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From the World of Crises to the World of Responsibilities

I would like to note that in order to continue existing, the world of tomorrow needs realities, and not chimaeras. We have been educated to live in a world of excessive image.

By excellence an image consuming civilization, we have got to the point where we no longer separate the once distinct imaginary and real spaces. We are now in a situation in which we consume images and think we consume realities. Some exclusively consume realities. It is essential to get back to REAL because it is our moral right to be there.

Prof. Ph.D. Paul Marinescu

Budget deficits and public debt

~ Ph. D. Student **Ionuț Constantin** (Faculty of Bussines and Administration)

Abstract: *In the recent decades, the budget deficit has become one of the characteristics of national economies. Furthermore, it finds its dimensions amplification. Despite this, more and more are the economists who dispute the need to balance the budget, arguing the need even the deficit and systematic use of in order to achieve economic equilibrium.*

Such guidance is substantiated by the need to promote an economic policy which ensures full use of resources and non-inflation economic growth. In these circumstances, balancing the budget is clearly of secondary importance. Such guidance is substantiated by the need to promote an economic policy which ensures full use of resources and non inflation economic growth. In these circumstances, balancing the budget is clearly of secondary importance.

In this context, it supported the need to increase expenditure at a pace faster than income growth and, implicitly, to keep budget deficits

Keywords: budget deficit, economic equilibrium, economic policy, public debt, budgetary policy

Governments resort to borrowing to complete the necessary financial resources to cover needs for temporary or longer term. Often, the state obliges them to cover the budget deficit.

Shares management budget deficits depend on their source. There are voluntary deficits which, depending on the type of resources used to finance them, may have a non - cyclic beneficial influence.

How are produce deficits voluntary? When demand of the consumer is weak, an injection of government with monetary means that through the budget, emphasized the revival of public spending, resulting deficit. This may occur automatically, however, when growth slows, tax efficiency is reduced. Such a deficit occurs automatically, without to increase public spending.

Deficit may have a non-cyclic effect if

public spending increases lead to an increase in taxation, which tends to cancel the deficit, provided that entrepreneurs can increase production, otherwise, the deficit creates inflation.

Deficit involuntarily appears when the government fails to curb inflation faster than envisaged in the draft budget. Tax revenues grow more slowly than had been expected. Deficit that appears is not the effect of bad management of the economy, but the success of anti-inflation policy.

A case of unintentionally deficit is the support deficit. To reduce the budget deficit and to provoke a restart, the government diminishes spending and reduces certain taxes. This latter measure not involve reopening immediately, while reducing costs acts faster triggering phenomena of underemployment and reduced demand. Deficit increases. If in these circumstances, the government refuses to finance the deficit through the creation of currency and use the loan, interest rate increases.

This blocks the effect of the revival of public spending, but increases, in turn, the public debt. Thus the deficit is maintaining him.

Recording of some deviations from preset levels for spending and revenue, and thus to initial balance can results in real processes, which determine whether or not the achievement of revenue and expenditure, but also in construction of the state budget. Therefore, balances, deficits and surpluses may occur either in the budget preparation process, either in budget implementation, due to reported irregularities in projected expenditures. Clearly, however, crucial role in ensuring we have the budget balance economic factors arising in the first instance of the edge quality of production materials.¹

State budget deficit may be caused by changing economic conditions, the transition economy through a period of economic recession. The same effect will be obtained due to substantial increases in government spending and / or reducing taxes. In the latter case, the budget variance is determined by changes in the budgetary policy.

Subordination of methods and instruments need to objectives of economic policy requires a concrete analysis of the research budget balance, explaining its content, interpretation of differential surpluses or reliance strategy of balancing the budget. They should be examined in the light of their consequences on the national economy.

Thus, the emergence of budget surpluses reflects some deviations from the estimate situation, but with positive or negative effects. In principle, the budget surplus may be the consequence of achieving higher revenue from those envisaged when designing the budget or non realization costs at default. Assessment of these situations must be made from analysis of the causes generating, content material of the budget surplus, its share in total budgetary revenues, the relationship between economic status and budgetary situation.

Budget deficits are those around who have outlined numerous theoretical controversies, but different options in relation to arrangements for the foundation of strategies for balancing the budget. They should be examined in the light of their consequences on the economy.

Typically, reducing the budget deficit requires a reduction of expenditure, an increase in revenue or a combination thereof. Any increase or decrease of the tax levels should be studied through the effects of long and short.

¹ Ion Bucur, *Basics of macroeconomics*, p. 203

Level higher or lower of taxes will influence both the supply of saved funds and the demand for such funds. In the budget deficit widened to create conditions for absorption in a high proportion of the volume of funds saved in the society.

The consequences of deficit on the economy are closely related to monetary issues. To finance the deficit, the use of loans, and thus creating money, big money in circulation contributing to increased inflation.

Increasing the budget deficit may contribute to boosting economic activity, because the transition from balance to imbalance contributes to the stimulation of additional beneficial effects on the level of employment and income.

Meanwhile, the existence of large budget deficits put its footprint on the possibilities of financing investment projects. Higher interest payments on loans made by the state to finance budget deficits contribute to reducing the future capital stock and hence on future investment resources.

Also, budget deficits fuel the national debt of some countries, the proportion being determined by the amount of state borrowing to finance them, and afferent interest.

When expenditures exceed revenues, to cover the budget deficit, state appeal to public credit, taking loans or attracting available to the temporarily available cash incomes of the population. State loans shall bear interest payment and loan repayment being made on account of budgetary revenues, mainly due to taxes.

Resources deployed on the public credit, ranks second, after taxes, in procuring the necessary resources to cover expenses. Between government expenditure, loans and taxes there is a close interdependence.

To cover the ever increasing expenditure, the loan contracts, and resources necessary to purchase and repayment of loans to pay interest and fees related to use of credits. Debt, as a method of covering the expenses, appeared too many centuries ago. In the XVIIIth century the great age begins loans through issuance of bonds, securities being placed on scholarship.

Government debt is all internal and external obligations of the State, at a time, from loans contracted directly or guaranteed by the Government through the Ministry of Finance, on behalf of Romania, on financial markets.²

In general, the public debt comprises total loan amount taken by the state, territorial-administrative units and other institutions of public law and grants at a time, regardless of their eligible date. It called the national debt and includes the same debt from individuals and legal entities. Debt may be internal, when loans are contracted from the inside and external debt incurred from borrowing from abroad.

In another definition, the national debt would only include loans made by the state. In this sense, it would represent amounts accrued by the government had borrowed in the past to finance deficits.

Public Debt is by its very nature an instrument of action of public policies and entered in the analysis of state intervention in economic life. Therefore, instead of public debt should be placed in the context of major economic aggregates, as a result of budgetary and fiscal policy.

The detailed definition and evaluation of government debt varies from country to country. In general, debt means all loans

² Law regarding public debt no. 313/2004, art.2.

made by the state. It appears as if the consolidated debt is tracked long-term and floating debt, short-term. The set of commitments to other states or foreign financial institutions is external debt.

In some countries it can be determine the debt of the state (central), and others committed all government (state, local, etc.) or of the public sector in their entirety.

It is necessary therefore to determine an operational concept of public debt to satisfy the requirements of its use as a variable for economic policy action.

The size of debt on a country can be expressed by several indicators: the absolute size and average per capita, the ratio of debt to GDP, debt service (including expenditure on debt repayment itself and with the interest payments).

Debt is affected by many factors: the rate of growth, the interest rate, the future development of budgetary policy, demographic factors, etc.:

Government debt has been an upward trend in both the developed and the developing countries. Thus, in the past 70 years, public debt has increased in the U.S. 500 times (representing three quarters of national income) and 75 times in England (exceeding national income). In all developed countries, government debt varies between 13% and 95% of GDP³.

Relevant aspects of the debt result from the investigation of its structure and content. If for developed countries preponderant debt is internal, in some developing countries has the share of external debt principal. External debt of a country refers to the debt from some foreign creditors, both public and private. To

examine its use indicators: average size of external debt per capita, the ratio of external debt and GDP, external debt service, which includes repayment of loans and interest payments.

In the early 80's, some countries were unable to pay the external debt as a result of large loans made in U.S. dollars For developing countries is triggered phenomenon known as the external debt crisis.

In the ninth decade important changes have occurred in the hierarchy of positions on international creditors. Thus, privileged position of S.U.A. was occupied by Japan, a country which is a creditor of the world. Evolution of public debt of S.U.A. reveals important aspects. Many economists consider that the debt of the '80s has a distinct than in previous periods. By their consequences, the economic crisis of 1929-1933 and the Second World War have contributed to the widening debt. In the U.S., case, these cases were added on the lifting of government and, on the reduction of taxes.

Indeed, reduction of taxes contributed to the increase of disposable incomes and increased opportunities for consumer purchase. However, must be taken into account that, unlike the years '40, the expenditure of the 80 deficiency is not due to current consumption. In the first place, large budget deficits have affected investment in this regard implications have manifested especially in the long term. Secondly, to finance these budget deficits, U.S. has borrowed in foreign forfeiting net creditor position. As a result, in 1985 S.U.A. became a net debtor country in the world, for the first time since 1914.

