

# THE ELABORATION OF THE FIRM'S STRATEGY BY VALORIZING THE DATA OF THE MANAGERIAL ACCOUNTING

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*The strategy of domination through costs is the most popular from all the strategies at the microeconomic level. This opinion is sustained by the fact that the competition fight is the most often held by means of price. This paper refers to the comparative advantage who has the power to determine the consumer to buy the product or service which has the highest quality standards compared to the same product produced by another firm. The paper is focused on a series of advantages and disadvantages of the strategy of domination through costs, taking into consideration the importance of the sources of the cost advantage, and synthesize the fields of reducing costs.*

*Cuvinte cheie: strategy, advantage, costs*

The strategies elaborated by the managerial bodies have an essential role in conceiving and funding the firm's activity. Presented under the form of forecasts, these strategies direct the development of every enterprise, bringing quite often efficiency to the entity with for which they act enlarging the market share and profitability.

Strategy comes from the Greek word “strategio” which means general and which resulted from the unification of two words “stratos” meaning army and “agein” meaning to lead. The complete Market Economy Dictionary defines strategy as follows: “term from the military field, extended in a managerial direction, through which one understands the assembly of the major objectives of the enterprise for a long term period, the main ways of achieving it, together with the allotted resources”.

The firm strategy comprises a set of medium and long term objectives referring to the assembly of activities, or to their major components, the volume and the structure of the disposable resources, main actions, the main responsible person and executers, the financing sources, the final and intermediate terms, the global and partially efficiency indicators. It serves as a base for the elaboration of the short-term and long-term development strategy at the level of each unit.

It results that a strategy will concentrate in defining the field of activity: setting the major objectives of the enterprise, the setting of the policies and plans for attaining the objectives, determining the managerial board responsibilities and at the same of those who are shareholders, employees, clients, suppliers, setting of the disposable resources necessary to achieve the strategy.

The strategy represents a product of the strategic managerial process and comprises some defining characteristics: possesses a large number of aggregate information, it subordinates itself to the settled objectives, is interchangeable with the objectives, defines the major directions of the firm future activity and do not mark the beginning of its transposing into being, is the base for the elaboration of the strategic planning.

In order that a strategy presents utility for the organization it is essential to aim an assure the obtaining of the comparative advantage referring to the product cost or quality. Those strategies that permit the firm to the obtaining of a competitive advantage are called competitive strategies.

Referring to one or many component elements having an essential importance for consumers, the comparative advantage has the power to determine the consumer to buy the product or service which has the highest quality standards compared to the same product produced by another firm.

In M.Porter's [1] opinion, the competitive advantage reduces itself to ensuring a reduced cost or a product and service which differs itself through quality from other offers with similar products already existing on the market. As the competitive advantage is concerned the source can be innovation which means a newly conceived product, technology and equipment, management, trading, financing, or staff.

The basic condition under which the competitive advantage is lively is represented by its durability, respectively the possibility of its maintenance for a longer period of time. Under the circumstances in which this condition is not fulfilled one cannot talk about a competitive advantage of the strategic type, but of an occasional one or about the valorization of an opportunity. M.Porter [2] has delimited a number of five generic strategies such as:

1. general leader as concerns the manufacturing cost;
2. a differentiation at the level of the whole activity sector;
3. a focalized differentiation (at the level of a segment);
4. the focalized strategy of the minimum manufacturing cost;
5. the strategy of the most competitive manufacturing cost.

The strategy of domination through costs is the most popular from all the strategies at the microeconomic level. This opinion is sustained by the fact that the competition fight is the most often held by means of price. Choosing this strategy, a firm having classical manufacturing systems proposes itself to become the producer with the lower cost of that kind of industry. The firm will have a competitive goal large, serving many market shares, being able to operate even within industries having a linking between them.

The supremacy through cost supposes the identification and the exploitation of all the sources of advantage in cost. The producers having the lowest cost sell a product or place their cost advantages on harvesting the absolute costs from all the possible sources. In the situation in which the enterprise succeeds to achieve and sustain the general cost of leader, it will get performances above the average in its industry and it will be able to impose prices at the industrial level.

For equivalent prices or even smaller than those of the competition, the leader position with minimum costs may have results in bigger profits. In the specialty literature it is mentioned that in order to greater diminish the cost of the finished products, the firm acts frequently for the maximization of the production in order to get its own economies for the mass production and for the large series production, too.

