The Role of Macroeconomic Factors in the Management Decision-Making Process

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Modern business faces some challenges created by the influence of subjective or objective factors. Macroeconomic indicators are the most notable of these factors, as their disregard can even be disastrous for businesses. The decision-making process itself is relevant to any business at any given time, and discussing the role of macroeconomic factors further enhances its importance.

The purpose of this paper is to discuss the role of macroeconomic factors in the management decision-making process.

The methodological basis of the paper is the analysis and synthesis of various scientific punlications. The paper will be useful for any interested person, especially for managers of organizations involved in the decision-making process.

keywords: Macroeconomic factors; Decision-making process;

Introduction

When management makes a decision, the problem, the solution, and the desired outcome must be considered in a macroeconomic context. In real cases, there are often cases when a company has become much more successful as a result of a particular macroeconomic scenario, but on the contrary, we find examples where management has decided to discontinue operations. Consequently, both scenarios without macroeconomics could have been quite different. Important in this regard is sharing the experience of successful brands. The example of Coca-Cola stands out in this respect because this company has standardized approaches to solving problems and works them effectively.

Cases of the decision-making process

The impact of macroeconomics on business is seen in terms of how the overall state of the economy affects individual decisions. For example, during a recession, consumer behavior changes and reflects a change in the economy. Such changes can be observed in the reduction of demand for goods and services, which substantially changes the balance sheets of the business.

Macroeconomic parameters may lead to a decrease or increase in demand for the product, leading to decisions by company managers to expand or reduce production. For example, an economic boom could lead to an increase in demand for goods. Management then decides to increase production, which automatically stimulates the decision to hire more employees, and the business expands based on the above decisions.

One of the important effects of macroeconomics on business is reflected in the influence of government policy. Such a policy of the government may have manifestations such as imposing heavy taxes, strict rules and regulations, reducing taxes, and others, for example, imposing import quotas. The manager of a cigarette company may decide to close production or exit the market if government regulations regarding tobacco companies are too strict. Such regulations may include strict requirements for labeling, packaging, and large taxes. Companies need to evaluate these macroeconomic effects on their operations to find out how they affect business success.

With all of this in mind, managerial decisions are essential to be made with macroeconomic parameters in mind. This is what makes this topic relevant, and the analysis of the changing environment in the context of globalization and the study of challenges play a crucial role in achieving success.

The macroeconomic parameters of the country have a significant impact on the business entities operating in the country. Adequate perception and assessment of macroeconomic risks by managers should be done more adequately to enable them to make effective decisions for companies.

Macroeconomic indicators for business may have positive effects. To implement this scenario, consider specific indicators and discuss what the outcome might be for the company (Rodrik, 2013).

Petroleum products are one of the main imported products of Georgia. If prices are reduced, enterprises operating in Georgia will have reduced production costs and, in addition, start-up businesses will be given an incentive to engage in economic activities.

Investment growth is closely linked to GDP growth. If savings are generated and foreign direct investment is stimulated, business entities will be able to gain more resources and access new sources of funding. Accordingly, this will help companies to create more innovative products, conduct research, acquire new equipment and technologies (Hurd et al, 2008).

A stable political situation and entering into trade unions will help business entities to enter new markets, establish business contacts. As a result of a deep and comprehensive trade union, organizations operating in Georgia can bring products and services to the EU market. The EU sets high standards for quality and consequently, the companies have started total quality control management, improved the production process, which in general has greatly developed Georgian companies.

International trade, and its potential, is a very important factor for local businesses. This macroeconomic factor can affect a business if it is exported. Typically, companies that are expanding internationally are experiencing double-digit growth rates. However, if free trade agreements are not concluded, the chances of a business becoming an international corporation will also decrease. Therefore, this macroeconomic factor affects both large enterprises and small companies trying to scale their brands. In a country where international trade is taking place, companies are motivated to outsource, expand and prepare more.

