

## THE BASES OF INTERNATIONAL AFFAIRS DEVELOPMENT

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### **Abstract**

*Capitalism started as a consequence of the urban phenomena development, as well as of the commercial activities development. Thus, over this period of time, the attitude towards business also changed. This change was based also on certain economic reasons.*

*The term „business” is defined in numerous dictionaries released until the present day in a restrictive and subjective manner, both from the perspective of the totalitarian communist ideology, which happened up to the year 1989, and also from the perspective of the different categories of meanings that were taken into consideration when compiling dictionaries in different international circulation languages.*

*If an enterprise conducts business at an international level, then it will take into consideration the performance of different types of activities which differ greatly from the activities conducted at a national level.*

*All these elements must be carefully studied by the company's management, in order to be able to act with high economic efficiency.*

*It must be said that, in contemporary times, that „invisible hand of the market” from the past is none other than competition. As a consequence of the competitive phenomenon's manifestation, the prices are lower, the services are of a better quality and they are increasingly more diverse. Because of these positive arguments, Adam Smith was named „the father of economy”.*

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### **1. Introduction**

Adam Smith's book „The Wealth of Nations”, issued in 1776, was the theoretical basis of the capitalist ethics development. Adam Smith considered the „laissez-faire” principle, according to which every individual will generate advantages and benefits to the entire society as a result of maximizing their own interest. Smith sustained the idea of economic freedom, considering that „the invisible hand of the market”, together with competition, will manage to ensure the maximization of social advantages. With regard of the state's intervention in economy, Smith was against it. He considered that the market is a complex mechanism based on the laws of demand and offer.

The emergence of social Darwinism was another important stage in changing the attitudes towards the world of business. The year 1958 was marked by the issuing of Charles Darwin's „The origin of species”, in which book the author explains the evolution of biological organisms, from the most primitive forms of life to the most evolved ones. The basis of this theory is the fact that the highest chances of survival belong to the ones who adapt better to the existing conditions. This theory was the ideological basis of businessmen at the end of the XIXth century, it being also applicable to the society in its whole. Thus, social Darwinism emphasizes the fact that the most capable and the most gifted individuals can reach the top of the social hierarchy.

„Some specialty papers attach to the notion of <<business>> meanings that express the author's understanding of this subject; others approach functions, factors, stages, typologies, conducts, styles, business effects, without explicitly defining the meaning of the concept.” (Moldoveanu, et al, 1995)

### **2. International affairs: transactions and influences**

„Furthermore, international affairs usually take place in an external environment (an environment outside the company, as opposed to its internal environment) much more diverse than the national environment. The conditions in this external environment – physical, social and competition – affect the way in which the company's

functions – like the marketing function – are accomplished. These relationships are shown in (Figure 1: International affairs: operations and influences)” (Constantinescu, et al, 2000)

