101	1	0.196
TASST	0.107	0.634	-0.307	0.039	0.196	1

Examination of the above table points out that all the variables are both weak and positively and negative associated. RETOE and CASFO are positively correlated, CASH and CASFO are positively related. The s are applies among the other variables respectively. No multicollinearity is observed in the correlation matrix.

Table C: Hausman Test

Test summary	Chi-square statistic	Chi-sq d.f	Prob
Cross-section random	4.6112	6	0.0012

Source: Data computed by researchers based on E-VIEWS, 2016

From the above table, Hausman test chi-square statistic is 4.6112 with a probability value of 0.0012 ($P < 0.05$) indicating significant difference. Thus, the null hypothesis is rejected hence the conclusion is that the fixed effect estimator is preference.

4.1 Panel least square multivariate regression analysis

Table D: Fixed effect estimation

Dependent variable RETOE	Variables	Coefficient	t-statistic	Probability
	C	-5.412061	-1.341209	0.1820
	CASFO	0.003802	2.206141	0.0290*
	CASFI	0.002409	2.006689	0.0467*
	CASH	0.001788	1.176765	0.2413**
	TASST	-8.45E-05	-0.298178	0.7660**
R^2	0.73			
ADJ. R^2	0.66			
F-statistic	1.948765			
Prob. F-statistic	0.037994			
Durbin-Watson stat	1.547016			

Source: Data computed by researchers, 2016.

Key: * Indicate 95% level of significance. ** Indicate none significance at 95% level.

The above table shows that the R^2 statistic is 0.73 while the adjusted R^2 statistic is 0.66. This shows that 73% of systematic variation in financial performance (RETOE) of the insurance companies is explained by changes in cash flows. After adjusting the degree of freedom, 66% variation in the financial performance of the insurance firms was explained by changes in explanatory variables, learning 34% unexplained due to the presence of stochastic error term. This suggests that cash flow influence the financial performance of insurance firms in Nigeria. The F – statistic, 1.948765 with a probability value of 0.037994 showed that the model satisfies the overall goodness of fit statistical test. It implies that cash flow measures, inclusive of the control variable are able to predict financial performance of the sampled insurance companies in Nigeria. The Durbin-Watson statistic of 1.54 (approximately 2.0) indicate the absence of serial autocorrelation in the model. It suggests that the result it good for policy prescription. Similarly, the t-statistics and R^2 statistics are not extremely high as to suggest the existence of Multicollinearity and Heteroskedasticity in the model. It further portends that the econometric model employed in this study satisfies both statistical and diagnostic criteria. It represents a good and consistent estimator, and hence useful for policy direction in the insurance firms in Nigeria. The individual coefficient shows that a unit change in cash flow from operating activities increases the financial performance (RETOE) of the insurance firms by 0.003802 units and is statistically significant at 95% level. 0.002409 units change in cash flow from investing activities enhances the financial performance (RETOE) and it was statistically significant at 95% level. It can be observed that 0.001788 unit change in cash flow from financing activities increases the financial performance (RETOE) of the insurance firms. It is however not statistically significant at 95% level. Cash flow generally put together is observed to increase the financial performance of the insurance firms by 0.326666 units and is statistically significant at 95% level. Total assets which measure the size of the insurance firms in Nigeria have -8.45 units. This shows that the size do not increase the financial performance of insurance firms and is also not statistically significant in the period considered.

5. Discussion of findings

The empirical estimations as regard the impact of cash flow on the financial performance of insurance firms in this study in Nigeria is quite revealing. Cash flow was observed to determine insurance firms' financial performance and is statistically significant. The finding is consistent with Knechel et al., (2007); Bingilar and Oyadunghan (2014); Tuvcas (2011) Amuzu (2010). The findings however differ from that of Uremadu, (2004) where they reported negative impact of cash flow on firms' performance. The implication of this finding is that efficiency and application of managerial skills by managers in handling the three major activities in the business will engender performance. This ultimately will lead to maximization of the shareholders wealth. Cash flow from operating activities was observed to significantly increase financial performance of the insurance companies in the period examined. The findings however complimented Van, (2009) and that of Duru, Okpe and Chitor (2015). The findings are however not in tandem with Ashitani (2005). Cash flow from financing activities was found to increase the financial performance of the sampled insurance firms, but was not statistically significant. It failed to agree with Ali et al (2016). Cash flow from investing activities enhances the financial performance of the firms and was statistically significant. The finding is indirectly in consonance with Thanh and Nguyen, (2013). It is not however consistent with Ashitani (2005). The size of the insurance company did not increase the financial performance of the insurance firms and was also not statistically significant.

6. Conclusion and recommendations

Cash flow is a major concern that every managers watch out for carefully so as to achieve a stated objective. A negative cash flow spells out insolvency and financial crisis, particularly for insurance firms. This is because without cash, it is prettily difficult to efficiently operate the business, meet their obligations as at when due, expand operation and maximize wealth of the shareholders. The results of this study have showed that cash flow is a major determinant of the financial performance of insurance firms in Nigeria. Size does not increase financial performance of insurance firms. What is required to operate optimally is efficiency in the cash flow generation. A lot of insurance companies have liquidated due to the inability to meet financial obligations to the customers majorly occasioned by insufficient cash flows. This has engender moral hazard and adverse selection in the insurance sector in Nigeria. It is therefore recommended that there has to be adequate policy thrust by CBN, making it mandatory for insurance companies in Nigeria to maintain persistent increase in cash reserve. The level and strength of corporate governance need to be monitored by the Apex bank. The managers in insurance firm should regularly change the extent of the cash outflows under each activity to avoid negative cash flow position as well as financial crisis. Adequate investment appraisal is really a concern that insurance firms need to take into consideration when customers are taking up insurance coverage. The costs have to be weighed against the benefits accruable therefore.

7. References

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ABOUT THE INSOLVENT FIRMS IN ROMANIA IN THE PERIOD 2010- 2015

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Abstract

Insolvency is that state of an enterprise's patrimony which is characterized by insufficiency of the financial funds available for the payment of outstanding debts. In Romania, the 2010- 2015 period is characterized by a very high level of insolvencies, which affected the national economy as a whole and the business environment, through financial and social losses (employment).

In our paper we present the concept of insolvency and its determinants and try to highlight the situation of insolvent companies in Romania in the period 2010- 2015, emphasizing the insolvent firm's profile. In this regard we use a descriptive methodology, using statistics of National Trade Register Office and economic studies of Coface, an expert in commercial risks.

Kez words: *firm, insolvency, economic results, interruptions*

Jel Classification: G30, G33, G34

1. Theoretical aspects about insolvency procedure

According to Law 151/2015 Insolvency of individuals, published in Official Monitor no. 464/2015, insolvency is that state of patrimony of an enterprise which is characterized by insufficient financial funds available for the payment of outstanding debts. In other words, when the debtor has no "cash" amounts with which to pay his debts, he is in insolvency.

It should be noted that a debtor in insolvency has the opportunity, if he meets certain conditions expressly provided by law, to enter into a phase of reorganization of the activity according to a plan approved by creditors and confirmed by the syndic judge. If thus the reorganized activity is profitable and allows the payment of all debts, according to the terms and conditions established in the plan, the debtor emerges from insolvency, maintains his legal personality and will continue to operate without any judicial administrator or syndic judge intervention.

If the debtor's activity does not comply with the plan, then the debtor emerges from reorganization phase and goes into bankruptcy. Now the debtor's activity is under the command of the judicial liquidator, who will start evaluating and capitalizing goods and will pay debts from the collected amounts.

After completion of sale procedure of goods, the debtor will be removed from the register where it is inscribed, so it will cease his existence.

Usually, it is considered that the procedure of "insolvency" is the same as "bankruptcy" and regarding the "reorganization", this concept is associated with insolvency / bankruptcy. However, while the three concepts (insolvency, bankruptcy and reorganization) are related to each other, they have different meanings.

a) the "insolvency" procedure is that legal procedure that opens at the request of the debtor or creditors, if a firm is in insolvency. According to the insolvency law, represents that state of patrimony of a company that is characterized by insufficiency of financial funds available for the payment of certain, liquid debts.

b) "bankruptcy" procedure means the insolvency proceedings which applies to the debtor for liquidation of his assets to cover his liabilities, followed by the deletion from the register where the debtor was enrolled.

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c) the judicial "reorganization" procedure is the insolvency procedure applicable to the debtor for paying his debt, according to the payment programme of claims. This procedure involves the preparation, approval, implementation and adherence to a plan, called reorganization plan, which may provide, jointly or separately: the operational and / or financial restructuring of the debtor; corporate restructuring by changing the structure of capital; limiting of activities through liquidation of the debtor's assets.

The insolvency procedure is an "umbrella" procedure, which includes both the reorganization and the bankruptcy procedures. Therefore, the relationship between the other two sub-procedures (bankruptcy and reorganization), on the one hand, and the insolvency procedure, on the other hand, is the one of part to whole.

2. Insolvency influence factors

Usually, companies fall into default due to the critical financial mistakes they commit. It is recommended not to pay rates in advance and not to invest in the long term if there are not short-term resources.

The most important five mistakes related to the investment and cash flows management, that determine the firms to become insolvent, are:

- inadequate working capital. Working capital is part of the company's permanent capital used to finance current activity (exploitation activity); inadequate working capital implies the conversion rhythm of expenditures into payments faster than the rhythm of revenue collection.
- "inadequate" quality of revenue, respectively an unfavorable situation of liquidities available.
- insufficient operational yield for the debts cost - refers to companies which registered an operating profit, but its level (of profit) is enough only for coverage to limit of related interest expenses for the contracted debts.
- inefficient investment - aimed at companies that have registered significant investments, but reported revenues or profits in decline.
- return on investment, lower than the financing costs related to loans contracted to support these investments.

Most enterprises in insolvency are within a state of financial difficulty, aspect that is determined taking into account the profitability, losses and level of indebtedness. Basically, in the economy we have three categories of firms:

- firms with a healthy financial structure (profit, degree of indebtedness <70%);
- firms in difficulty (have an indebtedness degree between 70% and 100%, profit or loss);
- firms in imminent insolvency (loss, level of indebtedness> 100%)

3. Situation of insolvent firms in Central and Eastern Europe

Countries in the CEE region enjoyed good economic conditions in 2015 and this determined an improved situation for the enterprises in that area, the number of insolvencies being in decline in most of analyzed states.

Within the CEE region, the dynamics of insolvencies varied; the strongest decrease was recorded by Romania, which received significant tax incentives, and the largest increase was recorded by Ukraine, which experienced another year of recession caused by the conflict with Russia.

