

MODELING MANAGERIAL ACTIVITY, A CHALLENGE OR A NEED INTO THE INTERCONNECTED ECONOMIC SPACE

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Abstract

In the European economic area, which becomes more and more interconnected, the management system provides ways of obtaining a performance which, on changing the size of the firm, sometimes prove to be inadequate. During that lapse of time from triggering the action when the results can be measured should be as small continuously decreasing. The information required to be used in the decision support are required more avid. The manager will use different models for measurements of indicators of discrete evaluation, but it proves that not to be the best solution. Only the availability of this information will enable them to make better decisions, and by changing the way of how the decision making needs to get a deep effect on those decisions which are currently in action.

Keywords: interconnected economy, managerial activity, sustainable development, management model, resource evaluation, risk management.

1. The current status

We have to realize that the dimensions of the crisis we face today are significantly higher in comparison with the situation recorded in the years of '30. This statement can be supported by “catastrophe” and “opposite of the American dream” which have been two expressions of the new U.S. president with the first publication of figures on Gross Domestic Product (GDP). The need for urgent action is illustrated by the critical situation in which there is the strongest economy in the world, U.S. The US GDP declined in the fourth quarter of 2008 by 3,8%, the biggest decline in first quarter in 1982 (-6,4%), according to official data. In the current contemporary economy interconnected we witnessed the export of U.S. economic problems in the whole world economy.

The global economy will continue to slow in 2009. During the official opening speech to the Economic Forum in Davos this winter, the Russian Prime Minister Vladimir Putin

criticized the American capitalism: “A year ago, the U.S. delegations that spoke from the lectern emphasized the fundamental stability of the U.S. economy and its solid perspectives. Today, the investment banks, the pride of Wall Street have ceased to exist”. Also the Chinese counterpart, Wen Jiabao, said that “an unsustainable model of development characterized by a strong consumerism, blind rush for profits and the failure of financial supervision” have helped trigger the economic and social crisis.

It is obvious that the old technologies of the Romanian firms can not step with the competition from EU firms. In most of the firms we are finding that the traditional performance measurement didn't give us information about the true sources of value creation (Ernst & Young Center for Business Innovation).

2. A not too distant future

In the next years that will follow, the national economy may be influenced by the profound technological changes that will have direct implication in the systems' performance. The predictions show that in future will find that:

- there will be an increasingly, faster and cheaper way to achieve interconnectivity, there will be huge storage environments and very effective, and the possibilities of communication will be more extensive. Will find an increase in the volume of information circulating and also in the speed with which it is transmitted;

- the computer programs for analyzing a constantly increasing volume of information will be permanently improved, but not as fast as technology hardware. The performance measurement system will be growing, providing relevant results for an increasing number of inputs;

- sciences like mathematics, computer science, microbiology will be able to offer new types of devices, new ways of making the calculus, new points of view in understanding, assessing and developing feedback and implicit in management systems;

- materials science will be able to provide new polymers, new materials with very different properties and increasingly low costs (new batteries, new types of ceramics, micro-circuits, plastics etc.). Sensors or other devices of observation will provide more ways of evaluating performance. Thus, a growing number of elements will now be observable and measurable;

- the influence on the intangible value creation will spread and will be achieved by virtual monopolies by continue innovation. It will change the ways of evaluating the opportunities and establishing investment decisions. The information becomes the feedback

guide in the decision and will increase as a product.

By increasing interconnectivity, the information will travel faster in a higher complexity and completeness. The quickly feedback will assess emergency situations and will offer the answer for any process, imposed by a corrective action or decision. The more complete feedback will provide to managers the opportunity of evaluating new dimensions of the situations analyzed in the finest details. The more complex connectivity gives new ways to control efficiency, changing the traditional boundaries between what is inside and outside the company.

In a short time, the interconnected economy will remove restrictions of physical space and its will introduce the time as a new dimension in the critical exchange of business in this economy, and together with speed and completeness of feedback will have the most profound effect on performance measurement (Siesfeld, T., 2005).

3. Requirements facts

With sensors used in operational processes, with broadband telephony, with models of planning resources that will demand relation stocks “just in time” production of the case and measuring the effect is increasingly compressed. This feedback allows almost instant use of adaptive control models, very sensitive from the “normal time” to the “right time” in making production and its immediate sale. There will be changes following the growth rate due to feedback in the business environment that will influence managers’ activity.