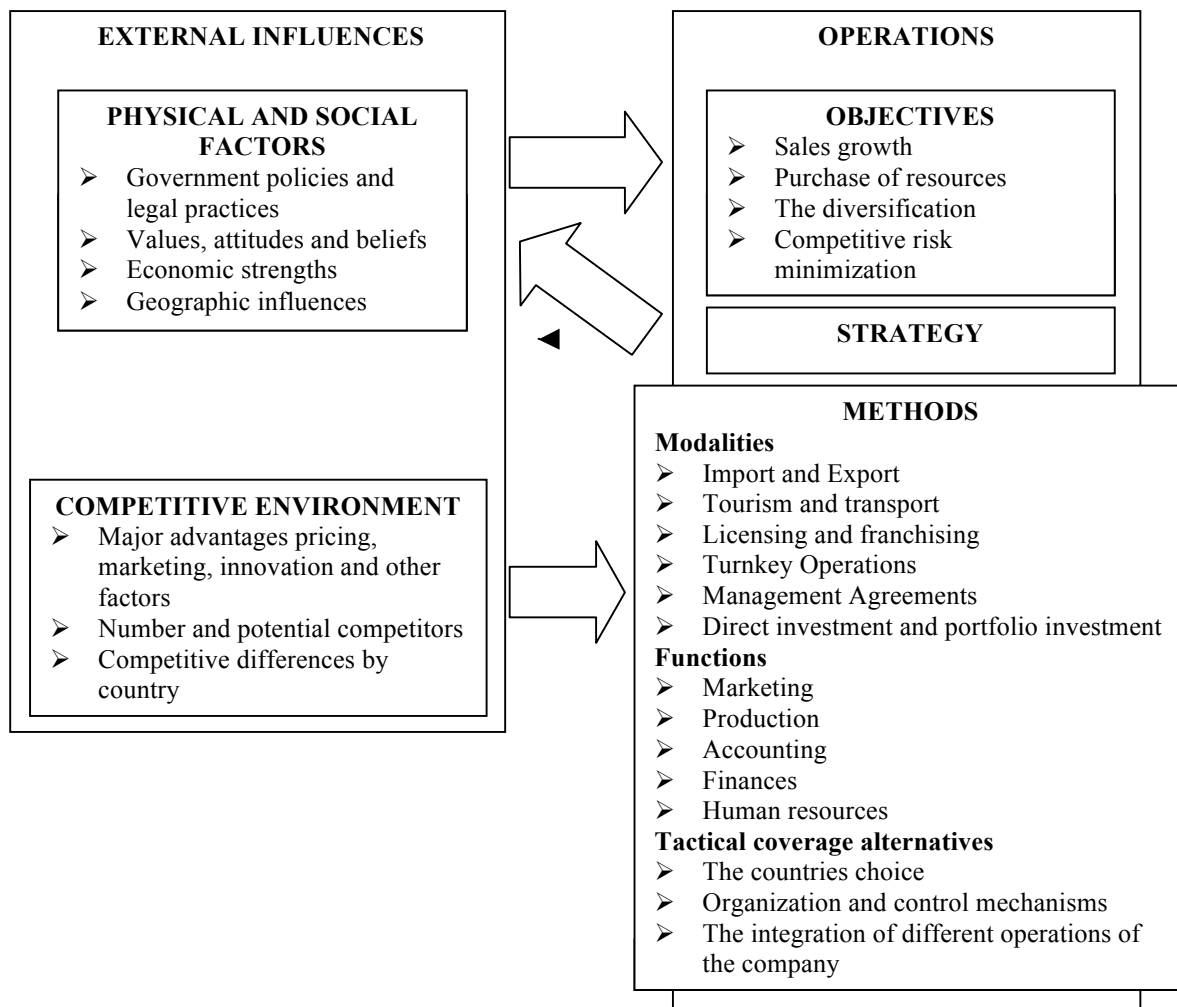


Figure 1. International affairs: operations and influences

The main categories of international operations done by the companies involved in this phenomenon, together with laws, have major implications on revenues, the level of practiced prices, on the insurance of employee salaries and work safety etc.

When a company works at an international level, it must take into consideration its goal, the objectives that need to be achieved and also all the means used to achieve these objectives. The physical and social factors, together with the competition environment, influence and are influenced by international transactions. Thus, companies are strongly influenced by the external environment.

### 3. Fundamental objectives of companies in the field of international affairs

Companies mainly follow four fundamental objectives that they tend to achieve when they operate in the field of international affairs. The four objectives are:

- Increasing sales volumes;
- Buying resources;
- Diversification of supply sources and coming out on new markets;
- Diminishing the impact of competition hazards.

Next, there is a short analysis of each of the afore-mentioned objectives.

The increase of sales volumes is influenced by two factors:

- A continuous growth of consumers' interest for the products or services offered;
- The consumers' availability and capacity of purchasing them.

An increase in sales certainly generates larger profits, with the condition that each unit offered for sale has the same price. Generally, the increase of sales volumes is a decisive argument for the company to enter the field of

international affairs. Thus, numerous world-class companies achieve over 50% of the total sales volumes from outside the country of origin: Gillette (country of origin: United States of America), Electrolux (country of origin: Sweden), Nestle (country of origin: Switzerland), Sony (country of origin: Japan), Philips (country of origin: the Netherlands), Michelin (country of origin: France).

Also, is it easily noticeable that smaller companies can be influenced by external sales. It must also be taken into consideration that these companies depend on the total volume of sales of components that they accomplish for large companies who, in turn, sale as finite products on international markets.

