

SUITABILITY PROFIT SOCIAL DEVELOPMENT REQUIREMENTS

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Abstract:

The social integration process of economic activities is a relatively new concept and involves the intervention of the economic environment in the growth and development of human resource quality indicators. There is a direct link between the human resource and economic activities performance, determining the level and evolution of labour productivity and thus economic results of the activity. Based on this concept, we can create a direct link between the investment in increasing the quality of human resources and enterprise performance, affecting the stability and resilience in the face of market fluctuations caused by economic crises or financial recessions. So, in an attempt to define a mechanism destined to socially integrate the economic activities of various organizations, we performed a methodological research, oriented towards explanation.

Keywords: production cost, profit, social integration

1. INTRODUCTION

Any enterprise is founded and it operates under the umbrella of certain fundamental desiderates, defined as *essential requirements*. A careful analysis of these requirements reveals the possibility of building a mechanism through which a more feasible link between the economic and the social is created, with the capability of limiting the major vibrations that markets propagate.

The three defining requirements refer to:

- a. *obtaining and maximizing profit*: There are voices which tell us that “the god of profit” is losing ever more advocates with every major fluctuation recorded on the marketplace. If there is any truth to these statements, then we have to ask ourselves what will be the major focus for management in the future?
- b. *creating marketable goods and services*: Selling the outcomes of the economic processes entails knowledge of the aggregate social need, of the degree of absorption conditioned by the available income, i.e. acknowledgement of the economic effects by a stable marketplace.
- c. *sustainability of the activity*: In the modern concepts about management, sustainability of economic activities can be translated as “valorisation of businesses”.

During crises or recessions, i.e. at points of general market fluctuations, the behaviour of enterprises changes, and their methods and techniques along with them. These vary according to the size of the enterprise, the degree of capital concentration, the level of standardization of economic and production processes, the degree of vertical integration, dependence on the market, the degree of financial autonomy etc. (Goodpaster, 1989).

The enterprise is anchored to the mechanisms of the marketplace more than managers would prefer, thus determining behaviours that are difficult to forecast (Vernon & Waegelein, 2002). The effects felt due to the volatility of the markets are first felt by the economic sphere, being then transmitted to the social sphere; and the process can continue. There exist mutual conditioning rapports, as well as amplifying and accelerating factors within every cycle of vibration transmission (Keynes, 2008).

2. GENERAL CONDITIONS OF APPROACHING THE RESEARCH

The research is a methodological one, predictive and stimulating type, oriented towards explanation. The suggested solution can be applied to any enterprise which produces goods or service that create added value.

Romanian governments do not allow cost reduction in order to cover professional training actions. From this fact, consider the suitability of profit for this purpose on account of an effective working mechanism will lead to solve this problem.

The aim of this paper is to find a practical and easily applicable solution to the issue of whether more efficient mechanisms, capable of providing the enterprise a higher degree of protection against the effects generated by the major fluctuations of the markets, can be created?

The working hypothesis refers to the creation of such a mechanism through the adaptation of the profit to the process of social integration of economic activities.

The characteristic of the suggested mechanism is the mathematical correlation between the economic and the social, between costs and profit, between work productivity and economic sustainability of activities.

To this end several symbols will be used, if only for simplifying the approach and for saving space.

CA – Turnover,

Cp – Production cost,

ΔP – profit margin,

m_{cv} – variable costs within production cost,

m_{cf} – fixed costs within the production cost,

Q – quantity,

W – work productivity,

M – human resource (costs or recorded average number),

csd – direct salary costs,
agr – salary aggregates (social contributions and payments)

I. *The turnover* is approached differently: a) by enterprises, as being „the amounts obtained from the sales of products and supply of services” (OMF 1802, 2014) and b) by the government as being „all sales over a certain period”.

No matter the angle of approach, the turnover is given by:

$$CA = \sum Cp * \Delta P$$

Recognition of the goods by the marketplace implies the meeting of the following relations:

$$CA = \sum(Vd + Nr)$$

$$\sum Cp * \Delta P = \sum(Vd + Nr)$$

II. *Production cost* represents the total resources used up with the purpose of obtaining goods or services meant for the marketplace. Production costs contain *variable costs* which fluctuate directly proportional with the quantity, as well as *fixed costs*, which exist and must be deducted regardless of the production achieved.

$$Cp = \sum(mcv + mcf)$$

III. Profit is usually determined as the difference between CA and Cp, when expressed in absolute values, and as an average it results from the relation:

$$\Delta P = \frac{CA}{Cp} * 100 \text{ or}$$

$$\Delta P = \frac{CA}{\sum(mcv + mcf)} * 100$$

The leverages of influencing profit are in connection with the causality relation between CA and *mcv*, when *mcf* can be considered relatively constant at a certain fluctuation of Q. The *mcv* contains those consumptions of resources which can be found under a form or another in the structure of the product. The variations of *mcv* implicitly determine changes of the CA and ΔP .

