

THE IMPACT OF PRIORITIES SETTING ON COMPANY PERFORMANCE. ANALYSIS OF THE INDUSTRIAL PRODUCTION IN ROMANIA AND THE EU

Georgiana Andreea CIOANA

The Bucharest Academy of Economic Studies, Bucharest, Romania
georgianacioana@yahoo.com

Abstract

To be successful or simply to survive the changing economic environment, companies need to know how to organize their work and how to set priorities that can be monitored, measured and completed in a timely manner. In the current competitive conditions, the adoption of effective manufacturing policies and the establishment of priority systems aimed at achieving high performance is the great challenge the managers of the manufacturing companies are facing. Studies revealed that in the production-oriented businesses the most common priorities refer to increasing product performance, customer satisfaction, and the investments in the development and innovation process, to cost reduction, resource planning systems, improvement of the supply chain, the training of employees and their involvement in the process of continuous improvement, to environmental policies. Companies in Romania as well as in the EU and throughout the world suffer major contractions because of a misalignment of decisions at all organizational levels. Until now the literature lacks an analysis of the effects the manufacturing policies established at company level have on performance and on the results of the activities undertaken. The present paper emphasizes the impact the alignment of priorities with company's objective and strategy has on its performance, starting with a snapshot of the performance of the industrial sector in Romania before and after the installation of the economic crisis.

Keywords: Manufacturing industry, Priority, Resources, Performance, Economic crisis.

1. INTRODUCTION

The manufacturing industry has always been an important sector of the economy and continues to have a significant influence even under the circumstances of the major changes that occurred due to the global financial crisis and to a "crisis" of resources' exploitation as we could call it. This sector continues to provide opportunities for employment, contributing consistently to a country's GDP and creating new job offers.

2. THE SITUATION OF THE INDUSTRIAL PRODUCTION IN ROMANIA AND THE EU

2.1. The case of Romania

In Romania the situation of the industry is unclear, on one hand due to major differences between the fully-developed sectors and those sectors being in decline, but also because of the differences between the eight development regions, namely between the counties that represent these regions. The Romanian industry, although a great part of is currently in the private sector, is going through a time of economic bottlenecks, the production capacity of plants being used only in a small proportion as compared to the potential they have. The lack of competitive markets both for the resources as well as for the products businesses sell is a real impediment (Deac et al., 2010, p. 246). The situation of the results recorded in the industry in 2010 reveals sectors that have suffered a major contraction, such as oil extraction (-2.8%), food (-6.1%), tobacco (19%) or the manufacture of refined petroleum products (-11.7%), and branches that have progressed significantly, such as textiles (8.3%), chemicals (9.7%) and pharmaceuticals (7.8%). As in the previous years, the industrial production of the past year excelled in the Bucharest-Ifov region (28.3%), in the western region (17.6%) and the North-Western region (13.4%), and it recorded dramatic downward shifts in the North-Eastern region (+2.2%) and the South-Western region (+2.3%), with counties where the percentage decrease in alarming numbers, although the overall situation reveals some positive results (Pană, 2011). However the results recorded in the manufacturing industry contributed to the attenuation of the GDP decline in 2010 (1.3%) with a rate of 5.5, leaving room for hope regarding the recovery of the national economy in the future and the overcoming of the financial crisis.

The chart below (figure 1) based on data provided by the National Institute of Statistics (2011) illustrates the situation of manufacturing production index in January 2011 compared to the same period corresponding to 2010. Industrial output index is an index that measures changes in volume and the industrial activities from a period to another. It is a Laspeyres type index and in this case the reference period used is 2005, including in its calculation the CANE Rev. 2 divisions: 05 -: -35. For calculation products grouped in a representative sample of 710 subclasses according to CPSA 2008 and Prodromos were used, the nomenclature of industrial products and services that contain data on industrial production and the nomenclature of economic operators that provide monthly data on industrial physical output comprising a representative sample of companies, consisting of all firms with over 50 employees and a sample of enterprises with a total of 4-49 employees, thus ensuring a high level of industry representativeness of 90% (National Institute of Statistics, 2011).

