

# THE FINANCIAL MANAGEMENT OF THE RISK IN THE "SAINT NICHOLAS" CLINIC FROM ATHENS GREECE

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**Cuvinte cheie:** riscul de firma, intervalul de siguranta, coeficientul de levier

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**Rezumat:** După prezentarea bazei teoretice și metodologice, această analiză se referă la managementul și gestiunea riscului în cadrul Clinicii de recuperare „Sf. Nicolae”- din Atena, Grecia, și cuprinde o prezentare de ansamblu a riscului de firmă, cu discutarea în special a unuia dintre cele mai importante riscuri de firmă, acela de a nu se realiza o cifră de afaceri minimă, capabilă să acopere cheltuielile. Se va studia și comenta eventualul risc pe care l-a avut firma în anul 1997, în momentul în care echipa de management strategic a clinicii a hotărât necesitatea de diversificare a firmei. Determinarea riscului în afaceri, a riscului de firmă, gestiunea și managementul acestuia, este o problemă importantă și complexă.

**Abstract:** After presenting the theoretical and methodological base this analysis refers to the management and administration of the risk in the Clinic of Recovery „Saint. Nicholas”- from Athens, Greece and comprises an assembly presentation of the firms risk, that of not realising a minimal bussiness value capable of covering all the expenses. It will be studied and comented the possible risk the firm had in 1997, when the strategic management clinical team decided to diversify the firm. Determining the bussiness risk, the firm's risk, the its administration and management is an important and complex problem.

## INTRODUCTION

### GENERAL PRESENTATION OF THE FIRM'S ACTIVITY

"The Recovery Clinic of the chronic diseases-Saint. Nicholas"-from Athens Greece, was founded in the year 1994, to recover the cerebral vascular accidents after-effects. In the clinic specialty medical logistics are provided to the adult persons, with the age of more than 50 de ani, with health problems, that affect the organism on a longer period of time or that are incurable.

It has an economic status of a firm with limited responsibility, and continues its activity at the present moment. From the beginning the clinic is a firm with private capital, on actions with a greek juridic personality that organize and function in conformity with the Greek and the Common Market legislation.

### THE ANALYSIS OF THE FIRM'S FINANCIAL MANAGEMENT

The management's team of the firm has in consideration permanently the application of a strategic management but also of the personnel management and quality management, also the financial management, according a remarkable importance to the management of the firm's risk.

### THE FINANCIAL MANAGEMENT OF THE RISK

This analysis refers to the management and administration of the risk in the recovery clinic described previously, and comprises an assembly presentation of the firm's risk, referring especially to the one of the most important firm's risk that of not realising a minimal bussiness value, capable of covering the expenses.

Determining the bussiness risk and the firm's risk, its administration and management, is an important and

complex problem.

In spite of the importance of the bussiness risk, in the specialty literature the risk was studied only sequentially, treating especially the Bank's risk and less the firm's risk also, the reciprocal risks between the contractors and the other segments of the financial market.

## THE AIM OF THE STUDY

The aim of the study was the analysis of the financial management in the Recovery Clinic „Saint. Nicholas”- from Athens, Greece. This comprises a general presentation of the firm's risk, discussing especially of one of the most important risks, that of not realising a minimal bussiness value, capable of covering the expenses.

## MATERIAL AND WORK METHOD

After presenting the theoretical and methodological base, a risk analysis will be made, with an application on the "Recovery Clinic of chronic diseases Saint. Nicholas", from Athens - Greece. It will be studied and comented the eventual risk the firm had in 1997 when the strategic management clinic's team decided the necessity of the firm's diversification.

The most severe risks are two of them:

1. The risk of not realising a minimal bussiness value, that may cover the expenses.
2. The risk of not realising a minimal bussiness value that may assure to the shareholders the accepted dividend.