"Twins Wine House" is a wine company with a long history, which operates in the Georgian market and creates a unique niche product, pitcher wine, which has great export potential. Like all wine businesses in Georgia, this company was dependent on the Russian market, but management soon realized that the Russian embargo and similar issues would bring them volatile revenues. That is why they started to take care of the expansion of the key market. This process was substantially facilitated by the Deep and Comprehensive Trade Agreement with the EU, although the European market allows the manufacturer to export a much higher quality product. That is why the management of the Twin Wine House decided to take the production process to a total quality management system, to strengthen the production capacities and only then to export. Today, their wines are sold in China, Germany, Sweden, Italy, Russia, Japan, Latvia, and only a small part of their wine comes from Russia. This shows that when a company is exporting, it is necessary to create a product that meets the market demand,

When discussing the impact of negative shocks, the main focus should be not only on the economic situation of Georgia but also on its trading partners. In particular, if there is a staging of political instability in these countries, a fall in the exchange rate, and a decline in imports, then Georgia is at risk of reduced exports, which will ultimately reduce GDP (Zabojkin, 2002).

The full utilization of the resource set by the state on capital expenditures poses business investment risks in terms of attracting. Eventually, this process provokes a slowdown in economic growth. That is why the budgeting process and expenditures should be dictated by the growth of investments (Papava, 2014).

Delays in exports can have a significant negative impact. Not only for the products produced in Georgia but also the delay of re-export is quite risky. In particular, the re-export of cars is quite important for the Georgian economy because a large amount of additional value is generated. Companies that engage in this activity face significant difficulties and lose revenue altogether (Likokeli, 2017).

Macroeconomic factors affect business as the market experiences fluctuations at this time. Another macroeconomic factor that affects business success is interest. The change in interest rate will especially affect the business that is taking out the loan. A large portion of the small business that is present in the market today is taking out loans to finance the business. Therefore, interest rates apply to most businesses. These companies need to conduct macroeconomic research to properly manage their finances. If a small business owner is not ready for a change in interest rates, eventually the worst-case scenario could lead to the bankruptcy of the business. As a result of all this, we can assume that the higher the interest rates, the more taxes the business has to pay (Arnold at al, 2005).

The macroeconomic factor that greatly influences the decisions of business entities is the rate of economic growth. Gross national product, gross domestic product, or sales figures are used to measure growth. When sales figures are variable due to correlation with the economy, the business needs to respond accordingly. If the economy is to strengthen, management must decide to increase production according to demand. In turn, this decision will contribute to the overall pace of economic growth. As a result, the business will benefit as there will be more demand and willingness of the customer to purchase the product. Managers often decide to hire more employees when the economy is strong because they want to increase competitiveness when they have the chance to do so. This macroeconomic factor affects the business (Beridze, 2016).

As for the level of employment, it directly affects the business from different angles. When the unemployment rate rises, the company has more potential candidates for open positions. The downside of rising unemployment is the low rates of consumer spending. When consumers lose their jobs and find it difficult to find new ones, they have no finances to buy products. As a result, business owners sell fewer products and, in turn, make less profit. While unemployment can be good for hiring costs, it can also hurt a company's core income. Depending on the industry, the unemployment rate affects businesses at various macroeconomic levels.

Finally, inflation affects business success in many industries. It does not matter if it is an online retail store or a restaurant franchise, macroeconomic factors are important to everyone. Due to the attraction of cash in the economy, commodity prices rise and inflation occurs. When prices for goods and services rise, consumers' ability to buy goods decreases at the same rate. In turn, the seller sells his goods and services at a higher price. In more unique situations, deflation occurs when prices for goods and services fall. During deflation, consumers have more purchasing power. Thus, they can purchase more products and services. This also has a direct impact on sales and therefore business performance. This is why inflation can pose serious challenges to manufacturing.

The spread of the coronavirus has become a serious challenge for the world economy. As a result of the lock-down, temporary activities were restricted to some business entities. At the same time, the lari depreciated against the dollar and the euro. The change in the exchange rate caused great damage to the companies that were importing goods.

