

Correlation of Economic Indicators – Basis for Strategic Management Decisions

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Abstract

Strategic management aims to increase the economic and financial performances, an objective whose achievement implies the correlation of economic indicators.

We consider that the macroeconomic indicators must be found at the company level, as well, both in a physical state and in value. Moreover, the correlation of indicators must also be encountered in the contracts signed by the shareholders with the managerial team.

Key words: *indicators, economic and financial correlations, mandate agreement, strategic management*

In any kind of economy, especially in the modern ones, the main problem is finally related to the proportion between the two fundamental spheres of the economic activity: *Production* and *Consumption*.

Obviously, between these two extreme pillars, Production and Consumption, exchange and distribution interfere, which also have relevant implications. Recent evolutions of the financial markets, confirm at least the necessity of an existing balance between Production and Consumption without underestimating, for certain periods, the priority of Production.

In this context it results that the system of the economic indicators can fulfill the role it has in different management strategies only if it succeeds in reflecting the economic activities on the whole, especially in permanently linking the extremes: *Production* and *Consumption*. Not only as an example, but also from many emotional points of view we present below the status of agriculture as part of the National Economy.

Table no. 1 The level and evolution of the percentage of the significant indicators for „Agriculture” in Romania in 1997-2005

- % -

Crt. no.	INDICATOR/YEAR	1997	1998	1999	2000	2001	2002	2003	2004	2005
1	Final consumption percentage within GDP	86,4	90,2	87,8	86,1	85,1	84,0	85,6	85,2	87,6

Table 1 (cont.)

2	Final consumption percentage of the individual farms	73,6	75,1	72,3	78,9	78,5	77,2	75,5	77,5	78,4
3	Equivalent value of the agricultural products consumption from personal resources percentage within monthly individual farm expenses	31,8	29,8	29,4	31,6	25,0	22,9	23,8	22,5	18,3
4	The percentage of the agriculture within the GDP	17,6	14,1	12,9	11,0	13,3	11,4	11,6	12,4	8,4

Source: Romanian Annual Statistics 1996-2006, Labour Balance, Farms Labour Investigation and individual calculations

The table above shows a significant decrease of the percentage of Agriculture within achieving the Gross Domestic Product (GDP) in Romania, which we cannot solely relate to *NATURAL* interference, even if objective and important. The presented figures prove a strong contradiction; the percentage of the equivalent value of the agricultural products consumption from personal resources within monthly individual farm expenses is drastically higher than Agriculture's contribution to obtaining GDP.

We cannot be the first in consumption if we do not have the same status in production, even if the external agricultural balance has reproduced a deficit for the last years against any rationality, deficit met absolutely at random, in our economy's history.

These facts represent an expression of the miscorrelation between Production and Consumption. In this transitional period to the market economy, begun in 1990, we witnessed a fast growth of consumption related to GDP evolution and why not to National Wealth.

Practically, we "managed" to cancel the excess of the current account and of the external balance of trade and now we have a deficit of the current account (14% in 2007) which tends to reach the accepted extreme limit (approximately 20% from GDP) against the background of a relative growth of the external assets. Even more, privatization transferred significant parts of the National Wealth abroad, making the analysts consider more and more that we have "in Romania an economy which relatively grows" and "a National Economy which is strongly falling down".

In this situation we consider that the population from the rural areas and with jobs in the agricultural field has a greater contribution, according to different evident references and statistics, both in achieving the GDP and of course, in conserving a significant organic part of the National Wealth.

Obviously, underestimating the role and the place of Agriculture within Romanian Economy, especially in producing the GDP, is a mechanical taking over of the leading role of the industry, with "*the pivot or the heavy industry*", of the constant limitation of the peasantry, fact that is found mainly in the price system.

The characteristics of the agriculture market are illustratively shown in the specialized literature and it is materialized in the existence of the new laws and paradoxes proved by thinkers of the economic world such as: Ernst Engel, Gregory King, Robert Giffen, Veblen Thorsten, J.R.Hicks and others.

Even if those paradoxes were done in autarchic economy, their implications are so huge that today it is legitimate to state that “the price is generally made to the supply prejudice respectively to the agricultural producer.”¹ The role and place of Agriculture within the National Economy can be estimated closer to reality if we take into consideration the *agro - alimentary system*, in which to the value of the raw products is added the contribution of the following activities: *the processing packaging and transport services, commerce and public nourishment*.

