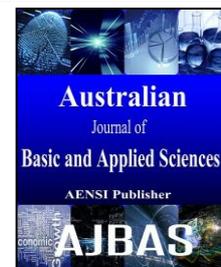




AUSTRALIAN JOURNAL OF BASIC AND APPLIED SCIENCES

ISSN:1991-8178 EISSN: 2309-8414
Journal home page: www.ajbasweb.com



Capital Allocation of Governance Actors

¹Garoui Nassreddine and ²Makhlouf Lassaad

^{1and2} College of Business and Economics, Quassim University, KSA Faculty of Economics and Management, Higher Institute of Business Administration, Sfax, Tunisia

Address For Correspondence:

Garoui Nassreddine, College of Business and Economics, Quassim University, KSA Faculty of Economics and Management, Higher Institute of Business Administration, Sfax, Tunisia

ARTICLE INFO

Article history:

Received 04 December 2015

Accepted 22 January 2016

Available online 14 February 2016

Keywords:

Capital allocation, Governance actors, structural analysis, MACTOR method

ABSTRACT

Today, a company must have an effective capital management. The difficulty lies in the diversity of views on capital depending on the function occupied by the stakeholders. This paper presents a consistent way of defining and managing capital taking into account the views of all stakeholders involved. We identify the dimensions of the problem and look for major issues, challenges, threats and opportunities of the system and the objectives for each issue. The proposed analysis of the acting process is that of Michel Godet. It is through four main steps, identifying major system issues, stakeholder identification and positioning of actors in relation to several objectives. Results provide a visualization of the relative positions and allow a typology of actors: dominant actors, actors dominated, actors relay and autonomous actors.

INTRODUCTION

A fundamental job of the economy is to allocate capital anciently. To achieve this, capital is supposed to be invested in the sectors that are expected to have high returns and be withdrawn from sectors with poor prospects. For a long time and for many reasons, economists have suspected that formal "financial markets and associated institutions improve the capital allocation process and thus contribute to economic growth. Overviews of a variety of different methodologies for this so-called capital allocation were given by Koyluoglu and Stoker (2002) and Urban *et al.* (2004).

The objective of this study is to present a consistent way of defining and managing capital taking into account the views of all stakeholders involved. To do this, we will illustrate, in a first section, the different views on capital allocation. In a second section, we present the methodology based on a qualitative approach to understand the positioning of actors from the notion of "Capital Allocation" that drive Tunisian companies. The main results and interpretations will be presented in the third section before concluding.

Literature review:

1. Different views on capital:

A company gathers different actors, the main ones being the Shareholders, Management, rating agencies, and bank. For each of them, capital plays a different role:

- From the perspective of management, capital possible to generate business and profit, and must be managed so that all stakeholders are satisfied.
- For insurance regulators and policyholders, the capital guarantees payment of claims exceeding initial projections. Its volume should be as large as possible.

Open Access Journal

Published BY AENSI Publication

© 2016 AENSI Publisher All rights reserved

This work is licensed under the Creative Commons Attribution International License (CC BY).

<http://creativecommons.org/licenses/by/4.0/>

To Cite This Article: Garoui Nassreddine and Makhlouf Lassaad, Capital Allocation of Governance Actors. *Aust. J. Basic & Appl. Sci.*, 10(1): 88-94, 2016

- For rating agencies, capital is the monetary value of a company for calculating solvency and level of risk. They determine if the level of capital is "enough" after reviewing the record and met with the management of the company.

- Finally, the shareholders, the capital represent the monetary "value" of a company to its "owners". It aims to generate future profits and should be as small as possible (target capital). Shareholders intend to ensure that the riskiness of a company's activities is adequately compensated in the form of returns on investments. The design of shareholders is probably the most important, since it encourages the profit maximization of the shareholder, which is (or should be) the primary objective of the leaders of a listed company.

The shareholder is primarily concerned with the course of action, which implicitly includes expectations of future profit. This view naturally influences our definition of risk. Shareholder, the risk is that the company does not achieve the expected profit.

2. The available capital from the perspective of the shareholder:

From the point of view of the investor, the available capital is primarily the amount of capital in the balance sheet of the company. It can then be adjusted to obtain economic capital: + Hybrid debt equity - goodwill - [net deferred tax assets = Deferred tax assets - Deferred tax liabilities] + adjustments for an assessment of liability consistent with the market, plus adjustments for consistent valuation of assets with market.

