APPROACHING THE CONCEPT OF COMPANY IN THE CONTEXT OF ECONOMIC AND FINANCIAL REGIONAL DEVELOPMENT

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Abstract: *If we analyze things from an economic perspective, any company, regardless of its size, type of ownership and organization, produces goods and provides services with the purpose of obtaining a profit. Economic agents are individuals or groups of physical persons and/or juridical persons, which, in their capacity of participants to the economic life, fulfill certain roles and have similar economic behaviors (D et al., 1992). A company may stand out either through a unique administration and management, or through a financial independence of its own. The group of companies that are constituted in the conditions mentioned before bear the name of trading company. Such a company may join several of its subsidiaries and make undertake a series of activities in various geographic areas of the world.*
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1. INTRODUCTION

From the point of view of the economic field, the company is the organizing link that combines production factors with the purpose of producing and trading goods and services in order to obtain the targeted profit. The company must have incomes superior to costs, only in this way the company is maintained successfully on this type of market.

Theoretically there are many definitions referring to the concept of company. Among the most significant ones, the following can be mentioned:

The company represents the economic agent that makes decisions regarding the use of production factors with the purpose of obtaining goods and services that sell on the market (B *et al.*, 2001).

A company is defined as a unit that uses production factors in order to produce goods and then sells them to other companies, consumers or to the government (L *et al.*, 1999).

This concept of company covers a variety of business organizations, from the sole owner to joint-stock company, and great variation in size, from the inventor that makes his own deliveries and that is financed with what she can get from a wavering bank manager, to large businesses, on a larger scale, having many thousands of shareholders (L *et al.*, 1999).

2. HIGHLIGHTING THE CURRENT EXPENSES AND INCOMES IN THE ECONOMIC CIRCUIT

According to current expenses and incomes in the economic circuit, companies can be grouped, from an institutional point of view, as follows:

Non-financial companies made of all companies that have as main objective the production of goods and services. This type of companies makes up the productive sector of any healthy market economy. Selling one's production implies making a profit.

The term "company" implies the existence of an economic entity characterized by joining and using in an efficient manner all available production factors. Members that constitute the company share the proceeds obtained by the respective entity. At the current stage of economic development, this type of company is most common.

According to the owner's responsibility, there are two types of companies, namely:

- Individual companies;
- Shared companies.

In the first category of individual companies, the entrepreneur is also the rightful owner of the invested capital.

The second category that of shared companies can be classified into:

- Commercial partnerships: general partnership and limited partnership;
- Companies based on joint stock: joint-stock limited partnership and joint-stock company;
- Limited liability companies combine certain characteristics both of partnerships as well as of companies based on joint stock.

The main flows generated by carrying on operations at company level are:

- Company expense flows are based on production factors input;
- Income flows are based on trading of goods and services provided by that particular company.

Households (households, families, farmers, etc.) are represented as economic agents what consumer goods of personal nature. With reference to households' income, they may come from different sources: either from these people's rightful salaries, either from owned titles of property, or by transfers made with the other economic sectors.

Insurance companies and credit institutions are those entities that ensure the role of financial agent for all the other categories of economic agents.

Public administrations have the role of redistributing incomes resulting from provided services, services of non-merchandize nature. These incomes are resulting from obligatory payments that come either directly or indirectly from various companies.

Private businesses (organizations, foundations, associations, etc.) contain those private bodies which do not have a lucrative purpose. The main sources of their incomes are the contributions, subscriptions, as well as other sources.

Multinational companies, more precisely their subsidiaries, located on the territory of the country in which the companies operate, are those companies with which local companies make business.

3. THE CONCEPT OF COMPANY IN THE CONTEXT OF ECONOMIC AND FINANCIAL REGIONAL DEVELOPMENT

In fact, the company is defined as being that entity that possesses the greatest amount of the turnover and that owns the most well-known trademark in comparison with other companies. It is made of numerous individuals who have personal goals, the skill of the managerial team deriving from the harmonious association of these aspects, so that the individuals are fully motivated in order to take part in achieving company objectives, as well as their personal goals.

If we make reference to the paradigm objectives-performances, then one can notice that this a general approach for the entire set of factors that generate any company's performances. Thus, the type of market on which the company operates, influences, in a certain way, the quality of the managerial processes undertaken at company level. Managerial capacity, at its turn, determines the economical and financial performances of the company, the most conclusive <<barometer>> of an open confrontation with the market (B, 1993).

Another possibility to analyze the factors that determine the performances is the one offered by the theory of transaction costs, which gives the reasons for decisions made by the management of a company regarding the internalization or the externalization of certain company activities (F, 1998).

If the statements made by R. Coase are taken into consideration, the company has an intricate internal organization, implying that the development of any operation undertaken externally is much more costly that its achievement internally. This means that the trading company, through its managerial unit, adopts the decision of internalizing that particular activity. When the coordination of the managerial processes is done by the market, certain costs deriving from company activity can be avoided.

