



What is the Key Element for an Efficient Economic Mechanism?

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Abstract

In our days, with these tensions in different fields of social-economic activities, it is very important that the economy and society go forward, in the benefit for the people themselves and for the entities as well.

We deal with the necessity of renewing the Theory of the Firm, with elements and aspects adaptable to the new challenging realities. The firm is the basic unit of the functioning of the economy, merely on short and medium-run.

The focus is on the Human resource, such as staff, managers, CEOs, even entrepreneurs. We used information from important international consulting companies in the field and, also, my own expertise, because teaching Economics in higher education is a pre-work within firms and a good situation for simulation of the real situations.

We presented the challenge of the Artificial Intelligence (AI) to the human factor of production and, as a conclusion, or synthesis of the problem is that the Human factor is still decisive in businesses and social economy.

The labor market is in straight correlation with the other economic variables and sensitive to the movements, or even declarations about possible Recession, falling-down in economy and a greater uncertainty about the economic future.

But, for a quite long time, we consider that the Human factor is the key one within firms/companies/organizations.

Keywords: Firm, Factors of Production, Human Resource, Artificial Intelligence, Economic Propeller.

THE CHARACTERISTICS OF HUMAN FACTOR, ESSENTIALS WITHIN A FIRM

Presenting the issue in discussion, we should mention that the focus is on *the factors of production* at the firm/organization level. That is, the elements which exist in any entity, either for production, or providing services. And, one of these factors we'll be considered the key element for the existence and functioning of any entity (firm, company, organization).

Therefore, the content of *resources is larger (>) than that of factors of production, because the first ones include potential goods, raw materials, not being in the circuit of production.*

The factors of production are mandatory inputs to produce goods and services. The economists agreed that 4 (four) factors of production have to be considered (Fernando, 2024):

-land;

-**labor** (we'll see why this is the chosen one);

-capital;

-*entrepreneurship* (organization the business and take the risks of the business).

We underline 2 (two) factors of production from this classification, because they represent, actually, the Human factors, without which one cannot talk about launching

a business, taking the risks of the business, its operations, the realization of products/services on the market and sustainability on the specific market.

Depending on the specific circumstances, situation, one or more factors of production might be more important than the others. But, the factors already highlighted are the “propeller” for any businesses or social economy and activities.

The generations of the today workforce acting into businesses and which have to be known at the hiring, are the following (TriNet Team, 2024):

- Baby Boomers*, born between 1946 and 1964;
- Generation X*, born between 1965 and 1980;
- Generation Y*, known as *Millennials*, born between 1981 and 1996;
- Generation Z*, known as *Gen Z* or *Zers*, born between 1997 and 2012.

Today, the largest chunk/part of the workforce is occupied by the Millennials with 39,4%, followed by Gen X with 35,5 % , Baby Boomers with 19 % , but Gen Z, around 2030 will represent 30 % of the workforce in the world.

METHODOLOGY

We use in this paper especially secondary information, ideas and strategies from international famous HR Consulting

institutions, such as Deloitte Consulting LLP, McKinsey & Company, BCG (the famous Boston Consulting Group), Ernst & Young.

Altogether with my own expertise in the field and with fellow colleagues' experiences and opinions, all form the background for understanding this issue in these days.

But, essential, is to put the right person in the right place, regardless the generation which he/she belongs to.

This is the task of the teacher and then of the managers or even general management, after HR filter, or of the owner/CEO interviews.

The generational characteristics are very important in these days, aspect that must be taken into account when hiring positions.

Then, the CEOs, the other managers, even the entrepreneur intervene, in assembling all the positions and all staff accordingly to the proposed goals, using their leading and managerial skills, to correct and avoid deviations and negative aspects, including prompt decision-making when a risk, challenge occurs, in order to flat or eliminate it.

3. SHAPING THE ISSUE

After we saw in a previous chapter the characteristics of the main generations that are and will be found as dominant on the labor market, the Millennials and Gen Z, we want to highlight some ways to attract and retain the two main categories of employees.

