

Study Regarding the Knowledge and Use of Costs Analysis to the Setting-up of Prices Policy in Firms

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Abstract - Many firms, in the present context of economy, seek to develop better offers through innovation, quality, and efficiency in distribution and service in stead of competing for a lower level in prices. Setting up the projected cost of the offer price, identifying and correcting the deviations of the actual costs from the pre-established level are the ABCs in economy, in the general management of firms and, especially, in the management of financial activities.

Moreover, in order to be aware of the existing realities in organizations regarding the need for knowledge and cost analysis in setting up the prices policy, we have conducted a selective scientific research, one of our objectives being that of evaluating the degree in which firms benefit from a cost analysis system in the setting up of policy prices.

Index Terms - analysis, costs, policy, prices

I. GENERAL CONSIDERATIONS

In practice, knowing and analyzing costs for the setting up of prices policy has a special importance in the management of organizations¹. Managers have at their disposal of modern analysis methods and techniques, which may be used for the management of the financial activity in order to improve general performance.

The objectives constitute a framework. In what regards the decision, it can only be made after the analysis of the variables that directly influence price, costs, demand, and competition.

In the field literature², presenting the procedure for the setting up of the price implies the following stages: cost analysis³, on each of the composing elements, market analysis in which aspects regarding the price levels and margins are relevant, the status of demand and supply, competition, determining price limitations according to product competitiveness and price levels set up by the

competition, determining price objectives and calculating the price structure.

Determining the price based on costs makes use of some of their important categories: complete costs, partial costs, real costs or provisioned costs. There are two main ways of grounding prices:

➤ “Full cost pricing” method:

Price = complete cost (real or provisioned) + profit

➤ the method of calculating marginal contribution:

Price = partial provisioned cost + contribution (contribution represents a margin on the basis of which indirect costs are recovered and firm profit ensured).

Setting up the price based on cost and provisioning the result in conditions of uncertainty and risk becomes a very complex task for the management of the financial activity.

Economic theory and practice have outlined, however, several **efficient ways** of approaching the matter⁴:

a) “Mark-up-Pricing” method

b) “Target rate of Return Pricing” method

c) “Direct costing” method

d) “Target + cost ” method is associated also with the “Just in Time” (JIT) production administration method and usually comprises the effects of learning over time;

e) The method of maximizing sales under the constraint of minimum profit.

Among the most important cost analysis options we mention the monitoring of deviations, the value analysis⁵ the profitableness threshold, the ABC method etc.

Following the cost analysis, the management will take interest in determining the strong and the weak points in the company’s activity in order to adopt future solutions meant to optimize the price levels as compared to costs.

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¹ A.T. Ciuhureanu, “Cost in the Decision Making Process”, in *Romania – Exigencies in the development process from the perspective of the 2007 integration*, vol. II, “Lucian Blaga” University of Sibiu Publishing House, 2004, pp. 247-250

² O. Nicolescu, *Company Managerial strategies*, Economic Publishing House, Bucharest, 1998, pp. 497-506

³ N. Balteş (coord), C. Comănciu, M. Popovici, R. Sava, A.T. Ciuhureanu, V. Brătian and A. Țăran-Moroşan, *Economic-financial analysis of the firm*, “Lucian Blaga” University of Sibiu Publishing House, 2003, pp. 107-161

II. THE METHODOLOGY OF RESEARCH

The present study has as aim to bring into question the knowledge regarding firms’ options in what concerns calculating costs and evaluating the degree in which firms dispose of a system of analyzing costs for the setting up of prices policy.

Taking into account the set-up objectives, our investigation has been made up of two consecutive

⁴ B.C. Andronic, *Firm performance*, Polirom Publishing House, Iaşi, 2000, pp. 123-126

⁵ M. Țițu, V. Bucur, G. Bălan, *The Economy of industrial modern organizations*, “Lucian Blaga” University of Sibiu Publishing House, 2008, pp. 313-320

researches: *a qualitative research of an exploratory nature and a quantitative research of a descriptive nature.*

By using the qualitative research of an exploratory nature one had as aim *determining the set of hypothesis which were the object of the quantitative descriptive research that was to follow and setting up the following priorities for the research.* The methods used in this preliminary research are the following: *the analysis of secondary data*, which requires the usage of the available data coming from different sources with focus on discovering shortcomings, ideas, solutions regarding costs and the prices policy; *interviews with specialists* with the aim of obtaining further pieces of information from those relevant in the fields of finance-accounting; *group reunions* or *focus groups* that allowed the debates regarding this subject.