According to the same author, there are two types of costs, as far as the functionality of the market is concerned:

- Costs of knowing and of using the price system, that is informing companies of the conditions in which the market exchanges take place, these exchanges bringing forth both financial costs, as well as costs referring to the amount of allocated time;
- Costs for contract negotiation, that is the activities which generate certain costs are directly proportional with the number of contracts that have undergone a negotiation procedure.

The process by which the company is substituted to the market, involves the coordination of prices, which entails the internationalization of company transactions, based on organizational and contractual aspects. Due to market imperfections, from the point of view of information, we must mention the fact that companies tend to be substituted to the market, thus also improving considerably the amount of undertaken activities. Still, the internalization process has certain limits. This evolution is due to the interaction of a set of factors, which can be accounted for the decreasing performance level of company management in relation to company size.

The costs of making additional transactions, due to the internalization of certain activities increase proportionally with the size of the company; this size reaches an optimal level when the marginal cost becomes equal with that of the additional market transactions (G, 1999). However, this approach does not take into account an extremely important element, namely the transition costs. Due to this fact, this approach had a limited use in economic practice and theory.

Still, the foundations of this theory have been taken over by O.E. Williamson. He has tried to identify the main elements that make up transition costs. Williamson considers that determining factors of transition costs are the human factors (informational needs, sensible decision-making and the opportunism of the transactions) and the environmental factors of company's operations <<the uncertainty and a reduced number of parties involved in the transactions>> (W, 1975).

As far as informational needs are concerned, these differ according to the period of time they refer to, that is some of them are short-term: any purchasing contract of various intermediary goods, any purchasing contract of raw materials necessary for the optimal development of the production process, whereas others are long-term: the future orientation of company's productive activity.

Referring to a sensible decision-making necessary for concluding contracts, this can be of two types:

- Complete, that is the contractual parties can anticipate with accuracy all possible situations, the way in which these can influence the development of the contract, as well as the competent answers that will be given;
- Limited, it will be responsible for the real events occurring in the economic circuit, being based on the fact that not all possible events can occur on the development of company operations, as well as on the fact that the environment of a company's operations cannot be fully known, as this implies processing a huge amount of information.

Long-term contracts, which would be concluded in circumstances of complex rationality, are complete or conditional contracts <<decision "X" would be made on condition that event "Y" occurs>>; having a theoretical ground, this type of contracts would allow the market to coordinate the entire productive activity of the company (G, 1993).

With reference at incomplete contracts, these are long-term contracts, having a limited rationality, and, in the same time, taking place between participants to economic life. Incomplete contract thus set the foundation of a long-term collaboration between those having a part in the economic circuit. (Contracts referring to long-term operations also having great complexity, labor contract, etc.).

An increasing number of contracts in a company, that is an increased number of negotiations and concluded contracts, would increase company level of experience, allowing it to apply certain rules and procedures which determine both an increasing sensibility matching decisions made, and a decrease matching the uncertainties.

With reference to an opportunist individual behavior, the company must adopt specific measures to prevent the risk of an uncontrolled increase transition costs. Opportunist individual behaviors are based on a number of causes: asymmetry of information for the contractual parties, difficulties deriving from the exact assessment of goods and services involved in transaction. The implementation of contracts involves a series of difficulties as far as control and accurate evaluation. Due to presented causes, the contracted agent can sometimes have, in the negotiation process an opportunist behavior, determined by the need to satisfy his/her own interests, this would determine an incorrect interpretation of certain contractual provisions, or of certain facts regarding the contract etc. (M, 1995).

Opportunist behavior can be prevented by various means:

- An increased level of substitution for the parties;
- Insuring a competitive background for those who offer goods and services on the market;
- Presence of compulsory provisions which prevent opportunist behavior in concluded contracts;
- Avoid an extremely narrowing qualification for company personnel;
- Avoid the purchase of extremely specialized machines, machinery and equipment.
- Analyzing the second category of factors, namely environmental factors, I notice: the reduction of uncertainties corresponding to contractual provisions by knowing the entire set of specific information, an increase of involved parties, implying an increase in the number of bidders.

Williamson considers that the company undertakes its activity based on a network of numerous contracts of specific nature. This network makes the object of control and coordination for company management, with the purpose of insuring high quality decisions for orientation, organization and coordination in concluded contracts.

However, Williamson's theory has been often criticized, because:

- The process of associating them with full rationality, as well as the lack of opportunist behavior would place them outside the economic circulation:
- The coordination of company activities is significantly narrowed, through contracts, it greatly contributes to the reduction of its relevance;
- It is extremely difficult to estimate the relevant costs.

Taking into consideration various criticisms caused both by Coase's theory and Williamson's theory, one can have a plausible theoretic starting point in the attempt to explain the generating factors corresponding to the vertical and horizontal integration process of the company. We must take into account that the internalization of the transaction undertaken at company level will occur only when their cost is below the level of the market costs.