If the '40 budget deficits due to the large volume of expenditures necessary to support the war in the 80s they were born because the

³ Joseph E. Stiglitz, Carl E. Walsh, *Economics*, Publishing House: Economică, Bucharest, 2005, p.729.

government itself has adopted programs to increase spending, which exceeded revenue from taxes.

Characteristic of this period is the co-existence of a large public debt with high interest rates compared to previous periods. National debt is owed to live alone. Thus, an increase in debt it meets a high level of interest paid by govern, which constitutes a part of that expenditure increases. So, finance budget deficits increase the national debt. For these reasons, and some economists have expressed fear about the possibility that in future budgetary policy to be able to help prevent economic recession.

Due to its high share in the global economy and world trade, the role of the dollar in the unfolding international economic flows, the large U.S. deficits must be viewed through the prism and their consequences on the international community. Of great importance are the effects on interest rates, imports and exports, the pace of economic growth, and repercussions on the dollar. Note that in many countries, budget deficits coexist with trade deficits and payments that have immediate implication external.

An important relationship is that between the current national debt and current and future generations and the possibility to return the loans and to pay interest in respect thereof. In general, the public debt determines transferring funds from a group of individuals to another in the same period. But this transfer can contribute to an undesirable redistribution of income.

Access state resources saved the population is a matter of trust. While the public has confidence that his government will be able to pay interest when the debt reaches maturity, he will be willing to loan the government,

he would be willing to purchase quantities of increasingly high government obligations. And, given that government obligations are considered almost risk free to the public trust must be considerable in the government's ability to pay debts.

Unlike a private firm that goes bankrupt in the case of excessive debt, located in the same situation, state creates excess aggregate demand (the situation is different when it borrows from the outside).

Debt can lead to increased taxation when the state pays the interest by the collection of taxes and duties. If the interest payment is made through loans, increase the proportions of the deficit, which stimulates aggregate demand and inflationary pressure increases. Effects are considerable especially when the Central Bank deliver money needed to pay state debts. The State may pay the domestic debt and money issues that, over a certain limit, increasing prices. Interest on national debt could result in redistribution of income from those fees and taxes borne by those who hold government bonds.

Increasing interest rates affect debt-national budget revenues, contributing to the increased deficit. This trend is reflected in the share of national debt interest payments to GDP.

To the existence of public debt is done and the release of tickets for the bank. Thus, when the state budget is in deficit, the Treasury Public issue treasury bills to cover their needs and banks subscribe to these bonds. When banks sell these bonds the Central Bank, the credit the banks, they can withdraw the amounts required.

National debt can be associated with a low rate of capital formation affecting future generations through the stock of capital

goods inherited. As a result of these very different implications are numerous theoretical disputes about the benefits and costs the national debt. Many economists argue that although the national debt entails some difficulties, they are minimal in comparison to inflation and unemployment. Orientation towards balancing the budget, they argue, would contribute to worsening business variation. For these reasons, it shows that budget policy should be used to promote a balanced economy to fully use the resources and not to achieve a balanced budget, which should not constitute an action.

Due to the impact of public debt, particularly on the functioning of the global economy, financial system and therefore on monetary and financial policy is necessary to determine an optimal level of share in GDP, based on purely economic considerations.

The degree of support of growth increases the importance of debt management and its management. Thus, analyzing the structure and composition of debt should be consistent with the effective combination of measures of monetary policy and budget. Called public borrowing, public debt is a source of supplementing the public financial resources. The phenomenon of indebtedness of states and governments expanded greatly in recent decades, which illustrate the inclination of extension of the economies of their indebtedness increases based on a growing indebtedness.

The engagement of public debt

Initiative of the prior operations loans (motivation, contacting creditor's surveillance issue, etc.) is, according to the law of public finance in the Government

responsibility. Approval, however, returns to Parliament, which sets annual limits on loans that can engage the government, so, their destination. This increases reliability and security policy towards its creditors, and the nation control on the financial management of government.

1. Internal debt

After the time is employed, is distinguished:

a) Internal debt in the short term (or floating) is contracted by the government or local authorities from savings, banks, public and other holders of money available.

Aim to call this form of loan is to cover the annual budget deficit, public expenditure cover of national interest or domestic debt refinancing

Methods used to cover internal debt in the short term are:

► Issuing and placement of treasury bills

By law, the Ministry of Finance may issue during budget implementation to the Government treasury bills bearing interest and maturity by the end of the financial year to cover current cheluelilor. Their total can not exceed 8% of the total budget. Treasury bills may be purchased by banks, and economic or population. They are securities to bearer. Issuance and placement of treasury bills is a widely common in many countries, and buyers are usually banks.

► The issuance of state bonds in the short term

which is to meet temporary financial needs special (national defense). These are investment interest paid on certain maturities. They can be bought by companies, societies, banks, individuals and redeem the time.

► *Loans from banks authorized to issue currency.*

In exceptional cases, the annual budget law may establish by granting the central bank a loan without interest, to cover state budget expenditure on account of normal lending, without exceeding 10% of the total budget. Shall be refunded within 6 months of the current revenue budget or a loan from the state.⁴

► *Take the cash savings or other public institutions.*

It is a loan that is based on cash that is formed into the financial-bank savings, insurance persoaneși of things, etc.. Retrieving is made in short time (in the cadre of the budget exercises) provided the refund before the end of the financial year. Is based on a protocol signed between the Ministry of Finance and the institution which provides credit conditions including lending by the government guaranteeing the refund of amounts collected.

b) Internal debt in the long term

Long-term loans it lunches to start supplementing the financial resources to cover general needs. These loans have implications for a longer period of time. Assume the existence of premises: the presence in the economy of capital available, the market where capital can be traded securities issued. Is of utmost importance in the public trust in general and not just in government (it may change to maturity securities).

It is also necessary that the economy can support, without difficulty, the public debt. Launch long-term borrowing takes place through the issue of bonds, rents, etc. which are negotiable securities.

Issue and their placement can be done: some bankers or consortia of banks, direct

government subscription or direct sales companies. Issue is different goal: to satisfy the public need general restructuring of the economy, cover exceptional needs (eg: War, military gifts, etc.). In addition to voluntary public borrowing, governments resort, in exceptional cases and forced loans (payment of salaries to civil servants bond loan). Loan repayment is made by the annuity is a process for annual payment by the debtor of the amount of money that represents the loan installments and interest attached.

2. External debt

Until now it considered in default that debt was held by residents. In this case, accumulation or stabilization of the debt resulted in redistribution of income between generations, between those which are imposed on today's duties and taxes and those on which will be imposed in future. When the debt is held by foreigners, the situation is different.

Honoring external debt involves transferring resources to the rest of the world. This will require recording a current account surplus, meaning to spend less than gaining it. In the case of internal debt, the government can always correct the effects of income distribution, through proper counterbalance taxes and transfers.

This option is no longer available for external debt as one reason for that is more painful. External public debt includes external loans in the long term, short-and medium-contracted directly by local authorities, the autonomous regime, companies, and firms with government guarantees.

Economic agents appeal to foreign loans to obtain or complete the necessary financial resources to satisfy some needs related to

⁴ Law of public finance no. 500/2002

development programs, filling the reserve currency, reducing the balance of payments deficit, stabilization or economic restructuring, etc... Beneficiaries of foreign loans may be: the government, National Bank, institutions and public authorities, autonomous, banks, companies, etc... The decision to involve foreign loan belong to the government and the entire responsibility for their actions involving the completion of loan commitments, but the approval is given by the Parliament of the country.

It sets the annual level of debt and the limits the government can borrow. Creditors may be external: governments, banks state banks and private financial institutions, international organizations (IMF (International Monetary Fund), IBRD (International Bank for Reconstruction and Development), EBRD (European Bank for Reconstruction and Development)).

IMF provides loans only short-term only to the governments to balance the balance of payments and monetary redress movement.

World Bank (IBRD) provides loans for long-term investment in the economic and social environment, health, etc.

Beneficiaries of these loans are government, some public and private authorities to ensure that government.

Romania received FESAL loans for economic restructuring from the EBRD and the IMF credit lines "stand by" to reduce the deficit of balance of payments.

Interest on these loans is much lower than the private banking market. Government guaranteed external loans contracted some of autonomous commercial companies, etc.⁵

To recover the risks arising there from, it was constitute "the risk fund" as extra - budgetary regime.

Macroeconomic impact of the indebtedness

Maintain public debt within reasonable limits means:

- A rigorous budgetary policy, centered on the austerity;
- Maintain budget deficits to levels below 3% of GDP;
- Coordination of economic policy instruments, particularly mutual adjustment of fiscal and monetary instruments;
- Debt financing through securities issues.

Negotiable instruments issued by the state in Western countries have witnessed a great momentum, described by modernizing them.

Effects of excessive indebtedness of the state economy takes various forms, among which may be listed:

- Deterioration of the monetary and financial flows in the economy;
- Decapitalisation of economic agents;
- Increased future tax burden;
- Lowering interest rates;
- Generating inflation etc

It is obvious the need for the state debt at certain times, but this need should be aimed at freeing up productive and temporary tax burden, or the support of productive expenditure budget.

3.1. The influence of government debt on future generations

While the U.S. recorded in 2004 a surplus, the government owes 3.4 trillion \$,

⁵ Ionel Micu, *Economics and guvernamental policy*, Publishing House: Era, Bucharest, 1999, p.89.

about 12,300 \$ per person, the amount gained in the previous debts. Using loans to finance debt and not increase the tax burden of lower consumption is passed on to future generations of taxpayers⁶.