The factors which influence *mcv* are related to:

- the structure of production,
- the level of technical and technological equipment,
- the manufacturing recipes,
- the organization of production and work,
- *the productivity of work, etc.*

3. LINKING PRODUCTION COSTS WITH THE SOCIAL SPHERES

Of the above factors, the one which connects the economic sphere to the social life is work productivity (W). For example, if one aims to determine the causes which generate economic disparities between emerging economies and advanced ones, including Romania, the relevant factor of the comparison can be the level of productivity of work (W) and the level of production costs (Cp) on a given product unit, activity sector, branch or the national economy.

In order to be relevant, W must be correlated with *mcv*: a) on the one hand as recognition of the social value in the marketplace of the specific product or service (Cp) and b) as level of recovering advanced resources (ΔP).

The argumentation of the working hypothesis is based on the link between:

- a) *sustainability* and
- b) *social integration of economic activities*.

Social integration of economic activities should be linked to the behaviour the W has statically but especially dynamically. In both instances the analysis will have to be in convergence of W with

variable costs because W is the result of the degree of social integration of a given economic activity (Schofield, 2007).

The solution we suggest within this research topic refers to the *adaptation of profit to actions which result in an increased productivity of work convergent with the satisfaction of certain social needs of the employees.*

Of the total active population which is unemployed, young adults up to the age of 30 hold a significant percentage (Statistical directory, 2014) of over 40%. In Romania, in 2014, a very small amount was allocated for the professional training of young people, namely under 0.7% of the total costs with the human resource.

In the Labour Code there exist provisions which require employers to elaborate and run programmes for professional training. There also exists European funding in this field in which different organizations and the government are equally involved.

Professional training represents only one component of the interest which be shown for the human resource.

There exist several directions of action towards which one should direct investment activities with the aim of adapting economic activities to the social life:

- *supporting research and technological innovation activities;*
- *funding programmes designed for professional training;*
- *specializing young employees in the specific elements of the economic activity;*
- *cooperation of enterprises with the academic environment in programmes of applied research;*
- *supporting the education of certain young individuals at undergraduate and graduate level education etc.*

The involvement of the economic environment in social life, especially through the activation of sustainable links between the employees and the management requires a solid connection of the employees to the strategic objectives of the enterprise. Investments in the human resource are extremely valuable, at least from their temporal perspective of recovering them, which requires the allocation of serious funding. Being strategic in nature, it requires greater participation to its funding both from the economic environment and the government. If we acknowledge investment in the human resource as “leverage” for increasing the efficiency of economic activity, it is to be expected that the “applied forces”, materialized in governmental funding as well as funding from enterprises, would cause effects superior to the allocated resources, to be found especially in the area of sustainable growth of economic activities.

Considering the approaches of investment in the human resource of high theoretical and applicative importance, materialized in well-known models such as the Japanese model “Shushin Koyo”, the German model of “the work island”, or the American “patronage” model, we will try an “investment construction” applicable to a certain type of economy and social spectrum such as those in Romania.

4. THE MECHANISM OF ADDING PRODUCTION COSTS

The mechanism itself requires adding certain calculation articles of the “social” type to the current production cost. This is so because in Romania only the profit reinvested in productive assets such as tangibles is recognized (GD 421, 2014). Any expense with the human resource is considered income and is taxed accordingly, thus discouraging entrepreneurs from investing in this direction. Fiscal facilities offered in this regard (Law 571, 2003) are insufficient and non-productive.

The government does not accept any “harm” to come to the general financial outcome for reasons of immediate fiscal efficiency, without too much consideration for general efficiency. Inefficiency has multiple causes, some linked to the regulation system which is also under governmental control (Robini & Mihn, 2000). There is a Latin saying which suggests this as clearly as possible: “*Quis custodiet ipsos custodes?*”, i.e. “*Who regulates the regulators?*”

Any major change depends on the manner in which the direction to be followed is regulated. In fact Plato himself in his *Republica*, referring to the “guardians of society” (today’s regulators), had an

interesting solution: to be told a “noble” lie, namely that they are more virtuous than other people and thus they will despise personal gain (which comes together with the position) caring for the wellbeing of the republic (Schofield, 2007).

The mechanism of adapting profit to the requirement of social integration has basically four factors: work productivity (W), profit (P), production costs (Cp) and turnover (CA). We consider an increase index for personnel costs of x % lei, implicitly an addition of the production cost with the same relative amount, as follow-up of the funding for professional training programmes, i.e. funding an investment in the human resource.

As previously shown, investment in the human resource generate a more efficient use of the time resource, resulting in higher indirect efficiency as regards the exploitation of the production capacity. By enhancing production capacity, one can obtain a production superior by x %. Considering the marketplace as relatively constant, valorising production will be done at a constant selling price, at least for shorter periods of time, then CA will also have an increase index of x %.

Variable costs (mcv) will record an increase by the same index x %, from the perspective of increasing the quantity of manufactured and marketed products. Abstracting acquisition price and considering it constant, then elements of direct cost, both the material ones and the ones with salaries, will record the same increase index, similar with the one of CA, namely x %.