Buying resources takes into consideration the fact that both producers and distributors are interested in buying products and components made outside the country of origin. They are very interested in new technologies, in very new information and in the international foreign capital. The advantages of the companies that apply this practice are undeniable:

- A high increase in profit can be achieved;
- By practicing low costs (a result of cost saving), consumers buy more products, a high level of sales is achieved and, as a result, there is also an important increase of the obtained profit.

In order to create an advantage for themselves, some companies buy certain services that are not immediately available in the country of origin from foreign markets. „The competition advantage is particularly important from the perspective of global economic demands.” (Ionescu, et al, 2001) As a consequence, the respective companies can considerably improve the products they offer, from the point of view of their quality, and they can significantly differentiate from the products offered by the competition. Under such circumstances, companies have a significant growth of market share, as well as an important increase of the obtained profits.

A company can use part of its internal resources in order to expand internationally. After this expansion and real success, the profits obtained abroad can be used as a source of development for internal transactions.

Diversification of supply sources and coming out on new markets is done in order to avoid big fluctuations in sales, as well as in the company's profit. As a result of this issue, many companies are in a continuous search of new supply sources, as well as new markets.

The alternation of economic cycles, the recession phase and the expansion phase, differ from one country to the other, from one period of time to another. So, sales drop heavily during economic recession periods and increase significantly during economic expansion periods. This is beneficial for many companies, which record high profits as a result of this alternation. If companies get various quantities of the same product from abroad, the impact of price fluctuations specific to each country will be reduced.

Diminishing the impact of competition hazards is based on the fact that large enterprises try to fight off the advantages that current or future competitors might obtain from international transactions. It must also be taken into consideration that the respective advantages can be then used internally, even against them.

#### **4. The business globalization phenomenon in contemporary economy**

Internationally, the unfolding of a business is a complex activity which implies the action of more categories of factors: economic factors, political factors, social factors and even geographical factors.

Starting from the latter half of the XXth century, there is a tendency at world level to migrate from a process of internationalization to a process of globalization. This trend that manifested itself over time did not happen suddenly, but progressively, bringing about many gaps in the sphere of commercial relations, of investments abroad, as well as in the sphere of complex company structures. So, it can be said that the vast process of internationalization is in a new stage that of emergence manifested at the level of global economy, based on a system of complex interrelations specific to the commercial, production and financial fields.

Thus, the notion of „new world economy” appears, term used by Teulon, which is characterized by the existence of a new technological basis, by the size and development of business relations, by a change in the ratio of forces from an economic, political and military perspective.

„The extension of economic relations worldwide and the setup of an international business environment were created based on two major progresses: first of all, by the development of international trade, a progressive process started along with the great geographical discoveries and which, in the modern age, reached its peak in the glory years of free trade (the second half of the XIXth century); then, by the rapid extension of investments abroad starting from the beginning of the XXth century and their establishment – interdependent with commercial relations – as form of production internationalization.” (Popa, et al, 1999)

The changes that appear in the socio-economic environment consider both the world economy in its whole and each particular economy. The external environment with which the companies interact suffers a constant tendency to expand spatially. As a consequence, it can be said that not only companies that, by their profile, size and location work on international markets are taken into consideration, but also companies that operate on internal markets, because these markets are influenced by global changes as well.

This is a natural tendency when there is a growing of the degree of interdependency both between different economy components and in what regards the global market in its whole.

The processes of the market economy are based on the confrontation and balancing of the demand and the offer in larger and larger geographical areas. The volume of flows (goods, services, merchandise, technologies, capitals, labor force) on an international level sees a significant grow. Other such phenomena specific to the market economy mechanism also take place („export-import” of economy crises, „export-import of inflation” etc.).

In the context of international affairs globalization, the behavior of companies towards problems on the global market must also change. The decrease of existing barriers between the notions of „internal marketing” and „international marketing” is due to the fact that more and more countries tend to act on the international market.

The increase of the degree of economic integration determines great mutations that take place at the level of international market demands. This tendency cannot be ignored under any circumstances by companies that wish to be competitive on such a market. In other words, a company which acts on the global market must be very careful both in what regards regional or national interdependencies and in what regards international interdependencies. The phenomenon of emergence and development of transnational and multinational companies led gradually to the loss of meaning of the notion „distance in space”. A fundamental element for the strategic politics of the company is the degree of company internationalization.