From the equity shown on the balance sheet, investors calculate the performance of the company and assess the profitability of its own investment by comparing the profits that the company declares the capital it holds. In this context, analyze the process that management must follow to set the amount of capital required, and profitability objectives.

3. What is the volume of capital required for the activity?:

Capital said "enough" is the monetary value needed by a business based on an assessment of its risk by a stakeholder or its representatives (rating agencies, shareholders, management). "How much the investor is willing to lose? »Or" How a policyholder is protected? "Are many underlying issues. Clearly, this means that after heavy losses, management does not want to run more than once a decade to the capital markets for a capital increase. This threshold depends of course on the risk appetite of the company and its access to financial markets and market expectations in terms of profitability of the company.

Research Methodology:

An approach for the analysis of acting: the method MACTOR:

MACTOR the method developed by Godet and presented in 1990 is entirely appropriate for this type of analysis on the acting. Simple in its implementation, it is an interesting tool for forward thinking. This method seeks to visualize around a set of objectives, alliances and conflicts between actors, while considering their power relations (F. Hatem). It is based on several steps that we try to explain and illustrate here with a simple but incomplete example while setting the stage for a complete application:

First step: Identification of issues and objectives:

It is to identify the dimensions of the problem and look for major issues, key questions, battlefields, challenges, threats and opportunities of the system and the objectives for each issue.

Retrospective analysis, structural analysis, foresight workshops and focus groups have allowed previously to highlight the main features of the system and to identify the major issues.

For more details on this issue, we must return to the sequence 4 on the study of the dynamics of the system. Key and relevant to the future of the system issues, major issues (regulatory, technological, economic and social, around which the future of the system will be tied), are thus released. The objectives for each issue are also identified. An issue can be broken down into several objectives.

The actors will eventually be positioned relative to a set of objectives, and discuss their projects; their objectives may be convergent or divergent. This step must end with the implementation and finalization of a list of objectives by the actors.

Objectives should be expressed in a clear and precise way to allow, in the next step, position players on the different objectives depending on whether they are favorable or unfavorable vis-à-vis different objectives. The number of goals set should not exceed thirty; otherwise the analysis would be complicated and would be poor teaching.

In this paper we are interested in the Capital Allocation; we can consider some of the issues and deduce some objectives:

Table1: list of objective by the actors

<i>Issues</i>	<i>Related Objectives</i>
<i>I. SATISFACTION</i>	<i>O1. Generate activity O2. Generate profit O3. Satisfaction stakeholders</i>
<i>II. RISK AND SOLVENCY</i>	<i>O4. Calculate the solvency O5. Calculate the level of risk O6. Guarantee of credit paiement</i>
<i>III. RISK COMPENSATION</i> <i>etc.</i>	<i>O7. Generate future profits O8. Returns on investments</i>

Second step: identifying actors:

It is in this stage to identify the main actors involved in the issues already identified and evaluate their power relationships. The balance of power of an actor is a measure of its ability to influence and impose its priorities on the other actors. We consider the key actors who can influence or control, directly or indirectly, changes in key variables (from the structural analysis).

Identification of actors can take place through workshops and focus groups several specialties. The main question at this level is: Who are the actors who command from far and near how the main components of the system in question? After a few rounds, a number of actors will emerge.

Following the notion: Capital Allocation

We analyze the notion of Capital Allocation and remember the following list of actors:

List of actors: Management, Rating Agencies, Shareholders, Bank:

In general, the number of actors selected must not exceed twenty for not making heavy analysis and poor teaching. Moreover, the list must not omit the actors can not be much weight to the current situation but will be influential in the future, these are the potential actors. A potential actor is interesting in that it could become an effective player very quickly. Identification of key actors must be accompanied by an individual study of each of them. This is to establish a record for each actor in which it comes to clarify the definition of each actor, information on its aims and objectives, projects under development and maturation, the internal and external constraints to which it is faced and also the actual means of action available to it.

Step Three: ranking the actors:

Once established actors sheets, trying to evaluate the balance of power by measuring the ability of influence of each actor in each other. The ranking of actors is the analysis of relations of alliances and conflicts between actors and the establishment of an order of importance in their roles as future commanders of the system. Indeed, the actors are not as powerful as each other and do not have the same ability to impose their priorities.

