THE ECONOMIST IN PHILIPPINE BUSINESS

By
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The economist is still a strange figure in the Philippines business environment. This cannot be helped. Economists have hardly applied their tools and wares to problems of businessmen in this country. They have traditionally been concerned with global problems of the nation: the slackening pace of GNP growth, the increasing unemployment rates, the spiraling prices of prime commodities, the tightening of credit, etc. Rarely have we heard Filipino economists talk about industry profit rates, the shifts in the markets for consumer goods, the regional markets for different products, the future demand for cars and automotive parts, etc.

This state of affairs is not hard to explain. First, business economics is relatively a new field even in advanced countries like the United States. The pioneering work of Joel Dean, the dean of United States business economists, started only in the early fifties. Until that time, economists in the United States and the rest of the western world had also concentrated on global (or in technical jargon "macro") problems of income, employment, money, and interest. Since Philippine business is more than twenty years behind its American counterpart (the understatement of the century!), it should surprise no one that business economics is almost unknown in our country.

But the events of recent years have hastened the coming of age of business economists in the Philippines. Among the large corporations at least, there is a growing awareness of the role that an economist can play in the complex process of business decision making in the equally complex environment of the Philippine economy. The convulsions brought about by two devaluations in less than a decade, the increasing role of government regulation, the international realignments of currencies and severe inflation in the last two to three years have more than convinced the executives of large corporations that they need professional men who can look at these predominantly economic events *from the standpoint of private business*.

The Institutional Barriers

However, Philippine corporations are finding out that looking for business economists in the Philippines is like searching for a needle in a haystack. There are a number of institutional or traditional forces that have worked against the availability of business economists in our country.

First, with very few exceptions, economists who have been trained by Philippine schools and by foreign universities have traditionally concentrated on macroeconomic questions. We have top-notch economists who can advise the government about economic planning, the optimum tax structure, the realistic foreign exchange rate, etc. But these same economists would have a difficult time advising Filipino executives about corporate planning, the tax implications of the revaluation of assets or the impact of devaluation on the market for a certain consumer product.

In the first place, the majority of our professional economists cannot talk the language of business. A Ph.D. in economics from, say, Harvard or Yale is no guarantee that a person has ever looked at a Profit and Loss statement of a firm. To the great dismay of some corporations who have hired economists trained abroad, there is often a serious communication gap between the economist and the executives. Even prescinding from their usual unfamiliarity with business concepts and terminology, economists are not exactly famous for their clarity of expression. They, more often than not, seem to be trying hard to complicate some simple concepts. As they dissect the national economy into more and more parts, professional economists become increasingly abstruse with their "econometric" jargon.

Secondly, our business schools responsible for the training of Filipino managers are generally deficient in the teaching of economics. It is alarming to find holders of M.B.A.'s who are not aware of the uses of national income data for business forecasting or who have not grappled with the intricacies of marginal analysis. In some business schools, a great portion of courses on the "Philippine Economic Environment" is spent on discussing cases involving graft and corruption, "pakikisama", "utang na loob", etc. Some business professors seem unable to distinguish between economics and sociology.

The very shallow exposure to economics (which may be justified in business schools abroad where there is room for a great degree of specialization) leads to a lack of appreciation by our young executives for the usefulness of the right kind of economics in business decision making. The result is an even wider communication gap between the few professional economists hired by top management and the skeptical middle-level executives with whom they have to deal.

Finally, top management sometimes is to blame for the slow development of business economics in the country. There have been a number of well-intentioned attempts of the top managers of certain corporations (especially the multinational ones) to incorporate professional economists into their respective organizations. Unfortunately, however, not much thought was given to the functions that the economists were expected to perform nor to their exact positions in their respective organizational structures. At best, the poor economists had to invent work for themselves. At worst, they ended up occupying line jobs–from credit collection to marketing management. A related problem is the lip service that most companies pay to corporate planning, the function in which the economist fits and can make a significant contribution to the organization.

