INERTIAL BEHAVIOUR AND THE SUSTAINABLE DEVELOPMENT OF THE FIRM

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Abstract

As increasingly obvious signs tell us that the natural environment is changing abruptly and, unfortunately, noticeably, the natural resources are increasingly depleted but have to support a growing population, strategies for the sustainable development of the society will have to be implemented, which will entail a rethinking of the place and role of the firm within the society. During the transition towards another type of human society, the problem of behaviour, including the behaviour of the economic agent, will appear more and more frequently and in terms that we can not even imagine now. Within this context, the paper attempts to catch several aspects concerning the inertial behaviour of the firms in the financial domain.

Keywords: behavior; inertia; management; development; growth; sustainability; durability.

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The goal of the sustainable development, assumed directly or indirectly by the European Union member states, is a process of changing by which the economic system will have to have own self-regulating mechanisms, adequate availabilities and capacities to receive information through specific instruments and procedures which to end in another type of economic, sustainable, growth for the sustainable development of the human society.

This process of change targets first the economic agent and then the relations within which it evolves. The change by transformation is achieved at different paces and extents by the different components of the economic environment, the goals of the sustainable

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development requiring the disposal of some components (specific to the "optimal" economy), the change of others (assumed distorted from the "market economy") and the emergence of new components (rejected by the "market economy"). The structural and functional diversity and disparity of the economic environment, as well as the different behaviour of the economic agents may *alter, turn away or break off* the processes required for the changes through transformation within the economic system. Generically, these three phenomena, unspecific to change, circumscribe the concept of inertia, particularly the economic inertia. In economic terms, inertia signifies preservation the identity or behaviour, or continuing the evolution within the same qualitative and quantitative limits at the level of the economic entities. The inclination towards inertia manifested by any economic entity, shows not so much the rejection of change, but the existence of selectivity and adaptability built within the structures of the economic entity, which might give them the freedom of option, of choice.

To this end, the negative aspects related to change can be attributed to the economic entity to the extent to which the economic environment becomes permissive to change, which is beneficial to the sustainable development of society, and entity selects an inertial behaviour. The opposite situation, namely within the conditions of an economic environment rejecting the change which is beneficial to the economic entity, its inertia, even though is a positive factor for the economic environment where it functions, can not contribute to the change towards the sustainable development of the society.

1. Nature and change of the financial inertia related to the sustainable development

The nature of the inertia of the financial component of the economic agent is defined by the fact that, in its essence, the finances, at the microeconomic level, are generated entirely within the relation of the economic agent with its environment. They are not a "product" of the economic agent, rather a "resultant" of its confrontation with the environment, being thus of relational essence.

The economic agent behaves inertially within an inertial financial environment; within a changing financial environment, the economic agent, through selectivity and adaptability, behaves no longer inertially. Thus, the process of environmental change, of the financial environment in our situation, will have to provide the economic agent with a different “relational field” within which the economic agent may perceive, accept and assimilate properly the change of is own financial component. Oppositely, financial inertiality may develop materialized, among other, as low financial services quality and financial blockage. To have a proper understanding of the content of the financial inertia, we must consider the fact that the finances are an “expression” of the diversity using a homogenous standard. Being an expression, it is obviously determined by these diversities, by that something. Thus, the financial inertia is a relational “mirror” of the assembly of inertias inherent to the changing economic agent.

2. Forms of the financial inertia

The forms displayed by the financial inertia are very diverse, requiring several typologyzing criteria. If some forms are determined directly by the financial environment, other are generated by the perception which the economic agent has on the change of the environment; if some forms of financial inertia display a low temporality, others last longer; if some are specific to the financial structure, others circumscribe the financial flows.

This diversity of forms of the financial inertia are, nevertheless, hypostasis of the same form of manifestation of the economic agent, by selectivity and adaptability, to a changing economic environment. In fact, these forms are ways in which the economic agent participates both at its own change, and in the change of the environment.