To develop this type of prioritization, we can follow the approach of M.Godet which is to build a matrix of direct influences which are evaluated, influences and dependencies between each pair of actors. This approach is much like the one we used for prioritization of variables in the context of structural analysis. Filling the matrix of direct impacts between players can be as follows:

0: when the actor *i* has little influence on the actor *j*.

1: When the player *i* can challenge or support a limited way process project management *j*.

2: when *i* can compromise or enhance the success of projects *j*.

3: when *i* can challenge or support the tasks of *j*.

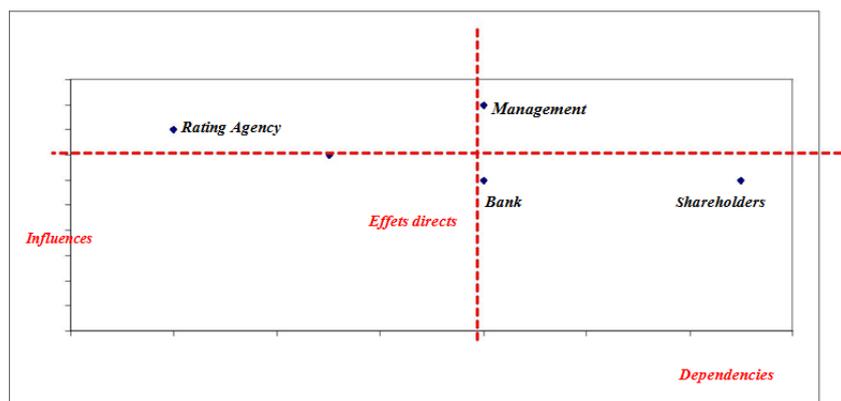
4: when *i* can challenge the actor in her life *j* (*i* is then essential to the existence of *j*).

Here we will only 5 actors to make simple and clear analysis at this level:

Table 2: Matrix of direct influences between actors (Actor x Actor)

Actors	Management	Rating agency	Shareholders	Bank	Direct Influences (Σ)
Management	0	4	2	2	8
Rating agency	2	0	2	2	6
Shareholders	1	3	0	1	5
Bank	2	3	2	0	7
Direct Dependencies (Σ)	5	10	6	5	

This painting is already revealing power relations, the statement of the amounts of influence in rows and columns shows that the Management is the most influential actor while being the most subject to the influence of others after Rating Agency and Shareholders. While Rating Agency and Shareholders have a relatively limited impact, they can not challenge the interests of others. From there, you can develop a classification to view the actors who are the most influential and those who are most dependent. It may also be illuminating to use a graphical representation of these results on a map representing the influences and dependencies between actors. Each actor is represented by a point whose coordinates are its ranking by increasing dependence and its ranking rising influence. This produces a cloud of points in the plane impact dependency. That way we can divide the actors according to their position in the plane by dividing it into four quarters. This provides a ranking of the actors based on their role in the system.

**Graph1:** Influences and dependencies between actors

This plan provides a visualization of the relative positions and allows a typology of actors. It is divided into four quadrants showing four categories of actors:

- Dominantactors (Northwest): they have a strong influence on others without being themselves strongly influenced; Management here.
- Actors dominated (Southeast): heavily influenced by others and have little power. Bank and Shareholders.
- Actors relay (Northeast): both highly influential and highly dependent. This means they have the means of action to carry out their projects but are also influenced by the actions deployed on them others. Rating Agency.
- Autonomous Actors (Southwest): both low influential and weakly dependent.

Beyond direct strength reports, an actor may be on another via a third. If an actor i directly influences a player j and j directly influences whether a third actor k , then i the indirect influence (via j) k . To examine the influences on both direct and indirect can raise the matrix square and higher orders.

This helps to identify the balance of power direct and indirect (the sum) between actors. The inclusion of indirect relations could change the ranking of actors in terms of balance of power obtained by the consideration of only direct relations. It is interesting to make a comparison between the types of actors obtained taking into account the direct relationships and those obtained after taking into account the direct and indirect relationships at once. Some actors can change status once you take into account all direct and indirect impacts. For example, a standalone actor according to the type obtained by analyzing direct impacts may become dominant depending on the type obtained by the analysis of all direct and indirect impacts.

