

ECONOMIC AND FINANCIAL DIAGNOSIS, MANAGEMENT SYSTEMS COMPONENT

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Entitatea economică trebuie să poată înfrunta cu succes numeroasele dificultăți care marchează drumul său, și aceasta în timp ce se adaptează permanent la un mediu cu deosebire dinamic: o concurență acerbă, o scurtare a duratei de viață a produsului, o tehnologie aflată într-o continuă evoluție, o redefinire constantă a piețelor și a procesului de internaționalizare a lor, o volatilitate crescândă a clientelei și o îmbătrânire implacabilă a întreprinderii pe curba sa de viață. Diagnosticul economico-financiar constituie un instrument de gestiune a viitorului. De fapt, instrumentele analizei economico-financiare permit studiul transformării entității economice în funcție de ipotezele probabile de evoluție a activității sale. Astfel, managerul va putea iniția din timp acțiunile corective necesare, datorită previziunii incidentelor de natură economico-financiară. În același timp, diagnosticul va permite să se stabilească dacă efectele deciziilor managerului corespund realizării fundamentale a obiectivelor întreprinderii. Este, astfel, un mijloc de control și de identificare a eventualelor deviații sau perturbări.

The people in charge of the economic entities emphasize the uncertainty and difficulty of foresight concerning the national and the international situation. Under such circumstances, it is necessary for the economic units to suppress their economic and financial structure, according to the diagnosis.

The manager is the one who sets the objectives of the economic unit he leads, but he can not understand all the problems that appear during the entity's activity. For the manager, economic and financial diagnosis represents an administration tool, necessary in every phase of the decisional process, in order to:

- determine if the entity's economic and financial situation is inauspicious and if it tends to get better or worse;
- look for the economic and financial balance conditions and to assess the investment's profitability;
- establish the general politics concerning the economic unit;
- place the economic unit among the others from the same sector, in order to evaluate it by comparison with the sector and the environment.

The economic and financial diagnosis is a management tool of the future. Actually, the tools of economic and financial analysis enable the study regarding the conversion of the economic unit in accordance with the probable hypothesis concerning its activity growth. Thus, the manager will be capable to start the accurate demanded actions soon, due to economic and financial issues foresighted. In the same time, the diagnosis will reveal if the effects of the manager's decisions correspond to the fundamental achievement of the company's objectives. Therefore, it is a means of control and of identification of the possible deviations and disturbances.

Diagnosis analysis determines judgments concerning the efficiency of the decision taken and the manager's ability to handle the relationship between risk and profit, in order to accomplish their strategy.

The economic unit must successfully face the numerous difficulties which appear in its activity, while permanently adapting to a very dynamic environment: a harsh competition, a product life – time shortening, a permanent development of technology, a constant redefining of markets and their diversification, an increasing volatility of customers and a inexorable aging of the enterprise (expansion – stability – regress).

The company's survival is, thus, connected to its ability and, mostly, to its own reaction speed to the numerous events, generally, unforeseeable, which constantly affects its growth.

Diagnosis analysis represents a means of assuring and improving the coherence between:

- economic unit's tendencies and those of the competitive context;
- objectives and means;
- tactical actions, strategic orientation, cultural and political system of the economic unit.

It is necessary to be mentioned that, in economics, the results of diagnosis analysis are referred, usually, to specific reference values, based on the statistic information concerning the economic and the financial behavior of the companies, but their meaning may be, sometimes, vague.

The argument of diagnosis analysis, regardless of the person in charge with, can be justified by the following:

- the research of the objective reality, the knowledge and the interpretation of it;
- the acquaintance of the social partners with the economic unit's state and performances, the efficiency of the resources' usage;
- the establishment of the main variables of development, as well as of the correlations among them;
- the establishment of the measures concerning the revival and the improvement of performances;
- the identification of the new competitive advantage resources;
- the establishment of the development strategies in a dynamic competitive context.

Economic and financial diagnosis requires a comparison between the given situation and a reference item. On constant conditions, the "remedy" is to reproduce the reference pattern; in the case of a perturbed system, one should search for the new conditions which cannot allow the application of the ordinary conditions.

Every economic unit must be seen as a particular case and, for that reason, diagnosis's process should be a flexible one, adaptable to different situations.

