

ECONOMIC AND FINANCIAL ANALYSIS – DETERMINANT OF BEHAVIOR IN ORGANIZATIONS

MIHAELA BÎRSAN, ALINA BALAN, ȘTEFĂNIȚĂ ȘUȘU
“ȘTEFAN CEL MARE” UNIVERSITY OF SUCEAVA, ROMANIA
13 UNIVERSITATII STREET, SUCEAVA, ROMANIA, 720229
mihaelab@seap.usv.ro, alinab@seap.usv.ro, stefanitas@seap.usv.ro

Abstract:

Essential for business success in this constantly changing world, is not primarily the availability of resources (financial, human, material, information, etc.), is an optimal organization of work, given to priorities and external rigors, enterprise connection to physiognomy and environmental requirements, the attitude towards the problems posed by the market, the ability to mobilize resources to capitalize the potential of domestic and market opportunities.

Any economic system is considered to be "closed loop (feedback) [1] and therefore, its operation requires the existence of two factors, namely: a difference between desired value and actual value (current), called deviation, and a policy (strategy) that expresses the actions necessary to ensure a certain desired size for the difference between desired and actual value. Deviations analysis is controlling instrument company (as the enterprise process management), giving it the ability to timely notify the distractions and allowing adjustment of the system, increases short-term responsiveness of the entrepreneur and gives long-term capacity greater adaptation (it is called "seismograph company).

From this perspective it is considered that the strategic approach and diagnostic analysis prior to the decision making and the alternatives they provide, justify it scientifically.

Key words: *economic analysis, financial analysis, diagnostic*

JEL classification: *B26, C81, D22, M51*

Enterprise as a system and analysis implications

One of the specific features of enterprise refers to the fact that enterprise is a self-adjusting system that is has the ability to be self regulated [2] by means of awareness of human factors, and incorporating in its structure a decision or control subsystem. Self regulation [3] is characterized by the capacity of systems to respond to internal or external disturbances action and keep composure over different periods of time.

In general, programmed outputs from enterprise system are based on market demand and profitability objectives and predetermined efficiency.

In practice results have always tended to turn to the objectives, because company must face in its business environment a set of socio-economic agents which, in turn, pursuing their own objectives.

Of course, it tries to anticipate the decisions of these agents (often competitors) predictions translated into budgets in order to prevent situations which might lead to bankruptcy [4].

In these circumstances, it is necessary for enterprise system to be organized that manages to be self-regulating. For this the system includes a self regulation internal structure, with two major components:

- Comparison - considers the deviations of actual output port with the programmed;

- Control - initiated corrections in the system based on input signals from outputs, which implies the existence of a control loop caused by reverse connection (feedback).

It is necessary, to master the situation, implementing a control system able to bring significant deviations that arise between forecasts and achievements, to take necessary corrective decisions.

Today we are witnessing to rapid changes and frequent extreme political factors, social, economic, regulatory and technological, etc., giving another dimension of market competition, enterprise performance management. These factors determine a continuous adaptation to changing dynamic business environment, a profound shift in scope and the general management department of companies, in fact, a revised and managerial behavior.

System survival in its environment depends, from this perspective, on behavioral strategies adopted and the nature of the environment. System is developing strategies for cooperation with some elements of its environment that are dependent on its ability to organize and control their own behavior, and environment quality estimating variables that characterize disturbed.

For any business, knowledge and environment, physiognomy and its operating mechanism analysis, is the point where start identifying opportunities, but also the dangers, the looming threats against him. Therefore it is absolutely necessary knowledge the content and environmental requirements, and quantitative and qualitative changes occurring within it, even anticipating the future evolution of the environment so that enterprises can adapt to his new structure [5].

Diagnostic analysis is the management tool that helps enterprise management in understanding the past and present, in order to substantiate future strategic objectives of maintaining and developing the company in a competitive environment; the analysis also subject to internal concerns of economic and financial partners - banking interested in making cooperation with undertaking actions [6].

Economic behavior through knowledge

Increasing complexity of economic life led to necessity of knowing the human economic behavior mechanism which is becoming larger and more complicated, requiring a separate study of the two intrinsic components: human behavior as a producer of goods and services and the consumer's behavior, ignoring how serious manifestation of it causing disruptions.

As research has progressed in this area, it became clear that investigation of behavior requires a multidisciplinary approach where an essential role returns to behavioral sciences - particularly psychology and sociology that were taken fundamental ideas and concepts. In fact, experts estimate that political economy, psychology, sociology and anthropology have made the conceptual foundations of current knowledge in this field.

