

## PROFITABILITY A SUBSYSTEM WITHIN THE GENERAL SYSTEM OF ECONOMIC EFFICIENCY FOR AGRICULTURAL EXPLOITATIONS

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### Abstract

*Under market economy conditions purchasing profitability represents a rule for each and every market player. It represents an essential condition of the existence of economic units. Survival of the enterprise and assuring its profitability are “the first concerns of every skilled leader. They are valid in each and every moment, right from the enterprises foundation. Thus profitability is a tool for decision making regarding internal administration of the economic unit, as well as in relation to external partners. It is the synthetic expression of results of any nature, an index for decision making and entity behaviour.*

**Key words:** agriculture, economic efficiency, indices, profitability

### INTRODUCTION

Under free market economy conditions the purpose of the activity of economic units is profit subordinated - but not in the sense of obtaining an absolute maximum profit at any cost, but in the context the demands and requirements of sustainable development of the economy – profitability represents a sine-qua-non condition, for the very existence of economic units. Therefore, profitability becomes an instrument underlying the decisions regarding internal management of economic units and their relationship with the external environment, acquiring the capacity to be a key criterion for assessing economic efficiency [7,8].

### MATERIALS AND METHODS

In this paper, the concept of profitability is defined based on the information provided by literature and a critical approach is made by authors using analysis and synthesis methods.

### RESULTS AND DISCUSSIONS

It should be noted that the two concepts – economic efficiency and profitability - are not identical.

Taking into consideration that every phenomena, process or economic activity has a quantitative determination, given by the size of consumption costs, the effects obtained, it was concluded that efficiency as a qualitative characteristic, would be nothing more than the ratio between effectiveness (outcome) and expenses incurred in obtaining it.

This goal is expressed mathematically by the ratio of the effects obtained (in physical or monetary expression) and efforts conducted (resources used and consumed) [1].

$$\varepsilon = \rightarrow \text{effort} / \text{effect} \rightarrow \text{max}$$

Some authors [2] show that efficiency can be calculated by relating efforts to effects.

$$\varepsilon = \rightarrow \text{effect} / \text{effort} \rightarrow \text{minimum}$$

Economic efficiency is expressed nowadays in the form of specific input consumption in order to obtain the desired effects, reflecting the consumption of inputs that returns per unit of useful economic effect, or as yield combination and use of inputs, in this case reflecting the economic effects produced per effort unit.

Economic efficiency means “performances of the analyzed economy, characterized through a system of indexes”. [3]

Within the indexes system we need to calculate in addition to values which have the advantage of synthetic, aggregated expression) and those expressed in physical

units (natural or natural-conventional) which allow easier interpretations and easy comparison.

Measurement in absolute size of the economic efficiency is achieved through the difference method, thereby obtaining intermediate management balances: value added, turnover, operating profit, financial profit, exceptional profit, net profit.

In the relative assessment of the efficiency, efficiency indexes are being used, obtained by relating effects to efforts (useful effect per trained unit) and by reporting the effort to the effects obtained (specific cost in order to obtain a unit of effectiveness). The nature of the effect gives us different forms of efficiency: production - productivity savings - economy, profit - profitability.

In agriculture, the specific activity is given by the role land takes in the production process. In examining the economic efficiency the degree of capitalization of the productive potential of the land, the resources available in the soil, with the help of a specific set of indexes such as: the average yield per hectare, by crop type, expressed by the production in natural units (tones), per unit of cultivated area, the production value or the net income per unit area, intensive land use, the coefficient for intensive use of the land, obtained by reporting the area added related to land categories, transformed in land area converted into conventional arable land, to the total area (national).

These indicators are distinguished by the specific form of expression and quantification of efforts and effects and the unique economic content.

There are cases when efficiency is assessed as effort / effort and effect / effect, obtaining structure indexes: 1000 lei revenue benefits, the commercial profitability rate, the degree of technical equipment work. Some economists, however, dispute that these would be efficiency indexes.

In general, the decision maker rarely uses the entire set of efficiency indexes, selecting those who best match its priority analysis.

Economic efficiency is manifested and analyzed under special and/or sector forms,

such as: efficiency of industry, agriculture, transport, education, construction, as well as general-synthetic forms such as production, circulation, distribution and consumption efficiency.