Again, it must be noted here that the distressing situation is very much part of the pains of business growth in any country. A report on corporate economists in the November 28, 1970 issue of *Business Week* clearly stated that before the late 1950's, "most corporate economists toiled anonymously in market research departments, with little noticeable impact on management. And only in the middle sixties did a relatively large number of U.S. corporations begin to recognize the specific roles corporate economists should play in day-to-day operations."

Finally, traditional Philippine corporations have a built-in bias against business personnel occupying staff position. Because of the types of industries that were spawned during the first stage of industrialization, the crown princes of Philippine business were ordinarily the line managers. The built-in profits of sure-fire import-substituting industries with ready markets and scarce supplies gave all the glamor to the operators. The advisers were given little importance, if at all.

This bias in favor of line managers is clearly reflected in the mentality of the numerous commerce or business administration students in our schools. Almost all who aspire for high positions in business want to be managers--they want to be big "bosses" who can order their subordinates around. To be in staff is to be a second-rate citizen of the corporation. If one considers that an economist ordinarily occupies a staff position in business, he will find another explanation for the slow development of business economics in this country.

Removing the Barriers

Things are looking up, however, for the business economists. There are reasons to expect that the barriers enumerated above will begin to disappear at an increasing rate. Let us review the recent events that have favored the increasing awareness of Filipino executives about the relevance of economic analysis and data to their operations.

First, economic convulsions transpired in the early seventies. Many Filipino executives were caught flatfooted by the events. With rising costs of foreign exchange, many of our industrial firms had to increase their prices. During the honeymoon stage of the fifties, firms could increase their prices as they wished, without losing any significant chunk of their lucrative markets. In contrast, some large firms found their mass markets seriously shrunk as they increased their prices, with the purchasing power of the masses being eroded at close to 20% yearly. As a result, the executives of these firms were forced to take interest in that esoteric concept of the economists–the "price elasticity of demand" (i.e., the percentage change in sales volume in reaction to a percentage change in price).

Executives also realized that their usual approaches to annual budgets were no longer adequate to meet the new situation. Sales forecasts–whether based on the analysis of past sales performance or on the projections by individual salesmen—were consistently off the mark. It did not take long for some executives to realize that there were new forces which affected significantly their market prospects. They had to look more closely at the export potential of the entire economy; they had to guess the effectivity of import controls; they had to obtain expert opinions about the possibility of a further revaluation of the yen or devaluation of the dollar. All these would ultimately affect the purchasing power of their prospective buyers in the local market. Economic forecasting had finally come of age in the Philippines.

Another development that led business firms to seek the technical help of business economists was the increased public regulation of business and the consequent need for economic information that would support the views they were trying to convince the regulatory bodies to adopt. There was the case of a large public utility firm that had to show the real economic effects on industries and consumers of a rate increase. Since then this company has acquired the services of a full-time professional economist and has, in fact, created the position of Vice-President for Managerial Economics, the first case in Philippine business history. The same firm is in the process of training a sizable group of business economists so that its Economic Analysis Division can render full-blown services in economic forecasting and assist in corporate planning, financial analysis, environmental planning, and other phases of company operations in which economics can be brought to fore (read the following discussion of these fundamental areas).

There was also the case of an oil firm that faced a similar problem of demonstrating to the Oil Industry Commission the real impact on the economy of a proposed price increase of selected oil products. A business economic research center was requested, not only to prepare the study, but to attempt to educate the members of the regulating body about certain economic concepts that were pertinent to the oil price increase. The same research group was asked by one of the contenders to the Progressive Car Manufacturing Program of the BOI to prepare a forecast of the demand for cars in five Southeast Asian countries during the next five years.