For most countries, the level of insolvencies has not yet returned to the level before the financial and economic crisis in 2008. In the Czech Republic, there were almost 4 times more insolvencies than in 2008, in Poland, 1,8 times more, in Slovenia, 2,2 times more. At the same time, insolvent firms in Slovakia and Romania are still below the pre-crisis levels.

Regarding the insolvencies in Romania, compared to similar countries in Central and South East Europe region, our country is still recording a very high incidence reported to the number of active companies.

Last year, insolvencies in Romania dropped by an impressive 49,5%. However, a more detailed analysis indicates that the highest decrease was among non-active companies - a phenomenon which resulted in a strong fall in total insolvencies. The share of companies which had zero turnover, or did not submit financial statements last year, amounted to 59%. The breakdown also shows that a further 23% share was taken by very small companies (with turnovers of up to 100.000 euro). Nevertheless, despite a contraction in the number of bankruptcies, Romania's insolvency rate remains the one of the highest among CEE economies. There were more than 2 bankruptcies per 100 active companies in 2015.

As shown in the following table, Romania and Serbia are the only countries that registered in 2014 more than 40 insolvencies reported 1.000 active firms.

Table no. 1 Central and Eastern Europe, insolvencies 2012- 2014

Country	Total insolvencies 2014	Total insolvencies 2013	Total insolvencies 2012	Total active firms
Romania	20.120	27.924	25.842	443.616
Serbia	4.773	8.498	8.333	115.692
Hungary	17.461	13.489	22.840	595.000
Lithuania	1.636	1.517	1.400	93.017
Croaţia	2.764	3.186	3.033	253.000
Czech Republic	12.772	10.653	8.045	1.471.000
Slovenia	1.446	994	980	185.500
Estonia	523	514	495	139.000
Latvia	853	818	883	229.600
Bulgaria	644	834	601	400.000
Slovakia	522	507	452	628.569
Poland	823	883	877	1.795.000
CEE Average	64.337	69.817		6.348.994

Source: Coface, 2016, Study of insolvencies in Romania

Though the number of insolvencies newly opened in 2015 showed a reduction by 51% compared with 2014, Romania shall be among the first countries, regionally, in terms of insolvencies per 1.000 active companies. We note that during the reported period, Romanian holds the first position in the ranking of insolvencies, followed by Hungary and the Czech Republic.

4. The situation of insolvent firms in Romania during 2010- 2015

The number of insolvencies opened in 2015 is down by approximately 51% compared to previous year. However, in Romania, the incidence of insolvencies per 1.000 active companies is more than 4 times higher than the average on the regional level (Central and Eastern Europe), local average being of 45 insolvencies per 1.000 active firms.

In terms of sectoral distribution, manufacture of textiles, clothing and footwear, sewage and garbage removal, sanitation and similar activities, construction, food and beverage industry, hotels and restaurants are the sectors with the highest number of insolvencies newly opened in 2015, reported per 1.000 active firms. As regards the territorial distribution, areas in Bucharest and North-West are the first two regions where there are the highest numbers of insolvencies, while the North-East, West and South-West remain on the latest positions in this regard.

According to statistics from the National Trade Register Office, in 2015 there have opened 9.886 new insolvency proceedings, in decrease with about 51% compared to previous year, when there were opened 20.170 insolvencies.

Table no. 2 Evolution of insolvencies in the period 2010- 2015

	2010	2011	2012	2013	2014	2015
Total insolvencies	19.650	21.499	25.842	27.924	20.170	9.886
Deviation		9%	20%	8%	-28%	-51%

Source: Coface, 2016, Study of insolvencies in Romania

During 2010- 2015, we observe a "peak" of insolvencies in 2012 and from 2014 their number begins to diminish, reaching a minimum in 2015.

The significant decrease in insolvencies recorded in 2015 compared to the previous year is relevant only from the statistical point of view, the dynamics being registered on the background of a basic effect, as well as the decline in the number of insolvencies among very small firms.

4.1. Financial situation of insolvent firms in the period 2010- 2015

We present below the main financial indicators of the companies that became insolvent during the period 2010 - 2015, based on financial statements filed a year before the moment of their entrance into insolvency (for example, for companies that became insolvent in 2012 were calculated financial indicators on the basis of the declarations submitted for 2011).

Table no. 3 Financial indicators of insolvent firms in 2010- 2015

Indicator	Insolvencies 2010	Insolvencies 2011	Insolvencies 2012	Insolvencies 2013	Insolvencies 2014	Insolvencies 2015
Turnover(mil lei)	1,75	1,35	1,47	2,19	2,04	2,74
Net result	-17%	- 17%	- 15%	- 10%	-12%	-7,9%
Level of indebtness	99%	112%	64%	101%	99%	123%
Turnover/ Debts	73%	55%	59%	91%	82%	69%
Fixed assets/ Assets	45%	48%	68%	47%	43%	40%
The average duration of debt recovery	179	199	188	134	166	181
The average duration of stock rotation	79	82	63	57	72	70
Suppliers rotation/ turnover	234	242	233	177	235	235
Operating cycle	258	281	251	191	238	251
Cash conversion cycle	24	39	18	14	3	16

Source: Coface, 2016, Study of insolvencies in Romania

Therefore, there are the following:

a) firms which became insolvent in 2015 present a better overall financial situation compared to that recorded by insolvent companies in the same period of 2010 -2014. The companies that became insolvent in 2015 record:

- an average level of the turnover of 2,74 million lei, higher than the average registered by the insolvent firms in the period 2010 -2014 (1,76 million lei);

- a much lower level of loss, of only -7.9%, compared with the loss of over 10%, recorded by insolvent companies in the period 2010-2014;

- an average duration of debt collection of 181 days, approximately one month more than the average recorded by insolvent companies in the period 2010-2014;

b) average values of financial indicators for companies that became insolvent in 2015 are better than insolvencies during the period 2010- 2014.

However, the level of indebtedness of the companies that became insolvent in 2015 (123%) is much higher than that reported by insolvent firms in the same period in 2010 - 2014 (95% on average). This caused a very high service of attracted debts, which had an impact on extending payment terms to suppliers.

It should also be emphasized that in terms of insolvencies among companies, a large number belongs to those which record a turnover of more than 1 million euro.

Table no. 4 Insolvent firms related to turnover, in 2010- 2014

Category of turnover, newly opened insolvent firms	2010	2011	2012	2013	2014	2015
1-5 mil euro	468	402	383	561	476	455
5-10 mil euro	65	45	57	112	79	66
10-50 mil euro	31	33	37	67	66	51
50-100 mil euro	2	2	5	10	8	3
> 100 mil euro	3		3	7	3	2
Total insolvencies	569	482	485	757	632	577

Source: Coface, 2016, Study of insolvencies in Romania

These firms represented the creditor final creditor of propagation the commercial credit between business partners. The number of insolvencies opened in 2015 among companies with turnover exceeding 1 million euro was 577 companies, above the level recorded in the period from 2010 to 2012, although the total number of insolvencies newly opened in the analyzed period declined below half.

4.2. Situation of insolvent firms according to territorial distribution

Bucharest and North-Western areas remain the first two regions where there are the highest numbers of insolvencies compared to the areas Northeast, West and South-West, which remain on the latest positions in this regard.

Table no. 5 Insolvencies related to territorial distribution

Region	Insolvencies 2015	Insolvencies 2014	Insolvency deviation 2015/ 2014
Buharest	1.718	3.473	-51%
N-V	1.638	2.946	-44%
S-E	1.385	2.635	-47%
S	1.220	2.627	-54%
Centre	1.122	2.919	-62%
N-E	1.054	1.764	-40%
V	1.041	1.845	-44%
S-V	708	1.961	-64%
Total	9.886	20.170	-51%

Source: Coface, 2016, Study of insolvencies in Romania

We also observe the significant decrease in insolvencies in 2015 than the previous year, in the areas of Bucharest, Centre, South West and South.

4.3. The situation of interruptions in the period 2010-2014

When referring to the term "interruption", we consider the categories: suspensions, dissolutions, erasures, respectively insolvencies.

Therefore, as stated below, the report between firms that have ceased activity (all forms) and the number of those newly registered (LLC) increased from the level recorded in 2010, namely 2,29, to nearly 2,32, the level in 2014. This confirms that the dynamics of interruptions was significantly higher than new business registrations, due to a very low entrepreneurial spirit and a fiscal framework that does not present a long-term predictability and sustainability.

Table no. 6 Report registrations vs activity interruptions

Interruption category	**2010**	**2011**	**2012**	**2013**	**2014**
Suspensions	24.398	21.221	21.086	24.078	15.788
Dissolutions	7.508	4.001	22.500	23.208	18.336
Erasures	58.726	46.245	71.746	80.786	76.483
Insolvencies	19.650	21.499	25.842	27.924	20.216
Total interruptions	**110.282**	**102.966**	**141.174**	**155.996**	**130.823**
Total registrations	119.048	130.162	125.603	124.816	101.627
Of which LLC	48.102	62.735	61.542	60.292	56.381
OUT/ IN Report (LLC)	**2,29**	**1,64**	**2,29**	**2,59**	**2,32**

Source: Coface, 2016, Study of insolvencies in Romania

According to the latest figures published by NOTR, 127.870 of companies have ceased activity in the first 11 months of 2015, in increase with 7% compared with 2014. Although the number of newly opened insolvencies fell by half, this contraction was compensated by the advance recorded for other forms of interruption, the largest increase being among dissolved companies, namely 46%.

5. Conclusions

2010- 2015 period is characterized by a very high level of insolvencies, which affected the national economy as a whole and business environment, these effects being evaluated from different perspectives:

- capping of economic growth: according to European Commission forecasts, the potential GDP of Romania for the 2011-2015 had an average of 3%, significantly below the 5% level recorded before the financial crisis impact (due to reduced foreign direct investment and modest absorption of European funds, low productivity and negative spore in evolution of employment).
- reducing the budget deficit by increasing tax revenues fueled by additional social Contributions.
- the losses caused to creditors.

Of all creditors of insolvent firms, providers recorded the largest losses, followed by credit institutions (banks, leasing companies), and state authorities.

