THE FACTORS THAT INFLUENCE THE ACTIVITY OF ECONOMIC ENTITIES

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Summary

In the current situation many experts and ordinary people are asking themselves: Where is the economy heading? How can we counteract the disruptive factors? Which strategies must be employed? How should the risks be properly assessed in order to diminish them to the lowest level? What measures should be taken to improve the situation?

This requires a necessary economic and financial analysis, based on the data from the financial statements, the discovery and application of risk assessment methods and the detection of procedures to mitigate this risk. It is also necessary to draw a comparison between the expected results of a rational and scientific research, and those obtained through empirical processes by means of marketing.

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JEL Classification: *M40, M41*

1. Introduction and background of the study

The current economic situation represents a primordial problem and both specialists and ordinary people are very concerned about it.

Most of the time, risk and uncertainty were considered in opposition to certainty and safety.
But it must be taken into account the fact that in order to make some changes or upgrades in an economic entity, even though economic and financial studies and analyses have been conducted, any entrepreneur must assume a certain risk, and consider more margins and multiple possibilities of adjustment to the original plan.[1]

I dare to say that without risk and courage there could be no creativity.

The literature on it presents the economy as an area on the border between science and sociology. From a scientific point of view, analysts and generally, but not only, economic specialists possess a strong basis of rational knowledge of mathematics and statistics, and also considerable practice.

From a sociological point of view all decisions depend on a subject, the person or the group of people who takes the initiative, on their flair, on their capacity to adapt to unpredicted economic events and to make a decision on a very short notice.

In the present paper, based on the studies carried out we will discuss and analyze the factors that influence the actions of managers in making decisions.

2. Managerial instruments for detecting factors of influence in the economy

Today, the idea that decisions already taken represent absolute certainty is abandoned. Usually, decisions upon projects are made consequent to a calculation of probabilities and trend forecasts of past period and of similar conditions, corrected with more coefficients according to the various interfering factors which act on the entity. These factors that influence economic actions can be:

- cognitive - based on measurements and on prior experience
- ontological (cannot be determined) these cannot be predicted. They appear as a result of very rare phenomena and have not yet been quantified.

To diminish the risks managers make use of the instrument with which they can obtain market information namely marketing.

Based on marketing studies, managers can uncover the needs and the buyers' motivation in general.

Marketing is the one that has to carry in the shortest time possible information regarding buyers, data that needs to be immediately transposed in discussions and decision making of the commanders in relation to the work they perform. In this way the economic entity can change its production capacity, can alter its volume and diversify the range of products required by customers, or make decisions to minimize the volume of products and the technological exclusion from production of goods that are no longer wanted. In this way the decision-maker will reduce raw material costs, labor, energy, storage areas and semi-manufactured products costs.[4]

Also marketing cannot be ignored in the orientation of costumers and the maximization of the utility of the products promoted by that entity. [5]

We find that in the commercialization of products all partners assume a risk. Initially, managers and professionals make economic and financial analyses based on the data from the accounting management and the appointed economic indicators of the economic entity, and then make predictions based on the calculated trend for the last years. Marketing will periodically test the reaction of buyers and will obtain empirically conclusive results.

Comparisons should be made between the results calculated initially on a scientific basis and those obtained by empirical methods.

If it is found that the empirical deviations are not too large compared to the initial set established by economic analysts based on rational calculations and economic indicators, then we can say that the managers have made the right decision. [3] In my opinion, in order to diminish the risks an economic entity must adjust and set multiple variants of products with more possibilities to obtain a result. In this way the overall business risk will decrease at least by half and during production expenses will be aimed for the more profitable activities. In this way will decrease the risk of dismissing personnel and psychologically staff employees will have more confidence in the entity and the life expectancy of their work will increase.

If analytical information from the management accounting demonstrates that a particular activity is not profitable and is at or below the equilibrium point, managers should be aware of the effects, should know how to lose and to be regardless towards the initial expenses, thus diminishing the risk of bankruptcy. Here we see the qualities of a manager to be flexible and adaptable to the demands of consumers.