The U.S. Government has funded part of the expenses for the 2nd World War the contracting of loans, not by raising taxes. Assume that the bonds issued would have been bought by people 40 years.

Thirty years later, they leave work, and the government decides to redeem the bonds by increasing taxes levied on those working in the labor market. As a result, the government transferred funds from these young workers to those who worked during the war, but now have retired. Thus, part of the cost of war is borne by future generations who have entered the labor market after the war. Consumption over the life of those who have borrowed money the government will be least affected. They could choose to purchase shares or bonds issued by companies, the war (to the extent that is financed through debt or government bonds) affect the achievement of savings, but no money available to be spent over the years life.

Ricardian Equivalence

If individuals are concerned with their relatives will decide that when the government recorded a deficit, to increase savings and in this way may leave a greater legacy to their children who will be affected by higher taxes necessary government repayment of loans.

In terms of the examples show in previous generations who worked in the period

⁶ Joseph E. Stiglitz, Carl E. Walsh, *Economics*, Publishing House: Economică, Bucharest, 2005, p.729.

of the 2nd World War would have to reduce consumption and increase savings, leaving larger bequests next generations, who could thus pay higher taxes not be influenced levels. In this optic, no matter if the government increased taxes or borrow. In each case, current generations will have a lower consumption - either because of higher taxes, either because of the desire to leave the next generation legacy. This vision is called equivalence ricardiană because existence implies equivalence between funding costs through taxes and government funding in the form of loans.

3.2. Elimination of deficit

Three factors contribute to the elimination of deficits. First, policy changes have managed to reduce costs. Secondly, vigorous economic growth has helped increase revenues from taxes. Thirdly, even after taking into account the economic growth, that income taxes have increased over the estimates.

Since 1990, were set certain ceilings on expenditure in the U.S. They were extended in 1993, and through additional programs to succeed reducing costs in the form of benefits for certain people. Other measures to reduce the deficit were included in the balanced budget law and the fiscal relaxation from 1997. Eliminating the deficit and was helped by increased revenue from taxes. Strengthening the economy explains part of this increase. Until 1999, the U.S. economy recorded the longest economic expansion in history. As the economy was expanding and revenues increased, earnings taxes have proved to be higher than estimates. Income from certain types of taxes was higher than estimates, even after taking into account the effects of economic growth. For example,

revenue from taxes on capital gains was very high, probably due to the outstanding performance of the stock market.

The impact of policy changes and economic developments on the prospects of budget is reflected by the changes in high

estimates on the size of the deficit.

If policies remain unchanged, for the future is projected budget surpluses, which led to focus the debate from discussions about eliminating the deficit by seeking how they can be spent these surpluses.

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Competitiveness in the global economic crisis

"There are certain pivot points or watersheds in history that are greater than others because the changes they produced were so sweeping, multifaceted, and hard to predict at the time."

(Thomas Friedman)

~ Prof. Ph.D. **Gheorghe Popescu** (Academy of Economic Studies)

~ Prof. Ph.D. **Adriana Popescu** (Academy of Economic Studies)

~ Univ. Junior Assistant, PhD Attendant **Cristina Raluca Popescu** (University of Bucharest)

Abstract: The first challenge is to analyze the concept of "competitiveness" given the fact that in the centre of the great economic analysts' concerns lays from some time the phenomenon of competitiveness, along with the generation of competitive advantage at the organization level and, moreover, at country level. The economic science will have to be rethought, meaning that competitiveness will have to adapt to the new prospects launched today by the global economic crisis.

Keywords: competitiveness, global economic crisis, competitive organization

1. Perspective of competitiveness - a theoretical approach

"Competitiveness" is today an economic area that integrates several concepts and theories of economics and management in a series of guiding principles, leading to prosperity of a nation or a company. However, the models of economic theories or management rarely refer to the multitude of factors

that affect prosperity. Often, these theories fail to link various elements (such as education, infrastructure or systems of values) with prosperity, even in the presence of evidence that they make a difference.

The following definition emphasizes the importance of integrating all the elements that lead to prosperity, and thus it provides a good example for a preliminary

understanding of the concept of “**competitiveness**”: “**Competitiveness** analyzes the way in which nations and companies administer all the skills to achieve prosperity or profit.”¹

In **competitiveness**, the central role is played by companies that generate economic value added. Nations provide a suitable framework to maximize this value. Their responsibility is also to ensure that the results of the companies’ activities are transformed into tangible signs of prosperity for people. The fate of the companies, nations and people is thus interdependent and can not be analyzed separately.

Competitiveness allows an integrative and global approach. Holism² represents the natural tendency to produce an organized whole, which represents more than the sum of the component units. **The optimum competitiveness** can be sought by analyzing the sources of the competitive advantages that are available to the company for each elementary function of the chain³. Each elementary function must be analyzed in its strategic sense because each is located in a specific competitive universe that has barriers at the entrance and the mechanisms of costs development (*economies of*

¹ **Garelli, Stephane** (2006), *Top class competitors. How Nations, Firms and Individuals Succeed in the New World of Competitiveness* (in Romanian: *Competitori de top. Cum natiunile, firmele si indivizii reusesc in noua lume a competitivitatii*), John Wiley & Sons, Ltd., England, page 3

² *ibidem*

³ See in this respect, the American example presented by **Whitford, Josh** (2005), *The new old economy. Networks, institutions, and the organizational transformation of american manufacturing* (in Romanian: *Noua vechea economie. Retele, institutii si transformările organizationale ale industriei americane*), Oxford University Press, Oxford New York

scale, learning curve, innovation and the capital / labour substitution).

The elementary functions of the created value chain do not have the same weight and do not share the same value for the consumer. Therefore, the issue is not about identifying the competitive advantage on each of them, but finding that advantage that may be the basis for a decisive and sustainable competitive advantage. To this end, one must identify the sources of danger and loss of **competitiveness**⁴ or the sources of gripping the chain.

The most important function on each segment is showing the key factor to essential success and is explaining the difference between the strategies that lead to success and those that lead to losses. Thus, to understand **the competitiveness** of a firm or a nation, we must take into account and to be aware of the following erroneous concepts⁵:

A. Competitiveness is more than productivity

For a company, productivity is the quantity of produced goods or provided

⁴ See in this respect, **Popescu, Cristina Raluca** (2006), *Competitiveness in international relations. Case study on the example of Romania’s integration in the European Union*, Gestiunea Publishing House and **Popescu, Cristina Raluca** (2008), *Competitiveness for the health of the living whole*, Gestiunea Publishing House, Bucharest

⁵ See in this respect, **Levitt, Steven D., Dubner, Stephen J.** (2006), *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything*, Andreco Educational Grup Publishing House, Bucharest and **Garelli, Stephane** (2006), *Top class competitors. How Nations, Firms and Individuals Succeed in the New World of Competitiveness* (in Romanian: *Competitori de top. Cum natiunile, firmele si indivizii reusesc in noua lume a competitivitatii*), John Wiley & Sons, Ltd., England

services on the used entered unit (*i.e. money, raw materials or labour*). The ratio between the sales of a firm (*more correctly, the value added*) and the number of employees represents a common approximation of productivity. For a firm, an increase in productivity is seen as a sign of increased competitiveness, because it shows that it has become more efficient.

For nations the indicators that are used are different, but the productivity is similar. In general, economists use the ratio of Gross Domestic Product (*the GDA symbol*) and the number of employees to track their productivity and process it by incorporating the number of hours worked per year. "*Working hours*" productivity serves as a guide for evaluating the overall effectiveness of a nation.

Further, we ask ourselves "whether competitiveness from the productivity management within companies or within a country may be reduced."

Regarding this issue, **Paul Krugman**⁶, professor of economics at Princeton, has expressed this point of view in an article in the magazine "*Foreign Affairs*" in 1994, stating that "the doctrine of competitiveness [of nations] is categorically wrong."⁷ He emphasized the fact that focusing on a nation's **competitiveness** may lead to wrong allocation of resources, differences in trade and even to poor local economic policies. Then he continued by **developing the idea that,**

⁶ Garelli, Stephane (2006), *Top class competitors. How Nations, Firms and Individuals Succeed in the New World of Competitiveness* (in Romanian: *Competitori de top. Cum natiunile, firmele si indivizii reusesc in noua lume a competitivitatii*), John Wiley & Sons, Ltd., England, page 3 and page 4

⁷ Garelli, Stephane (2006), *Top class competitors. How Nations, Firms and Individuals Succeed in the New World of Competitiveness* (in Romanian: *Competitori de top. Cum natiunile, firmele si indivizii reusesc in noua lume a competitivitatii*), John Wiley & Sons, Ltd., England, page 4

"**competitiveness**" is just another name for "national productivity".

Nobody is questioning the fact that productivity is a determinant key factor for competitiveness. Productivity is important, especially at a company level. Since the organization is in the centre of our description of competitiveness, the overall productivity a nation's firms is largely determining **competitiveness**. And since the government may establish its own objectives in terms of productivity, such as increased efficiency of its administration or public expenditures, its overall impact on the national economic production is rather limited.