There is a large conglomerate of industrial corporations that has been searching in the market for a top business economist for the past five years. Some of the executives of the various firms belonging to the group have very specific ideas about the economist they want: a top figure in national affairs, knowledgeable about economic policies of the government, and with a modicum of business expertise. The search has been in vain. The retired executive from the U.S., who was contracted by top management to make a study on the possible organization of the economics unit, merely reiterated the qualifications of the top man they were looking for. The search is still on. Until the right man is found economic analysis in the group of companies remains an aspiration.

Another phenomenon that augurs well for business economists in this country is the increasing recognition of the need for group action by industry associations. Industry associations in the Philippines used to be mere social clubs——no more, no less. Getting firms within an industry to report sales and other figures to their association was like pulling teeth. There was such an unhealthy atmosphere of suspicion and mistrust that no progress could be made in preparing industry forecasts based on reliable figures from the individual firms themselves.

But recent events have jolted industry associations from their complacency. A number of them have worked together to determine how government policies and other external factors impinging on their respective industries would affect total industry growth and performance in the short and long run. For example, the Association of Home Appliances Manufacturers (AHAM) and the Appliance Distributors Association (ADA) have made meaningful industry forecasts. The Drug Association of the Philippines is at present looking for a research group to make a thorough economic analysis of costs, prices, and sales performance. The Cement Association of the Philippines has a similar objective. In commissioning research projects of this nature, the industry associations are gradually impressing on the minds of their respective members that they should be working for common objectives with a minimum of mutual trust and understanding. Only then can business economists obtain the data they need for accurate studies of the economics of different industries.

Reinforcing the spontaneous movements in the private sector are the attempts of the Board of Investments (BOI) to rationalize selected industries. An outstanding example was the Progressive Car Manufacturing Project which can serve as the model for the rationalization of other industries such as the appliance and textile industries. Because of the adamant position of the BOI Board of Governors, headed by Vicente Paterno, regarding the need for solid studies on the prospects of the car industry in the Philippines and in the ASEAN region, a mine of information about the Philippine and ASEAN car industries has been made available by the seven firms that competed for inclusion in the PCMP. Needless to say, a significant portion of the information had to be prepared with the help of business economists.

It is hoped that other government bodies will follow the example of BOI in requiring Philippine firms to come up with meaningful economic data about their respective industries. Among the agencies that can generate greater interest in economic information on industries——especially under the New Society——are the Oil Industry Commission, the Board of Power, and the Board of Transportation and Communications under the reorganized administrative machinery that was ushered in by Presidential Decree No. 1 of President Ferdinand Marcos.

Finally, a great boon to the business economists came by way of marked improvement in economic information provided by government agencies. In the past, much of the information emanating from government agencies was used with a great deal of caution because of glaring inconsistencies in the data reported by different public agencies. For example, national income estimates of the National Economic Council used to differ greatly from those of the Bureau of the Census and Statistics. But since a professional economist was appointed Chairman of the NEC, the system of national income accounting has been greatly improved. GNP estimates come out more frequently and are no longer in conflict with one another. There is even the prospect of a quarterly reporting of GNP estimates in order to help businessmen forecast their short-term requirements of funds and personnel. Public agencies are now aware of the types of economic information needed by the private sector. With a greater coördination among our statistical agencies under the new political regime, there is hope for more meaningful reporting of economic data that can be extremely helpful to private decision makers.

The Functional Areas

Given such favorable circumstances conducive to the more rapid acceptance of business economics, it might be useful to review the functional areas in Philippine business in which the economist can make immediate contributions. It is hoped that more and more corporations will follow the examples of firms that were cited as pioneers in the use of economics in their respective fields of interest.

Let us specify first the role of the economist in the corporate planning process. There is an increasing number of Philippine firms that have established corporate planning groups. As we have already pointed out, however, very few of such groups are really performing any meaningful function for the simple reason that top management is usually unclear about the exact role they have to play.