It is obvious that all the forms of the financial inertia can also be regarded in relation to the managing system and, from this approach, they are directly linked to the behaviour, attitude of the decision maker.

The most significant forms of inertia of financial management are those linked to the following types of financial management:

a. passive financial management and inertia in budget financing.

The economic agent, focused on production, cut off from the economic environment, is in a continuous financial “expectation”; irrespective of its financial status, the state has to provide, under different forms, financial supplements required to meet the financial needs of the economic agent. Obviously, within an economic environment without institutional and instrumentary opening, the economic agent, which is far from the state of equilibrium based on economic calculation, has one final chance for equilibrium in the public finances, and the financial management acts towards this direction (inertially).

This form of financial inertia is directly related to the financial inertia of the environment within which this vicious circle of subsidies is created, unproductive, inefficient and financially redundant.

The incertitude or deforming of the processes of change through transformation during the transition period, the lack of synchronisation in the activity of the decision making body between the macro level and the mezzo- and microeconomic levels, a conservative behaviour, maintained this circuit of subsidies which has mainly affected the private economic agents, ending by compromising the spirit of the change.

This type of financial management can also occur in the developed countries, as measures are proposed, which are “atypical” for the sustainable economic growth. The market mechanisms are expected not be sufficient in the future so as to change an economic mechanism oriented towards the “optimal” and “efficiency”, intervention measures being required, which to be “supported” by the state (subsidies, state aids etc.). The transit to a sustainable economic growth for a sustainable development of the society will involve a change of behaviour at the microeconomic level. The rush for profit, market segment, competition, will have to be replaced by the concern for the natural environment, for the level and quality of the resources that are used (only renewable resources should be used!); this change of behaviour will not happen concomitantly in all the firms worldwide. A good deal of time there will be firms working inertially, within the spirit of the current economic system, but they will be gradually “compelled” (through levers, instruments, means) to change.

b. the passive management and the “consumptionist” behaviour. The economic agent, confronted with an uncertain, unpermissive economic and financial environment, haven’t yet acquired the exercise of the risk and self development, turns to the “consumptionist” behaviour, focused on production which affects all categories of investments (replacement, modernization, development and strategy), being maintained by the process of decapitalization of the economic agents, by the break between the real circuits and the financial circuits of the economy (financial blockage), and not last, by the inertia and lack of adequate instruments and levers of the monetary circuit within the economy.

The disequilibrium between the sources which finance the investment, under the conditions of a dramatic reduction of all the financial resources, pushes the economic agent towards an inertial behaviour to disinvest, behaviour which is degenerative and multiplicative.

The relation between the attitude towards the financial risk and disinvesting is obvious particularly under the conditions in which the state will take “drastic” measures for the “forced” reorientation of the way the resources are allocated within the economy.

c. passive management in relation to decapitalization. The inertia of decapitalization is a synthesis of the effects of the other forms of financial inertia within a changing environment. Decapitalization, as a process of relative reduction of the permanent, active financial resources on the background of the shrinking overall financial sources for the patrimony and particularly, the absolute decapitalization generate a deterioration of the structure of the permanent capitals, with effects on undersizing the circulating funds of the economic agent.

The denaturation of the permanent financial resources, particularly of the payments, financial debts etc, generates a passive managerial behaviour (of impotency, seemingly), with direct effects of the solvability and financial liquidity. Obsessed by the financing of the exploitation cycle, cycle which will not be acknowledged by the economic environment, the financial management maintains the reached level of inertia towards decapitalization by a negative treasury, chronicized under the conditions of commercial cycles without equivalent.

3. Dimensions of the financial management inertia

The causes, effects and influence of the forms of inertia that are characteristic to the financial management circumscribe dimensional coordinates by which each form of inertia can be defined and measured so as to highlight its adverse or positive potential for change.

a. The structural dimension shows the financial state of the economic agent confronted with one or several forms of financial management inertia, state identified at certain moments of the economic cycle (sustainable, for a sustainable development of the society!).