Knowledge has become a resource and a necessity of social existence, the only resource really relevant today, surpassing both capital and labor [7]. In author's vision knowledge is changing and cause changes, business functions are no longer the same, some merge or disappear, new ones appear, such as knowledge management company seeking a better selection of information and knowledge within the firm, in order to obtain a new competitive advantage.

Managers see the current knowledge a key asset of the company, which must be exploited for competitive aims because now knowledge are sources of productivity growth and creative ideas and innovative thinking are essential to achieve success in a rapidly changing market [8] .

"There is no sustainable advantage other than what a company knows how to use what they know and how quickly can learn something new" [9].

Conduct business under analysis and diagnosis sign

In relation to the situation where the firm can adopt behaviors are different strategically competitive, innovative, entrepreneurial, financial, environmental front, in light of the attitude towards risk, etc.

An organization's ability to integrate environmental pressures, internal resources and investor pressure to succeed, at each financial year, to create value is critical to its success and sustainability. Thus, firm response to the pressures of its external environment is limited by internal resources available and management decisions, which can print an adaptive behavior, the company's flexible or, conversely, marked by resistance to change.

Similarly, a business transformation skill in competitive advantage is achievable only if they are identified or can be built into business opportunities.

Because of this analysis and diagnosis acquire new valences.

First define and analyze the company' competitive context preparing, by giving them practical matter, the firm's strategic responses to the constraints of its external environment and foreshadowed its efforts to adapt to structural changes of environment and positioning efforts appropriate to the competition.

But in assessing how the analyzed company manages to benefit from its environment opportunities, integrating the national plan of its potential performance constraints, autonomy and financial flexibility the analyst uses a series of specific techniques and tools that enable them to make relevant assessments on the one hand the performance and dynamics of this indicator for the activity studied and secondly on the level of risk to which it is located.

This paper refers in particular to the complementarities existing between the finance and strategic analysis. If financial analysis is traditionally focus on indicators of solvency calculation and analysis, balance and performance, modern perception is to integrate the concepts mentioned in addition to financial diagnosis and articulate its findings with the diagnosis and strategic, commercial, technological, social or organizational for view a complex and fair image of competitive and organizational business' behavior.

Dynamic behavior of the system, identified through the tests performed, can be characterized as [10]:

- passive - adaptive - decisions involving adaptation to changes occurring in the environment. Without innovation, the company merely imitative processes, maintaining a potential reserve capacity, especially financial;
- active - innovative - which is achieved by continuous and systematic exploration of the market and exploit opportunities. Adapting to change is accompanied by operational active conduct of market developments as a result of the attitude adopted by the enterprise;
- proactive, initiating change and possible market-making right decisions before the changes actually occur, witch need to develop forecasts of cyclical risks involved and, depending on investigation results, launch new products and/or abandonment of construction products whose demand is declining.

Scientists have developed a number of models of strategic approach to our attention heading towards the model school at Harvard [11].

This model, known LCAG formulation, named after its authors (A. Learned, N. Christensen, J. Andrews, and S. Guth) equates it to the organization's internal and external analysis, through what is known as SWOT analysis.

The results of environmental analysis and diagnosis of internal evaluation can determine possible ways of action, considering the advantages and disadvantages of each.

Taking into account the strengths, weaknesses of the company, learned from internal potential diagnosis, opportunities and threats on the other side present in the external environment, the above model is best known as the SWOT.

The combination of those four positions mentioned, emblematic of internal and external analysis, strategic behavior results in the following possible:

Table no. 1 Combination of Strengths, Weaknesses, Opportunities, Threats

	Internal factors	Strengths (S)	Weaknesses (W)
External factors	Opportunities (O)	STRATEGY – “strengths - opportunities” S/O	STRATEGY –“ Weaknesses - opportunities” W/O
	Threats (T)	STRATEGY – “strengths - threats” S/T	STRATEGY –“ Weaknesses - threats” W/T

Firm behavior, based on these benchmarks will be reflected in the strategies may be adopted:

1. Strategy W/A (weaknesses/threats) is the most unfavorable situation for the company, it is necessary to reduce both internal company elements of weakness, and avoid dangers in its competitive environment.

The strategic guidelines can not refer only to abandon those activities or maneuvers to safeguard restricting assignment or activity.

2. Strategy W/O (weaknesses/opportunities) appear virtually certain occasions when the company perceives its environment environmental development, but lacks the ability to assert their own interests.