Thus, here are some ways to attract, but more, to retain, to build loyalty in these categories (Tanika, 2024):

1. *Uphold and the enrichment of the values and organizational culture*, aspects appreciated by both generations and which have to be taken into account also by the management of the firms/companies;
2. *Ensuring work flexibility*, that remoteness specific to new activities provided after the coronavirus pandemic. That is, ensuring that balance between family life and professional activity. According to Deloitte, over 54% of Gen Z employees and 59% of Millennials believe that hybrid work is good for their mental well-being. So, it is essential that the organization moves away from rigid schedules in favor of flexible schedule options such as remote work, hybrid work, flexible work hours, flexible time off and floating/flexible vacations;
3. *Ongoing training and performance monitoring*. Millennials and Gen Z employees value career growth and development, and so the entity must build a culture of continuous learning. Feedback from them regularly on the skills they want to acquire, but also skills gap analysis to organize meaningful training programs.

Management appreciates employees for all their good work and provides constructive feedback to help them overcome their weaknesses;

4. *The adoption of digital technologies*, bearing in mind that both generations, but especially Gen Z who is digitally native, must be equipped with the latest and most intuitive technological tools that automate and facilitate operations, right from the moment they are hired until the moment they who leave the organization. Moreover, to integrate AI technology so that employees have digital assistants to simplify routine tasks, but also increase personal and organizational performance.

Millennials and Gen Z employees find satisfaction *in purposeful work*. In general, they look to contribute to a larger cause that has a positive impact on society, and they want to be associated with organizations whose values, purpose, and missions align well with their own. And, all this home environment is necessary to be, yet, supervised by the older generations, due to their knowledge, loyalty, and conscientiousness in work.

On the other hand, in this essential relationships owners/CEOs/managers (in one word, the bosses), a current aspect not to be neglected is that *Gen Z (the generation which is coming from rear) is at the top of the list of firing by the bosses or managers*. Why this situation, situation which must be taking into account in the human/personel function of production? Because it is difficult to work with this generation, a very stressed activity. Lack of effort, motivation, and productivity, in the front line (Berger, 2023). At the same time, Gen Z is full of workaholics, who are juggling with 2-3 other jobs in order to get wellbeing or satisfaction. Also, the easy use of digital technics becomes a problem when it's about explaining these new aspects to the co-workers and even to managers, who still lack of digital skills. These managers, now, are represented in a large measure by the Millennials and forced to work with this new generation, which considers itself misunderstood.

Regarding the Gen Z, further information reveal that a large number of the Gen Z members (from Romania, the specific case) already thinks how to save money for cruisers after the retirement. Their goal is to earn much money, investing in private pensions, but all depends on How to work to get the desired goals, altogether with the other co-workers (Popescu, 2024).

But, the situation is worse in their case and, probably, not only in Romania, because around 30 % of the Gen Z is not prepared for higher education, and furthermore, they prove unable to interact outside the virtual space.

As a complement to the characteristics of Gen Z, let's add the one that interests us in this paper, *namely the creation of an organizational culture that supports the personal and emotional development of young people and that contributes to the long-term success of firms/companies* (our emphasis) (Kelt, 2024).

But, in order to synthesize what we consider that might be the key element of a well-functioning of a firm/company/

organization, we consider that it's necessary to sketch the steps of the present analysis.

- a. First of all, the firms place their offer for jobs either online, or in media (including social media). At the same time, we may see the demand for jobs coming from those who want to get a job, or to change jobs.
- b. Second step, is the meeting in-person, or online (if it's required) between job applicants and the firm/company.
- c. *It took place the interview, interview taken either by the HR Department's representants, or by the CEO/owner himself/herself. This is the decisive step in hiring or not the applicant.*
- d. After the specific filter (step 3), the applicant is placed in the right position within the business organization chart.