The fact that suppliers have recorded the biggest losses because of companies that became insolvent in the period 2010-2015 was caused by increasingly stringent conditions for bank financing starting with 2009, private companies being forced to use more the credit supplier. Risk of default was amplified during 2010 - 2013 because:

- there was a generalized phenomenon, many companies promoting the same behavior in the same period;

- the phenomenon was amplified on marketing chain, as the requests for extension of deadlines for payment / collection progressed on the chain of supplier;

- the phenomenon has created increasing interdependence among firms, more businesses indicating temporary incapacity of payment on the background of not collecting receivables from important customers;

- duration of income conversion from receipts increased, while the pressure to materialize the expenditures into payments also increased, amplifying the pressure on the firms liquidities.

In this context, large and very large firms have progressively played the role of "commercial banks" for their customers, preferring to accept extended collection deadlines. SMEs have transferred in the post-crisis period a significant share of bank credit to the commercial credit (credit supplier), this being likely to intensify relations between private companies, which began to wear a significant financial form, not only one with commercial character. Given all these structural changes in the economy, the contagion effect and propagation of adverse shocks are much faster at present.

Therefore, the main causes of increased insolvencies in the analyzed period were:

- gradual disrupting of balance sheet structure. Those companies have attracted additional financial resources (indebtedness degree increased from 98% in 2010 to 123% in 2014), which were directed to the long-term investment;

- the latter did not generate additional revenue or an increase in productivity by improving operational edge. On the contrary, average income decreased by almost 5,3% in 2014, dynamics that was not coupled with a corresponding adjustment of expenditures, the consolidated level of losses increasing to 7,9%;

- in this context, coverage degree of debts through operating income decreased from 117% (level in 2010) to 69% (level in 2014);

- companies that became insolvent in 2015 have recorded a doubling of the average debt collection period from 2010 to 2014, the average duration of debt recovery increasing gradually from 118 days (in 2010) to 181 days (2014);

- despite this, the average payment to suppliers almost tripled in the same analyzed period, increasing from 89 days (2010) to 235 days (2014);

- conversion cycle of cash (calculated by cumulative level of stock rotation and receivables minus the average duration of payment of suppliers) decreased significantly in 2014, which means that the main source of financing the long-term investments was represented by debt increase on short term.

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REASSESSING CONVENTIONAL AND UNCONVENTIONAL MONETARY POLICIES

Alina Georgeta & Ailincă[1]

Abstract: A lot has been written about the conventional and unconventional monetary policies, and the literature shows the advantages and disadvantages if these monetary policies. It can often be noticed that there is no clear, unanimously accepted explanation for giving up the conventional monetary policies; only their limitations are showed. It is also not clear how much or which of the quantitative easing, negative policies rates or forward guidance policies were beneficial for the economic growth, production and inflation. There is an opinion that their use cannot be beneficial on the long term because they are mostly circumstantial measures, but their withdrawal might also be difficult and, if done, it should be gradual. The paper aims to provide a critique of the conventional and unconventional monetary policies, examining thoroughly their role and behaviour within the real and monetary economy. The paper shows that the mistrust and the lack of correct and complete assumption of the role of the monetary policy within the economy are among the causes of the limitations of the conventional and unconventional policies within the economy.

Keywords: monetary policies, quantitative easing, policies negative interest rates, forward guidance

JEL Classification: E40, E52, E58, E61

1. Introduction

Within the context of the global economic and financial crisis, the main central banks of the world adopted measures to improve the world monetary, financial and economic conditions. These measures went beyond the classical context of influencing the short-term interest rates, entering the so-called sphere of the unconventional.

Generally, the monetary policy acts on the economy and inflation control through more or less conventional instruments. The stimulation of economy and, sometimes, even the impulsion of inflation, can be done by reducing the monetary policy interest rate. This influences indirectly the economy by, for instance, decreasing the interest rates for the mortgages and car loans and by consolidating the stock exchanges by increasing the volume of transactions and by increasing the trust in the economy. This improves the financial conditions and enhances the trust of the households and companies in spending, producing and selling as much goods and services as possible. Inversely, when the economy overheats, the key interest rate is increased to temper the economy and the inflation. This reality is valid, however, up to a specific level, the monetary policy interest rate being unable to adjust the economy further in the proximity of zero, the negative interest rate being equivalent with a penalty for the deposit holders. Nevertheless, invoking the limits of the classical monetary policy, the use on unconventional instruments was seen as the "saving" solution by many specialists and by the managers of the main central banks worldwide, being able to direct the world economies on the road of stability and, even, economic growth.

2. Literature overview

The literature on the impact of the unconventional monetary policies is considerable, with arguments in favour of the fact that they helped reducing the lack of liquidity on the financial markets and the stress on the financial and monetary markets, while relaxing the general conditions for credits.

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According to Borio & Zabai (2016), although they were supposed to be temporary and exceptional, the unconventional monetary policies turned out to be rather permanent and standard, their limits expanding. The distinction between the lender of last resort and usual operations became extremely blurred (Domanski et al, 2014), both during the period of prolonged „crisis" and during the period of normality or, even, stability.

3. Methodology

The paper aims to make a constructive critique and the debate the positive and negative elements of the conventional and unconventional policies of monetary policy. Making comparisons allows understanding more the pluses and minuses of the unconventional methods. The monetary policies are classified as conventional or unconventional, but they actually contain a mix of conventional and unconventional measures or instruments. Even the conventional elements are often pushed into the unconventional area, making the conventional instruments lose credibility. Practically, the set of instruments at the international level and, particularly, of the central banks is rather mixed, the trait of "conventional" or "unconventional" being due to the preponderance of these measures and to the assumption of a particular role within the economy. The paper is a partial and updated valorisation of the 2016 theme with the title of „Post- crisis monetary policy - trends, instruments, objectives" (main coordinator Ailincă, A.G.) of the Centre for Financial and Monetary Research „Victor Slăvescu".

4. Arguments in favour and against the conventional monetary policies

The monetary policy acts indirectly on the economy, and initially directly only on the interbank monetary market, by setting targets for the overnight interest rate for the credit and deposit facilities and through open market operations for the supply or withdrawal of liquidity. Central bank operations are, in principle, reversible, managing the conditions of liquidity on the monetary markets and the long-term price stability. Irrespective of the nominal anchor, especially in the small and open economies which use inflation targeting as anchor, the central banks use open market currency operations to dampen the exchange rate shocks (Stone et al, 2009). According to Bini Smaghi (2009): „in normal times, the central bank is neither involved in the direct crediting of the private sector or of the government, or in direct purchases of state bonds, of corporate debts or of other type of debt instruments. By directing the interest rates level, the central bank manages efficiently the liquidity conditions on the monetary markets and follows the main objective of maintaining the medium-term price stability". When the monetary policy interest rate goes beyond zero level, unconventional measures of monetary policy are to be enforced. According to Alexander et al. (1996), the most used direct (conventional) instruments are interest rates control, direct crediting and credit ceiling; among the indirect (unconventional) instruments are the open market operations, credit facilities of the central bank and the minimal compulsory reserves. In order to maintain the financial stability, the central banks use the lender of last resort mechanism as conventional instrument to provide liquidity for the credit institutions.

Since the conventional monetary policy has been used for many decades, the effects which it might have and must have are known, but the effects of the unconventional monetary policies are not fully known and the extent of their effects are yet to be fully ascertained (Williams, 2012).

On the other hand, the use of unconventional monetary policy methods seems to be motivated by the incapacity of the central bank to meet its objectives either because of a dysfunctional mechanism of transmission, or because the further reduction of the interest rates can't guide the expectations regarding the long-term interest rates and can't improve the financing conditions on the interbank markets.

According to Bernanke, Reinhart and Sack (2004) and to Bernanke and Reinhart (2004), when the nominal interest rate reaches zero lower bound (ZLB), and the evolution of prices is downwards, the monetary policy efficacy depends on the policies or on the alternative measures such as: 1. Use of communication policies to model the public expectations on then future interest rates evolution; 2. Increase the central bank account balance; 3. Change the central bank balance composition. The authors note that although for the USA, the results of using non-standard instruments are better than for Japan (at least regarding the efficiency of the communication policies), prudence must be maintained in evaluating the results, since they are rather unsure in terms of quality. The authors also suggest that the actions of the monetary policy managers should be directed towards the prevention and control of deflationist risks (idea previously supported by Reifschneider and Williams, 2000).

5 .Arguments in favour and against the unconventional monetary policies

According to the IMF (2013), in order to restore market functionality and the financial intermediation the main central banks, such as Great Britain central bank, the Fed, ECB and the Bank of Japan, used unconventional monetary policies. This shift to an "unconventional" approach also had another argument, accommodate the interest rate evolution at Zero lower bound. The purpose of implementing these unconventional measures was to ensure the macroeconomic stability. In order to restore market functionality and the financial intermediation, according to the IMF, the banks used private asset purchases and targeted liquidity provision, while to accommodate the interest rate evolution at Zero lower bound, they used bond purchases and forward guidance. These measures proved somehow their efficiency during the peak period of the crisis, when the risks were lowered, market functionality was restored, the international trade returned to normal, the credit spreads decreased and the yield of the long-terms securities decreased.

However, despite some beneficial effects of the short term, as the, already high, flows of capital of the world central banks become excessive, there is the possibility of future macroeconomic constraints and of return to the period of crisis. The macroprudential policies can solve some of the problems but, within the context in which the real, financial and public sectors are not reorganised, the pressure on the monetary policies increases more and more. This "more and more" might highlight a moment of crisis or a turning point in the role of the monetary policies within the economy and society in general, or in the manner of applying these policies in practice.

The main objections regarding the unconventional monetary policy measures regard the practical aspects of their implementation, the correlation with the traditional measures and the coordination with other macroeconomic policies.

There is no unanimously accepted definition of what is or isn't conventional in the matter of monetary policy, and the limit between them often disappears. Under the present conditions, the limit between the monetary policy and the fiscal policy also is hard to notice (Roubini, 2016). However, when the monetary policy interest rates are brought to zero or in its proximity, and there is the danger of deflation, which sometimes even occurs, unconventional monetary policies are often called in to ensure the liquidity and depth of the financial market (IMF, 2013). According to Caruna (2009), the unconventional monetary policies are defined as operations of administration and increase of the liquidity, passing from a passive role – ensuring the objective of a particular interest rate level under normal conditions, to an active role – influencing the general financial conditions of the market. He sees the unconventional monetary policies as an instrument of crisis management, which completes and expands the classical monetary policy.