The reason of the economic unit's knowledge with the help of diagnosis analysis is based on three complementary processes: an observation process, an interpretation one and a decisional support process. The interpretation process reunites the phases of evaluation and of foresight. It is inconceivable a diagnosis without analysis, or without the economic unit's foresight. Diagnosis has, also, to lead to an explicit decision regarding the action.

It should not be overlooked the fact that diagnosed company carries on in a context under constraints.

The coverage sphere of the diagnosis varies from isolated issues (for example, the analysis of a lending file, performed by a bank) to a general analysis, known in the specialty literature as the global diagnosis. The last one requires the analysis of the economic and financial potential of the economic unit and, on the other hand, the analysis of the company's performances as against with the spent resources.

A global diagnosis should include information and prescriptions regarding "the five M's":

- MEN: human potential;
- MONEY: financial issues;
- MERCHANDISE: the quantity, the quality and the stocks' evaluation;
- MATERIALS: the evaluation of fixed assets;
- MARKET: distribution (of products and services).

The results must be analyzed by comparison with a series of the system normal values, as well as with the average values belonging to the activity sector. The deviation of the real values from the reference ones should be explained from the viewpoint of their causes and of the objective's nature.

Diagnosis analysis implies the following stages [3]:

- to identify the wreckages and the opportunities;
- to analyze the existing situation (of indicators), to seek the internal and external causes and to set the responsibilities;
- to propose an action plan and measures of revival or improvement of the results;
- to apply the recommended measures;
- to control the achievement of the revival or improvement objectives.

Obviously, the coverage sphere of the diagnosis does not only imply revealing the "pathology" of the economic entity but also, and much more than that, expressing its general metabolism and its potential, knowing that the diagnosis accuracy will be varying in accordance with demanded objectives.

When the purpose of the intervention is to remedy the company's wreckages, the first objective of the diagnosis will be to explain the causes of the symptoms. On the contrary, when the purpose of the intervention is to initiate a change, in order to accomplish a project, the first objective will be to identify the strategies and the possibilities of internal development.

The specialty literature states that a pertinent diagnosis should give answers to the following questions [5]:

- Which are the economic unit's results?
- Are these results satisfying for the management?
- Which are the methods used to obtain these results?

- Which is the level of the long – expected performances?
- Which are the economic unit’s objectives?
- Which are the measures that should be taken in order to achieve the company’s objectives?
- Which are the measures on the long term and on the short term?

Diagnosis analysis can aim at any of the company’s functions (production, commercial, financial, accounting, human resources, research and development) and it is oriented to identifying the company’s strengths and weaknesses.

The identification of the weaknesses and strengths refers to the following aspects [1]:

- **the company’s place on the market:** the investigation of the commercial potential (the branch, profession, context, the company’s place in the profession, the company’s image, the products and / or services, costs, the market, the distribution channel, publicity etc.)
- **the production potential of the economic unit:** the investigation of the technical and human potential (the state of equipment, licenses, research etc.)
- **competition factors, the efficiency of the management system and of the financial means:** the investigation of the organization, of the work relationships (legal structure and management, the execution personnel, formulation politics, social climate).

Diagnosis is performed not only within the system in which appear signs of disorder, but also when the settled information reflects a normal functioning, compared to the demanded objectives, estimating the company’s performances.

“[...] it is recommended that the diagnosis *should be a permanent managerial attitude, in order to improve the relatively good performances of the economic unit*” [5].

Diagnosis of the economic entities is a concept as old as the concept of *management*. A few years before writing a paper concerning companies’ diagnosis, Jacques Lebraty and Robert Teller found out that “a summary of the papers concerning diagnosis shows the existence of a numerous «check – lists», which indicates the existing empiricism and the lacunas in this field” [2].

Economic units’ diagnosis is not totally absent from the preoccupation of the economic world’s actors and of the teachers in the administration field. But, until now, the low number of papers concerning diagnosis reflects a lack of acknowledgement.

The diagnosis process is the same, regardless of the area in which it is used; it is necessary to establish a complex analysis of mechanisms concerning creating and changing operation devices of the specific phenomena. Diagnosis does not mean the representation of a situation at a specific moment of time, but the identification of the main variable of the state and of the development of the phenomena, including their interaction, in order to establish the objectives regarding the development of the economic unit. Diagnosis helps to establish the turning points of the system and to inform decisional centers in order to initiate the adjustment measures.