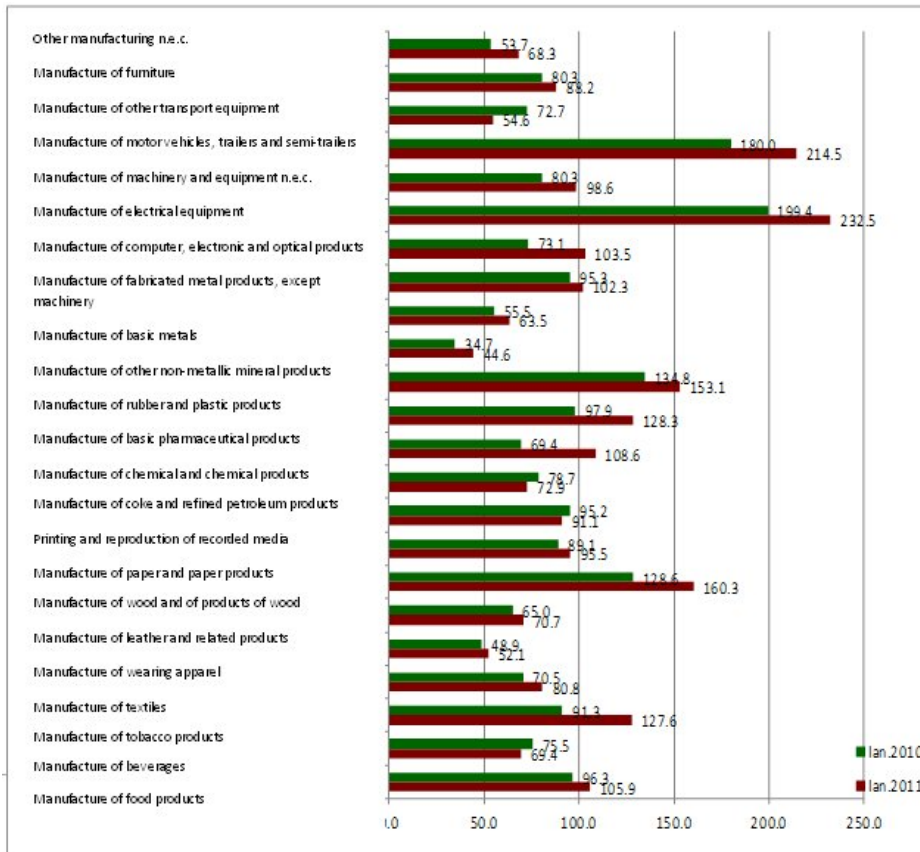


FIGURE 1 – COMPARISON BETWEEN THE INDUSTRIAL OUTPUT INDICES OF ROMANIA, BY CAEN ACTIVITIES (DIVISIONS) IN JANUARY 2010 AND JANUARY 2011

Labour productivity index in industry is the indicator which characterizes the efficiency of work during a certain period of time of industrial activity and is calculated as ratio between the gross industrial production index and the index of average number of employees in industry.

Labour productivity indices in industry are calculated per total industry, sections (mining and quarrying, manufacturing and electricity, gas, steam and air conditioning supply) and CANE Rev.2 divisions, as well as broad industrial groups in January 2011 to January 2010.

2.2. Romania's position in the EU ranking

According to recently published figures, the industrial production in Romania has recovered after the crisis but the current level is still far from that achieved in 1990. Romania's performance in the European Community was not repeated, EEC being 6.7% below the level reached before the crisis. According to the information provided by businessday.ro, at global level the industrial production

reached a new peak, recovering after the economic crisis, a period in which it decreased by 12%, and compared to 1991, nowadays its level is 80% above that reached in 1991. The classification made at European level regarding the industrial production Romania ranks 10 in the Euro area (EA17), making an analysis of the dynamics in January 2011 compared with December 2010, with an increase of 1% compared to the average of the European Union of 0.6%. In terms of the dynamics of the current production, Romania ranks 5 in a comparative situation provided for EA17 in January 2011-January 2010, an increase of 11.3% versus the average the European Union of 6.8%.

Both small and medium enterprises and large companies have an important role in strengthening the industrial sector and the links between this sectors and the national economy, through the penetration and the development of some stable positions in the markets, as well as the creation of employment opportunities. Their role is crucial both in the developed countries and the developing countries which offer perspectives to future entrepreneurs. The intensification of global competition, the increasing demand for products and services with a high standard of quality and world trade globalization has determined producers to face pressure from external markets, from competition through the introduction of new products into the market, with a high degree of technological innovation, technological progress in the production processes and at the level of information technology.