Starting from the relation:

$$\Delta mcv = \Delta CA = x \%$$

If W is determined by means of the formula below:

$$W = \frac{CA}{Ft} * 100$$

And we consider the time resource as a constant, from one period to another (from one year to another), then:

$$\Delta W = \Delta CA = x \%$$

As shown above, the profit margin is determined with the help of the relation:

$$P = \frac{CA}{Cp} * 100$$

Corroborating the calculation and analysis system, it results that:

$$\Delta P = \frac{\Delta CA}{\Delta CP} = \frac{x}{\Delta CP} = \frac{x}{\frac{CP_1}{CP_0}} = \frac{x * CP_0}{CP_1} =$$

$$\frac{x * (mcv_0 + mcf)}{(mcv_1 + mcf)} = \frac{x * mcv_0 + x * mcf}{x * mcv_0 + mcf}$$

It is worth mentioning that *mcf* (fixed costs) do not follow the same evolutionary trend as *mcv* or *CA*; they are relatively constant in relation to the fluctuations of *CA* or *mcv*.

From checking the behaviour that the profit margin has, namely if it records an increase, it results that:

$$\Delta P > 1 \Leftrightarrow \frac{x * mcv_0 + x * mcf}{x * mcv_0 + mcf} > 1 \Leftrightarrow$$

$$x * mcv_0 + x * mcf > x * mcv_0 + mcf \Leftrightarrow x * mcf > mcf \Leftrightarrow$$

$$x > 1 \text{ (true)}$$

If $\Delta P > 1$, this means an ascending evolution of P in relation to the situation prior to the funding programmes aimed at the quality of the human resource.

The quality of the human resource represents the fundamental factor in determining the Human Development Index (HDI); consequently, any improvement in skills, abilities or professional knowledge will proportionally contribute to ensuring a high level of the human quality indicator (HDI).

The HDI indicator compares and measures a country's level of development better than it can be reflected from a country's GDP per capita, which shows only material prosperity, somewhat minimizing the other aspects of social life deemed defining in relation to the material status. Such appreciations belong to the Pakistani economist Mahbub ul Haq (Reflections, 1966), creator of the HDI. The author considers the non-material aspect of social life as defining.

Funding an investment in the human resource of (z%) from the total production costs, considering the objectives which aim at increasing the level of professional training, of knowledge or skills, generates direct measured effects (z+y), where the value of y is given by the additional profit obtained as reimbursement effect of the funded investment.

5. CONCLUSION

The mechanism of adding production costs to the calculation articles defined as "social integration elements" generates positive financial effects and contributed to the improvement of the quality of the human resource.

Restrictions:

Considering *the elements of social integration* of the economic activities as direct components of the production cost, current profit can be diminished, and thus the fiscal load falling upon the profit will be implicitly reduced. In such situations the government will react in a negative manner: starting merely from the "contract between the state and its citizens", the government will have to provide funding in order to ensure an adequate level of the quality of life, an indicator which has as major component the quality of the human resource (Griffin, 1996).

We consider that the *elements of social integration*, from a fiscal and accountancy standpoint, should be treated in the same manner as other variable costs. Such a decision requires the involvement of the government, as well as of the professional bodies (accountants, auditors, fiscal consultants, lawyers) through awareness campaigns directed at considering these elements as factors of economic growth, as well as improvement of the position Romania has according to the HDI.

Solution: fiscal regulation, namely granting the right to deduct all expenses related to the funding of investment in the human resource in the structure of *Mvc*, materialized in: *financial support for technological research and innovation activities, professional training, co-operation with the academic environment for practical projects, financing education etc.*

Expected outcomes:

Acceptance on the part of the government to deduct all costs incurred by investments for the improvement of the quality of the human resource is and must be a political decision whose impact will be felt throughout the entire national economy. Adequate regulations in terms of accountancy and fiscal issues will generate long-lasting effects such as:

- *relieving the government portfolio of certain tasks;* Through the taking over of the objective of increasing the quality of the human resource, through the professional training and development and employees, as well as young adults, by the enterprises, the government will be relieved of such tasks.
- *more efficient consumption of financial resources;* Managing resources privately is more efficient than doing so publicly through a more flexible allocation for satisfying real needs, through the orientation of economic processes towards pragmatism, as well as through a higher control capacity of the efficiency parameters.
- *saving public expenses;* Leaving a higher percentage of the revenue available for the enterprises through conditioning them to carry out and reach socially integrated activities and objectives has greater chances of success than having them taken over by the government¹.
- *sustainability of economic activities;* On a given marketplace, limiting costs allows for the consolidation of the position on the specific segment, the increase in the quality of production

¹ Inspired from the concept of "Invisible hand" mentioned by Adam Smith, *The Wealth of Nations*

leads to the valorisation of the economic activity, the stability of labour leads to a plus of W, and the process can be repeated (Cowton & Crisp, 1998).

Further research:

We believe that there are real possibilities on a wide area regarding the research of the current topic, both from the perspective of the practical applicability of the mechanism, and the impact analyses which would ensure a rigorous control over the effects of the process of investing in the quality of the human resource upon W and ΔP .

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