Therefore, diagnosis consists of problems’ unveiling, more exactly of finding a possible development; diagnosis is efficient when managers become aware of the direction of this development. There is, for example, diagnosis concerning sales’ decrease, when it is found out that a new product belonging to competition has penetrated the market; this diagnosis is efficient when managers become aware of this threat.

Diagnosis is a different concept from that of *company evaluation*, which has its own objective to establish the value of the company in a specific situation, by applying a formula, to establish the liquidation value or the realization value, the stock value, the acquisition value etc. The objective of the diagnosis does not imply establishing a value (figures), but determining a forecast regarding the expected development, as long as the activities started before, the same products, the same sales methods, as well as the same operational investments are maintained.

Diagnosis is not just a simple way to understand the phenomena and the context. Diagnosis of the economic unit equally includes a stage of explanation, precisely expressed along the identification process of the problems. Christian Marmuse states otherwise that “the main issue of a diagnosis process is to define, to identify a problem” [2] that, thus, express the amount of the questions concerning the economic unit.

“From a synthetic point of view, economic and financial diagnosis requires a complex investigation in order to discover the wreckages existing in the economic unit’s activity and their causes, in order to make decisions so as to improve the existing situation and the company’s performances” [4].

In the specialty literature [3], diagnosis is considered to be a **component of the management system**, which ensures the information before establishing the objectives, as well as the necessary information for their accomplishment. Diagnosis requires the identification of the main variables, which characterize the state and the dynamic of the phenomena, the study of their interaction, in order to identify the possibilities of the economic unit's growth. The last ones can be obtained from the weaknesses and the opportunities revealed by the diagnosis.

Jean Brilman recommends the imperative conditions of a successful development of the economic entity, stating that "first and foremost, a serious diagnosis of the company is necessary", based on the analysis concerning the lack of competition, based on the knowledge of the company's strength, on the identification of key abilities, on the emphasis of the insolvent processes and on the study of the strategy's coherence [2]. Peter Drucker adds to this message, including explicitly the diagnosis in the decisional process if the company's manager. Indeed, Peter Drucker can not conceive that a manager may reason "in complete knowledge" without imposing first the clarification of diagnosis in four main items: the level of productivity and the value producing for shareholders, the economic unit's ability to create value for the customer and the capacity regarding the allocation of the limited resources, especially the financial and the human ones [2, p.9]. The aspects mentioned above help to correct the disadvantage to which the diagnosis seems to fall victim. Otherwise, delaying to declare themselves on the issue, Hamel and Prahalad state that, contrary to what managers may think, the achievement of a diagnosis would be an unimportant action, qualified this way because it seems easier to realize than the decisions' execution [2]. The statements of Brilman and Drucker support the fact that diagnosis and action are inseparable, persuading other authors to define diagnosis as "the intelligence of a situation which has to lead to choice" [2]. This statement reveals that it is not enough for the diagnosis to limit itself to the investigation of causes. The identification of the action levers and of the reason of economic unit's diagnosis, the investigation of causes represents only a preliminary phase.

The author specifies that, when it comes to economic unit's diagnosis, methodological dimension is a priority in converting the knowledge into action. The pertinence and the quality of a economic entity's diagnosis depend on the representation diagrams of the company and on its environment, as well as on the concepts that give sense to noticed facts and perceptions.

The diagnosis's sphere consists of the investigation of the main structure and functional characteristics of an economic unit and of the identification of its mechanisms of producing wealth, in order to appreciate its performances. Thus, the phase of understanding and explaining the operating system prepares the final objective of evaluation of the company's abilities to satisfy the conditions of competition and long lasting life.

Diagnosis represents fundamentally knowing an economic entity, in which the logic of action answers to a limited reasoning scheme regarding the incomplete aspect of the information and the "non probabilistic" uncertainty that make the optimizing behavior inaccessible.

The introduction of the concept "limited reasoning" [2] in management theory brings about a scientific guarantee to the heuristic process of the economic unit's diagnosis.

Under present circumstances, economic unit's diagnosis will not represent an exact method of decision – making. Placed against a polymorphous and complex reality, diagnosis can neither depend on the logical analysis methods themselves, nor limit itself to the decisional algorithmic theories. The simplicity or complexity degree of the field of study practically determines the adoption of the adequate ways of knowledge.

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