The descriptive quantitative research, the results of which are presented in the present paper, had as purpose to describe and evaluate the coordinates regarding the knowledge and analysis of costs in setting up the prices by the firms.

Taking into consideration the location of development the research has been made *in the field*, and in what concerns the frequency of development, the research has been made *on occasion*.

Right after setting up the objectives we aimed to define the hypothesis of the selective scientific research presented in table 1, respectively to anticipate the answers to the matter under investigation.

Table 1. Objectives and hypothesis of the research

Q ₁	Knowing the firms' options regarding the calculation of costs	<i>I₁</i> – Most firms have not implemented a system of calculating costs; <i>I₂</i> – Most often firms use the global method; <i>I₃</i> – Most firms do not integrate hidden costs in the accounting system of costs.
Q ₂	Evaluating the degree in which firms dispose of an costs analysis system in the setting up of prices policy.	<i>I₄</i> – Most firms have a prices policy; <i>I₅</i> – Most firms do not analyze costs when setting up the prices policy.

One had into consideration when formulating the hypothesis *the pieces of information and conclusions taken from the previous exploratory research.*

In order to establish an adequate poll basis for the study, we used the data provided by the statistic Registry, the Chamber of Commerce, Industry and Agriculture and the National Office for the Registry of Commerce. Thus, we have obtained information regarding the names of the firms, address, telephone number, the name of the manager, being thus able to contact the potential respondents.

In order to set the sample we used the method of *random sampling*, which was based on a *fixed sample with restrictions* (taking into consideration the organizational restrictions, we decided upon a sample of 110 respondents). We can state that the sampling method consists of a combination between the *multi – stages sampling method* and that of the *non-proportional stratified random sampling*.

Thus, for the purpose of our research the following *steps* have been taken.

- The basis for sampling has been defined and constituted using the data obtained from the National Office of the Registry of Commerce, having included all the firms and autonomous authorities in Sibiu County. We observed that the main criteria which need to be taken into consideration in selecting the components of the sample are the one related to the category of the firm.
- From the sampling basis we have eliminated all the firms that are no longer active, which have had an interruption in their activity and those which had registered losses in exploitations more than two years consecutively. The remaining firms have been stratified according to the category of the firm.
- The remaining firms for each stratum have been randomly selected until the size of the sample has been reached. In completing the size of the sample we chose the non-proportional option, starting from the hypothesis that certain strata, especially those of the small, medium and large firms present a higher importance for the financial-accounting activity.

In the context of research the recollection of data has taken place at the headquarters of the firms that have been selected, the researchers being directly involved. We had a preference for the field research since some of the questions have been more complex⁶, the number of questions has been relatively high, thus choosing other methods (auto-administering the questionnaires, the phone or internet poll) being considered by the researchers as inadequate for it left room for more errors.

We consider that the most important margin of the conducted research is given by *the size of the sample* (110 respondents) and of the relatively high margin of error (9,4%) for a level of trust of 95%. However we feel the need to mention that when the size of the sample was determined one had in view the objectives of the research, considering that the study has a high degree of precision even if the sample is narrowed down. The choice we made has also been affected by the supplementary costs a larger sample would have implied and, naturally, by the extra time necessary for data collection. We would, however, like to outline that this research could be extended (as mentioned before, a possible extension was already discussed), the results obtained being, thus, a real start point.

Another limit of the research derives from the choice made in completing the size of the sample, namely our choice for the non-proportional version. Regarding this aspect, we would like to argue that, even if by using the non-proportional alternative the subjects of the sample do not correspond to the statistic realities in what regards their weight on the total of firms in Sibiu county, we started from the hypothesis that certain strata, consequently that of the large, medium and small enterprises have a larger importance in the context of research, each of those having its own conceptions and perceptions. One must also specify that the basic objective of the selective scientific research

⁶ This presentation is part of a much larger study regarding the concept, the role, the methodology and the mode of operation of the management in financial-accounting activities in firms, which was based on 29 objectives, supported by a number of 60 hypotheses.

has been to develop and test the instrument of research and not the precision of the estimates.