The results of the survey carried out by the Romanian Academy – Romanian Centre of the Consensual and Contemporary Economy – are significant. Referring to the year 1998 in US it is underlined the fact that “*from 148 billion dollars – value of the raw products introduced in the system, we have: 110 billion dollars unprocessed agricultural products from farms, 28 billion dollars value of the imports and 10 billion dollars from aqua-culture products – the total output is 751 billion dollars. By processing and purchasing, the value of the raw products increases more than five times (processing field increasing this value 1.81 times, services 1.85 times and commerce and public nourishment add 51 cents for each introduced dollar)... The agro-alimentary sector was in 1998 approximately 8.6% within GDP, 10.71% within National Income and 11.9% within individual incomes of the population.*”²

Referring only to the last percentages, they are at least four times higher than the well known percentages of Agriculture within United States G.D.P., reflecting both contribution and the entire economic circle: *production, distribution, exchange and consumption*. The acknowledged modest place of Agriculture within achieving the GDP and conserving the National Wealth is also the expression of the price for the land. So, in Romania, since the beginning of transition to privatization the land has had an insignificant percentage within the Capital Value.

Now, the implications of the real price of the land leads to a situation described by the chairman of ANEVAR as follows: “*Since 2003 the Registered Capital has not increased. There were cases when the State became the main share holder because of the price of a sports field which wasn't registered in the accounting records; once the terrain is part of registered capital, a big privatized factory, becomes 75% owned by the State*”³

The price expresses the relationship between demand and supply, but the latter is decisive, reason for which it is urgent to reconsider the prices of the agricultural products, especially as far as the price of land is concerned.

Related to this last element, it is sufficient to think that the level of the great investments in the most attractive sectors– *substructure, real estate, regenerative power resources* etc. – is decisively influenced by the price of land. Many economic objectives labeled as “*Scrap heap*” are rapidly purchased and paid in cash for “*His Majesty the Land*” and consequently we have to pay attention to the rural population's contribution to preserve the land factor and thus to produce the GDP.

The economic indicator system has to classify a certain activity/ branch according to its contribution to the National Wealth.

Unfortunately the leading structures have built many economic and social systems in which tactics and management strategies were blocked in projects subordinated to the technical capital to the global approach prejudice. As an example, remaining in the macro-economy sphere, too – *there are well known* both the difficulty and the limitation and slowness with which it is recognized the influence of the prosume upon the producing and utilization of the GDP.

¹ Rusovici - *Agricultura în economia de piață*, Editura Ceres, București, 1991, pag. 140

² Chivu, L.A., Ciutacu, C., Ioan-Franc, V. - *Agricultura între restricțiile comerciale globale și politicile comunitare*, Academia Română, Centrul Român de Economie Comparată și Consens, București, Editura Expert, 2003, pag. 32

³ Ziarul Financiarul din 25.09.08

To support these statements we consider sufficient enough the words of the famous scientist Alvin Toffler: *“The conventional economists and their true partisans tend to minimize this economy, saying that it does not produce effects despite the facts from the real world which prove the opposite. Defining economic “value” as something which appears only when a transfer of money is made, the economists often end focusing upon superficial elements, but which are easy to be measured. [...] In 1996 Stein Ringen concluded:” material standard of life would become half if not even lower if it weren’t for the effects of living in farms. In National Economy the farms contribute as much as in the market institutions. This is an amazing result, he stated, taking into account that it is often believed that individual farm has become marginal from economic point of view. This contribution of the individual farm is almost entirely the result of the prosume”*⁴.

Remaining in the macroeconomic sphere, the latest period of time shows many countless limits of the PIB, not from the perspective of the real reflection of the branches and activities which produce it, as from the final usage area. The critical differences between the PIB indices per inhabitant are estimated on the basis of Parity’s Buying and Exchange Course Power, as shown in Table 2.