Without getting entangled with the debatable question of what constitutes the very essence of corporate planning, we can at least agree on the fact that a corporate planning group must aid top management in the formulation of the all-important corporate strategy, or the set of objectives which every business organization commits itself to pursue. It is quite obvious that many business firms in the Philippines are often faced with a set of conflicting goals: profit maximization, growth in sales, employees' welfare, consumer welfare, community welfare (e.g., the installation of anti-pollution devices) and even national welfare (e.g., the earning of foreign exchange). It would be the height of narrow-mindedness for any Filipino executive to boldly state that he will concentrate only on profit maximization because, as was naively taught by Adam Smith, the selfish pursuit of profit automatically promotes the other objectives mentioned above. This last quarter of the twentieth century can be considered as the age when, more than ever, businessmen will grasp the very essence of economics: "You cannot have your cake and eat it, too! " Every corporation with some influence on society must face the challenge of striking an optimum balance among desirable objectives that conflict with one another. Who can say that profit maximization never conflicts with employees' welfare or that employees' welfare (e.g., through higher wages) does not conflict with consumer welfare (e.g., through lower prices)?

Now, there is no one more at home with this problem of conflicting goals than the economist. He is, by profession, trained to "optimize", i.e., strike an optimum balance among the conflicting goals of an individual, family, corporation, or nation. By specific training, the business economist can help the corporate planning group of a firm formulate a strategy of action that will reflect the optimum balance desired by top management. The economist can be most helpful by quantifying the objectives that are quantifiable and by applying the tools of operations research and linear programming to work out a "compromise" solution, given the objectives and the constraints faced by the organization. By contributing quantitative information, the economist is able to narrow down for top management the areas where qualitative judgments have to be made.

In a developing country like the Philippines, the business economist plays a primordial role in identifying the contribution that a business can make to the development of the whole society. It is the economist who can show business executives that social responsibility is exercised more in the conduct of their business operations than in the proliferation of "extra-curricular" and amateurish dabblings into social or philantrophic work. The business economist can analyze certain government policies designed to effect national or regional development and make recommendations to top management about how company objectives could be better attuned to national or regional goals. To cite one concrete example, it is well known that the government is now waging a strong campaign to convince industrialists to locate plant sites in regions outside of the economic monster that the Greater Manila area is. There are few professional men more qualified than the economist in convincing top executives to include in their corporate strategy the regional dispersal of industries. The economist can quantify the various benefits that a firm can bring to a community and to the entire country should it decide to locate, say in the Northern Mindanao region or in some place in Negros Island, not to mention the more depressed areas like the Cagayan Valley or Bicol regions. Likewise, an economist can prod his company to push its export business, despite initial difficulties in tapping foreign markets.

Long-Range Planning

The business economist has a very important role to play in helping top Filipino executives remain sane and optimistic during these critical times that we have been facing. With the natural and man-made calamities of the recent past, some Filipino businessmen have reached the brink of despair. They seem to see nothing but crises in the Philippine economy.

Any economist worth his salt who takes a close look at the human and physical resources of the Philippines, the long-term historical performance of the economy, and the long-run relationships established in other developing countries between per capita income growth and agro-industrial growth cannot but have a bright outlook concerning the long-term growth prospects of our country. True, there are short-run crises that must be overcome. But, as long as a firm is determined to exist for the next ten years or so, it is not difficult for an economist to demonstrate in clear-cut quantitative terms that the Philippine economy will remain viable and healthy in the long run and that the progressive attitude to take is to consolidate one's resources and energy during these times of crises in order to be ready to ride the boom when it comes in the next two or three years. Specifically, the studies undertaken by an independent business economic research center show indications of a boom or a breakthrough that will come in the year 1974.