This technique is very similar to the structural analysis in the sequence 4 as a tool of choice for key variables in determining the possible future of the system. Here there is more choice of key actors for the future of the system.

Step Four: Position actors against objective:

This step allows the identification of key issues for the future of the system, and the objectives that will condition the playing field of the future. These are the objectives that involve a large number of actors. It also helps to identify similarities and differences of the actors on the different objectives. Thereby identify consensual objectives and conflicting objectives, those that give rise to conflict of interests and confrontations between the actors.

The positioning of actors against targets also assesses the degree of involvement of actors in the different objectives stating the importance of supporting and opposing positions for each objective. The more involved or more involved in the game actors are those who are affected by a large number of objectives.

The technique involves filling a second matrix (actors x objectives). The different cells of the matrix are filled as follows:

+ 1 when the actor *i* was in favor of objective *j*

- 1 when actor *i* is away from the lens *j*

0 when the actor *i* is neutral vis-à-vis the objective *j*

Completion of this matrix is done as part of a workshop bringing together experts and internal actors explored system. Completion of this matrix is a cumbersome process that can take several days (2-3 days filling or sometimes more, depending on the number of actors and targets set).

However, it gives rise to debates within the team, debates that may last but not useless insofar as they provide insight into how the system works and to exchange ideas instructive.

Following the notion: Capital Allocation

A matrix (actors x objectives) can be established, we just here 4 objective to make clear analysis.

List of objectives:

01. Generate activity

02. Calculate risk and solvency

03. Generate profits

04. Shareholders satisfaction

Table 3: Actors matrix x objectives

	O1	O2	O3	O4	Positions number
Management	+1	+1	+1	+1	4
Rating Agency	+1	+1	+1	+1	4
Shareholders	+1	0	-1	0	2
Bank	0	+1	0	+1	2
Agreements number (+)	+3	+3	+2	+3	
Disagreements number (-)	0	0	-1	0	
Positions number	3	3	3	4	

The matrix positioning of actors on the objectives is rich in education. It frees the degree of involvement of each actor on the different objectives: it suffices to take the sum line by line (that is to say by actor). Those most involved, most involved in this game, those affected by a large number of objectives are: Management and Rating agency, the capital allocation concerns them very closely. The actor "Management" is concerned with the four objectives considered and very involved in this game; it's the same for Rating Agency. By the actor against "Shareholders", it is positioned on two goals.

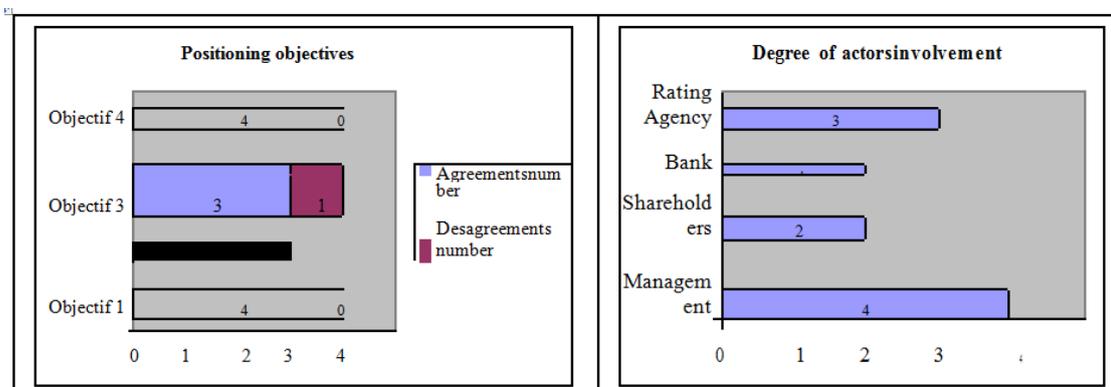
The amounts column-possible to identify targets that affect the largest number of actors and are determining the future of the system and those that are secondary.

The review sums positioning of actors (last column) you can see that all stakeholders are involved in the different objectives; they are positioned on at least two battlefields (of 4). This research about Capital Allocation does not show a lot of conflicting objectives, but rather consensual goals, there are no targets that divide actors (between those in favor and those opposed to these objectives), apart from the objective O3. The number of positions in line (the last line) highlights the most inspiring goals, those that mobilize more actors, O3, and O4 O1 in our research. The following graph shows the involvement of many actors on different targets but said the number of agreements and disagreements.