Successfully using the costs strategy asks from the part of the organization an activity and a concentration of accounting information directed upon costs. In this situation the aim is:

- determining activities and zones generating costs, respectively those zones where there exist resources consume;
- determining responsibilities for each type of activity;
- a more efficient organization and administration of the general activity of the firm;
- to fundament the internal decisional process.

The option of a firm directed towards the choosing the costs strategy is determined by the perspective to get some advantages such as:

- realizing some superior incomes reported to the average registered in the same kind of industry, because those producers obtaining goods and services at lower costs than those of the competition have the possibility to use this advantage linked to cost in order to determine a larger limit of profit;
- getting a front position in relation with its competitors and which results from the possibilities to offensively compete based upon prices in order to extend the activity on the covered market share and in order to protect in case of a “prices war”;
- getting a secured limit of profit in front of powerful clients, as their pressure to diminish prices can be exercised only up to the surviving level of the next competitor on the market;
- adopting an offensive attitude even in relation to powerful suppliers. The greater efficiency which is obtained it will offer the firm a larger interval for negotiating prices in case of raw materials and necessary energy;
- obtaining a powerful position in relation to the potentials entered on the market, because reduced costs constitute a barrier but also a weapon to fight the disturbances created on the market by a new comer;

- the possibility to use reduced prices as a competition weapon having its efficacy in order to defend the substitution product or services offered by the competing firms at competitive prices.

Applying the strategy of domination through costs oblige firms to find those zones which can be potential sources of economy, respectively of reducing costs. M Porter considers that the cost relative position of a firm depends on the “important motion forces of cost” and they are the determining structural factors of the cost of an activity and they differentiate themselves through their control degree exercised by the firm upon them. The motion forces determine the behavior of costs inside of an activity, reflecting any link or interdependence relation which may influence it.

The cost performance of a firm for each separate activity cumulates itself in order to determine the relative cost position of the firm. Besides these factors, P.F. Drucker gives a major attention to the quality of information. “The biggest problem confronting us in future is the obtaining of some correct external information in order to be able to take correct decisions. This fact depends upon the internal market, the changes in clients and distribution channels.” [3].

The factors that M.Porter considers to be decisive in winning the cost advantage are: scale economy, learning, the capacity used pattern, links, interdependence relations, integration, coordination in time, discretionary policies, location and institutional factors. In other words, we can consider that the main factors contributing to costs reduction are:

- the results obtained as a consequence of the experience and to the knowledge transfer;
- reduced production costs due to a severe control of the used materials;
- the integration degree that influences differently from one industry to another;
- the degree of use of the production capacities;
- the moment of entering the industry. Experience may bring advantages such as notoriety, formation effect etc; but it can also be followed by disadvantages such as necessity to find suppliers, to form distributors, clients etc;
- privileged access to some sources that are offered at competitive prices;
- relations with institutional partners (government, labor unions, public power etc) that are inaccessible to the other competitors and which permit to realize an important economy such as: financial exonerations, the absence of social conflicts, good prices etc;
- scale economy in different elementary activities.

The competitive cost advantage can be created and sustained in two ways:

- a rough control of using the cost instruments comparing it to the achievements of the competing companies and adopting the adequate measures in this direction;
- through re-analyzing the structure of the activities-cost chain in order to determine the background corrections necessary to a significant reducing of cumulative costs.

When doing the strategic analysis of costs it is necessary to run through several stages which suppose: the identification of the activities and sub-activities generating expenses, settling factors which act upon costs, determining competition costs, identification of the elements that differentiate the own costs from those of other producers, shaping the strategic directions in order to reduce costs, applying and checking the strategy.

The most common ways of achieving the economies in the field of costs aim the material and salaries expenditures. If we refer to the factor capital production, a prime package of measures to reduce costs aims the materialized labor expenditures. In this case, one can act in the following directions:

- using some larger spread and cheaper raw materials, other materials, fuel, energy etc;
- the promotion of some new and modern manufacturing technologies;
- the reorganization of the technological processes;
- re-projection of the already manufactured products applying a reduced consume of materials;
- re-evaluation of the consuming norms and/or the elaboration of some new ones;
- finding some ways to reduce the number of failures or their re-valorization;

- improving the organization of the supplying , dispatch and production activity;
- the growth of the rotation speed of the working capital;
- the acquisition of machines and equipments, performing installations in order to reduce the reparation expenses;
- intensive use of the production capacities in order to reduce the writing off level for each product;
- acquisition of some machineries at a competitive price, corresponding from a technological point of view;
- avoid uploading or under loading of the machineries.