Considering the purpose of the completed selective scientific research, that of capturing the existing realities at the level of the firms in Sibiu county regarding the circulation of costs and prices policy, to determine the level of the differences from the point of view of needs, attitudes or opinions between different categories of firms and fields of activity, the distributed questionnaire was anonymous, the researchers assuring the respondents of the confidentiality of the information they have provided. The focus was not on a particular category of firms, as we tried to catch certain realities with the purpose of identifying the causes of the deficiencies declared at the level of the economic activity, as well as to formulate proposals in this field. From this point of view, the researchers based their opinions on the full confidence shown by the respondents who, thus, assured them of their full cooperation.

III. ENTRY AND OUTCOME DATA

For the purpose of making the research more operational we have formulated a series of entry and outcome questions, on the basis of which we have conducted a series of comparative studies as part of the research.

a. Entry data

In what regards **the field of activity** the firms considered as the sample are distributed in the following way: 45 firms out of 110, namely 40,9%, are part of the field of commerce 37 (33,6%) belong to the field of industry and 28 (25,5%) activate in the field of services. Regarding **the size**, we have observed that out of a total of 110 firms, 17 (15,5%) are micro-firms, 52 (47,3%) are small firms, 29 (26,4%) are medium firms and 12 (10,8%) are large firms. We have noticed the dependency of the different firms' categories in the field of activity. Thus, in what regards micro-firms, they are distributed in the following manner: in the field of commerce (47,1%) and services (52,9%). No such firm activates in the field of industry. For small firms, the distribution is as follows: 61,5% have commerce as a field of activity, 13,5% industry, 25,0% services. Medium firms activate mainly in industry (75,9%), being almost equally distributed in the two fields: commerce (10,3%) and services (13,8%). In what regards large enterprises, they activate mainly in industry (66,6%), the rest in commerce (16,7%) and services (16,7%).

Considering the **form of property**, 3 firms (2,7%) out of the total of 110 have exclusively state capital, 106 (96,4%) private capital and only one (0,9%) mixed capital. One observes that most of the analyzed firms have exclusively private capital, this being the general characteristic of the firms in the county of Sibiu, as well as in the country, in what regards the way capital is formed.

Regarding **the type of the firm**, the gathered information shows that 89 of the analyzed firms, respectively 80,9% are organized in limited responsibility firms (S.R.L.), and 21 (19,1%) are firms based on stocks (S.A.).

b. Outcome data

Most respondents (43,6%) have the **position** of general manager of the financial-accounting department (27,3%); head of financial-accounting department (11,8%);

professional accountant with services rendered contract (16,4%). As a conclusion, emphasis is put on the fact that most respondents have the position of general manager in the firms that constituted the sample for the research, being thus obvious the interest they showed in the research.

Another aspect followed in the research refers to **the level of training** of the respondents. Out of the data presented one observes that the greatest weight is held by university training, in this category being included 96 respondents out of the total of 110, respectively 87,3%, followed by those with medium training (9, respectively 8,2%) and those with postgraduate degrees (5, respectively 4,5%).

Furthermore, the research took into consideration **the knowledge of form/the field of graduation** of the respondents as well. From the obtained data we have noted that most of the respondents have economic graduate degrees (66,4%), being followed at a larger distance by those with graduate degrees in other fields: engineering (13,6%); informatics and computers (1,8%) and medicine (0,9 %). The respondents with undergraduate degrees are high-school graduates (2,7%) and economic colleges (5,5%). Those with post-graduate education have graduated a masters degree (2,7%) or a doctorate (1,8%) in the economic field.

As a conclusion, one can state that most respondents have graduate economic education which leads to the assumption that they know or should know the economic language.

IV. THE RESULTS OF THE RESEARCH

The information given by the management of the accounting services regarding costs is vital for the general management of the firm, regardless its form of organization, leading to decisions regarding the quality and efficiency of all resources. From this perspective, we have searched to identify the degree of implementation of an accounting system for costs. The information gathered is graphically represented in figure 1.