According to Bini Smaghi (2009), when the monetary policy interest rates are brought to zero, or when they don't function efficiently even above this level, they can be compensated by additional measures such as forward policy guidance; increasing the size of the central bank balance; change the composition of the central bank balance. Therefore, these unconventional measures aim to improve the financing conditions by increasing the liquidities, by adjusting the interest rate margins for credits and of the maturities on different segments of the monetary market and by restoring the trust. At the same time, he notices that if the quantitative easing (QE) measure, which aims to change the market conditions for the riskless assets, such as the governmental bonds, is prevailing, then the monetary policy interest rate is zero or in its proximity, while the credit easing, directed towards changing the market conditions for the financial assets irrespective of the risk, may also function when the nominal interest rate is positive. Both measures bear upon, however, the size of the central bank balance and may increase the exposure of the monetary authorities to risks.

In the USA, after the 2008 moment, according to Williams (2012), the Fed used forward policy guidance and large-scale asset purchases or quantitative easing.

Forward policy guidance is that instrument which guides the future decisions of the households, investors and businessmen suggesting the direction of the short-term and even medium and long-term interest rates, as well as market conditions and expectations. Its efficiency has been proved for the USA, particularly after 2011, showing Fed's intention to maintain low short-term interest rates much after the economy recovers. There is, however, the risk that under the possible inflation pressure, the central banks that use this instrument will no longer be able to use it as they promised, for instance by increasing faster the key interest rates (Walsh, 2009). The public expectations can also differ from central bank expectations, and this is why forward policy guidance may not work properly (Williams, 2006), given the important differences between what the central bank wants and what the public wants.

Large-scale asset purchases or the quantitative easing (Q.E.) or balance sheet policies – this instrument works very well with fragmented financial markets, with investors whose preferences are properly shaped, in which the demand and offer of financial assets influence their price. For instance, if a central bank purchases large amounts of treasury bonds or securities having mortgages as collaterals, then the offer of these securities towards the public decreases, their price increases and their yields decrease; as the effect is contagious, the rates of other medium and long-term indebting instruments also decrease, which stimulates the economic activity of the companies and household consumption. At the same time, the unconventional monetary policy influences the yields and price of the state bonds both before and after announcing such measures of monetary policy. To the extent to which the quantitative easing also captures the decision-making aspect of the central banks to relax the monetary conditions in the future, one may say that this also supports the forward guidance measures, practically being complementary measures (Williams, 2012).

According to Woodford (2012), the forward policy guidance measure proved to be efficient by decreasing the expectations for the future interest rates, while according to Swanson (2011), Chung et al. (2012) and Chen, Curdia, and Ferrero (2012) QE measures have important effects (often with magnitude similar to that of the forward policy guidance and of decreasing to 1pp the interest rate to federal funds in the USA) on the yields of the long-term (10 years) treasury bonds.

According to Cerna (2016), by adopting in early 2015 a quantitative easing-type policy, the European Central Bank managed to stimulate the demand on the background of intensifying inflationist anticipations and decreasing interest rates in the euro zone countries, and to depreciate the European currency in relation to the main world currencies, which stimulated the exports of the euro zone countries. At the same time, this expanded the process of financial assets portfolio relocation towards higher risk and higher yields placements, which increased the price of the euro zone company shares.

There are studies showing that the unconventional monetary policies have a positive, refreshing impact on the economy, thereby increasing the GDP, decreasing the unemployment rate, preventing the possible deflationist effects and improving the financial conditions on the capital markets. For instance, according to Chung et al. (2012), the quantitative easing program QE2 in the USA (as of November 2010), amounting to US$ 600 billion, decreased by about 0.3 pp the unemployment rate compared to the variant without this program, increased the GDP with little more than half percent point and increased inflation by 0.2 pp. the same authors estimate that the joint effect of the QE1 and QE2 programs from the USA, decreased the unemployment rate by 1½ percent points and shielded the US economy from the danger of deflation. Another effect of the unconventional measures, particularly of the quantitative easing, is the devaluation of the national currency against other currencies. For instance, according to Neely (2011), QE2 program depreciated the US dollar by about 3-4%, which increased the competitiveness of the US production of goods on the domestic and foreign markets. It is, nevertheless, difficult to determine for sure how much of these effects is due to the unconventional monetary policies, and how much to other factors.

Furthermore, despite ample unconventional monetary policies (see the Bank of Japan, in the early 1990s) inflation remained low, but there is the danger of future inflationist pressures. A possible explanation why the quantitative easing could not drive sufficiently the inflation and the economic growth is the fact that it operates mainly with the nominal economy, not with the real one, which is why it doesn't stimulate the purchase of goods and services, its beneficiary being mainly the financial-banking system. The brutal withdrawal of the quantitative easing measures may lead to losses of capital and financial instability, including losses in the balance sheets of the central banks.

The unconventional monetary policies can contribute to the acceptance of excessive risks on the international and regional financial markets, on the background of the continuous need for high yields on the markets with flattened average yields. Speculative bubbles are likely to appear again, even on the real estate market, which was the cause of the recent global crisis. Using quantitative easing, states and areas such as the USA, Great Britain, the euro zone and Japan, influenced the consumption and investment decisions, the production, purchase and sales decisions, altering the economic decisions regarding financing, forcing the inefficient functioning of the economies, decreasing the impulse that would make the states improve their finances and make the necessary economic reforms, often decreasing the possibilities of future investments, outflows of capital directed towards the emergent economies. Some of them already have problems with the overvaluation of the exchange rate and might have to increase the interest rates so as to reduce the excess of liquidity. Furthermore, according to Cerna (2016), on the background of the QE, the stronger legislative constraints, the prudence manifested by the financial institutions, the excess liquidity supplied by the ECB on particular segments of the financial market, as well as the low interest rates, might make some financial-banking institutions get less involved in the role of market maker.

The low monetary policy interest rates are somehow connected to the persistent expectations regarding a low level of inflation, but the improvement of work productivity and the revival of the economic cycle might cause the regime to change. The analysts often wonder whether the inflationist expectations can be raised by increasing the monetary policy interest rates (vision shared by the Bank of International Settlements and by

Blanchard, 2013, Williams, 2016 etc.), with the purpose of avoiding the possible speculative bubbles. Nevertheless, if this change of regime is not interpreted as credible by the international markets, besides the maintenance of inflationist pressures, new financial recessions and crises might by generated.

The massive inflows of capital can deregulate both the external balance and in internal balance of investment-saving and might start possible speculative bubbles, and the production might exceed its potential level, as it was noticed in South-Eastern countries of the EU before the crisis. This can also be started by the measures of quantitative easing used by the main central banks of the world, which pushed the financial liquidities, in their pursuit of better yields, towards the emergent economies. Therefore, the monetary policies of the main central banks of the world should find solution to increase the potential GDP and to boost the economic growth in general; the role of the monetary policy should be the search for a better connexion with the other macroeconomic policies (the fiscal-budgetary policy, in particular) regarding problems pertaining to investments, innovation, education, research, health, demography etc. Higher interest rates used by the main world central banks under these circumstances is not the solution, rather the change of paradigm by the contribution of the monetary policy to the improvement of the general framework or of the general structure of the world economy and of each individual economy of the world. The central banks may influence positively the world economies by increasing the level of decision-making transparency, bringing into light the obscure banking system, under sizing or adapting the dimension of the financial system to the needs of the real economy, capital markets reform and disciplining, discarding the incorrect practices both by regulations and by increasing the level of financial education, removal of as many as possible negative externalities of the banking system in the real economy.

In the discussion about the unconventional methods wed might also include the controversy between the Helicopter Money and the Fiscal Money or Tax Discount Bonds – TBDs. The Fiscal Money is issued by the state ad guaranteed with future revenues from taxes and dues, while the HM are issued by the central bank and should go directly into the possession of the population. Another alternative is a new form of quantitative easing for the people, QEP, idea which also contains money issuing to finance the public investments and state banks, thus increasing the state control over the economy. According to Grazzini (2016), it is preferable to issue FM (or TBDs) because, in his opinion, the public debt doesn't increase (this money is not registered as state debt according the Eurostat criteria), the bonds being issued free of charge for their holders (resembling thus to the HM) on a period of 2 or 3 years with negotiation on the financial markets; they can readily be converted into cash, being allocated to the households inversely proportional with their income, and to the companies proportional with the number of staff, supporting thus their competitiveness and decreasing the cost of labour. The state might also use HM to increase employment, to increase the investments and to pay the wages of the employees paid from the state budgets. Another argument, in the opinion of Grazzini (2016), in favour of the FM, is the fact that Germany, through its public authorities, will never agree the HM, and the ECB will never be able to issue this money. Furthermore, while not breaching of EMU regulations, the national governments can issue FM without increasing the public deficit and without increasing the role of the state within the economy (only a very low share might go to the state).

6. Conclusion

The unconventional monetary policies, implemented some 10 years ago, turned extremely classical and common, their effects being often controversial, particularly on the medium and long-term. Sometimes unpredictable, other times even dangerous and with confusing effects, the unconventional monetary policies may raise questions regarding the legitimacy, credibility and force of some central banks to manage monetary problems of market stability and economic stability.

The role of the monetary policy within the economy should be understood and highlighted, as well as its limits and manner in which it can join effect with the fiscal policy. The incomplete, even incorrect, use of the monetary policy because of the misunderstanding of its role may be bad not just for that particular monetary policy, but also for other world monetary policies, and for other economic and politic realities in that region, or worldwide. Furthermore, the monetary policy, exceeding its area of competence, of the treated in a purely monetary manner, causes of other nature (such as conjectural, structural, fiscal, social, socio-cultural, geopolitical, etc.) of inflation and financial stability.

By the injection of money into the economy, these methods seem rather “constrained” in the idea of stimulating at any price the general offer, the economic growth, inflation and the exit from the liquidity trap. The excessive stimulation of the economy forces market limits and even the conventional behaviour of the population and companies. Thus, many of these instruments could not serve to increasing consumption, rather to increase saving (particularly as deposits), and the population might purchase more imported goods and services than domestic ones, thus stimulating the foreign production of goods and services. Furthermore, a major cause of the limited functionality of the unconventional measures may be the pre-crisis indebting and over-indebting, and even during the crisis. More precisely, the additional liquidities intended for consumption and to boost the aggregate demand, as seen by the central banks, might be actually money to pay the past debts and liabilities, this aspect might even be a positive one, if past liabilities and settled, and if the personal or company financial state is reset, only if these categories will not make a modus vivendi from the excessive indebting. Therefore, pumping money may, in the best case, find positive effects in the economy after a rather long period, more than initially anticipated by the central banks, period in which new monetary and/or non-monetary shocks may appear. This would further complicate the realities which the central banks of the world will have to tackle.