Some specialists developing this argument **have come to deny the existence of a concept such as "national competitiveness"**. From their point of view, **nations do not compete with one another, only companies do so.**

The affirmations that try to deny the competition between nations are simplifying too much the reality. In fact, both firms and nations, compete in international markets. Nations compete to attract investment and high skilled labour, for scientific research and even educational standards. A high level productive company operating within an ineffective or even hostile national business environment can not easily maintain its competitive difference.

Productivity is thus a key aspect of competitiveness, as it represents an indicator of effectiveness: it shows how much companies and nations produce with limited resources, **the basic idea being that "the more they produce with less, the better."**⁸

⁸ Garelli, Stephane (2006), *Top class competitors. How Nations, Firms and Individuals Succeed in the New World of Competitiveness* (in Romanian: *Competitori de top. Cum natiunile, firmele si indivizii reusesc in noua lume a competitivitatii*), John Wiley & Sons, Ltd., England, page 3 and page 4

However, competitiveness is much more than productivity.

B. Competitiveness is more than we can measure

Competitiveness is increasing with an ascending speed based on the intangible assets, which are difficult to evaluate, measure, create or restore. A nation's economic success depends increasingly, on the excellence of the education system, the infrastructure quality, the dynamism of research and even on the quality of its administration. Although these factors have a huge impact on competitiveness, they are not easy to measure and are not included in the national accounts. Such an omission may have harmful effects.

A country may leave its education and research system to deteriorate over a period of many years before observing the impact on competitiveness. When the problem becomes visible, the leaders must face a difficult battle, sometimes carried out over a whole generation, to correct these errors. Economic data presented by the government do not provide information about the depreciation of intangible assets of a nation, thus they fail to provide an early warning system regarding the deterioration of the national competitiveness.

The time needed to reverse the trends is an important consequence of shifting in a high level from the tangible assets to the intangible ones, as promoters of competitiveness.

It has proven the fact that⁹ a nation needs a period between 1 and 5 years to solve

⁹ **Garelli, Stephane** (2006), *Top class competitors. How Nations, Firms and Individuals Succeed in the New World of Competitiveness* (in Romanian: *Competitori de top. Cum națiunile, firmele și indivizii reușesc în noua lume a competitivității*), John Wiley & Sons, Ltd., England, page 4

a "standard" economic challenge, such as an increase of inflation. A delicate political problem, such as the reform of the pension system may take longer, probably between 5 and 10 years. However, reversing the deterioration trends, such as the continuously lower standards in education or research, may take longer, from 10 to 30 years.

The more a problem relates to the intangible, the more time is needed in order to resolve it both for governments as well as for companies.

Opposing the challenges regarding the brand's recognition¹⁰, customer loyalty, innovation or the staff's skills, implies a much greater period of time than a problem of excessive costs. The lesson to be learned is: **it takes much attention for the less tangible factors of competitiveness**. In general, when the problem becomes apparent, it is too late for a quick solution.

The firms' **competitiveness** depends to a large extent on the intangible assets such as brand, customer loyalty, image, skills and processes, which are not generally analyzed by the firm. Brands' value and the value of other market assets are recognized only as "good intent" if there was a transaction (*i.e. a merger, a sale or a purchase*) through which these intangible assets can be rendered profitable. Companies are trying, ever more, to incorporate the value of their intangible assets within their annual reports.

Nations also have a "brand", namely the country's image abroad and all the preconceptions that come with it. For a nation, the brand management is crucial to its **competitiveness**.

¹⁰ A recent study regarding brands can be found in the book of **McEwen, William J.** (2008), *Married to the brand: why consumers bond with some brands for life*, Allfa Publishing House (Gallup Organization), Bucharest

In this respect, we can give the following eloquent examples: in the category of positive examples we can include Ireland, which has an attractive image for foreign investments, Singapore, enjoying the image of efficiency in administration; in the category of negative examples we can include Colombia for its lack of security, Italy for strikes, Philippines for its weak infrastructure or the former USSR for corruption¹¹.

All of these perceptions whether they are based on factual or not, strongly affect the business and **competitiveness**. The perceptions are powerful but also extremely emotional, in terms of competitiveness, the basic idea being that they should never be overlooked.

If the brand's value is still elusive in accounting standards and the financial value of a customer basis or the competence of a firm's employee is even more difficult to calculate. Accounting standards say that the assets can not appear on a company's statement of account if it does not hold them entirely. Obviously, no company keeps its customers in this way, especially the employees.

Peter Drucker¹² has rightly pointed out that *"the goal of a company is to create the client"*¹³ and, we can add here, to keep the client. Managers know that a loyal customer base is one of the most important assets of a company and this deserves maximum attention.

¹¹ Garelli, Stephane (2006), *Top class competitors. How Nations, Firms and Individuals Succeed in the New World of Competitiveness* (in Romanian: *Competitori de top. Cum națiunile, firmele și indivizii reușesc în noua lume a competitivității*), John Wiley & Sons, Ltd., England, page 4

¹² *ibidem*, page 6

¹³ *ibidem*, page 6

Financial markets have intervened and actively compensate the deficiencies of the accounting standards. The evaluation offered by them to a company includes an approximation of the intangible assets' value. However, the role was assumed by default, and the standards used by financial markets to evaluate the intangible assets are sometimes questionable. Thus, in the lack of some reliable methodologies for evaluation, the financial markets develop a tendency to become slightly exuberant.

The so-called Internet bubble between 1998 and 2001 and more recently the public offer of Google shares, prove the way in which the evaluation of the companies by the financial markets can sometimes defy gravity.¹⁴

In our opinion, the key factors that are determining for competitiveness may be intangible assets such as science, technology, education, skills, infrastructure, brand, and even image. **Competitiveness** is drawing attention to the intangible assets within the strategy of a firm or a country, even if they are difficult to evaluate, but it is more than productivity.

C. Competitiveness is more than wealth

Although the goal of competitiveness remains prosperity, the wealth itself does not determine the success of a nation, a company or even of an individual. Nations can be rich and yet not competitive. In general, wealth represents the result of previous competitiveness, such as, for example, the economic and business fulfilments accumulated by the previous generations.

¹⁴ *ibidem*, page 7

Wealth is also a function of chance (*such as for a nation to have natural resources or for an individual to be born into a rich family*); however this wealth is not enough to determine future **competitiveness**. It helps, meaning that it offers nations, companies and people, an initial advantage for the economic development, but it does not guarantee that today's prosperity will be perpetuated tomorrow.

a) Natural resources: a blessing or a curse?

In general, the abundant existence of natural resources is considered a blessing for a country. However, natural resources do not necessarily lead to competitiveness.

The fact that they are renewable or not determine the impact the natural resources have on the competitiveness.

For example, forests are considered to be renewable resources in many countries, and cutting the trees is carefully tracked. Trees cannot be cut before a certain age and new plantations are needed.¹⁵

Non-renewable natural resources (*such as oil, gas or minerals*) are not valuable for competitiveness unless they are used to develop other activities. If the results of their exploitation and extraction are not used for future **competitiveness**, consuming the non-renewable assets is a net loss of wealth for future generations. Although exports of non-renewable natural resources can significantly contribute to the Gross Domestic Product of a nation, they can not be considered as factors of future competitiveness unless used wisely.

But non-renewable natural resources can provide a range of opportunities for the future **competitiveness** to develop, if the wealth from their exploitation is invested in capital goods, such as human capital, facilities or equipment.

Although an obvious source of wealth, the natural resources should be seen as a facilitator of competitiveness. For competitiveness, their true value exists only if they become renewable, or if the nation uses the profits generated by natural resources to diversify the economy through activities that create value added which can hold in the future.

In principle, nations should have policies for natural resources but similar basic principles can also be applied when talking about companies

b) Past competitiveness - an unbearable burden?

One can easily establish a link between previous competitiveness and today's wealth.

Finally, the goal of **competitiveness** is to increase the prosperity of a nation and its people.

In theory, a competitive nation generates each year a certain economic value, which appears in the national accounts as an increase in Gross Domestic Product. In return, this GDP increase is added to the existing wealth of the nation, but it cannot be found in any place. The GDP of a nation indicates an added value. It does not in any way reflect the accumulation of valuable assets such as roads, buildings, transport, schools or universities, which are essential parts of the wealth of a nation.

Some countries like New Zealand, Italy and most recently, Great Britain are trying, facing some difficulties, to assess their entire wealth. These projects aim to fill a void within national accounts.¹⁶

The accumulated wealth is a very important part of the prosperity of a nation, but it is not taken into account.

¹⁵ *ibidem*, page 8

¹⁶ *ibidem*, page 9

To use only the GDP in order to determine the prosperity of a nation can be compared to calculating an individual's prosperity only on its current annual revenue, omitting any property accumulated in time.

Wealth, if is not a direct consequence of natural resources is the cumulative result of competitiveness from the previous years.

Rich countries such as Great Britain, Japan and Germany, owe a large part of their current standard of living to the previous generations' competitiveness. Today, these nations may or may not be competitive, regardless of the achievements of past generations. The former success is not a guarantee for the current **competitiveness**.¹⁷

For any nation, past wealth and present **competitiveness**, determine the current prosperity.

Prestigious universities (*including Harvard, Oxford, or La Sorbonne*), innovative firms (i.e. *Siemens*), and efficient infrastructure (*such as the Bullet train in Japan*) are legacies of the past. However, they can actively contribute to the **competitiveness** of today.