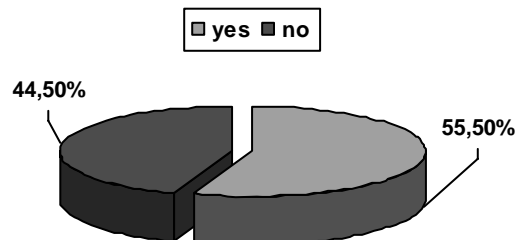


Fig. 1. Options regarding the usage of accounting systems for costs

It is emphasized that over 55% of the questioned firms declare to have implemented an accounting system for costs while 44,5% do not dispose of such a system. In conclusion, the hypothesis presented before the research (*most firms do not have a system of costs accounting implemented*) is infirmed, proving thus that a system of accounting for costs (of calculation and analysis) is considered to be an indispensable system for the management of the firms' accounting activity, when, for the determination and foundation of decisions, the managerial accounting plays an

essential role. We consider the percentage of de 55% is far too low which clearly proves one of the major causes for the results of the firms which are relatively unsatisfactory.

From the organized focus group reunions we have come to the conclusion that a good knowledge of costs depends on the field of activity. Thus, by the selective research we also searched to determine the measure in which the implementation of an accounting system is influenced by the field of activity of the firm, the information obtained being displayed in table 2 and analyzed in the next paragraphs.

Table 2. “System of costs accounting” / “Firm’s field of activity” combined analysis

System of costs accounting	Field of activity			Total %
	commerce	industry	services	
yes	11	31	19	61
%	24,4%	83,8%	67,9%	55,5%
no	34	6	9	49
%	75,6%	16,2%	32,1%	44,5%
Total	45	37	28	110
%	100,0%	100,0%	100,0%	100,0%

As one might notice, most firms disposing of an accounting system of costs are registered in the field of industry (83,8%), followed by those who activate in the field of services (67,9%) and at a great distance those from commerce (24,4%). It has been proven that firms activating in the field of industry are conscience they cannot survive in the context of competition unless they know closely their expenses generated by the costs of obtaining products, works or services.

The simple knowledge of costs is not enough. A great importance is held by applying the methods of costs calculation. Thus, through field research we have tried to identify the methods applied in the researched firms, the data obtained being presented in table 3, with the specification that from the conducted exploratory research the most common method came out to be the global one (see also the formulated hypothesis).

Table 3. Cost Method

	Frequency	Percent	Valid %
a. Standard-cost method			
unmentioned	48	43,7	78,7
mentioned	13	11,8	21,3
b. Phase method			
unmentioned	60	54,6	98,4
mentioned	1	0,9	1,6
c. Order method			
unmentioned	37	33,7	60,7
mentioned	24	21,8	39,3
d. Target-costing method			
unmentioned	58	52,8	95,1
mentioned	3	2,7	4,9
e. Global method			
unmentioned	40	36,4	65,6
mentioned	21	19,1	34,4
f. Another method			
unmentioned	61	100,0	100,0
mentioned	0	0	0
Valid	Total	61	55,5
Missing System		49	44,5
Total		110	100,0

The conducted analysis reveals that, out of the total of firms that have implemented a system of costs analysis, the options for certain calculating and tracking methods are distributed as follows: the standard cost method is used by 21,3% of the firms, the phase method is applied in 1,6% of the firms, 39,3% of the firms choose the order method, 4,9% of them use the target-costing method and 34,4% the global method⁷. Thus, the hypothesis presented before the research (*I₂ – Most often firms use the global method*) is infirmed because the most used method is that based on orders, followed by the global one.

At the basis of the managerial decision there lie the so-called “hidden costs”, which can be outlined in the following forms: opportunity costs, social costs and external costs. The exploratory research has emphasized that these costs are too little known in firms and as a consequence are not taken in consideration when calculating the real cost. Thus, by the research inquiry we searched to determine the degree of integration of costs in the system of costs accounting. The information obtained is displayed in table 4 which presents the calculation system with hidden costs included.

Table 4. Calculation system with hidden costs included

	Frequency	Percent	Valid %
yes	14	12,8	23,0
no	47	42,7	77,0
Valid	Total	61	55,5
Missing System		49	44,5
Total		110	100,0

By analyzing the obtained answers we have reached the conclusion that out of the 61 firms that have implemented a system of costs accounting, the majority (77%) do not integrate hidden costs and only 23% take them into consideration. In conclusion, the hypothesis formulated at the beginning of the research (*I₃ – Most firms do not integrate hidden costs in the system of costs accounting*) is confirmed. The reasons for which firms do not establish hidden costs can vary. We consider the most obvious are: the difficulty of such determinations, the unsuitable training of the staff in what regards the field of calculating and analyzing costs, the lack of clear calculation technologies.