The dispute between benefits and costs, between the arguments in favour and against the unconventional monetary policy methods is not an easy one; there are, however, clues that show that the present direction will have to be reversed, some time (which the Fed has already done), in order to create a normal space of manoeuvre for the monetary policies and to allow the proper management of the adverse effects of the possible future crises.

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A STUDY ON THE RELATIONSHIP BETWEEN CASH-FLOW AND FINANCIAL PERFORMANCE OF INSURANCE COMPANIES: EVIDENCE FROM A DEVELOPING ECONOMY

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Abstract: *The study examines the relationship between cash flow and financial performance of insurance companies in a developing economy – Nigeria. Using time series data for the period 2009-2014, twenty seven listed insurance firms in Nigeria were selected as sample size. The study uses both descriptive and inferential statistics to determine the relationship among the variables. It also employs the series of diagnostic tests to ensure stability of the time series used as well as to ensure the model meets the assumption of ordinary list square. The findings reveal that cash flow was observed to determine insurance firms' financial performance and is statistically significant. Cash flow from operating activities was observed to significantly increase financial performance of insurance companies in the period examined. Cash flow from financing activities was found to increase the financial performance of the sampled insurance firms, but was not statistically significant. The size of the insurance company did not increase the financial performance of the insurance firms and was also not statistically significant. The paper recommends that managers in insurance firm should regularly change the extent at which cash is spent to avoid negative cash flow position as well as financial crisis. Adequate investment appraisal is really a concern that insurance firms need to take into consideration when customers are taking up insurance coverage. The costs have to be weighed against the benefits accruable thereto.*

Keywords: *Cash flow from operating activities, cash flow from investing activities, cash flow from financing activities, firm size, cash flow, Return on equity.*

1. Introduction

Cash liquidity is very critical and necessary to the financial status of firms. Cash in organizations usually takes two direction and are – inflow and outflow. The difference between these two concepts results in cash flow. Thus, a financial manager in an organization makes it a priority to ensure cash outflow does not out-weigh the cash inflow. Net positive cash flow connotes there is prudent management of cash under the three activities in the organization, which are – operating, investing and financing activities. Different investors usually take a cursory look at each of these activities prior to making investment decision. Similarly, cash flow from each of these activities has a way of influencing the performance of quoted firms for a period. For instance, excess of cash outflow over the inflow may indicate poor expense, debt, bad inventory, poor cash management, weak investment skills and inability of finance managers to critically engage in optimal financing decision for a period. It is also a pointer that there is higher proportion of cash leaving the business than it comes. This explicitly is a red flag to the cash position and consequently the business performance of a quoted company.

As noted by Narkabtee (2000), the "the importance of cash flows cannot be overemphasized mainly because the users of accounting in formation are particularly interested in the cash of the company that is published in its financial statements". Internally, managers need to know the current financial position of the firm (performance and problems); how to deal with financial problems and also control functions (Bodie, Kane & Marcus, 2004). In corroborating this view, Fabozzi & Markomits (2006) stressed that suppliers are always interested in a firm's liquidity because their rights are generally

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on a short-term basis and in any case, the company's ability to pay is best reflected by the company's liquidity indicators. Earlier, Bragg (2002) accentuated that investors in bonds who ordinarily lend to firms in medium or long term basis for a pay-back are also interested in the firm's ability to generate cash flow for medium and long-term coverage of servicing debts. In addition, Bingilar & Oyadonghan (2014) stated that "cash flow of a company is a crucial factor that enhances its operations".

Uremadu (2004) sees cash flow of an organization as those pool of funds that the organization commits to its fixed assets. As noted by Efobi (2008), the ability of a firm to effectively choose adequate sources of funds to finance its operations will differentiate strong cash flow governance and poorly managed cash flows. As such, cash flow is an index of the money that is actually received by or paid out by a firm for a certain period of time (Albrecht, 2003). This index is not inclusive of non-cash accounting changes such as depreciation; cash representing the firm's vascular system of which if it dwindles, the business will not survive. Furthermore, the fact that a firm is profitable does not mean that it is also solvent in that the profit is not cash only (Bingilar and Oyadenghuan, 2014). Turcas (2011) is also of the view that the solvency, flexibility and the financial performance of the firm are set on the firm's ability to generate positive cash flows from its operating, investing and financing activities.

Knechel, Salterio, Stephen, Ballon & Brian (2007) posit that the information contained on a cash flow statement stresses the existing differences between the operating profits of a firm and on the other hand, the decrease or increase in bank/cash balance over a similar accounting period. The authors further opined that this is because a cash flow statement shows whether activities of investing have either been financed externally, borrowing done internally which at the same time is not affecting either the working capital management or generated profits for the same period.

Subsequently, cash flow analysis is thought to be more effective in determining an enterprise's effectiveness and competitiveness in the market because it is a more dynamic examination of actual returns on assets and equity (Amuzu, 2010). Similarly it is argued that cash flow analysis is a better measure of performance and competitiveness for firms competing in emerging markets. In essence, cash flow information assists financial statement users in obtaining the relevant information concerning the use and source of virtually the entire financial resources over a given time period (Ross, WesterField & Jordan, 2007). Specifically, the kind of information that the cash flow statement contains include details of operating, investing and financial activities (Macve, 1997). Thus, insurance firms usually engage in different financial services to meet the need of various policy holders despite the fact that insurance companies differ in size and 'products' or services they offer to customers. The size of the insurance firms may determine the number of customers they could have and by implication if the size is large, this will require more cash flow to meet administrative and non-administrative charges. Thus, size should contribute to the competitiveness and dominance of insurance companies. It could also engender their ability to satisfy customers' demand as the need arises in the insurance sector. Insurance firms usually differ in terms of size and area of specialization. Large insurance firms usually have the propensity to pool large resources to meet the need of customers or indemnity than when the situation arises. Intuitively, it is expected that the larger the insurance company, the more they can perform more than the smaller firms and make more profit given that all other variables remain constant.

The nexus between cash flow and financial performance of firms in the financial sector, specifically the insurance companies has become an area of keen interest to numerous researchers both in developed and developing countries. There is very little or no study that have examined the relationship between cash flow and the financial performance of insurance companies in Nigeria at least to the best of the knowledge of the researchers. It is this gap that this study addresses.

As such, the specific focus of this study is to examine the relationship between cash flow from operating activities and the financial performance of insurance firms, investigate if cash flow impact on the financial performance of insurance firms, ascertain the relationship between cash flow from investment activities and the financial performance of insurance firms and determine if cash flow from financing activities impact on the financial performance of insurance firms in Nigeria. The next section of this paper is concerned with a brief review of both theoretical and empirical existing literature; this is then followed by examining the methodology employed to undertake the study while this is followed by the empirical analysis of data, interpretation of results and discussion of findings. Also, the conclusion and recommendations arising from empirical results are presented.

2. Review of related literature on the relationship between cash flow and firm performance

There are plethora of studies that have examined the relationship between cash flow and firm performance both in developed and developing countries (see Khoshdel, 2006; Ashitiani 2005; Miar, 1995; Bingilar & Oyadonghun 2014; Amuzu 2010; Chikaghi, 2013). However, some of the empirical findings from these studies are mixed and inconclusive; thus necessitating further research on the subject matter. While some studies show that there is a negative relationship between cash flow and firm performance, others reveal a positive relationship between company's performance and cash flow (Ashitiani 2005; Amuzu 2010). The study of Ashitaiani (2005) shows that the relationship between operating cash flows, investments, financing and stock return, a proxy for financial performance in Tehran Stock Exchange are insignificant and negatively correlated. In quantitative study, Bingilar & Oyadenghan (2014), made enquiries of the association between cash flow and organizational performance in hospitality and the printing media industry in Nigeria. Data was were collected through questionnaires while the analyses was performed by means of descriptive statistics and Pearson product moment coefficient of correlation. The result indicated a statistically significant and strong positive relationship between cash flow position and net profit and this made Bingilar & Oyadenghan conclude that cash flow position determines the extent of net profit performance of organizations in the hospitality and printing/media sectors.

In another study, Ogbonnaya, Ekwe & Uzoma (2016) assessed the relationship between cash flow and financial performance of listed banks in emerging economies using Nigeria as case study. Data was obtained from the annual reports and accounts of the selected banks and subjected to statistical analysis using correlation technique. The study outcome revealed that operating cash flow has a significant and strong positive relation with performance in the Nigerian banking sector. Further results also showed that investing cash flow and financing cash flow had negative and weak relationship. The authors therefore recommended that the Nigerian financial regulatory authorities to scrutinize financial reports of quoted banks in Nigeria and make external auditors use cash flow ratios to evaluate performance for the purposes of helping investors make the right decision. In another interesting study, Nwakaego, Ikechukwu & Ifunanya, (2015) empirically determined the impact of cash flow on a firm's performance of a Nigerian food and beverage company. The result revealed investing cash flow had a significant negative relationship of corporate performance. Further, the nexus existing between firm size and performance has also received considerable attention in both theoretical and empirical research. Dogan (2013) argued that it is obvious for big companies to have more competitive power when compared to smaller ones since they have a bigger market share which makes this big firms have the opportunity to profit more.

Subsequently, these big firms seize the opportunity to work in market places that require high capital rates since they have larger resources, and this situation provides them more opportunity to work in more profitable environment with little competition. Thus, economic theory postulates that having a firm size allows for incremental advantages because firm size raises the barriers of entry to potential entrants and at the same time creates leverage on the economies of scale to attain higher profitability. In as much as firm size influences profitability, this general notion may not apply to all industries since profitability can also be determined by several complex factors including product prices, factor costs, production function and so on. Thus, the hypothesis that size does matter for profitability purposes is not generalizable without providing relevant qualifications. The import of this is that it will be difficult to argue logically and establish with empirical facts that firm size predominantly determines profitable, particularly across all industries. Thus, there is need for re-verification in this study for the purpose of contributing to the existing literature. For instance, an empirical study on the relationship between firm size and profitability by Niresh & Velnampy (2014) found no relationship between firm size and profitability of listed manufacturing companies in Sri Lanke. So their study emphasized that firm size has no profound impact on profitability of some categories of companies.

3. Methodology

This study is both explanatory and experimental. The sample size of 27 insurance companies quoted for the period – 2009 to 2014 was selected using the purposive sampling method. The data were collected from the secondary source, basically from the annual financial statements of the insurance companies. For the purpose of empirical validation of the variables in the above model, the panel estimates generalized least squares (EGLS) is used for analysis. Employing the econometric package of E-views version 7.0, the pooled and panel data estimates of the multiple regression models was used, after carrying out diagnostic tests, correlation analysis and inferential statistics.