The marketing activity that takes place at this level is also influenced by the market globalization phenomenon and there are issues regarding both the acquisition and harmonization of information and the modeling and implementation of marketing policies. Thus, the company will have a specialization of its research and development activity of products and services will diversify its price policies, will emphasize commercial logistics and promotional activities. All these elements are done with the purpose of maximizing global profit at an international level.

He who initiates a business must keep in mind, even from the project stage, the principles that will stand at the basis of their business concept. In fact, the principles that they establish will guide them throughout its activity in a certain field.

„In Theodore Levitt's opinion, five principles are indispensable:

1. To elaborate clear objectives, strategies and action plans that they review systematically, according to the context.
  2. To produce and deliver goods/services which people wants.
  3. To get and keep clients.
  4. To generate enough benefits to attract potential investors and keep the existing ones.
  5. To offer a stimulating material and moral compensation system that motivates human resources.”
- (Moldoveanu, et al, 1995)

## **5. The business plan – an indispensable management instrument specific to entrepreneurs**

Managers of companies which have experience in the market economy are aware that a business plan can be an indispensable management tool, which can be used in multiple situations. It is the preferred means of communication between potential investors, entrepreneurs and creditors.

„A business plan can take different shapes, from a professionally compiled document to a manuscript which serves as documentation for the company's goals, objectives, strategies and tactics.” (Cechin, et al, 2002)

At the basis of business planning there are some fundamental questions, such as: „what could the future bring?”; „where do we want the company to be, considering its own vision upon the future?”; „what is the company's current position?”; „how can we move from the current position towards the objectives we set for the future?”.

Most of the times, the business plan is, for a new company, a first attempt at strategic planning. This will set the action plan that will guide the company throughout that period.

It can also be used for documenting specific important moments during the successful unfolding of the company's business. In the tumult of daily issues, it is difficult to observe objectively the performance of current businesses. But a business plan can offer the management team an objective basis to determine the current stage of the company in relation to the set goals and objectives.

The business plan must be the way to harmoniously combine all of the company's activities, so as to create the image of a dynamic company capable of achieving its goals and objectives.

Issuing a business plan is not a guarantee for the business' success. Nevertheless, having a carefully thought-over and correctly elaborated business plan, a manager can anticipate much more easily crisis situations.

## **6. The planning process used by modern enterprises**

Financial planning is necessary because: it focuses on establishing the company's objectives to motivate its organizational structure; the company's financial and investment decisions are not independent and the way in which

these interact must be identified; in an unsafe world, the company must be able to predict continuously-changing conditions and unexpected events.

Most of the business planning activity is of a tactical nature; that means it manifests on short term and addresses the company's daily issues in real time.

Planning becomes strategic when it is used as the basis for long-term decisions; projects and resources are integrated and are assigned in such a manner as to address the company's goals.

The purpose of planning is to systematically analyze the company policy's options, to focus on the most probable alternatives and even to shape some future actions.

Strategic planning is the process by which decisions are rationally analyzed, systematically issued and permanently tracked.

Planning is usually reactive instead of proactive. Reactive planning is a method to identify a company's existing alternatives in the case of unforeseen events which the company's management cannot control. Proactive planning is the attempt to initiate a policy which models future events.

The planning process does not give the manager clearly defined issues. The most common situation is usually a tocsin or the symptom of an occurring problem. A piece of research done on bankrupt companies offers a series of useful reflections to company managers. On one hand, those who work in business are aware that companies do not go bankrupt overnight (even a small company needs a certain period of time to go bankrupt). A defective management is usually responsible for a company's bankruptcy. Furthermore, the following flaws have been identified in the accounting systems of bankrupt companies: inadequate budget control; defective banking liquidities planning; defective cost control system.

