MANAGEMENT AND EFFICIENCY IN ROMANIAN MEAT PROCESSING INDUSTRY

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Abstract: Investments in tangible and intangible assets made by meat processing businesses in Romania are designed for the upgrade and modernisation of technological and manufacture lines. They should result in better activity efficiency, compliance with the environment regulations as well as food safety standards. From the abovementioned viewpoints, a research was done from 2010 to 2012 on a batch of economic agents actively involved in the Romanian market, having as a scope of activity meat processing and preservation and meat product manufacturing, respectively. The asset rate dynamics, the profitability dynamics and the correlation with the cost-effectiveness of the assessed batch allow a SWOT diagnosis of investment management. Identifying the economic growth factors in the meat processing industry allows new investment and disinvestment decisions, new techniques of investment forecasting and sensitivity analysis.

Keywords: fixed assets, management, effect, effort, modernising investments.

Introduction

Romanian meat processing companies, although apparently independent, are situated on competitive positions and are managed according to complex strategies and principles. High performance and economic growth rates depend on both individual efforts and the partnership system materialised in different fields. The level of involvement in complex manufacturing technologies is based upon the acknowledgement of the fundamental roles of the current investment process and the dynamics necessary in order to ensure a favouring position within the macroeconomic competition.

The investment process approach via the "accounting dimension" measures the fixed assets as "all the movable and immovable property, physical or nonphysical property, property purchased or created in the organisation, designed to remain permanently under the same form" (Marian, S. 2003).

The "financial dimension" evaluates the investment as "all the resource expenditures generating income and/or savings during a given period of time, which are written off over several years. The real value of the effort associated to an investment includes the cost of the new target or that associated to the modernisation of an old target, to which the working capital necessary for the first operation cycle, and then for modernisation and renewal is added" (Marian, S. 2003)

In the investment field, the indicators can define the project in terms of volume, structural elements, cost, development time, having the quality of technical or technical and economic indicators. On the other hand, indicators can reflect the effort/effect or effect/effort ratio related to the investment project, in which case they have the quality of economic efficiency indicators. Both mentioned categories of indicators are often attributed the quality of economic efficiency indicators (Romanu I., Vasilescu L., 1997).

The economic efficiency or inefficiency should be carefully assessed and the factors influencing the efficiency or inefficiency growth of owned and operated fixed assets should be found and, therefore, determined.

Promoting and rejecting the investment programme of meat processing companies meet a range of difficulties, among which is the real lack of sufficient financing sources as compared to the budgeted sources. Business managers should be aware that the non-profitability of the managed activity indicates a bad management of existing and future investments.

Investment management is the management effort that, along with production and marketing efforts, yields and, maybe, exceeds the wanted effects.

Material and method

The annual financial situation of Romanian meat processing businesses displays basic indicators or economic and financial indicators of the investing activities, materialised in the investing effort or direct investment. Based upon these static indicators, economic efficiency of investments may be established as the expression of an effect/effort, effort/effect ratio.

The value outcome of investment allows a more synthetic, simplified expression of investment results by the following indicators: net turnover, net profit etc.

The method is compared to "a new way of calculating the updating facts" (Romanu I., 1975), namely comparing the investment effort immobilised in investment target to the operation effects over time.

Results and discussions

1. Investments and investment decisions in the meat industry practices, namely meat processing and preservation and meat product manufacturing in Romania

Although situated on competitive positions, the apparently independent economic entities are administrated based on common complex strategies and principles, and form parts of a macrosystem.

From a theoretical point of view, an investment decision, namely the investment value or the expression of the invested capital reflected by the economic documentation of investment works generates a basic economic indicator reflecting the investment effort on how an objective is acquired.

From a practical point of view, the investment decision belongs to the owner or the investor, respectively, by a specific document, and is not the final moment of the decision process, but a quality one.