However, their historical value does not represent a guarantee for their future competitiveness, nor for the future prosperity of nations-parent. Success will depend only on the present generation's efficiency in using, developing and transferring those assets to the future generations.¹⁸

Wealth can also mean a threat to competitiveness. Rich nations, companies and people have the risk of falling into self-satisfaction, arrogance and apathy. Indeed, self-satisfaction and arrogance have killed more companies than any strategic mistakes. Wealth may

act as a sedative, inducing nations, firms and people insensitivity to change. Experts have shown that competitive organizations are often "hungry" for success, while rich organizations simply are not that "hungry". Such attitudes are understandable, but the first-mentioned organizations have an impulse and motivation to succeed more powerful, which is a key determinant for competitiveness. Thus, wealth is a double-edged sword, which supports or places obstacles in front of competitiveness. The theory of competitiveness can be summarized like this: "What you own does not matter as much as what you do with what you own".¹⁹

D. Competitiveness is more than power

Power, economically, can be seen as a function of the wealth of a country and its population size, as shown below:

$$"Wealth \times Size = Power"^{20}$$

The formula for economic power expressed above is more than the GDP of a country.

For example, despite the fact that the GDP of China or Russia is relatively modest, the potential economic power of these nations is partly determined by their impressive size: China as population and Russia as territory. As with countries like Singapore or Finland, wealth may mediate the disadvantage of

¹⁹ *ibidem*, page 10

²⁰ This represents a formula for the economic power, as it is presented in the work of **Garelli, Stephane** (2006), *Top class competitors. How Nations, Firms and Individuals Succeed in the New World of Competitiveness* (in Romanian: *Competitori de top. Cum națiunile, firmele și indivizii reușesc în noua lume a competitivității*), John Wiley & Sons, Ltd., England, page 14 and page 15

¹⁷ *ibidem*, page 9

¹⁸ *ibidem*, page 9

size to a certain point. After all, in a modern global world, size is a key factor for competitiveness.²¹

At first glance, it is likely to find that the GDP of a nation could be a good approximation of the wealth of a country. Unfortunately, GDP is a movement indicator of the annual value added and not the accumulation of wealth. That is why, in the absence of direct measurement of a nation's wealth, we are forced to use GDP as a substitute: taking separately the GDP of a nation and its relations with the population, we can obtain an approximation of the economic potential of it. The combination of these two components defines the limit or the potential for the power of a nation.

a) Larger markets will dominate competitiveness

Size is a determining factor for the **competitiveness** of nations. In the initial stages of economic development, the size of the local market of a country may act as a magnet for foreign investments.

Today, countries such as China, India and Russia show their attractiveness by emphasizing the potential of their local ample markets. In subsequent stages of development, the size of a country encourages a greater capacity for the production and export of goods, services and investments. Advanced industrial economies such as USA, Germany and Japan are based on the size of local markets to build scale economies in the production of goods and services. Such large

countries use size as a way to achieve economic or political power.²²

Since the publication of the book "*Small is Beautiful*"²³ by E.F. Schumacher, in 1973, the tendency to believe that size is not that important has been expressed.

Communications and modern transportation technologies, as well as opening global markets, have allowed smaller companies to play a significant role within international markets.

Companies like Nokia, Microsoft, eBay and Vodafone can be the world leaders in their fields without necessarily be large companies, this, in fact, being one of the most interesting developments in modern management.²⁴

At present, we can see how small companies can be "large", and how can they get a competitive difference towards larger players, being able to become significant players within international markets.

In the past, the international game was reserved for the largest organizations, which could provide important resources to the international operations management.

Today, the small global niche firms, which are very competitive, conquer the business world due to the development of the Internet and efficient logistics on a global level. Nowadays, the most competitive firms have unlimited access to resources and talent wherever they are, this being a privilege that nations do not have.

b) Can small nations survive?

Demographic prospects are not encouraging for small nations. Time is running against them, and the question that

²¹ Garelli, Stephane (2006), *Top class competitors. How Nations, Firms and Individuals Succeed in the New World of Competitiveness* (in Romanian: *Competitori de top. Cum natiunile, firmele si indivizii reusesc in noua lume a competitivitatii*), John Wiley & Sons, Ltd., England, page 10

²² *ibidem*, page 15

²³ *ibidem*, page 15

²⁴ *ibidem*, page 15

frequently arises is “*how will small nations continue to matter in the future?*” A small company is more likely to become a significant player on the world market than a small nation. Companies that are called worldly niche players are those for which the location and size are less important.

E. Competitiveness means a change of mentality

In conclusion, *competitiveness represents more than productivity, more than we can measure, more than wealth and power* so, basically *it will imply new changes of mentality*.

2. Competitiveness and the need for a change of mentality

The theory of competitiveness must go beyond the analysis of productivity, the accumulation of physical assets, the increasing power and wealth.

Competitiveness also refers to the changing mentalities: the image of the world, nations, companies and people from a different perspective.

The completeness of this vision, the holistic approach of the decisive elements of company's and nation's prosperity represents an aspect of the theory.

Another important aspect is given by the way in which **competitiveness** profoundly modifies the frame of the comparison in examining these elements. Moreover, **competitiveness** incorporates an analysis of time and space that is very different from the analysis of the conventional economy.

Within the concept of competitiveness, we must change the attitude regarding time and space as a framework for comparison to

measure our performance. We are mentioning the fact that a standard measurement element of a nation's economic performance, the GDP shows multiple deficiencies. Of these, we are mentioning the following: GDP does not take into account the waste of the non-renewable resources, it does not evaluate the intangible assets and it does not indicate accumulated wealth. The situation is similar when analyzing companies, namely: the accounts that show profit present little or no interest for the brand's value and other intangible such as technology, processes, employees' skills, although the brands' and other intangibles' value represent elements that are crucial to the ability of the company to achieve efficiency. Another difficulty of conventional measurements such as GDP or profit, is that they make the firms and nations to look inside and back when assessing their performance. They are more inclined to consider these performances compared to what they obtained in the past and isolated from the rest of the world. Such an introspective approach of performance represents one of the most misleading threats to competitiveness, perpetuating, in most cases, an illusion of success, when in fact the reality has changed.

For this reason we think the following quote is illustrative: “*Competitiveness is like a race. It's not just you running faster than yesterday; it is about you running today faster than everyone else in the race.*”²⁵

“*Benchmarking*”²⁶, as a central element of competitiveness, tells a company the measure of its performance against what competitors have achieved in the same time frame. Unfortunately, many politicians and

²⁵ *ibidem*, page 16

²⁶ *ibidem*, page 17

chief executives prefer to compare their current performance with the previous one. Although it could be interesting, it is mostly irrelevant in terms of competitiveness. Competitiveness along with benchmarking should be seen as *“Competitiveness refers to the benchmarking activity of our performance today, with others and not just with our performance from yesterday.”*²⁷

The conceptual importance of winning is rarely discussed. However, within the mentality regarding competitiveness, the profit may not be as good as we think. We believe that nations and firms should take care of a fundamental problem too: *“We win the correct race and if so, with what difference compared with others?”*²⁸

Choosing the correct comparison base, for example, *“the correct race to win”* and defining the objective, for example, *“with what difference compared with others”* represent **the two fundamental principles of competitiveness.**²⁹

The difference within a competitive relation is extremely important: *“For competitiveness, being good is not enough to be successful, what really matters is to be different.”*³⁰

In practical terms, the theory of competitiveness emphasizes the fact that success is related to differences, according to the following principle: *“Competitiveness thrives on maximizing the positive difference (or the comparative advantage³¹) between a nation, a company or*

*an individual and their direct competitor.”*³²

A mentality based on competitiveness can have a major impact on the profitability of a company. In business, in a situation that resembles a tight sprint, large differences are not usually required. Nations face a similar dilemma, namely their attractiveness is a key determinant for competitiveness.

The foreign investments³³ are transferring capital, technology, jobs and skills in the host nation, thus contributing to its prosperity. Acknowledging the way in which foreign investments create jobs, the government leaders, concerned about unemployment in general, because they affect their re-election, of are actively supporting an approach of the attractiveness in terms of **competitiveness.** In the last two decades, the national investment agencies that have used stimulating packages to attract foreign firms prospered (*Ireland and Singapore are key references for such policies*). However, these packages are not so differentiated. Most nations promote the same benefits: a grace period and preferential rates of duty for investments, excellent infrastructure, low cost of operation, access to markets, government support and so on. In this situation, firms have a choice of several places for investment and can be tough negotiators in their choice, determining the nations to outsmart themselves to offer the best deal. When a situation of strong and extreme competition arises in the context of a company, generally the consequence for that supplying firm is that prices are low and the differences are compressed.

In the context of national governments,

²⁷ *ibidem*, page 16

²⁸ *ibidem*, page 16

²⁹ *ibidem*, page 16

³⁰ *ibidem*, page 16

³¹ *ibidem*, page 17

³² *ibidem*, page 17

³³ *ibidem*, page 17

most likely incomes from taxes will be reduced. Today, governments realize that they have no alternative but to be competitive in the area of corporate taxes if they wish to attract foreign investments, this being in the end what all nations do. As a result of this competition between nations and the mobility of corporations worldwide, the difference of handling corporate taxes is increasingly limited for nations, practically leading to the convergence of rates for the corporate taxes worldwide.