The discerning, delimitation and description of some financial structures generated by different forms if inertia is one way to analyse their causes, effects and influences on the quality of the services performed by the "financial department" at the microeconomic level. The balance structures, corrected and adapted to financial analyses can yield relevant information for the analysis of the financial inertia. The correlated analysis of the different structural modules and the determination, on this basis, of different rates of financial inertia nay provide an insight on the inertial "mechanisms", allowing the development of possible "programs" to alleviate or resorb the impact of the managerial inertia during the process of change.

An inertial interpretation of the structure of assets (particularly of the financial ones) and of liabilities (particularly of the permanent ones), an approach in inertial terms of the balance structures and of the final aggregate components of the account of results are ways for the pragmatic utilization of the structural dimension inherent to the financial management inertia.

b. The functional dimension highlight the financial movements, flows and circuits which were affected or not by the inertia. The economic environment, its normative, institutional and instrumental components, shape in a determined way the financial flows and circuits of the economic agent, burdening them, under the circumstances of a non-permissive environment, with new inertia. The functional dimension allows highlighting the ebb of some financial flows and expansion of others, the rigidization of some financial circuits under the conditions of deteriorating banking circuits, of the financial flows required for the economy to function, or it may display the denaturation of its functionality.

However, in our opinion, the functional dimension shows, from the inertial perspective, the preservation for a long time to come, of the lag between the primary and secondary financial circuits, the inertia of the primary circuits being displayed on the background of the lack of circled monetary values and of openings without productive finality (production within the frame of sustainable development!).

c. Behavioural dimension, noticeable directly at the management level, which requires the existence of a way to perceive the change. The first two dimensions provide the coordination plan for the definition and measurement of financial management inertia as oriented relation of the economic agent with the environment, predetermining the forms of the financial inertia, while the behavioural dimension reveals the process of inertia sedimentation within the behaviour of the economic agent, which may become bearer and generator of some forms of financial inertia. The “learning” lag of the inertia by the manager proves, eventually, a lag of perception of the change at the microeconomic level, with consequences on the overall inertia of the economic system.

d. The temporal dimension allows measuring the duration of inertia, of the lags between the different forms of the financial management inertia, of their temporal desynchronisation, which might allow evaluating the possible speeds, paces of changes at the microeconomic level.

From the temporal perspective, hierarchies of the forms of inertia can be elaborated, function of which the strategies for their reduction, synchronisation or reorientation may be developed, even for the valorisation of their correlated evolution, for the fast assimilation of the change at the level of the economic agent.

4. Inertia and the financial policy – framework for defining

From the financial perspective, we may consider that a commercial society holds at any moment a “collection” of “productive” financial resources represented by inputs supplying determined services to achieve a certain goal. In other words, a given assembly of financial resources opens the way for an assembly of activities. The environmental pressures, the short-, medium- and long-term objectives (more or less formalized currently at the level of the commercial companies), as well as the specificity of the intervention of the financial management require a certain evolution in volume, structure as well as specific interactions between the financial resources and the achieved actions, major goal of the economic and financial calculations.

The nature, volume and quality if the financial resources held by the commercial company define the pertinent conditions of the future evolution of the activities (their nature and volume). The policy of “financial resources management” is therefore a major element in judging the level of inertia.

Of reasons of simplification, we can perform the analysis on two successive plans:

- within the context of the “operative” inertia, which requires to analyse, within an invariant framework of activities, the responses to the variation of the achieved of planned levels. The major problem is therefore, to choose the stock of capital depending on the flow of "services" achieved by the company;

- within the context of the "strategic" inertia, the emergence of threats or opportunities for the commercial company involves a modification in the nature of its activities. The more or less invariant response to the variations in the field of activity raises the issue of preserving the fundamental financial potential of the economic agent.

This formal distinction that we have adopted masks the unity of the two levels of inertia: operative and strategic, both of them depending directly on the investment decisions (in the broad meaning) and on the technological, financial and human constraints, which are tightly linked.

