Vision and Strategy at Financial Investment Company BANAT-CRISANA

Ioan CUZMAN
Professor PhD in Economics
SIF Banat-Crisana, Universitatea de Vest Vasile Goldis, Arad, România

Daniel MANATE
Conferentiary PhD in Economics
SIF Banat-Crisana, Universitatea Aurel Vlaicu, Arad, România

Pavel FĂRCAS
Lecturer PhD in Mathematics
SIF Banat-Crisana, Universitatea de Vest Vasile Goldis, Arad, România

Abstract
The portfolio management at financial investment companies implies the turning of the vision into an investment strategy consistent with the turbulent and complex macroeconomic context. The competitive intelligence is the one that must lead the investment decisions, integrating the early warning system with the risk management system by a complete set of procedures and practices. People are the most important asset of investment companies and their continuous training using instruments such as the compulsory body of professional knowledge is crucial for achieving performance.

Key Words
Competitive intelligence, early warning system, risk management system, professional compulsory body of knowledge

JEL Classification: G24, G32

1. Vision and strategy in the portfolio management context

The investment strategy of a financial investment company (SIF) entails, in our opinion, ensuring, allocating, using and controlling the organizational resources in a larger period of time so that the investment objectives set up in terms of risk and return to be achieved as well as possible, expressing furthermore the SIFs investment philosophy. It has to materialize the key parts of funds’ vision and mission (McCreary, 2002): how are returns related to the concept of funds’ success, what is the target benchmark, what are investors’ sources of return and the related market timing, what is the level of the expected growth rate of funds’ assets etc.

Financial Investment Company Banat-Crisana (SIF1) is a self-managed closed-end investment company, based on instruments of incorporation, in the category of Other Undertakings for Collective Investments (AOPC) with a diversified investment policy. The investments realised, the computation of net asset value, the regulations regarding asset valuation and transparency and disclosure requirements comply with the legal provisions in force and the regulations issued by the Romanian National Securities Commission (CNVM), the regulatory and supervision body of the Romanian capital market.

The risk-return optimization is a main concern of the modern portfolio theory, with the purpose, through the continuous investment-divestment process, to build a portfolio of financial instruments selected on precise
investment criteria and policies, from an investment universe accessible technically, legally or limits of analytic coverage and understanding point of view. This is usually called „target portfolio”. Tactically, the portfolio management style shows how to build and permanently improve the target portfolio that better meets the return and risk\(^1\) objectives of the investors.

2. Means and methods adequate to the investment strategy

In the particular case of a financial investment company, the efficient information management is a fundamental condition to create and maintain investment intelligence adequate to the accessible investment universe and investment objectives assumed towards the owners. The concrete ultimate goal is certainly achieving the best target portfolio in relation with the risk-adjusted return objectives\(^2\).

In order to correlate positively the strategic intelligence with the tactical one of a financial investment company and to obtain an appropriate value added for its investment strategy we propose to shape up the axis: : profit source → accessible investment universe → financial plan → external support → strategic relations

![Figure 1: The equilibrium strategic intelligence vs. tactical intelligence at financial investment companies](image)

The profit sources in the investment industry are of two types: the ones resulting from trading financial instruments (e.g. capital gains) and the ones obtained from holding financial instruments (e.g. dividends, interests, etc.). The detailed understanding of the significant influence items is required both in terms of the expected return (e.g. size, timing, etc.) as well as of the associated risks (e.g. exposure on issuers, sectors, markets, volatility, foreign currency holdings, etc.).

The aspects related to the investment universe does not limit only to the financial instruments that can be purchased technically/operationally or legally as, especially, to the limitation given by the organization capacity to understand the complexity and risk of some of these instruments and to forecast the return and risk. Another direction is the portfolio analysis of the competitors, so as to draw out and compare the investment alternatives selected by the competitors.

---

\(^1\) Preference, aversion or neutral attitude towards risk.

\(^2\) See the risk profile disclosed by the financial investment company.
The financial plan represents a great internal instrument of financial management but also of information management, embodying the aspect related to budgets (revenues, expenses, controlling, etc.) with the portfolio optimization ones (entry/exit, exposures, return, timing, etc.).