Model Specification

The model employed in this study is underpinned to the work of Nwakaego, Ikechukwu and Ifunanya (2015) where they examined the effect of cash flow statement on company performance of food and beverage companies in Nigeria for the period 2007 to 2011. The model is modified and used in this present study. It is specified in a stochastic form as follows:

$$Roe_{it} = \beta_o + \beta_1 cshf_{it} + \beta_2 cshfop_{it} + \beta_3 cshfinv_{it} + \beta_4 cshffin_{it} + \beta_5 fsize_{it} + \varepsilon_{it}.$$

Where

$\beta_1 - \beta_5$ are the coefficients of the parameters of estimation.

ROE represents return on equity, a proxy for firm financial performance and is the dependent variable.

Cshf represents cash flow.

Cshfop represents cash flow from operating activities

Cshffin represents cash flow from financing activities

Cshfinv represents cash flow from investing activities

Fsize represents firm size

ε represents the stochastic error term, β_o is the intercept

i= represents cross- section and t is the time period, 2008 -2015 the study covers.

Apriori Expectation

The a priori expectation in the model is of the form; β_1—β_5 >O. What this connotes is that all the independent variables are expected to have a positive relationship with firms' financial performance.

Empirical analysis

Table C: Diagnostic tests

Variance inflation factors (VIFs)		
Coefficient. variance Centered VIF		
CASFO	2.980	2.176
CASFI	1.420	1.925
CASFF	2.260	1.652
CASHT	0.022	1.072
TASST	7.780	1.544
Breusch – Godfrey – serial correlation LM test		
F-statistic = 0.021706	Prob.F(4, 143)	0.7365
Obs * R-squared = 0.092838		Pro. Chi-square (4) 0.0000
Heteroskedasticity test Harvey		
F-statistic 2.913026	Prob. F(4, 12)	0.0675
Obs * R-squared 8.374974	Prob. Chi-square 0.0788	0.0788
Ramsey Reset Test		
F-statistic = 1.522564	Prob.F(3, 144)	0.0000

Source: Researchers' compilation from E-view 8.0 (2016)

The diagnostic table above shows that the variance inflation factor statistic is less than 10 (Centered VIF < 10) for each of the variables. This indicates absence of multicollinearity among the explanatory variables. The ARCH (Harvey) Heteroskedasticity test shows the presence of homoscedasticity (0.0000 > 0.05), thus confirming the constant variance assumption of the ordinary least square estimator. The Breusch-Godfrey serial correlation LM test result of 0.0000 > 0.05) points out the absence of higher order correlation. The Ramsey Reset Test result of (0.0000 > 0.05) substantiate validity of the regression model.

Table B: Correlation Matrix

	RETOE	CASFO	CASFI	CASFF	CASHT	TASST
RETOE	1		0.083	-0.023	0.181	0.107
CASFO	0.158	1	-0.393	-0.126	0.145	0.634
CASFI	0.083	-0.393	1	-0.507	0.087	-0.307
CASFF	-0.023	-0.126	-0.507	1	-0.101	0.039
CASHT	0.181	0.145	0.087	-0.101	1	0.196
TASST	0.107	0.634	-0.307	0.039	0.196	1

Examination of the above table points out that all the variables are both weak and positively and negative associated. CASFO and CASHT are positively correlated (r= 0.145, r= 0.181), CASFO and TASST are positively related (r= 0.634, r= 0.107); CASFO and CASFF are negatively related (r= -0.126, r= -0.023); CASFO and CASFI are positively and negatively related (r= -0.393, r= 0.083); this applies among the other variables respectively. No multicollinearity is observed in the correlation matrix.

Table C: Hausman Test

Test summary	Chi-square statistic	Chi-sq d.f	Prob
Cross-section random	4.6112	6	0.0012

Source: Data computed by researchers based on E-VIEWS, 2016

From the above table, Hausman test chi-square statistic is 4.6112 with a probability value of 0.0012 ($P < 0.05$) indicating significant difference. Thus, the null hypothesis is rejected hence the conclusion is that the fixed effect estimator is preference.

Panel least square multivariate regression analysis

Table D: Fixed effect estimation

Dependent variable RETOE	Variables	Coefficient	t-statistic	Probability
	C	-5.412061	-1.341209	0.1820
	CASFO	0.003802	2.206141	0.0290*
	CASFI	0.002409	2.006689	0.0467*
	CASH	0.001788	1.176765	0.2413**
	TASST	-8.45E-05	-0.298178	0.7660**
R^2	0.73			
ADJ. R^2	0.66			
F-statistic	1.948765			
Prob. F-statistic	0.037994			
Durbin-Watson stat	1.547016			

Source: Data computed by researchers, 2016.

Key: * Indicate 95% level of significance. ** Indicate none significance at 95% level.

The above table shows that the R^2 statistic is 0.73 while the adjusted R^2 statistic is 0.66. This shows that 73% of systematic variation in financial performance (RETOE) of the insurance companies is explained by changes in cash flows. After adjusting the degree of freedom, 66% variation in the financial performance of the insurance firms was explained by changes in explanatory variables, learning 34% unexplained due to the presence of stochastic error term. This suggests that cash flow influence the financial performance of insurance firms in Nigeria.

The F – statistic, 1.948765 with a probability value of 0.037994 showed that the model satisfies the overall goodness of fit statistical test. It implies that cash flow measures, inclusive of the control variable are able to predict financial performance of the sampled insurance companies in Nigeria. The Durbin-Watson statistic of 1.54 (approximately 2.0) indicate the absence of serial autocorrelation in the model. It suggests that the result it good for policy prescription. Similarly, the t-statistics and R^2 statistics are not extremely high as to suggest the existence of Multicollinearity and Heteroskedasticity in the model. It further portends that the econometric model employed in this study satisfies both statistical and diagnostic criteria. It represents a good and consistent estimator, and hence useful for policy direction in the insurance firms in Nigeria.

The individual coefficient shows that a unit change in cash flow from operating activities increases the financial performance (RETOE) of the insurance firms by 0.003802 units and is statistically significant at 95% level. 0.002409 units change in cash flow from investing activities enhances the financial performance (RETOE) and it was statistically significant at 95% level. It can be observed that 0.001788 unit change in cash flow from financing activities increases the financial performance (RETOE) of the insurance firms. It is however not statistically significant at 95% level. Cash flow generally put together is observed to increase the financial performance of the insurance firms by 0.326666 units and is statistically significant at 95% level. Total assets which measure the size of the insurance firms in Nigeria have -8.45 units. This shows that the size do not increase the financial performance of insurance firms and is also not statistically significant in the period considered.

Discussion of findings, conclusions and recommendations

The empirical estimations as regard the impact of cash flow on the financial performance of insurance firms in this study in Nigeria is quite revealing. Cash flow was observed to determine insurance firms' financial performance and is statistically significant. The finding is consistent with Nwayanwu (2015), Bingilar & Oyadunghan (2014) and Amuzu (2010). The findings however, differ from that of Zhou, Yang and Zhang (2012) where they reported negative impact of cash flow on firms' performance. The implication of this study findings is that there is need for efficiency and application of managerial skills in handling the three major activities in the business will engender performance. This ultimately will lead to maximization of the shareholders wealth.

From this paper, cash flow from operating activities was observed to significantly increase financial performance of the insurance companies in the period examined. The findings are however not in tandem with Ashitani (2005) where cash flow from financing activities was found to increase the financial performance of the sampled insurance firms, but was not statistically significant. As such, cash flow is a major concern that every managers must closely manage carefully so as to achieve the competitive objectives of a firm. A negative cash flow spells out insolvency and financial crisis, particularly for insurance firms. This is because without cash, it will be difficult to efficiently operate the business, meet obligations as at when due, expand operations and maximize wealth of the shareholders. Thus, the results of this study have showed that cash flow is a major determinant of the financial performance of insurance firms in Nigeria while the size of a firm may or may not increase financial performance of insurance firms. What is required to operate optimally is efficiency in the cash flow generation. A lot of insurance companies have gone into liquidation due to the inability to meet financial obligations to the customers majorly occasioned by insufficient cash flow. This has engender moral hazard and adverse selection in the insurance sector in Nigeria.

It is therefore recommended that there has to be adequate policy thrust by the Central Bank of Nigeria (CBN) making it mandatory for insurance companies to maintain persistent increase in cash reserve. The level and strength of corporate governance need to be monitored by the apex bank (i.e. CBN). The managers in insurance firms should regulate the extent of cash outflows under each activity to avoid negative cash flow issues as well as financial crisis. Adequate investment appraisal is really a concern that insurance firms need to take into consideration when customers are taking up insurance covers. As such, the costs have to be weighed against the benefits accruable therefrom.

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EMPIRICAL ASSESSMENT ON FINANCIAL REGULATIONS AND BANKING SECTOR PERFORMANCE

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Abstract

This study examines financial regulation and banking sector performance in Nigeria. Specifically, the study determines the impact of reforms on banking sector performance and also assesses the nexus between capital adequacy and banking sector performance. Time series data for the period 1993 to 2014 was used. As an analytical tool, the study uses unit root test to determine the stationary state of the variables. We also employed the Johansson co-integration and error correction model (ECM) statistical techniques to establish both short-run and long-run dynamic relationships between the endogenous and exogenous variables. The empirical findings indicates that financial regulation significantly impacts on banking sector performance while financial regulation has both short- run and long run dynamic relationships with banking sector performance in Nigeria. It was found that four period lag of capital adequacy negatively affect banking sector performance and is not statistically significant. The paper suggests that the Central Bank of Nigeria (CBN) should continually make public the impacts that the various financial regulations and reforms are having on the performance of Nigerian banks. Majority of the policies on financial regulation by the apex bank (CBN) need to be long-run which can enable confidence of stakeholders, shareholders and the general public in the Nigerian banking industry when critically evaluated.

Keywords: *Financial regulations, capital adequacy, bank size, monetary policy rate, reform, performance.*

1. Introduction

The banking sector is a segment of the financial system that primarily engages in financial intermediation and extension of credit facilities to credit worthy customers on short or long-term basis. The banking sector in Nigeria has no doubt witnessed some financial regulations and developments. The series of financial regulations and reforms witnessed in Nigeria occurred due to certain unhealthy factors and specifically because of the need to strengthen the banking sector. In the pre and post-colonial days in Nigeria, banks suffered a lot of setbacks and eventually collapsed due to mismanagement, inexperience, unhealthy banking practices, non-adherence to ethical standards on the part of the management, poor asset quality, under capitalization, and to a very large extent, absence as well as inadequate financial regulation and supervision. As a result of these ills in the banking sector then, there was the need to financially regulate the sector to ensure it performed optimally.