Internalization of certain activities or even companies can occur horizontally – when in the functional and organizational structure of the company, one can find either complementary activities to the basic ones for the respective unit, or new activities for that unit, even other companies – or vertically – when a certain company takes over activities or units from downstream or upstream of the production course in which that company operates (K, 1997).

The internalization process unfolding at company level implies the externalization process of the activities towards other economic agents.

According to strategic objectives of the companies, they can simultaneously resort to, both the internalization of certain activities and the externalization of unprofitable activities.

Thus, a growing tendency on a global level is to further qualifications, a tendency to which large companies become committed also by the externalization of numerous activities towards small and medium-size companies, namely:

- Additional and serving (for example: in the companies performing process industries activities, maintenance and repairing operations, maintenance of periodic check-ups of measurement and control equipment, producing and providing utilities);
- Secondary activities and operations specific to certain fractions of the production processes (for example: making certain sub-assemblies, parts and components), in this case the final assembly of the finished good is the responsibility of the externalizing company (such is frequently the case of automotive industry, farming machineries, tractors, aeronautics, home appliances, electronics, etc.);
- Activities that cover a larger area of production processes, completely externalized into smaller companies or made in collaboration with these companies, in parallel keeping within the large companies of the upstream and downstream production activities (research and development and commercialization of products); this type of externalization can be found in large companies belonging to ready-made clothing manufacturing, which undertake design and commercialization activities of the products and transfer to some contracting companies, either entirely or partially the manufacturing activity (F, 1992).

4. THE MAIN STAGES OF A COMPANY'S LIFE CYCLE

A company's life cycle can be split in five main stages: existence, survival, success, expansion and maturity (C *et al.*, 1983).

Each stage of a company's life cycle will be briefly analyzed hereafter:

- The first stage linked to company's existence insures both the process of attracting customers, and the process of delivery products and services offered by the company. In case there is a significant amount of work, it is necessary to set a certain production level and to supervise the quality of the products released to the market. Company's organizational structure is simple since the entrepreneur ensures the entire management process, his/her main objective being company's survival. The company's forecasting system is extremely reduced, sometimes even completely inexistent.
- The second stage, company's survival, implies the existence of certain viability of the company; this means that the company has sufficient faithful clients to whom it may sell its products. At this stage, correct rapport between company incomes and company expenses is necessary. The businessman can choose for one of the two available variants, namely: to be content with achieved incomes or to try to develop the business some more.
- The third stage, company's success, implies achieving a high level of production, sales and incomes, thus company operations are performed efficiently and profitably. At this stage, the businessman also has two alternatives, namely: either

to use the company to increase his/her incomes, or to go to the next stage, company's expansion.

- The fourth stage, company's expansion, calls for ensuring a rapid development of the company, as well as the main methods of finalizing this development. The company is decentralized, there are special departments dealing with sales and production, and the managerial system, the decisional system, the organizational system, the informational system is in full development and expansion swing at company level.
- The last stage, company's maturity, is also called "resource maturity". In this stage, the businessman has two dilemmas: to go for the consolidation and efficient control of the profit made or to continue to benefit in the future of the advantage of a small business in which one has complete managerial freedom, on one side, actions and decisions' flexibility, on the other side. This stage is characterized both by operational separation, and by financial separation between the manager-entrepreneur and his/her company.

5. CONCLUSIONS

The internalization phenomenon and the externalization phenomenon of the activities unfolded al company level have a significant contribution to the process of dynamicity of modern contemporary economies. A company will resort to externalization or to internalization, if it is efficient from an economical point of view.

If we pay attention to the development strategy adopted by Romanian small and medium size companies, then we can find a great number of particular situations. One can easily notice the fact that, within Romanian economy, still predominant are large companies, whereas the number of small and medium size companies is still reduced in comparison with the situation existing in developed countries. Among the most important ways of increasing the degree of competitiveness in national economy, I can mention: restructuring large companies with great loss, company specialization, and internalization of company activities and externalization of unprofitable activities.

The ways presented above create major opportunities that can contribute to: setting up new small and medium size companies, modernizing new companies, modernizing existing companies, sub-contracting certain activities unfolding in large companies, insuring the continuation process between the activity carried out by small and medium size companies and the activity carried out by large companies.

Thus, the most frequent ways to follow in order to increase the role of small and medium size companies within global economic activities are: taking over from large companies their externals activities, manufacturing in small and medium size companies certain products or providing specialized services, consolidating professional associations of small and medium size companies according to sectors, industries and regions.

The company is the main producer of economic substance in any country, without which contemporary society would not exist; it creates jobs for the largest part of the population; its performances condition the status and the economic performances of each country and the standard of living of the population, it is the place where economic growth is achieved (G, 1993).

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