The adequate external support offered by advisors, law firms, brokerage houses, trading platform, etc. can decisively facilitate attaining the corporate objectives. SIF strategic relations facilitate the investment activity in the comparative and competitive context given by the strategic movements of the competitors, the suitable directions and ways to lobby etc.

### 2.1 Strategic investment objectives

The strategic investment objectives are correlated with company’s revenues (e.g. from dividends, interests, sale of financial instruments) and capital increases (portfolio appreciation resulted from the increase in net asset without obtaining profit)

Also, these are correlated with the investors’ expectations for increase of total return for the shareholder. These are realized by the dividends due to shareholders and, by the appreciations of the quotes of financial investment companies. If the evolution of the quotes is directly biased by management, being subject to different external influences\(^3\), obtaining some stable and consistent liquidity as a basis for distributing dividends can be addressed more conveniently.

Besides the size of revenues and capital increases, it is important their predictability and stability in time as well as the possibility to preserve/appreciate in time the invested capital.

An active portfolio management consists in a permanent analysis of the investment universe correlated to SIF portfolio, to the investment horizon and universe and to the best entry/exit moment (Manate & Fărcaș, 2009). It also means making adjustments (entry/exit) on the portfolio so as to make the most of the results of the analysis by the investment/divestment process.

The portfolio is always rebalanced in relation with the evolution of different classes of assets or the specific evolution of some issuers or instruments and it implies (Cazan et al., 2004):

- the analysis of the intrinsic value of securities that compose the portfolio, starting from the current financial performances and the issuers perspective;
- analysis/simulation of the value of securities correlated with the expected economic and industry evolutions;
- monitoring the return and risks of the classes of alternative financial instruments and of the individual investment alternatives;
- obtaining speculative profits by taking advantage of the best investment opportunities on the market (e.g. increase of the quotes of agricultural goods – corn, wheat, gold, silver or oil, listing of Property

---

3 See also year 2008, when although SIFs obtained record historical profits, the quotes depreciated sharply, as a result of the global financial crisis and the shift of investors towards investment alternatives of shelter (e.g. gold) or monetary assets.
The strategic investment objectives of a financial investment company should also refer to and embody the risk item. In this respect, SIF Banat – Crisana is implementing an integrated risk management system, that has as main organisational benefits the following:

- facilitates efficient and effective reaching of organizational objectives;
- imposes management style change favouring a proactive risk attitude, beneficial for competitiveness increase;
- integrates “risk” element within investment reports and allows a better understanding of investment risk and other important concepts, such as “risk adjusted return”;
- helps selecting the best investment projects from “risk adjusted return” perspective;
- secure the base condition for a healthy and efficient internal control view the organizational risks, either internal or external.

Next we present the way a top indicator, such as Total Shareholder Return (RTA) may be used in cascade derivation for all internal compartments of SIF Banat – Crisana, including branches staff. It also can be used in establishing objectives and criteria within the organizational structures controled by the company, such as managers and top executives of the companies controled by SIF1.

*Figure 2*

**Setting up TSR derived objectives at SIF Banat-Crisana**

- **Share quotation**

- **TSR**

- **Dividend**

  Top management: Maximising the net profit

  Others …

  Portfolio manager

  • Defining investment/dividend policy at controled ownerships
  • Monitoring/intervention at the executive level

  Profit and dividend objectives at controled ownerships

  Followed by the financial plan implementing team

- **Management of the controled ownership of planned investments**

  SIFs staff and representatives (e.g. board) objectives: implementing, controlling/monitoring, signaling, profit/dividend
2.2 Performance versus Risk

The managers of an organisation should not limit themselves to always deal with the consequences of some events that occurred. Dealing with the consequences does not ameliorate the causes and, consequently, the risks already materialized will further occur, usually, with a higher frequency and greater impact over the objectives. Modern managers should adopt a proactive management style, a prospective management that attempts to identify those risks that may arise due to changes in strategy or environment, relying on the principle “better prevent than face an accomplished fact”.

It is crucial for a successful organisation to focus its efforts to what is really important while not spreading its resources in irrelevant areas for its goals. The periodical review of risks leads to reallocations of resources, in line with the changes of ranking and, implicitly of priorities. In other words, risk management implies concentration of resources in current areas of interest. The risk management system that is currently implementing at SIF Banat-Crisana relies on the organizational expectation to conduct a profitable business, consistent with the long-term interests of company’s shareholders.