According to the study "Selective typo-dimensional analysis of the Romanian meat product market", performed throughout 2009 whose beneficiary was the Ministry of Agriculture and Sustainable Development, the respondents' results on the meat industry investments are presented as follows:

- creating new production facilities
- extending the existing facilities

- re-equipment
- adopting the relevant European standards.

The survey results reflect only 29 facilities that have made investments.

The scale of meat processing and meat product manufacturing investments (2009)
Table (1)

Investments (Euros)	**Unit number**	**%**
‹ 1.5 mil.	8	27.60
1.5 – 4.5 mil.	9	31.00
4.5 - 10 mil.	4	13.80%
10 - 20 mil.	3	10.3%
› 20 mil.	5	17.20%

Source: www.rma.ro/im/pc/raport studiu producatori.pdf

In the study on the investments performed by the economic agents with the current meat processing business whose turnover exceeds 100,000 Euros in 2012, the result is 82 facilities spread randomly over the country.

In 2012, the total amount of fixed assets is 1,363,690 thousand lei, that is, 4.51% lower than in 2011. The decrease of the net fixed assets owned and operated by the assessed economic agents is the effect of the negative economic result of many of the assessed subjects, which leads to the impossibility of these companies to take out investment loans/credits.

In the processing industry it is mandatory to increase the fixed assets every year, which denotes concern for an accurate and good management of a business. Correct and efficient management of movable assets brings about the need for technological modernisation, investing in food quality and security research laboratories, as well as observing the environment requirements pursuant to the legislation in force.

Investment management, as a part of the general management of Romanian meat processing businesses, can be characterised as being absent, inefficient and not practical in a small number of units.

The value evolution of the net amount of tangible assets owned and operated by the investigated companies has registered a 66,236 thousand lei increase in 2011 as compared to only 41,829 thousand lei in 2012. In 2011 the investment volume is the dominating contribution of profit-registering units, at the end of year, in a rate of 87% of the annual investment for a group.

In 2012 the contribution to the annual investment within the investigated group is 95.36% achieved by the units recording profit during that year.

The contribution to the annual investment increase is also performed by the units with negative annual results; this contribution decreased from 13% in 2011 to 4.64% at the end of 2012.

The modernisation degree of fixed assets as a ration between performed investments and fixed assets is reflected in table 2.

Investment increase rate and total investment rate

Table 2

Indicators	**Year 2011**	**Year 2012**
Investment increase (thousand lei)	66236	41829
Total investment (thousand lei)	723826	971576
Total investment at group level (thousand lei)	1428153	1363690

Source: author's processing

The renewal and technology rate during 2011 is 9.15% of the assets operated by those who made investments, and as related to the amount of the investigated company assets it is merely 4.64%. As of 2012, the technological evolution and modernisation meant only 4.30% of the assets owned by those who made investments, which at the investigated group level represent merely 3.07%.

The decrease of annual investment rate, and implicitly the non-performance factor of the renewal and equipment level in the assessed meat processing businesses, decreasing from one year to another, was determined as being the negative economic and financial results and implicitly the non-economic costs, among which are the non-deductible costs of the economic agents.

2. Turnover rate in meat industry and meat processing industry

The inferior limit turnover of 100,000 Euros was conditioned by the fact that the entities performing investments by their own sources, European financing and co-financing according to the business plans and investment financing forecasts in 2012, should have exceeded the limit of this indicator, the turnover, generally speaking.

The assessed company group gathers for 2012 a turnover of 2,994,670 thousand lei, which denotes an absolute surpass of 347,056 thousand lei as compared to 2011, namely a growth rate of 13.10%. Even if this indicator registers growth, in a detailed analysis the participating actors are also units whose economic and financial outcome is loss.

In 2012, the number of units recording economic and financial loss represents 40.24% of the assessed group and the increasing rate is 8.54% as compared to that of 2011; however the overall contribution to the global turnover has increased by 114.63% as compared to the previous period. The number of companies recording profit in 2012 decreased by 12.5% as compared to the previous period, whereas the contribution to the global turnover increased only by 1.3% as compared to the previous period.