Financial regulation particularly in the banking sector is the sole responsibility of the CBN and inclusively the Nigerian Deposit Insurance Corporation (NDIC). The CBN's active involvement in financial regulation of the banking sector is primarily designed to protect depositors' funds, strengthen the banks against internal and external shocks as well as promote financial stability with a view to influencing the performance of the financial sector and the overall improvement of the economy. Intuitively, adequate regulation of the banking sector by CBN could be seen as an all-encompassing role given the fact that the banking industry serves as the engine and driver of every sector of the economy. For instance, in the economic theory of regulation, it is a common notion that the essence of financial regulation is to prevent market failure. Prevention of market failure presupposes

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that proper regulation and policy framework is put in place by the apex bank – the Central bank. Furthermore, financial regulations are meant to engender low risks exposure by banks and maintain resilience. Banking sector development may be difficult to attain without deliberate, conscious and radical financial regulations, regulatory processes and regulatory framework by the Central bank. In this regard, the goal of financial regulation should be to improve the overall performance of banks so as to enable these banks compete favourably among their counterparts internationally. If a bank is unduly exposed, for example, to capital and liquidity risks, the wealth of the shareholders no doubt will be negatively affected. To safe guide against this, the CBN comes with perceived favourable regulatory policy through reforms and other methods to address it. Thus, financial regulations in Nigeria entails a series of reforms which can be traced back to as early as the 1950s while reforms also occurred in the 1990s and a major shakeup of the Nigerian banking sector took place in between 1999 and 2003 while other phases of reforms are still taking place (Omankhanlen, 2012)

Each of these phases came with its specific objectives and attendant benefits and also its adverse effect both at the micro and macro levels. Financial regulation has its attendant positive effects on banking operations and performance. For instance, while the implementation of financial regulations strengthened the Nigerian banks, it also created the propensity to enhance foreign and local investors' confidence and made them willing to carry out numerous financial transactions with banks and consequently invest in the economy. Such investment in the economy promoted economic growth through sustained rise in the value of economic activities for a defined period of time. So to what extent do these series of regulations impact on the financial performance of banks in the Nigerian financial sector is a question this study seeks to address. The interface between financial regulations and banking sector performance has not gained ascendancy in Nigeria and there is paucity of empirical literature on this subject matter. Hence, this study is undertaken so as to contribute to the literature in this area.

2. Theoretical framework of study

This study relies on the normative theory of financial regulation as developed by Wittman (1977). The normative theory of regulation conceptualizes that regulators should encourage health competition where practicable and minimize the costs of information asymmetry by obtaining information and thereafter providing operators with needful incentives to improve their business performance. Also, it is proposed that financial regulators should further provide a viable price structure that can improve economic efficiency and establish regulatory systems that are in tune with transparency, predictability, legitimacy, and credibility of such a regulatory process. Thus, Wittman argues that normative theory of regulation ensures a cost-benefit analysis of various regulatory instruments employed by monetary authorities. The term 'regulation' may be interchangeably used as 'reform'. Broadly speaking, reforms have emerged in response to the challenges occurring in the financial systems worldwide such as systemic crisis, globalization, technological innovations and the global financial crisis. Notably, the financial sector comprises of the banking sector, capital markets and non-bank financial institutions. As for goals, the aim of the financial sector in any industry is to increase monetary management, risk management and asset holding capacities of corporate institutions. As noted by Omankhanlen (2012), "reforms often seek to act proactively to strengthen the financial system, prevent systemic crisis, strengthen market mechanisms and instills ethical standards".

In Nigeria, financial sector reforms have significantly occurred especially in the banking sector. Examples of some of these reforms includes bank recapitalization, stoppage of universal banking, emergent of e-banking, introduction of cashless policy, bank verification number (BVN), a reduction of the tenure of bank MDs/CEOS, a separation of the dual roles of bank MDs/CEOs. Further policy reforms were also in the area of the introduction of asset management companies saddled with the role of buying of toxic assets of banks to relieve them of non-performing loans with a view to improving their liquidity. Specifically, the primary purposes of financial regulations or reforms was to increase the productive base of the economy, enhance credit allocation to the private sector, access to credit and strengthen banks' capital base to absorb both internal and external shocks as well as engender increase in shareholders' wealth and the reduction of the social costs of bank failure to the economy.

As such, there has been several reforms and financial regulations put in place to positively sharpen the Nigerian banking sector operations and performance. According to Shittu (2012), reforms introduced into the banking system in Nigeria has brought about a new mindset to the industry as banks are putting in place best practices in the areas of corporate governance and risk management. Further, transparency and public disclosure of transactions have remarkably improved. Thus, Nigerian banking institutions are products of revised regulations and reforms. Prior to the advent of re-capitalization reforms in Nigeria, many banks collapsed due to a myriad of factors. As a result of public dissatisfaction and lack of confidence in the Nigerian banks, there was the need to ameliorate the woes that constantly bedeviled the banking industry. This led the CBN to come up with several policy reforms geared towards regulating the operation of banks with aims to ensure best practices are observed and also make banks compete favourably with their international counterparts. Another area that financial regulations have occurred in the banking sector is the use of monetary policy to influence interest rates by the CBN. The aim was to encourage accessibility to finance by deficit units in the short run. Theoretically, higher access to money for investment purpose influences bank earnings and consequently their financial performance. So there is always a need to enhance capital adequacy which is one of the key drivers of the financial regulations. This is because capital adequacy of financial institutions to a large extent affects their lending power. This is why when there was capital inadequacy of many banks in the country, they were faced with high cost of financial distress which affected profitability (Olalekan and Adeyinka, 2013). In other words, the effect of capital adequacy on banking sector performance cannot be underestimated since adequate capital directly and automatically influences the amount of funds available for loans, which invariably affects the level and degree of risk absorption (Ezike, 2013).

2.1 Capital adequacy and banking sector performance

One of the significant regulatory policies that have positively contributed to banking sector performance in Nigeria was the 2005/2006 bank consolidation that required banks to maintain a minimum of twenty billion naira capital base. The purpose was to ensure banks have capital adequacy. Some banks were able to meet up with this due to their huge financial strength while those that could not meet-up were forced to embrace mergers and acquisition schemes. This led to the decrease of the number of banks in Nigeria from 87 to 25 banks. As noted by Andabai (2010), these consolidations brought about changes in the size, structure and operational characteristics of the Nigerian banking system. This was also regarded as one of the biggest achievements in the financial sector of the Nigerian economy since the upward review of the capital base of banks resulted in bigger, stronger and more resilient financial institutions. Thus, capital adequacy is regarded as the percentage ratio of a financial institution's primary capital to its assets (e.g. loans and investments) and used as a measure of financial strength and stability of such financial organisations (Olalekan and Adeyinka, 2013).

In a quantitative study, Ezike (2013) empirically examined capital adequacy standards and performance in the Nigerian banking sector. The findings showed that capital adequacy standards exert a major influence on bank performances. Additionally, Rose and Hudgins (2005) suggested that recapitalization may raise liquidity in short term but does not guarantee a conducive macroeconomic environment needed to ensure good profitability and high asset quality. Therefore, profitability and asset base are the two traditional measures used to gauge bank performance in Nigeria. In essence, profitability will always please shareholders while having a large asset base will satisfy the board of directors (Javaid, Anwar, Zaman and Ghafoor, 2011).

3. Methodology

A longitudinal research design was adopted in this study while the population size used was the entire banking sector of Nigeria. The period of study was from 1993-2014. Thus, annual data set for the period was extracted from the Central Bank of Nigeria Statistical Bulletin issues and used for the econometric analysis. The choice of this period is based on the fact that several banking reforms and financial regulations were made within this period by the monetary authority in Nigeria to reposition the banking sector. The statistical technique employed in this study includes the error correction model (ECM) and Ordinary Least Squares (OLS) multivariate regression to establish both the short run and long run relationships between the variables and also determine how the independent variables impact on the dependent variable. Aguwamba, Ogbeifun, and Ekienabor, (2016) used a similar design in their study to examine the presence or absence of long-run relationships among the variables they empirically tested and this method was found viable. The following are the model specifications and analysis done in this study.

3.1 Model Specification

The model employed in this study is stated in deterministic form as:

ROE= F (CAD, SIZE, INTR, REF) …………………………….…...............(1)

Equation (1) is expressed in its econometric form as follows:

$$\Delta ROE_{it} = \beta_0 + \beta_{1\Delta CAD_{it-i}} + \beta_{2\Delta SIZE_{it-i}} + \beta_{3\Delta MPR_{it-i}} + \beta_{4\Delta REF_{it-i}} + \lambda ECM_{t-1} + \varepsilon_t \quad \text{.......(2)}$$

Where:

Δ *represents changes in each of the variables employed in the construct above*

ROE = return on equity

CAD= capital base/ adequacy

SIZE = Industry size, proxied using total number of banks

MPR = monetary policy rate

REF = banking sector reform, it is a dummy variable of one (1) in the period banking reform occurs and zero (0) in the period banking reform never occurred.

ε_t = Stochastic error term.

t = represents the time period

i = is a subscript for all the individual banks

β_o = the intercept term

An apriori expectation in this study is $\beta_1 - \beta_{4>0.}$ This portends that the set of the explanatory variables are expected to positively engender banking sector performance.

4. Empirical analysis

This section is concerned with the analysis and interpretation of data generated from secondary sources. It contains the result of unit root tests, diagnostic test and as well as establish the long-run and short-run dynamic relationships between the endogenous variable and exogenous variables. Thus, the results are presented sequentially as follows:

Table 1: Unit root test at level

Variables	ADF statistic value	Test critical value at 5%	Meaning
ROE	-3.292114	-3.710482	Not stationary
CAD	-3.353818	-3.658446	Not stationary
SIZE	-2.026078	-3.644963	Not stationary
MPR	-3.626857	-3.658446	Not stationary
REF	-1.544025	-3.644963	Not stationary

Table 2: Unit root test at first difference

Variables	ADF statistic value	Test critical value at 5%	Meaning
ROE	-3.921229	-3.020686	Stationary
CAD	-5.035274	-3.029970	Stationary
SIZE	-4.272375	-3.020686	Stationary
MPR	-6.209573	-3.29970	Stationary
REF	-4.472136	-3.020686	Stationary

Source: Computed from E-view 8.0 (2016)

The unit root test results shows that at level, the null hypothesis is not accepted, but at first difference, it can be observed that the variables were stationary at 5% significant level. This is so given that ADF test statistic is greater than test critical value at 5% level. It simply indicates there is no likelihood of occurrence of or obtaining spurious regression result.