We must also consider the possible and much-announced Recession that will hit the US and European Union, which will start, as data and forecasts show, with the "economic engine" of the EU, Germany.

As I said this announced possible Recession, because we also have in mind the slowdown in the US labor market, with the drastic drop in new company start-ups, fueling fears of an impending recession. We also have a technical argument, namely that the unemployment rate rose by 0.2 percentage points to 4.3%, triggering Sahm's Rule, which links the start of a recession to when the three-way moving average of the unemployment rate increases by at least half a percentage point above the minimum level recorded in the last 12 months.

More seriously is the fact that this situation also coincides with the refusal of the American central bank, the FED, not to reduce the reference rate (as the European Central Bank did in June, for the first time in history), remaining between 5.2% and 5.5% the highest since last June.

But, also in this case, the Chairman of Fed declared in August 23 that the time has come to cut interest rates (Jones and Partington, 2024). This process will start next month (in September). The US labour market which recovered quickly from the pandemics has added million of jobs and now it has to face so-called *downside risks*, which involve the necessity of cutting the interests, having a good reason base in the inflation retreat further, without damages on US economy. Instead, it must ensure the hiring of a larger number of persons in US economy in these new conditions.

Already, we assist to many bankruptcies of firms and companies at the middle of this year, due to the politic and economic tensions existing in the world and to the competition. Thousands of people are fired, a large part being from world social media companies.

For example, official statistics from Eurostat show a massive increase in bankruptcies in EU countries since the beginning

of this year. The countries with the most company closures were Greece, Latvia, Sweden and Romania. In terms of activity sectors, the most bankruptcies were reported in construction, financial activities, trade and industry. At the EU level, the increase in the number of companies that closed their doors in the first two quarters of this year was 7.6%, compared to the last quarter of 2023 (Marcu, 2024). Can we say that the Europe economy is in a total drift?

Another example, of course for US economy, is represented by the information, or based-announcement of a imminent Recession. Even in non-farm entities the jobs increased, the signs of Recession occurred and can influence psychologically, amongst others, the labor market (not only in US, but also in the other places of the world). David Rosenberg is the analyst who cites the full-employment declining and the downward jobs revisions, which are signs of the lower in economic and possible Recession (Rosenberg, 2024).

Rosenberg argued that the labor market is much weaker than headline numbers show, and shared several indications that the economy is on the brink of a downturn. At the same time, another sign of Recession is given by the overall employment growth on households which dip negatively year-by-year. By consequence, the third aspect fromj the Rosenbergt's analysis is that the unemployment on households survey has risen at recessional levels.

Also, we must add the lack of the workforce, especially the qualified one, in order to continue the activities and face all these challenges of our days. That's why we need a landmark, indeed, to understand and adapt and shape to the powerful challenges and dangers.

AI the highest challenge for now and future

A specific subchapter is dedicated to *the Artificial Intelligence*, a menace to the workforce.

The rapid advancement of artificial intelligence (AI) is transforming the global economic landscape, presenting both unprecedented opportunities and challenges for economic developers.

According to one cited author (Gines, 2024), the stages of the replacement of labor as we know it by Artificial Intelligence would be the following (starting from the base, as in Maslow's Pyramid of Needs):

Stage 1 (moment 0) is that of replacing repetitive mechanical tasks/attributions;

Stage 2 (moment 1) is where AI replaces both mechanical and analytical work;

Stage 3 (moment 2) is where next to the domains replaced in Stage 2 is added the replacement of intuitive work (so really a higher plan of action for AI);

Stage 4 (moment 3) is when AI begins to replace empathic activities, of course added to those replaced in Stage 3. It is a crucial moment, because Artificial Intelligence gets soul and becomes a real danger to humans;

Stage 5 (moment 4) is the natural follow-up to Stage 4 and in which AI will succeed in replicating (replicating) all types of human intelligence.