Exactly what kind of information can the business economist prepare to convince Filipino executives about the long-term prospects of selected industries? And more important, what specific types of information can readily be made available for long-range planning in the Philippines? First, there are the very important shifts in population, income, and consumption trends that can be derived from more meaningful interpretations of statistical data reported by the Bureau of the Census and Statistics as well as market studies performed by private groups that make economic data available to the public. Data derived from the BCS censuses of 1948, 1960, and 1970, if meaningfully analyzed, can show long-term demographic changes by geographical region. The Economic Surveys of 1957, 1965, and 1970 of the same agency can yield important information about long-term economic changes by geographical region, such as changes in levels of family, per capita, and discretionary income; in income levels for the high, middle, and low brackets; in urban-rural income differentials; in income distribution; in family expenditure patterns by income brackets, etc. There is no question that economic data of this nature, albeit still highly aggregative, can already be useful in setting long-term goals of corporate growth and expansion in terms of time and market or regional location.

Another series of economic data that the business economist can utilize for long-range planning consists of disaggregated regional industrial-consumer indicators of economic activity. Such a series could be developed, for example, from the sales by regions and by firms of all the oil companies in the Philippines. Indicators of energy consumption have been useful in other countries in reflecting industrial growth by regions and by industrial sectors. By reflecting the growth rates of industries in different regions, oil consumption can be used to forecast regional sales of different industries. The usefulness of such a forecast to marketing plans and capital budgeting decisions is obvious. At present, a private research group is undertaking the project to convince all oil companies to make available the data needed for these regional industrial-consumer indicators of economic activity.

There is no doubt that there are adequate data that can be tapped by any resourceful and aggressive group of business economists for long-range planning. Already, one of the most progressive manufacturing firms in the country—a subsidiary of a European multi-national corporation—has set out to forecast the market prospects during the next ten years of a host of food and other agro-industrial products in the various regions of the country. This exemplary company—clearly committed to the long-term growth of the country—is simply heeding the advice given by many international observers doing business in Asia. As succinctly reported in *The Asia Letter* of August 15, 1972, "agro-business is going to be one of the *largest* and *fastest* growing investment areas throughout Asia in the coming decade." Way back on December 13, 1969, *Business Week* already observed that "among the world's developing regions, Southeast Asia with its 260-million people and its natural wealth probably holds the greatest promise for fast growth."

It is ironical that everyone, except some Southeast Asians themselves, thinks that Southeast Asia has terrific potentials. The antidote to the dark cloud of pessimism that seems to settle over the heads of some Filipino executives may be the aggressive participation of business economists in predicting the paths of our development in the coming years. Such paths hold bright promises for those who are willing to work hard and take risks.

Marketing Management

Strangely enough, the ones who have demonstrated a keen interest in what business economists have to say are the usually non-quantitative, gut-feel executives—the marketing men. We may attribute this interest to the fact that marketing has been the hardest hit by the economic convulsions of the early seventies. Market projections were all "shot". Price control made the lives of marketing men miserable. Filipino buyers suddenly became extremely price-conscious. Marketing people were caught off-guard. They had to turn to someone for advice. Many of them asked economists what greater misfortune lay ahead. It was not uncommon for them to talk about "marketing in crisis".

The experiences have refashioned the minds of marketing managers about the kind of marketing research they should commission. Until very recently, marketing research had been limited to surveys on consumer recall, reactions to advertising copy, media penetrations, and the like. Marketing research was practically limited to psycho-sociological questions, with economics taking a backseat, if at all. The types of economic data utilized by marketing men in the past were amateurish, to say the least. All sorts of "marketing information manuals" were prepared by advertising agencies and the marketing departments of large corporations on the bases of newspaper clippings and other secondary sources the reliability of which were questionable. Population, income, and price statistics were taken indiscriminately from government agencies without the necessary screening and sifting that are indispensable to an intelligent use of published information.

Marketing men hardly used statistical techniques in sales forecasting. They depended mainly on estimates directly obtained from their sales force. Those who used historical performance to check the estimates of salesmen relied almost entirely on time series analysis. Today, even the least mathematically inclined among marketing executives admit that they must take into account more variables in their sales forecasting models other than time. They are now equally interested in finding out what will happen to the Consumer Price Index, by how much will personal disposable income increase, and what will be the levels of our international reserves. Although they still are groping for the exact procedure to follow, many marketing men are convinced that their prospective sales are somehow tied to these economic variables about which they were ignorant just a few years ago.