The compact sprint between nations is illustrating the way in which winning a distance against competitors is a key concept for competitiveness. Nations can save themselves from the corporate requests by focusing on the various competitive advantages (*such as, for example, ease of doing business, quality of life, an international culture, openness, protection of intellectual property and security of people and goods*) and by building a different model based on a set of unmatched competitive advantages. However, most government leaders are elected to solve the mistakes of previous administration. It is understandable that they will focus on improving and showing voters how well it is now.

The theory of competitiveness requires government leaders to change their own frame of comparison: they should analyze their nation's performance in the light of performance and achievements of other comparable and competitive nations over a period of time and then to try to maximize their own advantage. Such a change in mentality represents a true challenge for leaders who have usually focused on local issues and policies. However, in an international exposed environment, where movements of capital and

information are done all over the world in a freer and faster way even than the products, concealing from certain realities is no longer an option. Nations are also obliged to obey the laws of competitiveness.

The theory of competitiveness provides a more comprehensive and holistic approach to those interested in determining the factors that are influencing the prosperity and the method to increase it. Companies and their managers can not always prosper by dividing production, markets, customers, goals, even business units and skills. Also, nations can not neglect the development of a system of common values, a coherent set of objectives and an established and adopted plan to achieve prosperity. Divergent goals and procedures must be brought together within an organization, in general, on the leadership level to bring a guiding feeling of a future goal.

The theory of competitiveness provides a framework for conducting this reconciliation process, emphasizing the importance of two ideas³⁴:

- 1) **competitiveness implies** moving further from productivity, tangible, wealth and power as the sole determinants of success;
- 2) **competitiveness implies** moving the reference frames from the short-term benefits, to the sustainable development, from the individual comparisons from past to the benchmarking of performance of the current competitors, from being satisfied with success to maximizing the comparative advantages.

³⁴ *ibidem*, page 19

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Development of Exports and Imports of Kosova with European Union Countries

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Abstract: Kosova, within the nine years period, has moved from a post conflict country to a country considered to be in transition. Kosova has passed from its determination for reconstruction of the country to the orientation towards economic development and integration to European structures. But economic development is not yet sufficient in order to address challenges that Kosova is facing, such as high percentage of unemployment and high deficit of trade exchange. The unemployment rate in Kosova is the most concerning economic issue. Unemployment norms move from about 30 % (IMF) to 40% (SOK, 2006). High deficit of recurrent accounts also present a great concern for Kosova economy, which has been evaluated to be 17.3% of gross domestic production (GDP) following receipt of assistance from abroad, and decrease of trade deficit remains one of economic priorities in Kosova. Current ways of cooperation between countries are based on ignoring existing borders and mutual cooperation among people of the world, based on freedom and equality among entities of market economy. Kosova supports open economic policies and it achieved to sign some of Free Trade Agreements (FTA) with regional countries of western Balkans. It is expected that Kosova will endorse other FTA also with other countries in the region and wider since these actions are to be taken in order to support economic development of Kosova. In the post war period, the main trade partner of Kosova has been European Union (Germany, Greece, Slovenia, Italy, and Austria), whose participation in general import of Kosova for 2004 was 26.7%, while this integration in general export of Kosova in 2004 was 28.7%. The purpose of this study is that I wanted to present importance of trade cooperation of Kosova with UE countries and offer information of the course of imports and exports of Kosova with EU countries, as well as to analyze possibilities and advantages that this cooperation offers for economic development of Kosova.

1. Introduction

The world of today is characterized with great regional and world integration processes, which are presented as a need and necessity for future socio-economic development, as well as for realization of the highest rate of welfare of people. With a quick development of production forces, especially with third technical and scientific revolution, national markets are becoming very narrow while the need for cooperation among countries is becoming larger, by presenting this way the need for integrating of various countries within the regional or world integration economic processes, within which free movement of people, goods, services and knowledge will follow.

During 90's of XX century, but also nowadays at the beginning of XXI century, various world countries are adopting new accesses on development, which are based on economic liberalization and in recognition that today their greatest challenge is integration to world economy where they find their chance for their future economic development. Today, ways of cooperation among countries are based on ignoring the existing borders, mutual cooperation among world population based on freedom and equality among entities¹ of market economy.

International integrations, meaning unite of states in greater regions, have a short background since they were not mentioned before 1940. As a matter of fact, they were presented following the Second World War, when following quick development of production forces and scientific and technology revolution, there was a need for a greater and permanent economic cooperation among the countries.

¹ Ahmet Manqellari, *International Trade*, Tirana, 2004, page 139

Economic union (integration) of the world, based on exchange of goods and services, licenses of knowledge with export of capital and economic, technical and financial cooperation, present one of main characteristics of modern economy. Socio-global agreements, with all their contrarities, occupy the first place in the life and development of modern society, which result with transformation of economic and social units from local and regional insets to world sizes. Cooperation reports among populations and organizations are each time greater and more intensive.

Although in 2002 participation of developing countries regarding world general population was 78.2%, participation of these countries to world general production was only 20.3%. These indicators are even less favorable when African countries are in question, general world population of which makes 12.5%, while their contribution to world general production is significantly smaller.

2. Economic Integrations in Europe

First regional integrations were established in Western Europe, in European Economic Union (EEU), which was established in 1957, and in European Free Trade Association (EFTA), which was established in 1969 as reaction to the first one. Otherwise, attempts for unification of Europe exist since Roman Empire (First Century B. C. until the Fifth Century). After weakening of this Empire, only Karl the Great (742 – 814) had been successful in establishing and protecting partly integration of Europe at the beginning of the Ninth Century. In the newer History, from 1809 – 1912 Napoleon achieved

was successful in creating and integrating a great part of Europe (but he did it with his sword) while after him Hitler, during the period 1939 – 1945, attempted to enslave the world by using military, fascist and racist methods². But the real unification of Europe happened in 1957, following endorsement of Rome Agreement on establishing the European Economic Union, which, at the beginning, was composed of the following six countries of Western Europe: France, FR of Germany, Italy, Holland, Belgium, and Luxemburg. Great Britain, Ireland and Denmark joined this Union in 1972. Greece entered this Union in 1981, and Portugal and Spain in 1986. This way, this Union was composed of 12 members. In 1992, the Maastricht Agreement was signed, after which the EU was founded. In 1995, this Union was joined by Austria, Finland and Sweden.

During 80's and 90's, Eastern Europe Socialist system was involved into economic and social crises by warning about necessity for its transformation. This transformation, which began in 1990, exposed necessity of transforming from a directed system, with centralized economy, to a democratic system and economic market based on a free competition of economic entities. In May of 2004, ten new countries, mainly Central and South-East European, some of which were members of Warsaw Treaty (SEV), entered the EU. This EU enlargement is characterized by accepting a large number of countries within this regional economic integration, comparing with earlier EU enlargements that were characterized by acceptance of a small number of countries into EU membership. By accepting these countries (Czech Republic,

Slovakia, Poland, Hungary, Estonia, Latvia, Lithuania, Slovenia, Cyprus and Malta), the number of EU countries increased to 25, and now this economic integration presents the largest world economic force, which includes 455 million inhabitants, which is 7,4% of the world population. Reality shows that all EU countries within this integration have achieved considerable results and have benefited in all spheres of life. Hence, similarly for countries of Western European countries, Central and South-East Europe, as well as Balkans countries, economic interests should be main stimulant for integration, which would bring benefit to all of those that cooperate, while antagonisms should be left to the past.

The newest project, dealing with regional integrations in Balkans, is so called Stability Pact project, which presents a wide project for economic cooperation in South-East Europe. This project aims, through economic cooperation, to beat out and annul ethnic tensions, which keep off this part of Europe far from dominating ideas of advanced and civilized world: ignoring borders and free movement of people, goods, knowledge and capital. Saying it with other words, establishing political and economic stability is highly necessary for putting into function democratic institutions, civic society and market economy. The essence of this initiative is to bust financing of infrastructure projects, private investments and to eliminate administrative obstacles in cooperation with the region of South-East Europe, and in this direction are noticed first results since under the care of Stability Pact a number of projects were drafted, such as an agreement for establishing an integrated power market, as well as a joint initiative for fighting terrorism

² Miroslav Jovanović, *EU Economics*, Beograd, 1995, page 53

and organized crime. A number of bilateral agreements for free market were also endorsed. When these agreements will enter into force, a regional market will be established with a population of 55 million. One market of such dimension would offer very good business and investments possibilities than those offered by local narrow markets³

3. General Information on Kosova Economy

Economic development of Kosova during 2000-2006 period is characterized with a small increase comparing with the low bases of beginning of transition, as well as with macro-economic indicators, which are generally unstable that may be noticed at the below table.

Real situation of Kosova economy is characterized by three basic macro-economic disproportions: negative trade balance, high rate of unemployment and awkward economic structures.