Since, we notice that AI is moving very fast, developed more and more by various providers, development that can be extreme, economic developers, people in businesses, must be prepared for rapid and significant changes in the workforce market.

At a glance, analyzing the forecast, about 50 % (65 % until 2025) of the workforce could be replaced by AI in a short to medium term. For example, the domains targeted for replacing the labor force with AI are:

- cashiers (self-checkout becoming more easy to be used);
- taxi drivers;
- telemarketers;
- assembly line workers;
- bookkeepers

On the other hand, there are opinions that the following jobs and qualifications will be not replaced by AI (Talmage-Rostron, 2024):

- Teachers
- Lawyers and judges
- CEOs and managers
- Surgeons
- Psychologists and psychiatrists
- Artists and writers, the last level, because we doubt that replacement will not be produced.

But, there are jobs which could be replaced, even contain not repetitive actions. We see that in half a year, AI is capable to replace teachers, looking at the experiment prepared at David Game College in London for a classroom of 20 students, with no teacher, but with platforms adapted to each student (www.digi24, 2024).

The deputy principal of the school affirmed that human teachers are subject to mistakes, while AI has a high level of precision and accuracy.

In these new conditions, for real, question marks arise in this matter of replacing human laborforce by AI.

The menace comes from the so-called *Generative Artificial Intelligence* which currently allows the production of good quality content (texts, images, etc.) through a simple request formulated in everyday language. But, according to the engineers involved, it has the potential to go much further than that and, therefore, to solve a series of important problems, but also to cause others.

And, we want to reveal also a law which is trying to settle the AI, apart from that one adopted this year by EU. It's about the law adopted by the State of California on August 28, 2024

(Popovici, 2024). Surprisingly, Elon Musk, the controversial billionaire, believes that the risks AI poses to the general public warrant its regulation. On the other side, OpenAI and other companies are dissatisfied considering the possibility of the migration of many specialists from Silicon Valley, through the increased enclosure of research in high-end technologies.

For now, the Goal is not to compete with Artificial Intelligence, but to create an environment where human ingenuity and Artificial Intelligence synergize to drive sustainable economic growth and improve the quality of life for our communities.

This is even a talk about the synergy of the two aspects involved: the human factor and the technical factor with humanoid features. Increase and improve technologies, innovation, human skills and knowledge (InTeam Corp, 2024).

Therefore, we try to synthesize that the functioning of a firm/company/organization *has to be accordingly to their goals and tasks, using the factors of production, especially the human one, including the workforce and owners/CEOs as well.*

CONCLUSIONS

Beyond the well-known movements on the labor market, such as the "Great Resignation" or "Quiet Quitting", this remain, however, a rigid market. This is because people want stability, performance, achieving their goals and, above all, having a job/position is what brings income for the person concerned, as well as for the family/household.

Millennials and Gen Z employees will soon make up the majority of the workforce, so it's important to understand and meet their expectations. We hope this blog post has given you a better idea of their general characteristics, key expectations and different strategies to attract and retain them in the workplace.

A psychological aspect to be considered is that the economic and social activities are operating in risks and uncertainty environment, with all the challenges occurred. Therefore, we must overpass the situation of fear, facing uncertainty aspects, by overcome it (them).

One aspect that we consider to be a red thread in all events related to labor movements is that loyalty that does not bring benefits is no longer loyalty and therefore allows the employee, no matter what generation he is, to leave the organization for to continue his career plan and reach those material or moral results that would lead him to be 100% focused on what he has to do.

It is mandatory necessary that Fed to cut interests rates in order to support the economy (based on ECB example in EU), because the labor market and the entire economic mechanism tends to breaking down.

We consider that the workforce won't be replaced by AI and, due the power of human mind, of the human capacity and

ability for appropriate decisions-making, even specialists forecast soulless future, a bleak one, it is possible that the two forces to collaborate in order to increase individual performances and productivity and for entities to get the profit as reward for their activities.

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