Acting, in the direction of reducing costs, upon the factor production and labor, we refer especially to the ways of enhancing the work productivity:

- the increasing of the technical level of production through the introduction of automation, robotizing and cybernetics in the manufacturing processes. In this situation one can get a greater production having the same quantity of work and having implications in the diminishing the other expenditures;
- the improving of the professional training of the human resources by employing a high caliber staff; the permanent assessment of the personnel, the organization of qualification training etc;
- the promotion of a competent management for the entire economic activity by adopting some measures aiming to reduce the work volume, the planning of the production and an operational control of it, launching into manufacturing process of some new products and the development of the existing ones, increasing the efficacy of those activities having an auxiliary and service character, the improving of the basic activity of the firm etc;
- providing the material incentive of the employees by creating a prizes system for special results and the realization of high level products, the allotting of some extra payments for extra-working hours and other motivating procedures;
- increasing the quality of labor conditions and of the socio climate of the firm.

Improving the activity of the technical-material supply represents a way to reduce cost, and it can be materialized through:

- raw materials and materials stocks redirection;
- rationalizing the warehouses activity;
- simplifying the supply program;
- shortening the distribution channels;
- settling solid contracts with suppliers respecting products quality;
- reducing dispatch expenses has its contribution in minimizing costs through:
- organizing its own net for goods dispatch;
- developing the service activity during the guarantee, and post-guarantee period
- employing trained staff in the field;
- setting a solid market policy.

The administrative-operational expenditures, being considered constant conventional expenses, they can be reduced, mainly through the increase of the production volume. Their contribution at reducing production cost can be determined through:

- re-projection of the administrative apparatus;
- reducing the office supply.

Taking into consideration the importance of the sources of the cost advantage, we can synthesize the fields of reducing costs as follows:

<b>ACTION AREA</b>	<b>USED INSTRUMENTS</b>	<b>EFFECTS</b>
Used materials resources	- decreasing the consume of raw materials, fuel, energy , water etc; - using some new non-conventional cheaper resources.	- the modification of the proportions between the material resources and the salary ones; - reducing the total costs and prices; - occupying new market shares.
Work productivity	- qualification, re-qualification and self improvement of the labor force; - assuring a certain rhythm in the employment supply, increasing the degree of organizing the work and its discipline.	- improve the physical productivity per each working people; - reducing costs and implicitly the profit increase; - increasing the net profit.
Achieved production	- introduction in the production process of some new products; - re-projection and modernization of the existing production.	- improving the products quality; - reducing expenses resulted from non-quality.
Production capacity	- enlargement of the production capacity; - the increase of the degree of using the production capacities.	- increasing the physical production; - the increase of total costs; - reducing the costs per unit; - the decrease of the costs of some sub-activities .
Production quality	- re-organizing and improving the management of the material and human resources, of the organizing processes and leading the scientific research activities	- increasing the costs of prevention and faults identifying; - reducing the costs generated by non-quality; -the increase of products quality.
Introducing the technical progress	- improving the ways of valorizing the firm resources.	- the increase of the physical activity; - decreasing of the specific consumes; - increase profit.
Management activity	- operative monitoring of the expenses for each employee and determining some deviations of the effective expenses from the provisioned level using all the information linked to costs and taking decisions in this sense and through the analysis of the opportunity and investment costs.	- identifying the causes determining the increase of costs; - an absolute economies in the structure of the relative costs; - eliminating or maintaining in the manufacturing process of some products.

**Table 1: The fields of reducing costs**

The strategy of domination through costs, besides a series of advantages, it also has some evident disadvantages:

- exercising a pressure upon the financial resources of the firm which fulfills an essential role in the introducing of the technological news in order to significantly reduce production costs;
- performing massive investments in technologies, in the circumstance in which buyers preferences are oriented towards products or services having new characteristics offered by competitors, a fact that implies the risk of the strategic inflexibility;

- the loss of advantages and efficiency bonus generated by the previous investments, in the moment of the producing of the technological changes made in order to reduce costs;
- the exclusive focalizing upon the ways to reduce production costs and neglected the changes of products in the consumers' preferences regarding the quality of the products and services, ways to use, reduce the demand elasticity in its ratio with price etc;
- the exclusivity of applying the strategy under the conditions in which on the entire market there are acting many firms. From this reason the respective competition is very intense.

The profit perspectives opened by the appliance of this strategy become materialized not only for the firm which succeeds to win the competition and shape itself in a leader position on the market as long as prices are concerned, fact that is capable to determine the other competing firms to abandon the respective strategy.

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