1. *Quickly feedback will help the adaptive control and automation.* If the time period between predictions and achievement will be shorter, thus the error associated with the predictions will disappear. The forecast for a week may not be as safe as forecast for the next day. If we assume forecasts with greater accuracy it will allow actions with an increased efficiency, so it can be concluded that managers will be more appreciated if they would base their decisions on the most recent available feedback. Supported by the increasing speed with which information will be available for managers, the adaptive action will be more competitive in the long term planning.

The models of management will increase in performance, will synthesize the results of measurements automatically and will automatically generate recommendations for action by increasing the firm’s adjustment capacity to act to stimulus. This increased reaction capacity will provide companies an advantage face to those “slow adaptive” companies. By the managers release from the corrective “small decisions” they will focus mainly to the strategic decisions. Thus, routine decisions with little volatility will be automated. The firms will benefit from an increased attention to important issues that are required in more complex

decision. Thus, the manager will consider attention as the second most important resource after capital.

2. *Quickly feedback will require rapid reaction.* As the growth rate of obtaining, analyzing and responding to feedback will find a change of the “location” where the decision will be taken. Those who are “closer to information” will act more quickly and will be in benefit compared with those placed “far from information”. Thus, very complex hierarchical structures will have levels of command and control unable to compete with the “fast companies” who have distributed responsibilities in decision making.

Inside the adaptive firms, the employees will be “burdened” for responding (for reacting) to local information, and in the non-adaptive firms will find the reverse. This rule may have the following corollary:

- the measure of employees performance will have to change for reflecting the increasing importance of their intellectual contributions, changing the meaning of “productivity in knowledge-based business”;

- the managers will give subordinates the ability to take their own decisions;

- the customer near levels at which decisions are taken will guide their ability to know the changes that will take place in companies before meeting their managers and will provide supplementary added value in the correction client-company with a strong connectivity.

3. *Just holding the information will not be a competitive advantage.* The interconnected economy implies that each information which is circulating through all the system connections, but it will reach different points at different times. Thus, not only holding the information will not determine a competitive success of the company. All managers will be able to base their decisions on this information, but only those who will acquire and use information will be the “first user advantage”.

This shows that companies must invest in the achievement of analytical models of decision-making capable of accumulating information. Similarly, the absolute secret is impossible and will become counterproductive, but the methods of delay in information dissemination will offer some benefits on short term. Companies will need to “capitalize information” not isolate them from others.

4. *The quickly feedback will produce a more profound perception.* By using the new technologies for data storage, the rapid feedback allows the manager to measure performance at increasingly short intervals. The ability to record feedback more frequently will provide managers the ability to understand more deeply the long-term performance. Faster feedback allows managers the opportunity of scrutiny performance allowing more detailed perception,

to respond more quickly to change and a better allocation of resources over the business cycle, in medium term, which will translate to short term business cycles.

5. *A more comprehensive feedback.* The digital technology and improve computer programs led to expansion of information dimensions available to managers. Thus, measuring the performance will become fast and cheap in the finest detail. Specialists in management and marketing will watch various channels with messages to and from clients, vendors etc., knowing more expressive the individual needs and everyone's opportunities. The instant feedback allows adjustments in real time. The increased variety of information will have profound implications in making decisions, as follows:

(a) *more information will be available for the same economic phenomenon.* What is known as aggregation of information leads to information loss in semantics, recording performance at a level as low, will lead to "the significance conservation" of information. The technology will allow the "atomization" of "caught" analyzed information, preserving a great number of details. The calculation of costs (Dragoo, B., 1995) must be such as to provide feedback to the product at the customer level of activity in real time depending on the decisions to be taken, recording performance at a level of detail more great managers can be useful by providing opportunities for multiple perspectives and flexibility of a strong company;

(b) *different information about the same economic phenomenon are available.* The role of intangible (non-financial) performance becomes an important source of information for the manager. Managers at the top level need to know as much about customers, competitors, suppliers, shareholders intentions, to understand the rating of each of them and be sensitive to them when taking the decision. Thus, the market value of the company is less than its real value, since a growing company in fact is intangible. If consider that can not be driven the thing that can not be measured, then we have to see the difference between market value and book value as a high potential risk for the company. This risk shows that must be developed ways of measuring knowledge based on human and intellectual capital.