Table 3: Diagnostic tests

Variance inflation factors (VIFs)		
CAD	0.000181	5.211232
SIZE	0.418750	7.136975
MPR	14.42248	1.777114
REF	745.8956	2.056530
Breusch – Godfrey – serial correlation LM test		
F-statistic = 0.316418	Prob. F(2, 9)	0.7365
Obs * R-squared = 1.116828		Pro. Chi-square (2) 0.5721
Heteroskedasticity test Harvey		
F-statistic 2.913026	Prob. F(4, 12)	0.0675
Obs * R-squared 8.374974	Prob. Chi-square 0.0788	0.0788
Ramsey Reset Test		
t-statistic = 5.316354	Df = 10	0.0003
F-statistic = 28.26362	Prob. F(1, 10)	0.0003

Source: Researchers' compilation from Eview 8.0 (2016)

The diagnostic table above shows that the variance inflation factor statistic is less than 10 (centered vif < 10) for each of the variables. This indicates absence of multicollinearity among the explanatory variables. The ARCH (Harvey) Heteroskedasticity test shows the presence of homoscedasticity (0.07885 > 0.05), thus confirming the constant variance assumption of the ordinary least square estimator. The Breusch-Godfrey serial correlation LM test result of 0.5721 > 0.05) points out the absence of higher order correlation. The Ramsey Reset Test result of (0.003 > 0.05) substantiate validity of the regression model.

Long-run impact of financial regulation on banking sector performance

ROE = 99.659C 0.001 CAD + 0.639513E - 2.655MPR - 46.567REF
(1.636) (-0.124) (0.988) (-0.699) (-1.705)
(0.130) (0.903) (0.344) (0.499) (0.116)

R-squared = 0.621
Adjusted R-squared = 0.449
F-statistic = 3.612
Prob (f-statistic) = 0.035
Durbin Watson statistic = 1.474

The regression equation above shows that the R-squared is 0.621; meaning that the explanatory variables account for about 62% systematic variation in the dependent variable, return on equity (ROE) in the Nigerian banking sector, leaving the other percentage unaccounted for due to stochastic error term. After adjusting for the degree of freedom, the model accounts for about 44% systematic variation in the dependent variable, ROE. The coefficient of determination is however weak in that it is less than average. The F-statistic value of 3.612 compared with the Prob (F-statistic value) of 0.035 is statistically significant thus connoting that the independent variable in the long-run jointly impact on the banking sector performance in Nigeria. The coefficient of the explanatory variables shows that a unit change in capital adequacy (CAD) impacts negatively on banking sector performance with 0.001 units and is not statistically significant at 5% level. A unit change in size is observed to positively increase banking sector performance; with a value of 0.639 units and is not statistically significant at 5% level. A unit change in monetary policy rate (MPR) from the regression equation above reveals that it reduces banking sector performance with a value of 2.655 units and is not statistically significant at 5% level. Similarly, a unit change in reform shows that it adversely impacts on banking sector performance and is not statistically significant at 5% level. The Durbin-Watson value of 1.50 is an indication of absence of serial correlation in the regression. It can be concluded here that the result is generally useful for policy prescription.

Table 4: Co-integration Analysis
Unrestricted Co-integration rank test (Trace)

Null hypothesis	Trace statistics	Critical value at 5%	Maximum Eigenvalue	Critical values at 5%
R = 0	94.839	69.818	38.991	33.876
R ≤ 1	55.847	47.856	28.688	27.584
R ≤ 2	27.159	29.79	16.636	21.131
R ≤ 3	10.522	15.494	8.348	14.264
R ≤ 4	2.17	3.841	2.17	3.841

The trace statistic values compared against the critical values indicates that there are at least 2 co-integration vectors. The maximum Eigen value statistics points out that there are also at least 2 cointegrating equations. Usually, the maximum Eigen value is used as a basis of establishing the long-run cointegration between variables. Therefore, from the result, it can be arrived at that there is a long-run relationship between financial regulation and banking sector performance in Nigeria.

Table 5: The parsimonious error correction model
Dependent variable: ROE

Variables	Coefficient	Standard error	t-statistic	Prob
C	-8.903	5.688	-1.565	0.161
DCAD(-4)	-0.002	0.009	-0.229	0.824
CAD	0.006	-0.007	0.850	0.423
DMPR(-2)	-3.752	1.773	-2.116	0.072
DMPR	-2.703	2.498	-1.082	0.315
DSIZE(-1)	-0.010	0.303	-0.036	0.972
DSIZE	-0.010	0.474	-0.022	0.982
DREF(-2)	22.287	28.107	0.792	0.453
DREF	29.747	29.883	0.995	0.352
ECM(-1)	-0.305	0.224	-1.250	0.051
	R-squared = 0.635 Adjusted R-squared = 0.566 F-statistic = 1.355		Prob (f-statistic) = 0.052 Durbin Watson statistic = 2.026	

The error correction estimates in the above table reveals that the error correction term or speed of adjustment coefficient for the equation is properly signed with the expected negative sign. It suggests that there is a tendency by the model to correct and quickly move towards the equilibrium path following any occurrence of disequilibrium in each period. This portends that meaningful error correction is taking place. Meanwhile, the ECM equation accounts for the correction of about 30.5% of the error generated in the past period. Similarly, from the value of the t-statistic compared with the p-value, the error term's coefficient is statistically significant. This clearly underscores the fact that short – run dynamic relationship exists between financial regulation and banking sector performance in Nigeria.

After adjusting for the degree of freedom, the R^{-2} bar points out that all the explanatory variables were able to explained short – run systematic variation in banking sector performance with about 56.6%; leaving the other percentage unexplained because of the stochastic error term acting as a surrogate in the model. The f-statistic as can be observed from the regression table above is statistically significant at 5% level. This indeed reveals the goodness of fit of the model. The individual coefficient of the explanatory variables shows that four period lag of capital adequacy DCAD(-4) negatively affect banking sector performance and is not statistically significant at 5% level, while the current value of capital adequacy (CAD) positively influences banking sector performance, though is not statistically significant at 5% level. Both the current value of MPR and its two period lag reduce the return on equity (ROE) of the banking sector and were not statistically significant at 5% levels. In the same vein the current value of size and its one period lag negatively affect the return on equity (ROE) of the Nigerian banking sector and were not statistically significant at the 5% levels. The current value of reform (REF) and the two period lag (DREF (-2) were observed to increase the banking sector performance (ROE) in the short – run, though were not statistically significant at the 5% levels. The Durbin Watson statistic value of 2.026 is approximately 2, and it shows the absence of serial autocorrelation in the result. In a nutshell, the study finding is that financial regulation has short – run relationship with banking sector performance in Nigeria. In a nut shell, the results show that financial regulation has negative impact on banking sector financial performance in the short- run.

5. Discussion of findings

The relationship between financial regulation and banking sector performance has not gain ascendancy in Nigeria. Hence, this paper empirically examines the subject matter and contributes to the literature. The result obtained showed that financial regulation has a negative impact on banking sector performance in the short in Nigeria. This suggests that the Apex bank has to cautiously draft policies regulating the banking sector so that it can perform optimally. This of course should reduce systemic risk, influence other sectors of the economy and stabilize investors' confidence. Since regulatory policies have negative impact on the sector's performance, care should be exercised by the regulators in ensuring that such policies do not affect the long-run performance of the sector in order not to jeopardize the future prospect and stability of the sector. Short-term regulatory policies are required by the Apex bank to regulate these financial activities. This is so given because every regime of government coming into power differ in terms of policies initiatives in addition with the unexpected influence of micro and macro-economic factors that interplay to cause instability to the banking sector. Short-term forward looking policies rather than long term regulations are primarily the panaceas to stemming the uneasy negative occurrences that tend to disrupt financial regulation in Nigeria. This is not only enough as the CBN must constantly employ a model to examine the extent of policy reforms and financial regulations impacting the banking sector. The finding obtained in this regard is consistent with studies of Igbinosa and Ogbeide, (2016), Omankhanlen (2012), Imad, Qais and Thair, (2011) and somewhat in tandem with Fadare (2004).

From the study, it was also revealed that capital adequacy in the period observed did not yield positive impact on banking sector performance. This to an extent affirms the view of stakeholders on the need for further re-consolidation of Nigerian banks, perhaps to enhance efficiency and reduce internal and external shocks. Further, bank size was found to have negative relationship with return on equity in the short-run. It is argued that size either in terms of the number of banks or total assets should have a positive effect on banks' earnings. As such the Apex bank has to exercise caution with policies that bother on reforms and financial regulation to avoid over competition and other unhealthy inter-banking relationship. For example, too much investment in total assets without a corresponding positive returns no doubt signals waste of resources and depletion of shareholders wealth in the banking sector. The view expressed here is not dissimilar to Enendu et al's (2013) findings that suggest the bigger doesn't necessarily mean the better in terms of bank profitability but cost and managerial efficiency as well as productivity suffices as better measurements. Therefore, CBN needs to exercise caution in order to reduce the high cost of regulation borne by banks. Indeed such regulations must be in beneficial to the economy and the country as a whole.

6. Conclusion and recommendations

Financial regulation will continually be on the front burner in attempt by the apex bank, Central Bank of Nigeria to strengthen the banking sector and ensure its development. The framework of financial regulation differs from country to country. As events unfold, various policies are made to fast track a particular objective by the regulators of the banking sector. But the extent to which policy on reforms and financial regulations impact on banking sector performance with the use of empirical model appears lacking. The investigation reveals that reforms impacts negatively on the performance of banks. Although such impact is not statistically significant. The various proxies for financial regulation have not impacted positively and significantly on the banking sector performance in Nigeria. Although both long-run and short-run relationships exist between financial regulation and banking sector performance, the study concludes by stating that the regulators of the Nigerian banking sector needs to constantly undertake a cost-benefits analysis to ensure that the high cost of regulation borne by banks is weighed against the overall benefits of such regulations to the entire economy of the nation. The paper suggests that the Central Bank of Nigeria should continually make public the impact that the various financial regulations and reforms are having on the performance of Nigerian. Majority of the policies on financial regulation by the apex bank need to be long-run and accessible for critical evaluation by stakeholders, shareholders and the general public.

7. References

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