Sudden increase of GDP until 2002 had been influenced mostly by large number

of international donors, which reached the amount of € 900 million and it was used for reconstruction of houses and damaged infrastructure from the conflict of 1999. Later, this aid was decreased evidently, and in 2006 it was assessed to be twice smaller than in 2002. Adoption of Euro as a national currency had favored sustainable monetary policies and exchange rate. Trade deficit remained to high levels while exports were few due to limited production capacities meant for export and due to impossibility to stand the competition. Cover of import with export is still too small, about 8%. Although it is quite clear that Kosova needs a higher rate of economic increase in order to address challenges it faces, the level of economic increase in 2006 should be considered as encouraging since it was achieved in spite of limited effects, which resulted by reduction of donors aid (from € 426 million to € 343 million), as well as by reduction of governmental capital expenses. This increase was based mainly on investments of private section that were financed by bank credits and direct foreign investments.

Table 1. Some main macro-economic indicators

	Years				
	2003	2004	2005	2006	2007
Real increase of GDP(%)	8.3	2.1	0.3	3.0	3.5
Inflation (%)	1.2	-1.4	-1.4	0.7	4.4
Increase of investments	-7	25.1	-26.0	29.4	15.2
Increase of export (%)	0.1	-8.7	-11.1	30.3	32.3
Increase of import (%)	-4.5	1.0	9.4	13.3	
Coverage of import with export (%)	2.4	7.7	6.5	8.1	9.3
Remittances (million Euros)	341.4	215.0	281.0	318.0	362
Aid from abroad (million Euros)	698.7	565.0	491.0	465.0	376 ²

Source: IMF, *Aide Memoire*, February 2007

3 Musa Limani, *European Economic Integrations*, Prishtina, 2004, page 39

4. Trade Balance of Kosova

Currently Kosova can not fulfill its needs by domestic production hence, it is importing almost the most elementary articles. For years, Kosova is faced with a high trade deficit as regards trade exchange with the world. During 2005 Kosova experienced a trade deficit of € 1.1 billion. Nevertheless, it's worth mentioning that although deficit was very high, some positive changes took place in the structure of imported goods. Concretely, the number of imported machinery, technical mechanisms and production means while import of consume goods and final products was decreased. Increase of imports for 11% and decrease of exports for 15.6% in 2005, had an effect to increase of trade deficit, which achieved the value of € 1,131 million (from € 1,007 million that was in 2004) and brought the rate of import in relation with export to 4.1%, from 5.3% that was in 2004. In 2006, trade deficit reached the amount of € 1.2 billion, which presents a deficit of 50% of GDP. With exports of goods that reached the amount of € 100 million and imports that reached the amount of € 1.3 billion, the coverage of imports from export reached 8.1%, presenting an improvement comparing with the previous years. However, bearing in mind the low basis of exports in 2006, export in Kosova increased for 42.4%, while in 2005 marked a decrease of 10%, while imports in 2006 were increased for 15.2%.⁴

As regards export structures in 2006, the greater increase in the category of foodstuff production, which presents a positive sign achieved as a result of commencing

produce in some of privatized enterprises. The export of foodstuff during this period reached to € 15.8 million, from € 3.2 million that was in 2005. Participation of mineral production in the general amount of exports was increased to 20% in 2006 from 6.6 % in 2005. Participation of black metals (in form of rough scrap) to the total of export was decreased to 42%, from 50% that was in 2005. The structure of exported goods of Kosova still remains unfavorable due to the fact that higher participation to the structure of exported goods is composed of basic metals. Otherwise, basic metals and food production contain about 60% of Kosova exports, while leather contain third largest category within the export structures.

In 2007, trade deficit of Kosova market worsening of situation since it was increased for 19.1% comparing with 2006. Although exports were increased by 32.3% in 2007 and had reached amount of € 146 million, entire imports were covered only for 9.3%. Value of imports in 2007 reached to € 1.6 million, while value of trade deficit reached to € 1.4 million.

Trade structure of goods as regards export and import remain almost unchanged in 2007. Category of rough metals, including 45.7% of entire export, remains still the main category of export in Kosova. Then follow mineral products, participating to general export with 15.4%. With participation with 13.1% in general exports, the third larger category within exports structure in Kosova were machinery, tools, power equipment etc. The structure of exports in Kosova, according to group of goods in 2007, is presented in the below table.

⁴ CBAK, Annual Report 2006, page 43

Table 2. Exports of Kosova according to group of goods participating in total for 2007(2006)

Category of goods	Total participation
Basic metals	45.7% (42.0%)
Mineral products	15.4% (20.0%)
Machinery	13.1% (4.0%)
Vegetables	5.7% (4.9%)
Prepared foodstuff items	5.1% (6.1%)
Plastic and items	4.1% (3.9%)
others	10.9% (6.8%)
Total	100%

Source: CBAK, Annual Report 2007, Prishtinë, May 2008, page 40

The most imported category in Kosova trade in 2007 still remains mineral products, participating with 20.2% in overall import. Within the imported mineral products, the largest participation makes import of oils and fuel, which is 81.6% of overall mineral products. Import of prepared foodstuff, drinks

and tobaccos present second of the biggest category of imported goods in Kosova, which is 14.1% of overall imports in Kosova. Machinery, tools and power equipment present the third biggest category of imported goods in Kosova, which is 12.5% of overall imports that is outlined in below table.

Table 3. Imports of Kosova according to group of goods participating in total for 2007(2006)

Category of goods	Total participation
Mineral products	20.2% (18.5%)
Prepared foodstuff	14.1% (12.9%)
Machinery	12.5% (11.9%)
Basic Metals	9.2% (6.8%)
Products of chemical industry	7.9% (7.3%)
Vegetables	5.3% (5.1%)
Transport means	5.2% (7.6%)
Plastic	4.6% (4.9%)
Stone, Alabaster and Ceramics items	4.4% (4.1%)
Cattle	3.9% (3.8%)
Textile	3.3%
Others	9.8%
Total	100%

Source: CBAK, Annual Report 2007, Prishtina, May 2008, page 40

From the data presented at this table, a small positive movement within import structures in Kosova may be noticed due to a small decrease of import of prepared foodstuff, while a small increase in machinery import was noticed. However, low norm of exports, as well as the structure of exported structures, still remains a large concern for Kosova economy. Kosova market is open for products of all countries, but Kosova has nothing to offer to the regional and world market, which endangers the trade balance of Kosova.

5. Main trade partners of Kosova in the post-war period

The main trade partner of Kosova in the post-war period is European Union (Germany, Greece, Slovenia, Italy, and Austria), participation of which to overall import of Kosova in 2004 was 26.7%, which marked increase comparing with 2003 for 17.3%. As regards the Kosova import outside countries of European Union, Macedonia was at the first place with 14% of overall imports or € 149.2 million at the end of 2004, then follow Turkey with 8.1%, Serbia and Montenegro with 6.8%, Bulgaria with 3.9% and China with 3.2%, or said in million of euros is 86.8, 72.6, 42.1, 34.3. As regards to structures of imports of Kosova, according to group of goods, at the end of 2004, mineral products contained € 173.1 million or 16.2% of overall imports, prepared foodstuff, drinks and tobacco contained € 165.4 million of imports, while the third group, in which are included machinery, tools, and power equipment contain € 116.8 million or 10.9%.

Value of exports of Kosova in 2005 was € 50 million (of 57 million that was in 2004),

by marking a decrease of 15,6% comparing with 2004, but which is characterized with an improvement in increase of export of agriculture products, especially of animal products and processed food. Also, there has been an increase in export of mineral and leather products. Export of textile products has decreased for more than 60%. Metals (mainly scrap iron) kept being dominant in Kosova's export also in 2005. One positive element is increase of participation of agriculture products in the structure of general exports although being quite symbolic. Similarly as with imports, main export partner of Kosova is EU, which imported from Kosova for € 16.2 million that presents 28.7% of the overall value of exports of Kosova in 2004 (in Italy were exported € 5.5 million, in Greece € 4.3 million and in Germany € 3.3 million). The largest importer outside of the EU zone from Kosova is Macedonia with € 9.6 million that presents 16.9% of overall exports of Kosova. According to group of goods exported from Kosova, scrap metals were mostly exported, then follow plastics, wooden products and then follow food products (wine, mushrooms, etc.).

Balkans countries, in order to improve friendly reports, need to increase economic cooperation in the spheres of mutual trade exchange. This, for sure, will contribute in accelerating economic development and to European economic integration, as well as to enhancement of reports between states of West Balkans region. Free trade agreements (FTA) play an important role in dynamics of economic development as well as in establishing equal conditions in the market. In 2005, the Stability Pact commenced discussions regarding deepening the level

of trade cooperation through establishment of a Regional Unique Zone of Free Trade. Participants of mutual net of Free Trade Agreement (FTA) have unanimously expressed their support to this initiative, so the Prime Ministers of eight states of South-East Europe (SEE) in Bucharest opened negotiations on extension of Agreement on Central Europe Free Trade (CEEFTA). Member states of CEEFTA have already become Croatia, Bulgaria, Rumania, Macedonia, Albania, Bosnia and Herzegovina, Serbia, Montenegro and Kosova.

In 2007, Central Europe States of FTA (CEEFTA), as well as European Union (EU), remained main trade partners of Kosova. CEEFTA States in 2007 contained 38.9% of overall exports and 41.3% of overall imports of Kosova, while participation of EU countries to overall imports of Kosova made

28.9% while their participation to overall exports was 42.6%. Within CEFTA states with larger participation to imports of Kosova in 2007 were Macedonia (with 21.2% of overall imports and 11.0% of overall exports), Serbia (with 12.0% of overall imports and 11.9% of overall exports) and Albania (with 1.4% of overall imports and 13.0% of overall exports).