It is the business economist who can provide marketing men with such information as the price sensitivity of buyers, the income elasticity of demand, and the effectiveness of advertising. More concretely, the business economist can help marketing men answer such questions as : Given a reduction in consumer income by more than 20% in one year because of a run-away inflation, do consumers still quibble about product characteristics as color or scent or do they become more sensitive to price differentials and price discounts? With a major devaluation of the currency, does the company lose its mass-based Class-D home market? As incomes rise, what shifts in consumer tastes can be expected?

Financial Management

The next group of executives that has taken some interest in what economists can do for business is the financial managers. Although there is still an understandable resistance to the technical jargon of economics, finance men are beginning to take notice of the pronouncements by economists.

One of the reasons for this sudden interest is the topsy-turvy world of the money market. Many financial executives have spent sleepless nights because of the gyrations of money market rates. Although they would attribute changes in the money market rates partly to human manipulation, finance men have come to admit that measurable quantities like international reserves (and, therefore export earnings and import controls) as well as government deficit spending do have powerful impacts on the money market. Consequently, they are increasingly eager to listen to economists when they talk about these macro-economic variables.

Then there is the usual budgeting game. Just like the marketing manager, the finance man is no longer contented with his arithmetical juggling of figures to please the home office or top management. He has the uncanny feeling that something is not quite right if he assumes a 20% increase in the sales volume of his budget when the purchasing power of consumers is predicted to increase only by 4% in real terms during his budget period. Thus, he joins the marketing man in consulting the economist. The problem of forecasting is compounded when he has to prepare a capital budget and has to project net savings or net increases in profit for five to ten years in the future. He knows that his Discounted Cash Flow figures are only as good as his projected stream of earnings. Once again, he must listen to what the economist says about the long-term prospects in his industry.

The financial executive has also begun to doubt the wisdom of many accounting practices that he has accepted unquestioningly for years. With the severe inflationary trend, he has started to re-examine his usual attachment to historical costing and has developed a more open mind concerning the "economic realities" behind his financial statements. The revaluation of fixed assets recently advocated by the Philippine Institute of Certified Public Accountants is nothing else but a surrender of accountants to economists. Now that the PICPA has made an unprecedented move of cutting its umbilical cords from American accountants (who still generally refuse to recognize the need for revaluing fixed assets), one can expect more and more age-old accounting conventions to be thrown overboard for more meaningful "economic presentation of financial realities."

Mention must also be made of the gradual repudiation of the exaggerated emphasis placed on accounting costs by Filipino executives. As management information systems start flourishing, the business economists are winning the battle against the overly conservative accountants. It may not be too well-known but the very concept of direct costing––now a by-word among accountants but unknown to accounting students just fifteen years ago––is a major contribution of economics to accounting. It is nothing else but the principle of marginal analysis developed by economists in the last century. Increasingly, managers are beginning to listen more to the economic point of view in such areas as break-even analysis, product profitability analysis, and product mix decisions. With a solid accounting background, a business economist can do wonders in modern financial management. In fact, a Filipino business economist has already made a name for himself in international finance by co-authoring a book with a top American finance expert.

Finally, business economists are having the final say about more meaningful interpretations of financial statements. Gradually, business executives are becoming skeptical about the usual listing of the top 200 or 1000 corporations prepared with little or no economic interpretation. Industries are indiscriminately compared with one another, without analyzing the accounting methods used and without differentiating the risks involved in various industries. No attempt is made to measure seller's concentration as a possible determinant of high profit rates. Although such refined comparative analysis of financial statistics has barely been initiated by a private research group, there is an evident demand for such types of financial information on the part of financial executives in the country.