3. Means of financing and their risks in the economic activity

To face some short-term financial liabilities there are situations when managers require long-term borrowed capital. Economic literature has demonstrated that there are cases when it was more profitable to use borrowed capital than their own. But such capital borrowed under a long-term bank loan is influenced by costs due to the evaluation of external specialists including assessments of risk for the country.

- Country risk is an indicator of economic performance and political stability, as determined by calculations and methodologies own specialized classified magazines such as Euromoney, The Economist etc.[7]

To determine country risk, experts are considering three main indicators, namely:
- analytical
- credit
- market

But I also add:
- economic information on the results of recent years
- political risks that may influence the expected repayment periods.
- indebtedness indicators
- rescheduling their debts or non-payment
- the existence of other lending rates
- access to bank financing
- access to other means of short-term financing
- access to international titles
- the ratio between term availability of more than 5 years and forfeiting margin if without risk countries[7]

- In financing the risks of operating in foreign currencies should be considered. This risk is generated by international factors, regional conflicts, global economic crisis.[2]

Firstly, decision makers have to conclude bilateral agreements between the countries, to determine compliance with international conventions and the promotion of price consolidation commodity. The issue of uncertainty is the contractual risk at the border between legal and economic phenomena. So when we obtain data on the economic risk we should permanently consider the legal framework, the legislation to define risk taking. From this point of view we should considered the legislation in force in the place where the business partner operates, the clauses, and also setting limits of liability in the event of risk. [4]

- The risk of bankruptcy is another approach of managers and it determines an analysis of the economic performance of the business partners in order to avoid failure to receive claims from these and also the risks involving salary costs, or those shareholders' claims to dividends be so great that they can lead to financial deadlock and by default entity bankruptcy. [6]

To have a clearer situation with the smallest possible risks, managers need to pay more attention to economists, to accept with more interest their support, who based on the accuracy of accounting statements and financial indicators offer very useful information and necessary in decision making.[8]

A professional first makes an assessment of equity and borrowed assets, calculates the difference between economic profitability and interest rates.

He also calculates the financial return.[9]

In practice, economists put emphasis on the determination of operating leverage, calculated as the ratio between variation in profit and sales.

$$e = \frac{CA}{CA - PR}$$

The above relationship shows the how the economic bankruptcy risk depends on the variation of turnover and the position relative to the threshold of profitability. If the turnover is far from the breakeven, then the entity is less at risk.

Bankruptcy risk is proportional to the fixed costs and the turnover compared to the breakeven.

- Another factor that influenced the economic activity of all entities, of all investors and of all international assessment was the political and legislative instability in terms of taxation.

Although indicators of entities have been established, these indicators may not reflect safety and nor a conclusive situation because they are statically calculated ie for financial year.

Even if these indicators are calculated by the same formula they cannot give precise information on the time span of a few years, they cannot give timely predictions, due to the influence of fiscal policy from one year to another and even due to their change in a of 3 4, 5 times in a financial year. This is hard to follow even by the most skilled economists.

If other countries take into account several (7-8) influence factors on an entity, here indicators are calculated on a year and due to fiscal policy may not be accurately compare over a period of at least three years.

4. Conclusions

During the economic crisis special attention should be paid to disturbances detection instruments. It is necessary to discover in the shortest time the causes that influence the factors and to take immediate measures by cutting at the base of all elements and take immediate measures by cutting at the base of all elements.

For our country it is important for the political parties, the government, and the entire administrative apparatus of the country to promote a healthy and effective economic structure, to develop legislation consistent with the interests of our country, to promote policies to encourage the economic sector on its own, to promote different forms of entrepreneurial association through joint contracts that would allow them to sell their products on the domestic market, to enact a stable fiscal policy that does not compel investors. Using fiscal policy to anoint the engines not to have them scrapped.

During the economic crisis more attention should be paid to economists and to their rigorous research which presents the negative factors of the economic circuit, taking seriously each item that warns of a near danger. Disturbing elements put together emphasize the economic imbalance. The proper functioning of an activity depends on how the rules are respected in their application.[10]

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