All these forms are in close interdependence at all levels of reference at national economy, even at global economy. The national criterion for assessing economic efficiency is the national productivity, while the **individual criterion is represented by the profitability**. The entire system of economic efficiency indexes is grouped in subsystems, among these appears also the profitability indexes subsystem.

Therefore, the concept of economic efficiency has a much broader scope than the concept of profitability, as it concerns the whole system of indexes which reflect various specific forms of economic efficiency, system in which also the profitability indexes subsystem is contained. Compared to other subsystem indexes of economic efficiency, the profitability indexes subsystem has a higher degree of integration, of reflection of the economic and financial results. Indexes of economic efficiency of various subsystems constitute in factors that, together with other quantitative, qualitative or structure factors determine the amount of profit and the rate of return.

Between the two concepts - economic efficiency and profitability - exists a report "as from the whole to part of this whole". [4] Increasing economic efficiency is closely related to increasing the company's profitability, to the continuous strengthening of the profit role. Systematically analyzed, profitability represents the particular and efficiency the general phenomena and socio-economic processes [5].

Thus, as noted by Prof. Dr. Al. Gheorghiu [6], profitability takes into account only the resources consumed (in terms of effort) at analysis level of the producing enterprise and not the entire resources system attracted in the economic cycle, as is the case of economic efficiency. Also, regarding the effect, profitability concerns only what is obtained at the analysis level, irrespective of macro

system-interests, of the other companies that will buy the final product, of the final consumer.

The efficiency category has a higher degree of synthesis than the productivity, profitability, cost, economy category, all being manifestations of the economy of time law. It has a systemic character, determined by the complexity of relationships between the economy of time law and other economy laws, links between efficiency and other economic categories (productivity, cost, efficiency, and economy category).

Reflecting as a report between effects and resources and vice versa, and the assessment of these reports being made only relatively, compared to other versions of the same activity, for example the efficiency standards set by the national economy, we find the double relativity that characterizes efficiency. Evaluation and assessment of the economic efficiency is carried out according to the time evolution of resources and effects, even when the calculation is made at a certain time. This condition reflects the perspective character of economic efficiency.

Space propagation of effects elements and resources requires that effectiveness should be assessed only in terms of national economy as a whole, even if it is one of its forms of expression, requiring the causality effects / resources identification, at national economy scale, assessing the results and effort elements, both downstream and upstream from the activity analysis place.

Through this it is found that profitability has only a space determination and not a systemic space-time determination, such is the case with efficiency.

Correlation between profitability, effect and efficiency should be studied also from other points of view:

- Profitability and efficiency are based on mutual incentives reports, also according to the price system used. Each projected sale price corresponds a certain amount that must not be exceeded.

This is the company's supply curve, which shows the amount that the firm is willing to sell at each possible price. On this curve, the

company realizes profits and maximum profitability.

- Impact on export product.

- Profitability, efficiency and increasing the degree of culture must be consistent.

Profitability is a purely relative concept: profits can not be meaningfully assessed only in relation to the funds invested for their production: total assets, equity. Thus, profitability is a multifaceted concept, each expressing a side of the business efficiency.

**The total output of the company's activity in all stages of the economic cycle is reflected in the profit and rate of return - one of the most synthetic efficiency indexes of the business activity. [6]**

Compared to other subsystems of economic efficiency indexes, the profitability indexes subsystem is characterized by a higher degree of synthesis and reflection of economic and financial results, with particular cognitive meanings.

Profitability and efficiency are in a mutual stimulating report. That is, the economic efficiency indexes of various subsystems are being constituted in factors that, together with other quantity, quality and structure factors determine the actual profit amount and the rate of return. Thus, distinguishing between efficiency and profitability, we can say that "it is not possible to be profitable without being at the same time efficient" [8]. It is however possible for a company to be efficient without being at the same in time and profitable. This happens when, although technically well equipped, it has difficulties to adapt to market conditions.

Thus, profitability is a form of efficiency at microeconomic level, which reflects the net effects obtained per effort unit with inputs. It reflects the ultimate economic efficiency of the entire financial and economic activity, being a "**true quintessence of all facets of economic efficiency**" [4].

## CONCLUSIONS

Profitability is a purely relative concept: profits can not meaningfully be assessed only in relation to the funds invested for their

production. It expresses "the efficiency of financial and material resources invested in the overall activity of the enterprise, measuring the profitability of the assigned means, more precise their relative ability to make profit. [10]

**The profitability concept is applied to farms with all the specifics belonging to the present agriculture.**

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