(c) *the increasing variety of information will require a close attention to filtration.* What is known as multiple measurements provides more than one trust measurement. However there may be a risk to obtain too many heterogeneous data and not generated a single information. The manager's problem is to identify the issues or dimensions of the phenomena which are important and to establish the unit of measurement and feedback on how measuring process thereof. It can be generated then the risk of obtaining irrelevant information. If management decisions or objectives should be changed, then information management will require also changes. The measurements should be adjusted so as to provide easy, continuous and pertinent information.

(d) *inside the interconnected economy, the inherent value of feedback is increasing*, while the performance information is increasing. The value consists in obtaining timely feedback so the company is able to correct its advantage in current situations. As Stan Davis (1991) said: in an interconnected economy, the ratio (v_i / v_t) of intangible value (v_i) and the tangible value (v_t) is increasing. The information obtained regarding systems of measuring performance are increase in value, and because the knowledge gained through practice will be reintroduced in the process, that will lead to the creation of new products based on knowledge. The interconnected economy is able to increase the completeness of information regarding the performance, making the information itself more valuable products and increasing the value of services whose performance reference. Thus, the ability to identify and quantify the intangible values is increasing in importance.

Found in both increasing the speed of obtaining and variety of information in measuring performance is a necessity for every company inside an interconnected economy. However, firms (managers) must also learn to automate many of their decisions on the use decision models, activity which is not very easy in terms of changes regarding the influence of factors and also the current economic environment.

4. Possible trends

The strategies development is confirming the benefit adjustments necessary to achieve and perform planning and forecasting. Not least, the information should be treated as a very rare resource, accessible only to the privileged, but at the same time as a resource to be used as soon as available.

The firms' managers which unique strategy consist in reducing costs, without launching deep restructuring processes, risks to destroy everything they built in recent years. The key message for companies in Romania is that they have finally achieved increases slightly in all areas. Speed, which was the only variable that has guided managers lately, should be now replaced by terms such as profitability and risk management.

After the years when the business grew very strongly, managers of companies on the local market are now faced with a new reality. On the one hand, access to money is much harder, and that boosted consumption increases of recent years and has decreased its growth.

However, not all problems faced by companies on the local market are a result of an external shock. Market still had to enter into a stage of maturation, after a period when business models were built on the minimum growth rate very high in each year.

Firms should see how and where are positioned in the market in comparison with competitors and how any differences can increase the productivity. Also, the concentration of trainings for staff training should aim at improving the skills of selling and negotiation.

One of the biggest risks to which they may expose managers in such period is firing people, which will be difficult to convince to return to business after things are becoming to the last good situation. Many managers may have had reactions like panic, like “stop everything”, or have entered a stage of waiting, or freezing any project. While into the media are announced panic measures and are announced the closure of operations, we consider that is not realized enough for a profound activities restructuring in firms.

The increases in recent years have had a price. Overheat the local market meant that the percentage of businesses that have advanced not reflected in corresponding percentage increase in the profits. The managers who only summarize the simple cost reductions without significant restructuring of work in their organizations risks to destroy everything they built in recent years. Moreover, such companies will not be able to return quickly enough when the market economy will recover.

Among the biggest compromises managers had made in recent years we may include:

- employing people who were not trained for those jobs, because there was no one available;
- lack of focus on employee productivity.

Local businesses have emerged from a phase of strong growth and now have to adapt their strategies to new market conditions. If in the period 2005 - 2008 the most businesses were characterized by the following facts:

- almost all investment were represented opportunities;
- the development pressure was extremely high;
- the number of clients was the key to the success of a company;
- the business growth was more important than profitability;
- focus on the local market.

During the next period the managers should reconsider the way of taking actions based on the following:

- the access to finance is more difficult;
- the evaluation of resources to be made with greatest attention;
- guidance on profitability and cost optimization;
- the contribution of each client is different;
- orientation with emphasis on niche opportunities;
- the business expansion on regional and European markets.

A period of crisis represent an opportunity to “make clean” inside firms, to reposition on the market and to be prepare for the moment in which the market will return. In this way requires that managers of median positions to further prepare their lead teams. Many managers realize now just how little they know about the customers they have gained in recent years in terms of preferences, prices or expectations.

However we appreciate that Romanian firms are not as vulnerable to external shocks such as in other developed economies because the economic interconnectivity has not reached the level of complexity of the economically advanced countries, and the Romanians are more easily adapt to changes and new approaches.

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