We sought to know in what degree the firms have a prices policy. The results we came up with are presented in table 5 from the paper, and they reflect the firms’ options regarding the setting up of prices policy.

Table 5. Options regarding the setting up of prices policy

Valid	110	Frequency	Percent	Valid %
yes		92	83,6	83,6
no		18	16,4	16,4
Total		110	100,0	100,0

The data analysis showed that out of the total of firms included in the sample, 83.6% have a prices policy, while 16.4% do not.

We consider that a mere knowledge of the degree in which there is or there isn’t a prices policy is not sufficient

⁷ Taking into consideration the fact that the question had multiple answers, the total obtained is higher than 100%.

and relevant. Thus, a major objective was that to determine if the implementation of a prices policy is influenced by the size of the firm – the results are presented in table 6 – or by the field of activity – the data are presented in table 7.

Table 6. Combined analysis “prices policy”/“firm type”

Prices Policy	Category				Total %
	Micro-firm	small	medium	large	
Yes	13	44	23	12	92
%	76,5%	84,6%	79,3%	100,0%	83,6%
No	4	8	6	-	18
%	23,5%	15,4%	20,7%	-	16,4%
Total	17	52	29	12	110
%	100,0%	100,0%	100,0%	100,0%	100,0%

The “existence of prices policy” / “firm type” combined analysis shows that the weight of the most firms that do not have a prices policy is to be found in the category of micro-firms (23,5%). Large firms are those who have set up a prices policy in a degree of 100%.

Table 7. Combined analysis “existence of prices policy” / “the firm’s field of activity”

Prices Policy	Field of activity			Total %
	Commerce	Industry	Services	
yes	36	32	24	92
%	80,0%	86,5%	85,7%	83,6%
no	9	5	4	18
%	20,0%	13,5%	14,3%	16,4%
Total	45	37	28	110
%	100,0%	100,0%	100,0%	100,0%

The “existence of prices policy” / “the firm’s field of activity” combined analysis shows that the weight of the most firms that have a prices policy is to be found in the field of Industry (86,5%), being followed by the field of Services (85,7%) and that of Commerce (80,0%). Nevertheless, we note that the differences between them are not very high.

From the perspective of the present paper, we sought to determine in what degree firms have a system of costs analysis in determining the prices policy and what are the used methods. Based on the results presented in table 8, we are able to determine some conclusions regarding the implementation of a costs analysis system.

To conclude, it can be noticed that, out of the total of firms which declared they have a prices policy, 58.7% say they make a costs analysis, 22.8% plan to, and the rest of 18.5% do not analyze costs in order to ground the prices policy.

Regarding the methods employed for the costs’ analysis, it can be seen that the highest percentage is held by the “following deviations” (35,5%), followed, at a considerable distance, by the value’s analysis (11,8%).

Table 8. A costs analysis system in prices policy

		Frequency	Percent	Valid %
Yes	Total YES	54	49,1	58,7
	following deviations	39	35,5	42,4 (72,2)
	ABC method	-	-	-
	value analysis	13	11,8	14,2 (24,1)
	other	2	1,8	2,1 (3,7)
We plan to		21	19,1	22,8
No		17	15,5	18,5
Valid	Total	92	83,7	100,0
	Missing System	18	16,3	
	Total	110	100,0	

V. CONCLUSIONS AND PROPOSALS

On the basis of the theoretical aspects captured in the field literature, but also of the practical ones, it has been confirmed that a prosperous, viable management is that based on the element of cost. From the selective scientific research one can draw the conclusion that most firms in the sample (55,5%) have implemented a system of cost calculation. However, if, as outlined, managerial accounting plays an essential role for decision-making, we consider the obtained percentage is not high.