The operative inertial behaviour is directly linked to the decisions assumed due to the change in volume of the flow of services provided by the company. The operative inertia consists in the way of responding to the variations of the volume, with adequate costs of adjusting, and it will manifest as an ever increasing period of response to an approximately equal increase of the volume of activity, and the corresponding financial costs increase much faster than the increase of the volume of activity.

In many cases, the existence of some factors requires the technical or economic limits at the output level. In other cases, the risk linked to the irreversible character of some financial resources should force the commercial company to make a long-term prediction of the required financial flows. Each time, the inertia is linked directly with the over- or underevaluation of the demand for outputs. The trend currently displayed is to respond post factum to all the changes in the economic environment (modification in the legislative framework, in the level of interests, input price level, exchange rate, etc.).

The solutions to avoid the inertia of the financial policy of the commercial companies are currently limited: one is growth-related and it consists in selecting an excedentary financial capacity required to respond to the increased volume of outputs; the other, on a more general level, attempts to discard the risk and to avoid more or less the investments.

Conclusions

The inertial behaviour is displayed by the specific way of action both during the design and during the implementation and application of the financial policies and strategies, by the duration and type of response of the financial management at the different changes of the economic environment. Major influences are thus manifested on the level and quality of the economic and financial activity, including in the plane of the products and services it supplies.

The operative inertial behaviour can be reduced by selecting a surplus or by avoiding it within the financial capacity of the firm. These ways of intervention are just two particular aspects within a wider picture: the investment policy which, after all, also involves the financial policy.

It is obvious that no company can survive in the long run without renovation and development. Because it involves a decision-making process to mobilise resources, the financial decision, linked to the investment decision, in its three components – nature, dimension and moment of application – is conditioned by the operational inertia of the financial management.

It is obvious that in the future too, the problem will display very varied degrees of intensity related to the specificity of each economic agent's activity.

The future use of practices resulting in an excedentary financial capacity will represent a means of securing a lower inertia, within rather small limits, however. If the existence of factors used improperly allows a response to the random variations of the demand, with small financial costs and within an, as short as possible, period, this response affects at the same the profitability and increases the average costs.

Corrections can be used to modify the volume of assets, but they also involve a change of the level of shirt-term inertia, within a perspective of long-term increase of the volume of the commercial company's output.

On the other hand, avoiding the supplementation or the "pressures" on the financial capacity allows having a lower level of operative inertia and a certain level of strategic inertia through the savings foreseen in the funds for investments.

This means will be use din the future too by the domains where the degree of technicity is quite poor and where there is monopoly which allows a "separation" of the financial costs and of the risk by drawing different economic agents in cooperation.

The analysis of the strategic inertial behaviour within the financial policy can be related to the improvement of assets liquidity and to the incomplete utilization of the indebting capacity.

Under these terms, seeking to reduce the inertia and the maintenance of the financial independence are synonyms and they are reduced to the fact that the enterprise has to avoid being in a state of financial vulnerability. This remark shows that, actually, the hierarchy of the development and security goals varies within the economic context: in the periods of economic recession. The existence of a margin of financial “manoeuvre” is a guarantee of survival; during the periods of economic growth, the firm must increase the volume of investments because the risk appears to be limited and the prospects of future profitability seem interesting.

The financial management inertia seems imminent and, voluntarily, it is accepted, because the firm hardly resists to the “temptation” to employ “inertially” all its financial resources in the struggle for development. The most delicate issue is therefore, the one raised by the conjectural relaunch. If the growth perspectives at the macro- and mezzo economic levels do not come true, unfavourable effects may appear for the firm.

Irrespective, however, of the trends displayed at the macroeconomic level, we may say that, at the level of the economic agents, the experience of the past ten years shows a quite high level of inertia of the financial management, which is likely to continue in the future too, which is a problem for the desired and achieved speed of the process of transformation.