In the same time, it was also considered the need for the company to adopt and implement the best practices in the field of investments and portfolio management, aiming to boost the efficiency on medium and long term, as well as the prudent management of associated risks. Obviously, understanding the threats allows their ranking based on the possibility of their occurrence, the clash over objectives and the costs incurred by the measures meant to diminish the chances of occurrence or to limit undesired effects. Establishing a ranking represents the basis for placing an order of priorities in the allocation of resources, in many cases limited, pursuant a “cost-benefit” analysis or, more generally, “effort-effect”. Concretly, within the project of implementing a management risk system at SIF Banat – Crisana, the basic concepts that operate in risk management have been defined and exemplified by now: risk, risk event, risk source, impact, frequency, risk ratio, types of risk (market, operational, of interest rate, internal, external, reputational, strategic, etc), risk matrix, etc.

The content framework of the documents to report risks has been defined. The risk events after impact have been classified and it has been identified for each activity of the organisation a list type of risk events with related risk sources. For some activities, a qualitative assessment regarding the frequency and impact has been made.

With a view to identify the risk events and sources associated to the business activity of Company’s divisions (SIF1), specific working instruments (inquiry forms, synoptic tables/schedules, representations etc). Technical solutions for the measurement of impact of investment risks/events of investment risks have been selected, studied and adapted:

- Reporting market risk – Value at risk (VaR);
- Reporting the risks that affect SIF1 results and liquidities:
  - Impact of the variation of interest rate – interest rate risk,
  - Impact of the variation of exchange rate – exchange rate risk,
Impact of the variation of the volume of due dividends – Risk of not realizing the expected CF,
Impact of the variation of revenues from the sale of securities in portfolio – Risk of not realizing the expected CF,
Profit at risk (PaR) and Cash-flow at risk (CFaR);

✓ Risks related to the industries and companies in SIF1 portfolio
  - Bankruptcy risk,
  - Volatility of listed securities,
  - Discount rate,
  - Variability of industry turnover.

Applications have been deployed, tested and implemented on the server, that allow the periodical calculation of Value at Risk for the sub-portfolio of listed and liquid shares.

Moreover, solutions have been identified, application have been tested and implemented for the periodical calculation of Value at Risk for the sub-portfolio of listed and non-liquid shares, unlisted and profitable, unlisted and with positive equities. For the listed and liquid shares, it was deployed and implemented on the server an application that calculates the volatility of securities (β, σ) and the parameter of the risk-adjusted return (Jensen’s α).

Every organisation is characterized by competencies that positively differentiate it from competitors and that can bring significant added value in the competitive economy. For this reason, in the first place the management should take these into account in the process of recruitment, selection, training or motivation.

Taking into consideration the upmost importance it has in the investment industry, the intellectual capital associated to human resources, made up of the professional knowledge and unique personal abilities, become one of the main issues in human resources management. In order to develop the intellectual capital, besides the adequate techniques of recruitment and motivation, career plan, continuous training programs, control of staff fluctuation etc., the management should also consider the building of a body of compulsory professional knowledge. (Cuzman & Manate, 2007).

3. Competitive intelligence requirements at SIF1

The efficient management of information and knowledge has three components (Păun, 2007): business intelligence – oriented toward the internal environment, competitive intelligence – oriented towards the external environment and the management of the organisational knowledge. Business intelligence (Bergeron, 2003) implies the use of the “best practices” as efficient ways to achieve the functional activities or some organisational processes (e.g. investment process). There consist of internal procedures and regulations continuously subject to review and improvement, disseminated, known and applied by all the staff. Moreover, it is also encouraged the formation of a group of employees who, using the best practices, learn and train together, in house, creating real “communities of practice”. Knowledge management (Bergeron, 2003)
comprises methods and instruments for identification, storage, dissemination and use of knowledge useful to organisational objectives.

Viewing the complexity and turbulence of the current micro medium organizational success depends more and more on their proactive attitude. A structured and efficient analysis regarding the impact of future events on organizational objectives is needed. But the avalanche of data and information is making difficult the process of capture, filter and analysis of those really important for the company.