ICR Group is a network of retail stores and food outlets, which operates about 400 stores in Georgia. Since 2011, this company has offered the Portuguese brand "Parfois" to the Georgian market, which was represented by up to 10 stores and employed up to 60 people. As a result of the fold of Gel, it was faced with a difficult choice. Consumers of this brand were middle-income people, as a result of changes in the exchange rate, management had to significantly increase the price of products, resulting in reduced demand for these goods. As a result, in the first stage, the management decided to close the stores and only 2 stores remained in the capital. Sales fell initially by 50% and soon fell to 80%. At the same time, Gel does not strengthen again and prices were rising even more. Eventually, the management of ICR Group decided to take the brand out of the market.

Inflation increases the cost of production. Consider the example of the Coca-Cola case. Consequently, Coca-Cola management has faced the problem of uncontrolled price increases. With this growth, they naturally risked consumers who did not have enough resources to buy the product because Coca-Cola is a preferred product and not a necessary one. For example, in 2002, a 2-liter bottle of Coca-Cola cost 0.99 francs, and today a 2-liter bottle costs 1.98 pounds. Due to inflation, the price of Coca-Cola has doubled in 11 years. In addition, Coca-Cola management may be forced to cut prices to encourage consumption growth, and with this decision, the company may receive a less favorable profit margin.

Macroeconomic risks have a significant impact on the activity of economic entities, as they can strongly alter aggregate demand and aggregate supply. The decline of the gross domestic product automatically leads to an increase in prices, they are mutually proportional quantities and ultimately significantly reduce demand. In a free-market economy, declining demand also reduces supply, and output completely reduces output.

Because macroeconomic parameters affect a company's profits, business entities need to conduct macroeconomic research on a variety of factors. For example, the sales figures of businesses in all industries are changing, as is the economy as a whole. If a business is to receive sufficient capital to operate a company through loans, management should look at interest rates and consider how they will change in the future and what the trend is in that direction. Only then should a decision be made on the source of funding. Unemployment rates affect companies in different ways. International trade has an impact on both international companies and the success of small businesses trying to grow. In addition, inflation plays a major role in the success of a business as it changes the purchasing power of consumers. To succeed in a competitive market, managerial decisions must be made taking into account macroeconomic factors.

Business depends on the growth rate when economic growth slows down; The overall economic environment is becoming unfavorable for business. During a period of slow growth, aggregate demand is greatly reduced and businesses have no choice but to reduce activity. Business depends on the rate of inflation. Mild inflation increases the growth of aggregate demand, which in turn creates new opportunities for business growth. In such an environment, not only is the demand for existing goods increasing, but the business can bring in new goods that can be created in demand through dynamic marketing. Savings and investments determine business potential. Investments can be made directly in productive activities or infrastructure.

Excessive current account deficit in the country's tax balance is not desirable for business activities. This situation leads to a shortage of foreign currency, which in turn forces managers to decide to restrict imports. This in turn can have a serious impact on production efficiency.

However, the net inflows from foreign aid and foreign direct investment should be quite moderately large, but this should not lead to a depreciation of the exchange rate. If the situation is different, the country's exports will fall and managers will make the decision to cut production, which will lead to a reduction in gross output and a downturn in the economy.

The economic phase is very important for business. From a business standpoint, the business cycle welfare phase is ideal. In this phase, the economy expands based on the growth of aggregate demand and the business has many options. Price increases are expected, which will push managers to expand their field of activity. During this period the company can introduce new products and create markets for these products.

A recession usually manifests itself in the form of stock market crashes and falling prices. Total demand is gradually declining and thus investment is being encouraged. At this time, managers are rejecting new projects, resulting in a sharp decline in demand for capital equipment.

Conclusions and recommendations

Since finance is a key requirement of business, the level of development of the financial system is crucial for business. The main function of financial markets - for both money and capital markets - is to collect savings and transfer them to invest in business ventures, thereby stimulating capital formation, which in turn accelerates and increases the process. An effective channel of domestic savings and obtaining financing from abroad is an important activity in the transfer process. The main activity in the transfer process is the distribution of funds from the excess part of the savings to the objects of savings deficit. Financial markets, if they are well developed, can effectively distribute financial resources between different business ventures.

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