For each pair of actors, it is also interesting to note the number of convergences and divergences on all targets. This number is visible in the matrix actors x objectives. As an illustration, the state and the EN have the

same position on the four objectives considered; 4 is the number of convergence and 0 is the number of discrepancies between Management and Rating Agency.

Conclusion and implications of research:



Grphe 2: Actors implication

In the general case we can identify potential allies on several objectives, or lack of common objectives among a few others. It can also raise the conflict of an actor with others on individual goals while it may be their ally on other goals.

For larger arrays with many more actors and targets can be called to MACTOR program, developed by Michel Godet and LIPSOR available for download at the following address: (<http://www.cnam.en/LIPSOR/>). Needed to run the program input data, from the filling of the two matrices (actors x actors) and (actors x objectives). The program performs all calculations and matrix displays several pages of results: the ranking in terms of influences - dependencies, the number of convergences- differences, the degree of involvement of the different actors, the balance of power; these results are often illustrated with graphics-rich lessons. However, do not get lost in the mass of information and results provided by MACTOR, you have to use the most interesting results and be able to make a smart playlist and draw valuable lessons. The application of the method MACTOR can lead to results not in accordance with intuitions, sometimes startling, in which case we must return to the filling of the dies, the selection of actors and formulating goals. These may be a misuse of the method. We recall here that the methods remain Assistance reflection tools. Using the method or other MACTOR requires significant analysis capability without which methods would mask the real issues and lead to controversy. At the end of the analysis phase of acting, one must have identified a number of key actors that must closely follow (their plans and priorities), and decisive for the future issues. Construction and / or the realization of any scenario depend on the strategies of these actors and their priorities. The probability of each possible scenario is an increasing function of the degree of mobilization of key actors in this scenario. In addition, prospective analysis and more precisely the scenarios which it gives rise must absolutely include assumptions concerning the horizon studied the evolution of the balance of power, alliances and conflicts between different actors as well as the objectives mobilizing more: assumptions trends or ruptures. The future of the system depends largely on the strategy of actors who are directly or indirectly involved in the development process.

REFERENCES

- Albrecht, Peter, 1997. «Risk Based Capital Allocation and Risk Adjusted Performance Management in Property/Liability Insurance: A Risk Theoretical Framework,» Proceedings of the 75h InternationalAFIR Colloquium.
- Beck, T., R. Levine, N. Loayza, 2000. Finance and the sources of growth. *Journal of Financial Economics* 58.
- Cummins, J. David, Scott E. Harrington and Robert W. Klein, 1995. "Insolvency Experience, Risk-Based Capital, and Prompt Corrective Action in Property-Liability Insurance," *Journal of Banking and Finance*, 19: 511-527.
- Garoui Nassreddine and Jarbouï Anis. Cognitive Governance, 2001. Cognitive mapping and cognitive conflicts: Structural analysis with the MICMAC method. *COGENT ECONOMICS AND FINANCE* (Taylor and Francis), 2: 1.
- Garoui Nassreddine and Jarbouï Anis, 2014. Corporate Governance, Behavioral Approach and Cognitive Mapping Technique. *CONTEMPORARY ECONOMICS*, 8(2).

Godet Michel *et al.*, 2003. « La boîte à outils de prospective stratégique ».

Godet Michel, 1997. Manuel de prospective stratégique, Tome 1 : une indisciplinette intellectuelle. Tome 2 : L'art et la méthode, Paris, Dunod.

Hatem Fabrice, Cazes Bernard et Roubelat Fabrice, 1993. « La prospective, pratiques et méthodes », *Economica*.

Koyluoglu, U. and J. Stoker, 2002. Honour your contribution. *RISK*, 15(4): 90-94.

McNeil, A., R. Frey and P. Embrechts, 2005. *Quantitative Risk Management*. Princeton University Press.

Merton, Robert and Andre Perold, 1993. «Theory of Risk Capital In Financial Firms,» *Journal of Applied Corporate Finance*.

Porcheron Eric, 2002. « Le E-Book, incertitudes et perspectives d'avenir », *Travaux de recherches de prospective*.

Urban, M., J. Dittrich, C. Kluppelberg and R. Stolting, 2004. Allocation of risk capital to insurance portfolios. *Blätter der DGVM*, 26: 389-406.