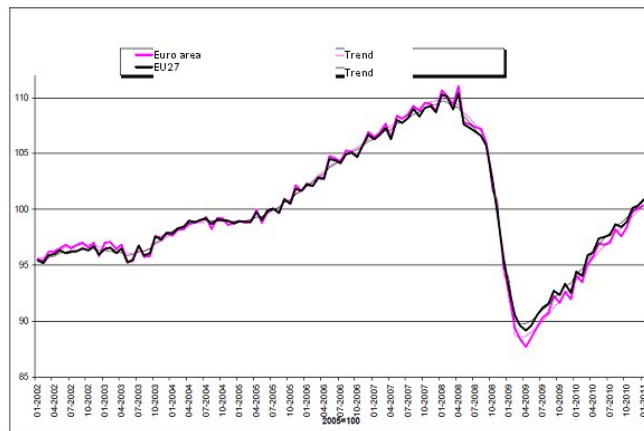


FIGURE 2 – EURO AREA AND EU27 PRODUCTION, TOTAL INDUSTRY EXCLUDING CONSTRUCTION
Source: Eurostat, 2011

In these competitive conditions, the adoption of some effective manufacturing policies and the establishment of priority systems at the level of the company aimed at achieving high performance is the great challenge of the managers of the manufacturing companies. Until now the literature lacks an analysis of the effects the production practices established at company level have on performance and on the results of the activities undertaken. Certainly the changing economic environment and the turbulences caused by the economic crisis that national economies still face require this.

3. THE IMPORTANCE OF PRIORITY SETTING IN ORGANIZATIONS

3.1. Definition of priorities in manufacturing companies

Most of the times, managers and people in executive positions in nowadays companies take on more interfunctional tasks, activities and responsibilities, on the short or long term, related to different projects, without taking into account the available resources and the expected impact. To be successful or simply to survive the changing competitive environment, people need to know how to organize their work and how to set priorities that can be monitored, measured and completed in a timely manner.

If resources were unlimited, there would be no need for setting priorities. Under these conditions every proposal could be executed. When we talk about resources, we think of all kinds of resources, from time to delivery date, human effort, money, space, and any other notion of input necessary to carry out an activity.

In the management of organizational processes the constant evaluation of priorities is essential. For this reason determining priorities should be a key element of all projects and policies to be carried out and implemented in companies. In this respect there should be a clear notion of what priority means. In a general sense, the term priority could represent "the right to hold first place in importance, value and dignity" (DEX definition). If we were to approach this word from the perspective of time management, priority is "an activity, an objective, an element having a particular importance that needs to be dealt with before others." In particular, the definition and the setting of priorities intersect with the specifications and requirements of stakeholders and business partners. Customer (stakeholders) requirements are what they themselves consider as being important, giving particular attention and estimating a certain value for that; priorities instead refer to how management, in relationship with stakeholders, can negotiate different levels of requirements satisfaction, in the circumstances of limited resources. It is therefore necessary to take into account from the very beginning the two aspects related to the complementary approach of priorities, although they apparently need to be addressed separately:

- Priorities formulation – how we realize when we are dealing with a priority, which are the elements that indicate the existence of a priority.
- Priorities assessment – how we determine what represents a priority - what to do now, what to do first, what prioritization system is suitable for the work that the company carries out, for its mission and objectives, for the short, medium and long run (Gilb and Maier, 2005).

3.2. The relationship between priorities and company objective

In the production-oriented companies the most common priorities refer to increasing product performance, customer satisfaction, and the investments in the development and innovation process (the latest equipment and technology), to cost reduction, resource planning systems, supply chain improvement (strengthening relationships with suppliers, increasing the speed of delivery to the customer), the training of employees and their involvement in the process of continuous improvement, to environmental policies. But the list is not exhaustive, without claiming to entirely cover the subject, for each organization sets its "agenda" according to different criteria depending on the business objective, the resources available, the time dimension taken into account (namely referring to short, medium and long term strategies), the relationship with stakeholders and the importance given to this relationship by the company. We should also take into consideration the socio-economic environment in which the company activates at the moment of priorities setting.

Given the subjective nature of the process of priority setting and the diversity of forecast objectives companies undertake, many systems for the analysis of priorities have been implemented throughout the years. Although managers face a wide range of decisions, these should be restricted objectively based on a rigorous system that complies with all the parameters mentioned in the strategy and goal formulation of the company. As a starting point in defining such a system, the following aspects should be considered: the source of a priority for a certain activity (project), the authority that sets priorities, the partners in the decision-making process, the elements giving more importance to a priority compared to others, the constraint of the process, the objective / target, the expected impact (Gilb and Maier, 2005).

4. THE CURRENT STATE OF PRIORITIES IN MANUFACTURING COMPANIES AT NATIONAL AND INTERNATIONAL LEVEL

A study undertaken by Roland Berger Strategy Consultants company and the International Controller, as the "Operational Efficiency Radar" (Roland Berger, 2010) indicates that the main priorities of European companies in 2010 redirected from restructuring to streamlining business operations, focusing mainly on the portfolio of products(62%), the production process (56%), management of working capital (54%) and innovation and development (52%).