The easiest solution in this situation is to detect abandonment opportunities for competitors, and the correct response is to incorporate the potential for exploitation, either through mergers (acquisitions), or through strategic alliances with other firms.

3. Strategy S/A (strengths/threats) is to use internal strengths to eliminate or avoid threats in the external environment of business.

4. Strategy S/O (strengths/opportunities) is the most advantageous positions of the wheels on the grid for analysis and is as consistent use of potential internal strengths and exploit opportunities for environmental detection.

This type of behavior is framed in what experts call the strategic behavior. The strategic behavior, organizational leadership in developing long term and its performance, providing rigorous formulation, implementation and assessment of appropriate strategy set.

Practical utility of this approach is developed in the next paragraph.

Analysis and diagnosis: determining the behavior in the enterprise - Study on CEAHLAU STONE MECHANICAL NEAMT

<http://www.mecanicaceahlau.ro/actionariat.php> (AGEA 05.09.2009 material)

Table no. 2 Indicators of general characterization

Item No.	Indicators	Made 2007	Made 2008	Made 2009	Preliminary 2010
0	1	2			
1	Turnover	37.313.302	31.703.491	17.394.570	22.201.451
1.1.	Production sold, of which:	29.043.001	28.306.169	16.159.885	19.937.317
	- domestic sales	23.651.382	23.137.628	15.095.011	*
	- sales on foreign markets	5.391.619	5.168.541	1.064.874	*
1.2.	Income from sales of merchandise	8.270.301	3.397.322	1.234.685	2.264.134
2	Operating results	4.090.571	(1.505.754)	(5.397.325)	4.254.923
3	Net profit	2.267.031	(5.143.735)	(7.859.981)	2.441.798
4	Average number of employees	388	366	210	*
5	Current liquidity	1,43	1,30	1,72	2,01
6	Rotational speed of the flow - clients	171 days	198 days	287 days	159 days
7	Rotational speed of the loans - provider	75 days	91 days	108 days	69 days
8	Basic earnings per share	0,02	(0,0321)	(0,0327)	*
9	The market price action (RON / share)	0,48	0,12	*	*

Source: Financial Statements and management report 2008, 2009, preliminary 2010 [12]

** data were not available at time of study*

Since 2008 *Mecanica Ceahlău S.A.* has worked on a domestic market with poor liquidity due to lack of support agriculture with budgetary funds or EU structural funds, but also because of the lack of a real market for agricultural products. This led to a drastic drop in demand for agricultural machinery which resulted as shown in Table no. 2, the reduction of turnover compared with the achievements of the previous year, a decrease in all indicators of efficiency and enterprise entry in the area non rentable.

Environmental analysis reveals that domestic agricultural machinery and equipment has a considerable growth potential due to the fact that agriculture is a strategic sector with huge untapped potential in the endowment and scarcity of agricultural equipment to Romanian farmers, which ranks Romania, the terms of the degree of mechanization of agriculture, far below the EU average.

A crucial element is that the absorption power of the internal market of agricultural machinery has been so far limited by the lack or insufficiency of subsidies to farmers, associated with lack of government programs encouraging them to equip with machinery and specialized equipment, condition to increase efficiency in agriculture.

In recent years, the Ministry of Agriculture has not given any support for agricultural machinery, although productivity growth in agriculture was a priority of government mentioned in the programs. Grants were given only in the period 2000-2004 for local farmers for buying agricultural machinery, which is not by accident, in 2004 has resulted in the highest turnover of Mecanica Ceahlău (equivalent to 10 million euros). Since then farmers have had only two choices: SAPARD and National Rural Development Programme (NRDP). In this context, since 2007, the company has completed arrangements to sell in traditional retail and lease rates, in partnership with some banks.

NRDP (the National Rural Development Programme) has not yet reached the level of maturity that will materialize in significant allocation of EU funds for farmers in 2008 and 2009, but expectations are very high for future years taking into account the amount of 8 billion available for rural areas and agriculture would be far an unprecedented infusion of capital after 1990.

Actions taken in support of farmers by boosting sales in recent years and lease rates could not compensate for insufficient support given to agriculture and farmers in the structural funds, and even created additional problems of society.

According to estimates, the company can not secure the funds necessary to cover the tip of the payment in 2009, resulting from the rescheduling lease rates and other liabilities incurred. Cash shortfalls in 2009, in conjunction with debt relief for the leasing, with penalties of default with high interest rates, could relieve the company of a number of costs, with the possibility of obtaining good results since 2010.