The author C. Stănescu, in his workpaper "Economical Financial Analysis" (1996), defines the operational risk as being the impossibility of a complete recovery of the effected expenses from the obtained income and signalize the importance of the determining of the minimal degree of using the

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production capacity, that may permit the obtaining of the necessary revenues to cover the affected expenses.

To sustain this idea we use the following equation:

$C.A. - (C.V. + C.F.) = P$ , where:

- C.A.= bussiness value or production value (Q)
- C.V.= variable expenses
- C.F. = steady or conventionally constant expenses
- P = profit

The same author proposes for the firm's risk's analysis, two models, that are considered as being the most important:

**1. The analysis model with the help of the safety range** (or of the position indicator), that may be calculated after the relationship:

$$I.S. = \frac{C.A. \text{ max.} - C.A. \text{ min.}}{C.A. \text{ max.}} \times 100$$

where:

- The maximal bussiness value is the capacity of the firm's production
- The minimal bussiness value is the bussiness value that the firm has conditions to realize.

This risk is administered with the following indicators:

- I.S. = Safety range or I.P. = Position indicator
- C.A.max. = Maximal bussiness value
- C.A.min. = Minimal bussiness value

The interpretation of the equation is done regarding the result obtained in percentage, that show sus the financial situation of the firm. The result of the equation is an safety range that has to be interpreted, regarding the uniformity of the evolution of the bussiness value and of the firm's expenses.

**2. The analysis model using the effect of the lever coefficient of exploitation** (the coefficient of lever of exploitation), is the second model in which :

$$K.L. = \frac{C.A. - C.V.}{C.F.} = \frac{\text{Marja brută}}{C.F.}$$

where :

- K.L. = Coefficient of the exploitation lever (The leverul is defined as a small thing that develops a bigger power than itself)
- C.A.= The bussiness value
- C.F.= The steady or constant expenses (are the expenses of administration and management)
- C.V.= Variable expenses (vary proportional with the activity)

The interpretation of the coefficient of the effect of lever (K.L.) is done by reporting to the unit.

In the case of using the coefficient of lever, we should consider the so called lever effect, and also the rentability threshold. The rentability threshold is also named point of equilibrium dead point or critical point. This has a connection with the bussiness value, steady expenses, profit and with the firm's development.

### RESULTS AND DISCUSSIONS

First of all we checked by applying the equation, if the firm may obtain the necessary revenues for the firm's expenses and the bankable profit.

So we use the equation :

$C.A. - (C.V. + C.F.) = P$ , where :

- C.A.= bussiness value or production (Q)
- C.V.= variable expenses
- C.F. = steady or constant expenses
- P = profit

$70.000 - (10.000 + 34.000) = 26.000$  Euro

The result shows that there is no exploitation risk or operational, because the revenues may cover all the expenses arising profit.

Next, the risk analysis with the appliance to the "Recovery Clinic of chronic diseases Saint. Nicholas", from Athens- Greece will be done. The probability of the firm's risk will be calculated by applying the two analysis models presented previously.

It will be analysed the probability of the risk of not realising a minimal bussiness value that may cover the expenses at the moment when the managerial clinical team decided the firm's diversification, implying investments in the fitting of new spaces, hiring personnel and purchasing performant recovery medical appliances.

The fitting of the new spaces in the clinic, hiring the personnel and the endowment of the physiotherapy cabinet with performant devices, necessitated investments, that probably the managerial team of the clinic took into consideration as a firm's risk probability, analysing the possibility of the risk of not realising a minimal bussiness value that may cover the investments expenses.

For the risk analysis have been used the two models proposed by the author C. Stănescu:

**The analysis model using the safety range**, by applying the relation:

$$I.S. = \frac{C.A. \text{ maxim} - C.A. \text{ minim}}{C.A. \text{ maxim}} \times 100$$

that is in

the case of the clinic :

$$I.S. = \frac{70.000 - 50.000}{70.000} \times 100 = \frac{20.000}{70.000} \times 100 = \frac{200}{7} = 28,57$$

where the assets are in Euro.