From the analysis according to the field of activity one notices that a greater weight is held by those firms that dispose of an accounting system for costs, firms which activate in industry (83,8%), followed by those activating in the field of services (67,9%) and at a considerable distance those from commerce(24,4%). This proves that firms in industry, as well as those with activities in the sphere of services, are conscious that their survival depends mainly in the permanent knowledge of the production cost.

From the total of the organizations that have implemented an accounting system for costs, the most frequently used (39,3%) is the method based on orders. From the detailed analysis according to the firms’ field of activity, it is outlined that those in industry and services use more often the order method, while in commerce one observes the weight of the global method.

We are aware of the fact that the choice is difficult. It is however advisable for the top managers to bear in mind that one of the present tendencies is the firm’s orientation towards determining the standard costs, in order to have the possibility of knowing them in advance. The pre-calculated costs, the incomes and standard or planned profit constitute pre-established levels, which answer directly to the advanced management of the firm and condition the decisions regarding the development strategy. Thus, we consider that the standard-cost method has to take the place of the others in the process of calculating costs.

From the analysis of the obtained data resulted that most firms have a prices policy.

The existence of a prices policy depends on the type (the size) of the firms. Thus, as their size increases, the probability for them to have a prices policy is higher. The interest of managers and owners, the well-trained staff, the

setting up of coherent objectives, making activity more efficient, geographical dispersion are only some of the arguments that impose the necessity of a prices policy and, as we deduced from the research, larger firms have the greatest degree of awareness

The “existence of prices policy” / “the firm’s field of activity” combined analysis shows that the weight of the most firms which have a prices policy is to be found in the field of Industry (86,5%), being followed by the field of Services (85,7%) and that of Commerce (80,0%). Nevertheless, we note that the differences between them are not very high.

To say “we have a prices policy” is not however the most relevant. The objectives make up a framework. In what regards the decision, it can intervene only after the analysis of the variables that directly influence the price: costs, demand and competition. The procedure to set up the price consists of a series of stages: costs analysis, market analysis, determining price limitations, determining price objectives, calculating the price structure.

Even though most firms which possess a prices policy make a costs analysis, there are, however, a great number who do not employ such a system. If, nevertheless, we take into consideration the fact that some firms which have declared from the very beginning they do not possess a prices policy, the circumstances become more serious because, based on simple calculations, we can deduce that, in reality, most firms do not analyze costs. Out of the total of firms who have declared they analyze costs, 72,2% are based on following deviations (the analysis of costs at 100 Lei’s income figure, the analysis of total costs correlated with incomes, the analysis of wages costs, the analysis of raw material and materials related costs etc.) being thus able to know the influence of each factor on the basis of which one may pin point the weak and the strong points of the firm’s activity in order to adopt future solutions for the optimization of the prices level in regard to costs, 24,1% use the analysis of value as a system of costs analysis for the setting up of prices policy, and 3,7% have reported other methods.

By doing this research we attempted to also find out the reasons for which firms either intend to use a costs analysis system, either are not interested. The firms which do not analyze costs present the following reasons: prices are firstly set up according to those of the competition, the costs are too high, it is too complicated, the staff is not well-trained for such an analysis, it is considered not to be necessary or they just did not think about it.

We consider the practical activity of costs analysis has to constitute itself as a major component of the firm’s financial activity management, which is to ensure the achievement of competitive costs, so as the decision to set up the prices would allow obtaining a profit and maintaining the organization on the market, leading thus to the future development of the firm.

In order to better understand what a prices policy means and what is the role played by costs analysis in its setting up, we consider it is imperative to organize a series of trainings for the staff (managerial, as well as executive) involved in this type of activities.

We cannot state that a well determined price policy is guaranteed to be the key to profitability – taking into consideration the fact that the firms from the sample are profitable. We can state, however, without the fear of error, that in order to keep one’s position at the top, one needs to be competitive and one of the factors of competition is price. We consider the results of this selective scientific research are not useful only to firms represented by their managers. They may constitute a marking for all accounting – finance professionals authorized and who either offer consultancy, or organize the entire financial-accounting activity. Furthermore, the results can be taken into consideration by the Body of Expert and Licensed Accountants of Romania (C.E.C.C.A.R.), by the Chamber of Financial Auditors of Romania (C.A.F.R.) or by other national bodies, which through their responsibilities will be interested to consider of greater importance the professional training of those involved in the management of the firm’s accounting activity.

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