The study was conducted in late 2009 and considered the financial and commercial executives of several manufacturing companies in Europe, aiming to identify ways of optimization that the participants in the study have in mind for 2010 for the entire value creation chain. Most respondents were coming from international companies with branches throughout the entire continent.

The consultants noted that there will be a shift from cost reduction actions in the short term, which had a major impact until recently, to medium and long-term realignment, a quite impressive and quick reorientation given the current economic conditions. Companies remain focused on cost, but at the same time, start becoming again interested in efficiency and growth. The study supports the decision-making process of financial and operational executives for their planning in 2010, giving them a basis for discussion in order to coordinate with the other departments.

In the top of priorities, the authors of the study were surprised to observe that the activity of sales/marketing and financial and controlling segment lost momentum in 2010.

Another study, this time made at the global level by the consulting firm Ken Blanchard points out that the main concerns of senior managers in 2010 were motivating employees, performance management and the retention of talented employees (Iloviceanu, 2010). Most of the interviewed managers (50%) stated that in 2010 they focused on strategies to motivate employees, 48% of them were interested in performance management, while 45% said they would consider selecting and retaining talent.

Viorel Panaite, partner in Human Invest, one of the largest training companies in Romania, the local partner of Ken Blanchard, stated that top management's concern was to improve operational efficiency and focus resources, including workers' energy, on the strategic business priorities. He also said that this is not easy to achieve in times of "recovery" and especially when employees were educated and used to be reactive, rather than proactive, leadership in a more autocratic manner (Iloviceanu, 2010).

Among the problems mentioned in the priority list of managers in 2010 there were change management, leaders development, winning customer loyalty, reducing costs, succession plans and continuous innovation.

Unfortunately there are issues that for various reasons were not included in the priorities of managers in 2010, among which we mention understanding the differences between generations, and employees the flexibility and adaptability.

From the pharmaceutical sector, a different perspective on business priorities is signaled. The third local drug producers on the Romanian market, Antibiotice Iasi, declared that in the mandate of the new general manager, Ioan Nani, would focus on maintaining market share and launching different products in the cardiovascular and central nervous system range, areas where the company is not so well represented, but also in other areas in which the company can identify opportunities. Ioan Nani stressed that major imbalances could occur if the company aims at increasing performance without having the necessary resources, especially in a period where the market is in difficulty. He said he wanted to adapt

the company's portfolio to the market consumption and the largest therapeutic areas in terms of sales are the products in the cardiovascular and central nervous system range, therefore the producer should focus in on them (David, 2009).

At the end of March 2009, Antibiotice had a 2.7% share of the overall drugs market, being the tenth position, with one position below in the top of the main players as compared to the previous year.

Antibiotics lasi' priorities in times of crisis took into account the export on the US markets, situation in which although problems would not disappear entirely, invoices can be paid in 60-90 days as compared to 230 days, the period the invoices are paid in Romania. For these markets the company will count on products that have greater exclusivity, such as Nystatin, which has a market share of 25%, being the second largest producer worldwide. Also by the beginning of 2011 the company considered the release of drugs to treat cancer, identifying an opportunity in this segment which has increased by 35% in 2010, hoping to gain 10% of the market the next two years.

On the local pharmaceutical market Antibiotice lasi competes with Ranbaxy, Zentiva, Sandoz, Actavis, Gedeon Richter, Biofarm and LaborMed (David, 2009).

A study undertaken by Forbes Magazine in 2009 together with SAP was the starting point for the analysis of the importance of aligning strategic and operational priorities (Forbes Insights, 2009). The study interviewed 200 executives from multinational companies with an annual turnover exceeding 500 million dollars. Another 10 formal and informal interviews were conducted to obtain details from the executives on how companies manage alignment problems.

In terms of the impact they have on the alignment of strategies with operations, the managers reported a couple of obstacles that can be considered key interfering elements in this process, namely changing market conditions, pressure to reduce costs on the long term and the results that initiative has on the efficiency of the investment on the long term, inability to access accurate, up to date information, lack of effective communication of strategic objectives to the employees at the operational level, and other risks and opportunities that are not included in the general strategy.

5. CONCLUSION

Economic changes have caused major changes at the corporate level, putting ever greater pressure on the alignment of corporate, business and functional strategies. This alignment would have a greater impact after the recovery from the economic crisis when companies will start preparing for new markets. To survive in today's complex economic environment, companies must adopt effective and decisive

actions. By using accessible, clear and accurate information, they can gain a stronger competitive position through effective adaptation strategies and processes to meet evolving market conditions (Forbes Insights, 2009).

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