Table 2 The level and evolution of the report between PIB/inhabitant estimated on the basis of the Parity’s Buying and of the Exchange Course Power between 2001-2005, in some of the European states

Country	2001	2002	2003	2004	2005
Germany	0,91	0,92	0,90	0,91	0,94
France	0,98	0,97	0,94	0,93	0,93
United Kingdom	0,87	0,89	0,94	0,91	0,92
Italy	1,08	1,04	1,00	1,00	0,99
Spain	1,19	1,19	1,14	1,12	1,10
Greece	1,26	1,27	1,25	1,22	1,17
Norway	0,77	0,70	0,74	0,78	0,75
Czech Republic	2,02	1,86	1,86	1,88	1,78
Estonia	1,91	1,76	1,75	1,74	1,71
Latvia	2,11	1,96	2,07	2,02	1,98
Lithuania	2,20	2,09	2,05	2,05	2,03
Poland	1,79	1,88	2,03	2,09	1,82
Hungary	2,04	1,84	1,78	1,70	1,64
Slovenia	1,41	1,35	1,32	1,37	1,37
Bulgaria	3,00	2,89	2,87	2,76	2,68
Romania	2,75	2,74	2,60	2,60	2,20

⁴ Toffler, A., Toffler, H. - *Avuția în mișcare*, Editura Antet, 2006, pag. 146-147

The purpose of the human activities, mostly the economic ones, is to increasingly meet the human needs, reflected by a system of pointers defined not only by the number's growth but also by diversity and complexity. This one can prove enough the replacement of PIB with the "Wealth Index", the latter being more idiomatic because it is based on 63 pointers, also determined from the studies made by UN, World Bank, IMF, Heritage Foundation, Freedom House, Rome's Club, and Transparency International. The expressionless of the Wealth Index is being assured by the pointers inscribed in the groups, namely the economic, social and informational ones.

Thus, in the *economic group of indicators* we find PIB per inhabitant, the external payment balance, the inflation rate, the exchange course. *The social group of indicators* is dominated mainly by pointers from the education area, earnings, consuming, filing the work force, infrastructure, wealth fields and last but not least those related to the environment. The informational group of indicators encompasses pointers which reflect the access and the degree of the information usage, the information's quality and last but not least, press's freedom.

The short presentation of the pointers which are the basis of the economy as measurement phenomena at macroeconomic level aims to reflect them at microeconomic level as well. A strategic management at the company level can not be built and achieved without a system of pointers defined by an adequate correlation between macro-economy and micro-economy.

No matter how strong the place and the role of personal interest could be, it exists and it acts by action and by some group interests, be they collective, local, national or regional. In conclusion, the economic communication no matter how delicate and risky it may be for the firm, it must exist, being involved in any management program and even more promoted.

The pointer's correlation with the accuracy of the macroeconomic one at microeconomic level especially of the firms must be first and foremost realized in the field of economic efficiency.

In conclusion, it is necessary that the multitude of macroeconomic pointers, starting with the domains subjected to comparison and ending with the difficult query of competitiveness, must combine in a system of pointers at microeconomic level. The need to use a system of pointers for competitiveness for the different branches of activities is being acknowledged and proved in the particular literature.

Assuming the risk of repeating well-known information and taking into account the importance of the decisions from the strategic management field, we consider this short presentation to be very useful.

First of all the necessity of the pointer's system is being imposed by the complexity, diversity and specific of the different branches and activities. For example, for the branch "Tourism" relevant being the forms, the seasonal attire, the services gamut, the interdependence with different fields of human activities (infrastructure, culture, education, environment, wealth), the integration degree in a certain economic space and last but not least the cultural pattern of population it regards.

Second of all, the existence of a system of economical competitiveness pointers is determined by management strategy which should solve different queries, complex and contradictory making reference, for example, to : solvability, liquidity, investment, opportunities, the efficiency of combining and using the production factors, competitiveness, workability. For a better understanding, we consider it is enough to think only of the content and field of the issues presented above to justify the mortifying and amplifying of the information and their transformation in economic pointers.

Third of all, a system of pointers to assess competitiveness is the only one which can explain directly, in different development strategies the fundamental components of every social system, respectively: social, economical and ecological and technique. Not by chance, in

particular literature we have met often references to the social and ecological dimensions of competitiveness. Clearly economic, competitiveness is more and more conditioned by interaction between the human behavior both as producer and consumer, but also as natural component.

Forth of all building and using a system of pointers is a requirement of the contemporary strategic management which can no longer realize the competitiveness exigencies, mostly those of the profitability, only if it succeeds in combining the three fundamental forces involved in any human activity: the employer, the employee and the state. Each of the three performers has its own interests, with powerful contradictory connotations.

To exemplify it is enough to think of the fiscal implications over the real income, the net profit and budgetary resources of the state. In conclusion, we must extend the pointers sphere and content so that the “Triple dialogue” unfolds with full knowledge ending by the specific component of the potential. At the same time we must permanently control the degree of satisfaction of each participant which can not be easily realized and permanently reproduced.