The organization capable informational to realize this process is holding what is called Competitive Intelligence – CI. CI existence is favoured by a specialised staff in information gathering and technology, able to use special procedures, techniques and tools for picking and processing information.

An Early Warning System (EWS) is a basic component of CI concept that can positively change a common organization in one of specific competencies, acquired and continuously developed with the purpose to separate, isolate and analyse relevant data and information out of the multitude accumulated in time. Next, it’s processed and the conclusions are distributed to the compartments/persons competent to valorise it to the benefit of the whole.

**Figure 3**

**Competitive Intelligence and Management of SIF Banat-Crisana's Portfolio**

EWS is supplying relevant and actual information to the organization. Acquiring data and information in real time covers different domains, such as: main types and sources of risk, its impact and frequency, competitor's approaches and actions, key success factors, important aspects for the clients and/or owners etc.
Another indispensable component of the Competitive Intelligence concept is the Risk Management System (RMS) that analyses data and information from the company's risks perspective: market, operational, reputational or strategic.

Both EWS and RMS are favouring the development of the organizational competitive intelligence, inter-relating in this aim. RMS is taking from EWS relevant data and information regarding organizational risks and is processing it. As one can see in the Figure 3 above, the common area EWS – RMS is formed by the risk events data base and the procedures for selecting, processing, registering and reporting the risks.

The information processing in the competitive intelligence process favours an adequate management of opportunities, especially of investment kind in SIF1’s case. EWS’s components are formed by a structure (compartment) with attributions, allocated resources (material and human for acquiring and processing internal and external data and information), tools (risk events data base, portal with intranet and extranet access type, informatics programs, computer networks) and procedures (e.g. medium scanning, data collection, organizing, processing, disseminating).

Synthesizing, the main requirements of an Early Warning System are: to offer relevant information for reaching objectives, to comprise risk events and sources that can affect company's targets, to highlight investment opportunities, to supply data and information just in time to be useful, to supply fair data, to cover even competitors and investment industry, to offer current warnings and focused analysis.

4. Conclusions

The management of the Financial Investment Company Banat-Crișana is committed to the company’s mission, respectively the medium and long term maximising of shareholders value through the value increase of the managed portfolio.

In the current economic conditions, ensuing the more accentuated effects of the globalization of the capital markets, for SIF1 the investment strategy consists of providing, allocating, using and controlling the organizational resources during a long period with the purpose to achieve the investment objectives defined in terms of both return and risk. Optimising the return/risk rate is also part of the modern portfolio theory, aiming through the investment/divestment process to create an optimal financial instruments portfolio, selected out of the accessible investment universe following existent criteria and investment policies.

Temporarily speaking, the extreme variations of return and risks of different financial instruments, reflected by sharp increases in quotes (speculative bubbles) or crashes, accompanied by increases of volatility in time or in relation to a representative index, generated the further reduction of the period of holding some securities. We believe that, if we refer to the frame of time that a financial instrument is kept in a portfolio, the saying "bite and run" has never been more appropriate to the capital markets as now, the "buy and hold" strategy becoming obviously obsolete.

One of the aims followed by top management was to create an innovative organizational culture. Permanently were revised and adapted the data and information flows correlated with organizational structure and according
to the legal specific. Either in recruiting, selection, training or motivation processes management takes in account that a competitive organization acquires core competencies that can positively differentiate compared to the competitors and can bring a significant value added. Within the investment industry, the intellectual capital, composed by experience, professional knowledge and unique personal abilities is crucial for success. In order to develop intellectual capital, besides well-known techniques, such as recruiting, carrier plan, and continuous training plan and so on, management must support also the implementation and use of a compulsory body of professional knowledge.

Another strategic issue of SIF1’s management is to achieve a *performing administration of knowledge and information* in all its three components: business intelligence – oriented towards internal medium, competitive intelligence – oriented toward external environment and organizational knowledge management. Another issue is to create premises and use at large scale “*the best practices*” as efficient techniques to realize the functional activities or processes. The third issue would be to create and implement both an Early Warning System and a Risk Management System as basic components of the Competitive Intelligence concept.

**Bibliography**