2012's growth rate pre-empts the fixed assets growth rate, whereas the average growth rate of fixed assets is 13.10%, the average value of fixed assets involution is 4.52%, which denotes poor operation assets efficiency and therefore their poor management.

The fixed asset productivity as a turnover ratio and the owned and operated fixed assets, known in the specialised literature as technical resources turnover rate for the assessed group of enterprises, has for 2012 a number of 2.96 rotations as compared to 2.75 rotations registered for 2011.

The increase of the number of technical resources turnover rate is an effect of a faster turnover rate growth to the detriment of the fixed assets in 2012 as compared to 2011.

The time in days for a fixed asset rotation as a ratio between the fixed assets value and the turnover value multiplied by 365 days for the assessed company group is of 166.22 days in 2012, as compared to 196.88 days in 2011.

3. Investment profitability and profitability of income yielded by Romanian meat industries and meat product industries

The economic and financial outcome as a part of both the business plan of any productive unit and the annual income and expenditure budget is an indicator of economic investment efficiency, as well as a business profitability indicator.

For the assessed business group 2012's profit records a 14.58% decrease as compared to the previous year, and the number of companies recording profit decreased by 12.50% as compared to 2011, to the favour of the growth of companies registering loss, 26.92% more than in 2011.

The profitability ratio, an indicator of economic investment efficiency, is a ratio between the net profit achieved and the fixed assets owned and operated.

The profitability ratio of the assessed group is of 1.61% for 2011 with a slight increase up to 2.07% in 2012.

The true contributors are only those achieving profit; thus in 2011, the average generated profitability ratio value is 5.66%, and for 2012, the ratio is 5.92%. The big difference between the average values of the profitability ratio is caused by the increase in the number of units at loss throughout the entire assessed period or just in 2011 and 2012.

The income profitability ratio, also called commercial profitability, has an average rate of 0.14% for 2012, as compared to 2011's rate of 0.40%. The slightly lower rate of this efficiency indicator for the entire meat processing business is an effect of the decrease of the economic and financial results in 2012, even thought the turnover had a increasing rate.

The average profitability ratio corresponding just for the group units achieving profit is of 1.18% for 2011 and for 2012 a slight 0.21% increase was achieved as compared to the previous year.

Conclusions

The efficiency indicators of determined fixed assets indicate a somewhat careless management of the assessed group of companies, which has been proven by the yearly economic and financial loss or loss in two consecutive years, after a year when profit was achieved. Variations and profit passing for loss are not the written effects of the company business plan and moreover, are not mentioned by the income and expenditure budget.

An accurate management and operation of fixed assets, namely the investment effort yields long term results, without extreme fluctuations.

The effect of turnover increase or decrease should consist in a cost reduction effort, mainly the non-deductible costs (with fines and indemnification) and a strong induction over profit increase.

The SWOT analysis for investment management by providing the technical resources and their efficiency in the assessed meat and meat product businesses, allow setting the strengths and weaknesses.

Strengths:

- new investments start from a successful idea or a significantly growth field, directed to the food requirements of the population
- modernising investments suppose an existing technical and material basis
- new investments are linked to the market demands and the significant contribution of scientific and technological research with a high food safety degree
- investments are made, mainly modernisation and re-equipment, hence the increase of operation units
- work productivity should increase
- consumption undergoes a diversified growth, hence the meat products market
- the business environment, the Meat Trade Unions Association offer the advantage for the role of this industry in the macroeconomic environment.

Weaknesses:

- difficulties and constraints in ensuring the resources necessary for new investments or modernisation.
- an accurately drafted investment schedule should also include an investment recovery time, with a write-off plan related to the production plans and the marketing plan.
- increased costs triggered by the implementation of quality management systems, this is why some facilities use lower quality raw material.
- staff turnover and unfair competition.
- investing without a sufficient source to the detriment of circulating assets sources.
- accounting evidence does not impose creating write-off-based investment sources for an accurate investment possibility based on it.

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