But overall analysis reveals the following aspects of society, regarded as strengths, which will form the basis for substantiation strategy for the coming years:

- wide range of products in accordance with the typology of domestic demand;
- Stable market share of machinery and agricultural machinery in Romania;
- produced in accordance with national and international quality standards;
- excess production facilities and equipment;
- modern manufacturing technologies, implemented by the team specializes in research and development;
- Technology upgrades financed by structural funds and government access;
- great capacity for innovation of new products;
- restructuring program initiated in 2008 in which 110 people were made redundant.

Considering the above elements of Mecanica Ceahlău S.A. Piatra Neamt board, based on the analysis of economic and financial situation of the company, decided to convene the Extraordinary General Meeting on 04.09.2009, at the company for all shareholders registered in the shareholders register by the end of 21.08.2009, in which were discussed:

1. Measures to improve the liquidity of the company by:
 - a) assets capitalization;
 - b) obtaining a working and investment loan (refinancing);
 - c) capital increasing.
2. Proposal for the amendment the company status for expand the scope of business through the implementation of the second profile of activity in non-conventional energy equipment and mechatronics to medical applications, which would provide about obtaining an alternative other than income from selling agricultural machinery.

The strategic directions of activity and social development, as was communicated to the National Securities Commission in November 2011 [13] are:

1. In order to ensure product sales and valuation of stocks, the company will address a new formula by establishing a direct contract between the client and the agency leasing;
2. Retail market development:
 - Increase sales force by setting up their own regional distribution centers, sales agents to employment;
 - Facilitating access to EU structural funds for company;
 - Promote stronger export company;
 - manufacture of new products to meet production capacities;
 - completion of the scope of business by implementing non-conventional energy projects and mechatronic devices with medical applications to create an alternative to the obtaining of revenue other than the sale of agricultural machinery.
3. To create the necessary financial resources to cover cash shortages and development company providing necessary funds, and implementation start of the second profile of activity in non-conventional energy equipment and mechatronics to medical applications Extraordinary General Meeting of Shareholders approved the capital increase on 04.09.2009 by contribution in cash, amounting to eight million RON, by issuing a number of 80 million common shares, registered, dematerialized and evidenced by entry in the account, the nominal value of 0.10 lei each, the issue is equal to nominal value, and the rate of 0.5 subscription right to subscribe new shares issued to shareholders registered with the Register's shareholders by the end of September 2009, in proportion to the number of shares they hold.

Company actions made in 2010 in order to continue the company's activity, maintaining market share on market and external economic and financial recovery situation in the crisis that has made its mark this year, have resulted in achieving the following objectives:

- minimization of costs to maintain competitive prices;
- optimize raw materials costs, materials, energy resources;
- continuous improvement of product quality and services;
- focus on target sales activities developed domestic and foreign markets;
- Structural fundraising projects by participating company with technological modernization, upgrading machinery and agricultural equipment and products through the implementation of the second profile of activity.

Strategic measures implemented have had a favorable preliminary data for 2010 (table no. 2) all indicators show an improvement to the increased sales, the company managed to get out of the loss, posting a profit of 11% rate of return.

Conclusions

Any visionary entrepreneurial behavior must be, necessarily, strategic behavior.

Strategic behavior:

- is a chain of rational action in which, by evaluating the results expected from various activities, deciding what should be done in each particular case in hand;
- helping the firm to evaluate decisions to be taken on the allocation and use of resources;
- choose between alternatives that is offered and determine its long-term behavior;
- helps prevent events / problems before they turn into crises.

The analyst must combine, where it bends to the study of a company at the financial diagnosis coordinated strategic vision for a global view, coherent over the

firm. The two axes of analysis, financial and strategic make or should fail to do the way the investigation process.

Therefore, any rational process of business management company will be organized taking into account three basic steps namely:

1. achieving a prior diagnosis of the activity, the analysis and assessment of the situation and the general features of the activity, and further training of future projects and development activities;
2. concrete stage management and strategic decisions and putting them into practice based on prior diagnosis made previously, the activity observed and predicted parameters. These decisions will either go further guidelines for the purposes of the current activity due to the favorable elements determined by the diagnostic analysis, or to correct unfavorable symptoms observed or in crisis situations, even the reorientation/restricted/total or partial liquidation of the business analysis;
3. final stage, control and evaluate the effects of applying the decisions taken, which is both an essential process for following up and evaluating permanent off of shares and a global one, the final analysis to calculate the carts from detected targets.

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