Management of Men

Slowly but surely, the business economist is also invading the fields of personnel management when the managers discovered some uses for the erstwhile ivory-tower science of economics.

In early 1970, just after the de facto devaluation of the Philippine peso, a group of seven personnel managers from some of the largest industrial corporations in the country requested a business economic research center to look into the impact of devaluation on the purchasing powers of their respective employees. These personnel managers were determined to recommend adjustments in the wages and salaries of the employees of their respective companies. They knew from gut-feel that prices of prime commodities would increase as a result of devaluation. But how were they to translate their "gut feel" into concrete pesos and centavos?

More specifically they were interested in predicting the rise in the Consumer Price Index (CPI) that could be reasonably applied to their employees. They were convinced that the CPI reported by the Central Bank was not going to be useful for two reasons: (1) the report is always too late for their decisions, (2) the Central Bank indices are applicable only to the low-income families (from P200-P300 per month); their employees belonged to higher-income brackets.

In order to have a more solid basis for their recommended upward adjustments of wages and salaries, these personnel managers asked a research group to come out with CPI's corresponding to three income groups: Low (up to 499 per month); middle (P500-999 per month); and high (P1000 and above per month). This project was subsequently expanded into a full-scale research on the compositions of the consumer baskets of their employees at different income levels.

Such concern for hard economic data is the beginning of increased sophistication in the work of personnel managers who have been traditionally chosen by Philippine corporations from the most diverse groups of professional men: lawyers, accountants, doctors of medicine, etc. With the increasing sophistication of labor union leaders who tend to rattle off cost-of-living indices and other indicators of employees' welfare, personnel managers will be increasingly forced to depend on reliable quantitative studies of wages, prices, and productivity. This trend will definitely redound to the over-all efficiency in the running of the entire business organization. As observed by one of the greatest labor economists in the United States, Summer Slichter, in a book entitled *The Impact of Collective Bargaining on Management* (Washington: Brookings Institution, 1960, p. 951) "Collective bargaining seems to have greatly encouraged the development of management . . . companies that have been relatively successful in union management relations give evidence of following wise basic policies, of negotiating balanced general policies, of developing good implementing and procedural arrangements to make policy effective at the operating level. . . ."

A most important but hardly tapped area of business economic research for the personnel manager is the study of productivity trends in the entire company and specific divisions within the firm. It is becoming more obvious to managers that wage and salary adjustments must be related more and more to productivity increases in order to utilize the salary structure as a potent tool for motivating efficiency, as well as to cooperate with society's battle against inflation. Increases in salaries and wages which are not matched by productivity increases are inflationary and tend to hurt the masses of consumers.

Unfortunately, very few corporations in the Philippines have really begun analyzing productivity trends. There are personnel managers who have never heard of the most important concept of "value added". Here again, the work of business economists on productivity concepts and measurements can contribute significantly to both corporate and national objectives.

The Management of Materials and Machines

Economics is defined as the study of the efficient allocation of scarce resources in order to achieve certain objectives. Production management involves, among others, the efficient allocation of materials and machines to accomplish given objectives of the business organization. It is logical for business economists to take a special interest in production management.

Ironically, however, production managers seem to be the least interested in dealing with business economists in the Philippines. Production managers–at least on the surface–have declared their independence from economists.

Again, the explanation is simple. Production managers have very little use for the macroeconomic data that economists in the Philippines are wont to talk about. They find GNP, money supply, and total employment figures hardly relevant to their work, or so they think! Furthermore, most of them had a course on "Engineering Economics" while in college and they are confident that there is nothing more to learn about economics.

Unfortunately, the "Engineering Economics" learned by many of our engineers are taken lock, stock, and barrel from American textbooks. Even in the most nationalistic of our schools–e.g., the state university–engineering students study economics from American manuals. It is not surprising, therefore, for many engineers to believe that national developments like devaluation or severe inflation have very little to do with their work. Why? Because in an advanced country like the U.S., professional engineers can afford to concentrate on the tiniest field of specialization and still perform their jobs well. It pays to be "narrow-minded" in the United States.