The recent positive implications of the unique share tax of the revenue in Romania are strongly related to our national economic level of development and with the implications of our integration within the European economic space.

It is obvious that to the extent to which it expands at the level of the European Union, the probability of success will depend in the beginning on its level and then it will integrate new aspects, dimensions which need new pointers and correlation between them; the final result cannot exclude a combination between taxing methods.

The wanted performance in each decision of the strategic management can be derived only through a correlation of the size of different pointers, established in the two dedicated forms of expression: the physical form and the value. For example, for the foreign trade field, there is the RTB pointer which expresses, for each of the nine categories of ware (standard international rating) the same evaluation of competitiveness adjusted with the percentage of respective category of ware in the whole foreign trade.

Referring to the implications of understanding the nature and volume of ware which are the object of Romanian trade, the well-known professor Cezar Mereuță, underlined: *“There is a more dangerous trap: that by an emphasized increase of PIB which would understate the percentage of the current count deficit and could even bring gain on short term in RTB, we could ignore the volume amplifying the current count deficit and put between brackets the fund problem. This is not the judgment which should give the Romanian economy a direction and this should not be the attitude. The good judgment is that of reducing the deficit of current count in volume and not only as percentage in PIB”*⁵.

From the analysis made at some firms in Prahova county one could find out about the existence of many bad connections between different economic pointers. Usually, they have the shape of success in the value field, without being found in the physical field as well. The general examples are related to the increase of work productivity in valuable expression, without any ample changes regarding labor consumption.

Taking into account the things we have presented, it is not mere coincidence that the different management strategies built to increase performance do not reach the imposed standards. The Writ no. 79/2008, being awaited for as a chance of revitalizing the motivation for performance of the managerial teams in which the state is the main or the only stock holder, is not significantly different from the Writ no. 79/2001 because it also has as a characteristic “the obstruction in the overall field”.

⁵ Revista Capital, Bucuresti, 07.08.08

We support this statement as *first of all* it does not determine labor productivity by gross added value, net added value and profit.

Second of all, the main conditions are not imposed at the firm level mostly the correlation between the growth of earnings and growth of labor productivity.

Third of all there is no obligation to use, mostly at the basic levels of organizational structures – teams, brigades, workshops, sections – physical pointers, which in their turn must be the basis of the primary level and of the dynamics of the value pointers.

Forth of all, unfortunately, in the reality known by no means, the new management contracts where self-established by the actual managers who looked more at the income of the respective private sector than at performance. It is probable that the actual management teams have thought only of the relation between the earnings level and the size of the cash used, acting, in fact, in the direction of the appreciations of the actual banking minister, who in a recent interview underlined: “*In a market economy the management responsibility must be reflected at the earnings level, at a corresponding level has the size of Hidroelectrica, Transelectrica, Transgaz, the retributions from the private system are bigger. The earnings from a private bank are bigger than the ones at CEC, likewise the earnings from an investment fund which has the size of The Property Found are bigger in the private system. Find me a private fund with a 4 billion Euro capital where the manager’s income is 12.000 Euro*”.⁶

Fifth of all, the Emergency Writ no.79/2001 regarding economic and financial actions at the level of some economic operators, is only partially in the spirit of the performant strategic management, because it remains tributary to some motivational limitations from the “equalitarism” field and to the limitations of earnings based on performance. Thus, in the article no. 4 it is underlined: “*The monthly payment of the general manager proportionally decreases along with the global degree of non-fulfillment of the objectives and performance criteria established through the mandate contract, but no more than 30% of it is the level after approving the annual financial situations, the economic operator leader can be given an annual reward of the furthest 12 gross monthly payments, commensurate with the global degree of outgoing the objectives and the performance criteria established by the mandate contract*”⁷.

In conclusion, we appreciate that no matter the nature, the content and the hierarchic level of the organizational structure whom it address, any decision of the strategic management must be founded on correlation, on all aspects, of the economic pointers.

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⁶ Business Standard, Bucuresti, 21.08.08

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Corelarea indicatorilor economici - bază a deciziilor de management strategic

Rezumat

Managementul strategic are ca obiect central creșterea performanțelor economico-financiare a cărei realizare presupune corelarea indicatorilor economici. Apreciem că indicatorii macroeconomici trebuie să se regăsească și la nivelul firmei, în expresie fizică și valorică. Totodată, corelarea indicatorilor trebuie regăsită și în contractele încheiate de acționari cu echipa managerială.