The obtained safety range, of 28,57%, show sus that the firm's situation is comfortable.

It is appreciated that the bussiness value reported to the critical point has the following interpretation:

- If I.S. would have been of almost 10%, then we would have considered the firm in an instable status., almost in bankruptcy.
- If I.S. would have been between 10% - 20%, then we would have said that the firm has a stabile status. The financial situation of the firm is difficult and the firm must be monitorized. In this situation no more money are to be invested in the firm.
- If I.S. is of more than 20%, than is considered that the financial situation is good and the investments are allowed, as it is the situation of the studied firm's.

**2. The analysis model using the lever coefficient of exploitation applied in the case of the clinic is :**

$$K.L. = \frac{C.A. - C.V.}{C.F.} = \frac{\text{Marja brută}}{C.F.} = \frac{70.000 - 10.000}{34.000} = \frac{60.000}{34.000} = 1,76$$

In this situation we say that the studied firm has a profit.

**The interpretation of the K.L. indicator** is done as it follows:

- If it would have been smaller than 1, we would have said that the firm is in wastage, because it can't cover its expenses from their own revenues, being in the bankruptcy danger.
- If it would have been 1, then we would have said the firm has no wastages.
- If a coefficient bigger than 1 is realised, then the firm is profitable, being at distance from the bankruptcy risk, as it is the clinic whose risk we have analysed.

In conclusion, we may say that this clinic is not in the risk of not realising a minimal business value that can't cover the expenses.

By analysing the firm's risk, using two indicators, where the position indicator has a value of 28,57% and the lever coefficient of exploitation that has a value of 1,76, we may say that the studied firm, "Recovery Clinic of Chronic Diseases-Saint. Nicholas" is in a comfortable position and also has a profit.

In consequences, the clinic is far from the risk of bankruptcy and is in the situation of investing in the firm's diversification, to create new values, that may bring a position and a better image on the market.

### CONCLUSIONS

1. No one assumes a risk considering it has something to win and that between those two parameters a very well conceived and controlled correlation has to function, the following conclusion is reached, the fact that an acceptable economical and financial equilibrium is the one that compensates the assumed risk.
2. It may be said that the role of the financial management in establishing, affirming and growing the organisation's value is more and more important.
3. The managers should take into consideration always the two risks that are considered the most severe:
  - The risk of not realising a minimal business value, that assures the shareholders the accepted dividend, that trains dissatisfactions that may determine the managers' replacement and
  - The risk of not realising a minimal business value that may cover the expenses, that would bring the firm in bankruptcy.
4. We may conclude that in the specialty literature, in spite the importance of the business risk, the problem of identification and analysis the firm's risks remains an open issue that must be studied in the follow-up.

In the practical activity, in the firm's risk have priority:

- The economical risk, deriving from the unpredicted variability of the production factors under the environment factors pressure;
- The financial risk, having as a cause the unpredicted evolutions of the financial market;
- The bankruptcy risk, meeting the two of them plus the conjuncture factors.

As is revealed in some authors opinion, for the economical agents, the bottom characteristics, are the most important:

- The harsh competition between the firms;
- The rapid technological changes;
- The dynamics of the inflation rate and of the interest rate;
- Uncertainty of the global economy;
- Implementing the ethical code of the business people in the domain of the financial business;

All those determine fewer and expensive capitals, and the wanted profits, in the conditions of the competence, difficult to be realised, being accompanied with bigger risks and difficult of anticipate.

The risk, next to the financing and performance, are actual dominant problems dominante but also of future that should draw the attention of any manager.

The managerial team of the clinic, has to, seriously with promptitude and flexibility approach, the problems referring to the firm's activity.

The firm has to continue to improve the strategic management and the quality of the performed medical services, as the realisation of profit keeps the clinic apart from the firm's risk and especially of the bankruptcy risk.

Do not forget the fact that nothing may be obtained if there are no investments, but, every investment is accompanied by risk, so the risk should be accepted.

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