But production managers in a developing country like the Philippines have to worry about whether or not import controls would be tightened; whether or not tight credit would make it difficult for them to keep their optimum inventory of raw materials; whether or not a new round of devaluation would increase minimum wages by such amounts as to make mechanization advisable, etc. It may take some time for some production managers to appreciate the usefulness of macroeconomic data. The place to begin is, of course, in our schools. Engineers must take a full-year course in economics where they are also exposed to macroeconomic questions.

Production managers have not been entirely unfamiliar with the work of business economists. They have hired Operations Research teams to work on inventory management, the optimum transportation policy, or the optimum mix of raw materials. They have been exposed to a field in which the business economist, in cooperation with other specialists, can contribute to the attainment of corporate goals. The business economist by training can be a very effective member of any operations research team. He is especially qualified to develop the types of economic data that are indispensable in the actual application of mathematical or statistical models to business decision making.

The Evolving Identity

Ready or not, Philippine business firms must make room for the business economist. Whether he is hired as a one-man consultant (as Robert Townsend said in *Up The Organization*, the effective ones are the one-man shows; the institutional ones are disastrous) or as a full-time executive in charge of managerial economics, the business economist has a great deal to contribute to at least the top 1,000 corporations in the country.

Philippine firms must, however, get rid of the "manager mania" or "manager complex". If an economist is to be effective in an organization, he must be made to feel like a full-blown executive—not a second-rate citizen of the corporation. Filipino managers must realize more and more that the "knowledge worker" par excellence, to borrow a popular phrase from Peter Drucker, is the business economist. It would be enlightening to quote from Peter Drucker's *The Effective Executive*:

> "Every knowledge worker in modern organization is an executive if, by virtue of his position or knowledge, he is responsible for a contribution that materially affects the capacity of the organization to perform and to obtain results. This may be the capacity of a business to bring out a new product or to obtain a larger share of a given market.
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> "Most managers are executives—though not all. But many non-managers are also becoming executives in modern society. For the knowledge organization, as

we have been learning these last few years, needs *both* 'managers' and 'individual professional contributors' in positions of responsibility, decision-making, and authority.

"There are many managers who are not executives. Many people, in other words are superiors of other people—and often of fairly large numbers of other people—and still do not seriously affect the ability of the organization to perform.

"Conversely, that a knowledge worker is an executive does not depend on whether he manages people or not. In one business, the market research man may have a staff of 200 people, whereas, the market research man of the closest competitor is all by himself and has only a secretary for his staff. This should make little difference in the contribution expected of the two men. It is an administrative detail. Two hundred people, of course, can do a great deal of work than one. But it does not follow that they produce and contribute more."

We have quoted profusely from Peter Drucker because we feel that identifying the role of the business economist and putting him in the exact position where he belongs could be crucial to the rapid evolution of this extremely important profession in the Philippines. If nothing is done to abolish or at least minimize the "manager complex" in our business community, it is very likely that many of our budding business economists will fall victim to Peter's Principle——they will all sooner or later be kicked up to their respective levels of incompetence.

After having rhapsodized about the terrific contributions of the business economists, it is only fair that we warn the business community about the weaknesses of the new professional man. The economist——by training and instinct——is the most indecisive man you can meet. Why? Because he is trained to look at all the possible alternatives that a decision maker could take. He is by nature a hair splitter. He never leaves any stone unturned when digging for all the possible courses of action.

Consequently, top management should think twice before appointing a business economist to a line position in which decision making, instead of analysis and study, is the main activity. The economist, as a U.S. business economist commented, cannot be a very good executive because he is an observer. He sees many sides of a question. To make decisions one must be able to overlook differences and choose an acceptable compromise.

Let us hope that the business economist can soon tackle the job he has been prepared for, instead of spending most of his time grappling with an identity crisis!