„Finally, an inadequate response to the changing environment (e.g.: the aspects regarding the competition environment, the used technologies, the tense relationships between employees) is the characteristic of a company on the verge of bankruptcy.” (Cechin, et al, 2002)

All these negative elements manifest before a company goes bankrupt. They lead to a series of mistakes, like: large debts, too high commercial activity (sales grow too much in relation to fixed assets), over-ambitious projects meant to save the company. The symptoms identified by analysts include: deterioration of financial indicators values, lower quality of the company's products, as well as a defective maintenance of the company's fixed assets. For these reasons, the value of a company's activity planning is very clear. It makes clear the causes and symptoms of company bankruptcy.

The general approach in order to make the strategic planning process formal requires:

- Issuing a sales provision;
- Development of a financial plan to determine the level of assets;
- Establishment of production capacities so as to address the operational goals and objectives.

The most important steps of a strategic financial plan are:

- Identification of goals and objectives. Ultimately, any financial goal should be measurable. Financial goals are often expressed in growth rates, used capital profitability, assets and stock profitability.
- Preparation of a global analysis. Business planning should also include a complete description of the operational, financial and economic environments, which have a strong impact on the company.
- Identification and assessment of strategies. This aspect of the planning process includes: formulating the strategy, collecting data and analyzing data. Marketing strategies must also be identified, as well as the way in which they will be implemented so as to ensure the accomplishment of the company's goals.

Data collection is useful and it consists of an overview of the company's past in order not to repeat old mistakes and to use only the successful strategies.

The purpose of data analysis is triple.

First of all, the analyst must investigate the company's past, in order to know and understand the events that occurred, as well as their implications on current and future transactions.

Secondly, the analyst must correctly identify the company's current position, so as to identify the relative operation capacity.

At last, the company's financial position must be projected into the future, in order to estimate the impact of current decisions and future events on its operation capacity.

- Selection and implementation of an action plan. Based on the analysis which preceded the decision-making, the analyst must choose a strategy that leads to the accomplishment of the specific objectives.
- The plan's adjustment to changes. The realities of planning show that most plans prove to be overdrawn when they are put down on paper. In other words, planning must also include the concept of flexibility, in order to be able to adapt to changes.

## 7. Conclusions

The old strategic planning theories had certain limitations, meaning they were focused too much on the market share and on the growth potential. Such an approach did not take into consideration the possibility of a weak relationship between the market share and cash-flow (due to high input prices, price competition, decreasing margins, some production methods which require a great work volume).

The first methods were limited and they compared the market growth with market shares. They could not be applied to certain companies and did not allow a profound implication in the market segments and in its growth.

So, the financial models are significant steps as compared to the previous models. These optimizations allow the decision-maker to analyze the financial implications (profitability, cash-flow, debt service) of some alternative strategies, from the perspective of the balance of accounts prognosis, of scenario analyses etc.

Two major IT technical achievements made possible an efficient strategic planning: the optimization of data access and the implementation of financial planning systems based on financial, mathematical, statistical models. Even when using these advanced methods, the manager is responsible for the preparation work, which means developing a reasonable set of predictions regarding the impact of operational strategies on the market segment, changing clients' preferences, the changes in the economic and political environments, as well as their impact on raw materials prices, on inflation, on the cost and accessibility of loans.

„The financial models have a key role in strategic planning. They offer the means for developing a comprehensive system for the integrated plan. Furthermore, by their nature, they offer a mechanism which can be used to examine the implications on the company's policy, by creating alternative scenarios.” (Dobrin, 2013)

This characteristic allows the manager to simulate the impact of decisions on the profit, on the cash-flow, on costs, on capital investments and on the evaluation. Model optimizations allow decision-makers to estimate the impact on current decisions. Both aspects are critical if the manager wishes to have any chance of controlling the company's destiny.

The manager must analyze and diagnose very carefully the market's evolution in order to be able to make predictions that will stand at the basis of scenario elaboration. So, the economic measures used to assess the planning activity are of great importance.

The variables of strategic politics, together with strategic options, must be considered in order to have a successful decision-making process. While the optimal capital structure varies from one industry to another and from one company to another, the manager must consider the following:

- The estimated earnings stability;
- The degree of risk assumption by the company;
- The company's goals and objectives; the standards of the respective industry;
- The cost and availability of different types of current assets.

The exercise of transposing business strategies into variables of strategic politics is priceless in the managerial thinking process. Determining the quantitative impact over the qualitative variables often leads to more complex initial provisions and more correct financial scenarios.

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