Within the EU countries, Germany presents the state with the largest participation to the overall imports of Kosova in 2007, with 7.7%, and to overall exports with 10.3%. As of 2004 imports of Kosova from China have marked an obvious increase, so in 2007 it participated with overall imports in Kosova with 6.6%. Turkey also presents an important partner, but its participation to overall imports of Kosova has marked a decrease, so in 2007 it participated with 6.4% of overall imports in Kosova.

Table 4. Imports and exports of Kosova according to states in 2007, in million euro

State	Imports	Exports
UE	554.9	62.5
FYROM	236.5	16.1
Serbia	221.9	17.4
China	104.6	0.0
Turkey	101.6	2.2
Croatia	39.0	1.4
Albania	36.2	19.1
Bosnia Herzegovina	29.8	4.3

Source: CBAK, Annual Report 2007, Prishtina, May 2008, page 41

From presented data in above table it can be noticed that Kosova during 2007 has imported goods mainly from EU countries, namely from Germany, then FYROM and Serbia. Imports from EU, namely Germany, contains vehicles and then transporting

means, which makes 48.1% of overall imports from Germany, and machinery, tools and power equipment, which makes 16.5% of overall imports from Germany in 2007. Imports from FYROM in 2007 mainly consisted of mineral products, which contained

62.1% of overall imports from this country. While imports from Serbia were based on import of prepared foodstuff, drinks, tobaccos, which makes 30.7% of overall imports from this country.

Conclusion and recommendations

From what was said above, it may be concluded that trade relation of Kosova with other countries, which includes European Union in post-war period was negative. It can also be ascertained that trade exchange during mentioned period marks an evident increase, while level of coverage of imports with exports is very low although from a year to another year it marks little increase, a level which in 2007 reached to 9.3%.

When talking about the structure of imported goods, it is noticed that the larger participation to imports of Kosova makes mineral products, prepared foodstuff, followed by machinery. While as regards the structure of exported goods, the larger participation makes rough metal items, leather and leather items. From EU countries Kosova mainly imports vehicles and other transporting means, machinery, tools and power equipment, and it exports scrap metal, plastic and wooden products and then follow food products (wine, mushrooms, etc.). EU market presents a possibility for Kosova to place its products, but possibilities of Kosova to do it are little due to low level of local production and low competition capability of Kosova products. Since Kosova has a trade deficit regarding trade exchange with the world, it means that Kosova Government should commit itself in improving its trade balance with the world, which may be achieved through:

- Establishing a developing an overall economic strategy;
- Increasing local production capacities;
- Establishing and implementing legal infrastructure;
- Applying simulative measures for local producers, especially for agriculture producers;
- Using protection policies for local producers;
- Increasing competitive capabilities of local products in foreign markets; and
- Establishing conditions for foreign and local investments in production field.

As it can be seen, the main problem in Kosova economy is the low level of production, which has a negative impact to trade exchange of Kosova. Hence, in the future, monetary and fiscal policy of Kosova is to be oriented towards stimulation of local production. In this way, by encouraging local production industry, we shall establish conditions for decreasing the level of dependence on foreign markets, shall offer more types of productions to foreign markets and, as a result of all this, we will improve our trade balance. Kosova has a very young population but Kosova's business community expects of Kosova authorities to establish a more practical and supporting environment for entrepreneurs, by respecting laws and by meeting obligations equally by all.

Half of Kosova population is under 27 years of age, while each year about 30.000 people enter the labor market. Youngsters are mainly unemployed and 72% of unemployed are under the age of 40, which means that Kosova has a great potential of unused production.

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Corporate Diversification and Firm Performance: an Empirical Study

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Abstract: *The importance of diversification and performance in the strategic management literature is widely accepted among academics and practitioners. However, the proxies for performance and diversification that have been employed in past strategy research has not been unanimously agreed upon. Given the current state of confusion that exists with regard to the impact of corporate diversification on firm performance, the present paper seeks to add to this body of knowledge and help resolved some discrepancies. This study examines the impact of corporate diversification on firm performance in selected Nigerian companies. The reason for increased interest in diversification has always been on the possibility that diversification is related to corporate performance. However, while this topic is rich in studies, empirical evidences emerging from various studies about the effect of diversification on performance have so far yield mixed results that are inconclusive and contradictory. In addition, despite the existence of these studies, very little attention has been given to the companies in developing countries including Nigeria. This means that there is a major gap in the relevant literature on developing countries which has to be covered by research. This research attempts to fill this gap by studying the situation of the Nigerian companies and providing more empirical evidence on the effects of corporate diversification on firm performance based on individual company-level data. Survey research design was adopted in this study with the application of simple random sampling technique in selecting our case study companies as well as our respondents. Primary data were collected through questionnaire. Data were analysed through descriptive statistics and correlation and coefficient of determination were used to test our hypotheses. It was discovered that diversification impacted performance of these companies positively and we recommend that these companies should engage in geographical diversification in addition to other forms of diversification they are currently involved in for maximum performance.*

Keywords: Business Organisations, Corporate Diversification, Firm Performance, Strategic Management.

Introduction

Business organizations are operating in environments that are increasingly uncertain, complex, competitive, dynamic and unpredictable. The changes in environments are not only rapid and bewildering; they also appear to be in a state of constant flux. Development arising from these forces and the need for organizations to survive in today's fiercely competitive market are causing many organizations to rethink the way they are doing business in order to remain relevant to their stakeholders in the unfolding dispensations. These contextual influences not only present organizations with critical challenges, they also present new opportunities for growth and development. Companies are adopting various strategies to respond to these forces in order to survive and grow.

It is important to add that competitive pressures are forcing many organizations to react to these changes with improved quality services and/or products. In the light of these new challenges, many organizations have played out the logical restructuring paths through the adoption of various performance improvement methodologies ranging from Business Process Reengineering (BPR), Corporate Restructuring (CR), Organization Development (OD), Business Process Management (BPM), Mergers and Acquisitions (M&A), and Total Quality Management (TQM) to mention a few.

Despite the adoption and implementation of these strategic recipes in the past, organizations still find themselves in need of reinvigoration by way of strategic shifting of the organization structure from what it is now to what it has to be, in order to maintain

competitive edge and satisfy customers needs at a profit. The desire for this repositioning has prompted many Nigerian business organizations to adopt diversification as a corporate strategy. Thus, the focus of this research is to assess the impact of diversification on corporate performance in selected Nigerian companies.

Statement of the Research Problem

The issue of diversification has assumed a position of centrality and universality in the management process. Diversification has become an increasingly important aspect of doing business in the world today (Elango and Ma, 2003). Academic interest in the topic of diversification is evident by the level of attention it has received over the last few decades. The relationship between diversification and firm performance has been the subject of abundant research in several fields. However, many researchers concurred on the fact that there is no agreement on the precise nature of the relationship between diversification and performance (Hoskisson and Hitt 1990; Markides and Williamson, 1994; Palich, Cardinal and Miller 2000). Some studies have shown that diversification improves profitability over time (Chang & Thomas, 1989; Lubatkin & Rogers, 1989) whereas others have demonstrated that diversification decreases performance (Michel & Shaked, 1984). Still other studies have shown that the diversification-performance link depends on business cycles (Hill, 1985). Santalo and Becerra (2004) explain conceptually and provide empirical evidence that no relationship (positive, negative or even quadratic) exist between diversification and performance. The empirical evidences emerging from various

studies about the effect of diversification on performance have so far yielded mixed results that are inconclusive and contradictory.

Because of these contradictory results (Ramanujam & Varadarajan, 1989), the relationship between diversification and performance is controversial. Thus, the question of whether diversification improves or worsens firm performance is still worthy of further research such as the one being undertaken in this study. In addition, despite the existence of these studies, very little attention has been given to the developing countries. Besides, the impact of diversification on firm performance has not received adequate research attention in Nigeria. This means that there is a major gap in the relevant literature on developing countries including Nigeria, which has to be covered by research. This research attempts to fill this gap by studying the situation of the Nigerian companies and provide more empirical evidence on the effects of diversification on firm performance based on individual company-level data.

Significance of the study

A review of academic literature on the subject of corporate diversification and firm performance reveals that there is a dearth of literature on it in the developing countries including Nigeria. Besides, it is important to add the fact that in the industrialized countries where most of the studies on corporate diversification and firm performance were reported, little attention has been paid to the process of planning and execution of diversification to ensure a successful corporate diversification. Thus, it is hoped that this study will fill the existing gap in the literature

especially in the less developed countries in general and Nigeria in particular.

This study will also provide a fresh and multidimensional framework for understanding the relationship between corporate diversification and firm performance. It is expected to, as much as possible, erase mental doubt and bring the empirical cum professional principles as well as standard practices concerning diversification strategy. In addition, this study will be of immense benefit to a number of people. These include academics who are interested in furthering their knowledge on corporate diversification as the results to be obtained are capable of adding new insight to the present state of knowledge in the field and may therefore be found useful for teaching and for developing a body of management theory. Equally important is the fact that this study will also be of great benefit to practicing managers who might be willing to consider the usefulness of diversification in managing and strengthening their organizations.

Objectives of the Study

The general objective of this study is to evaluate the relationship that exists between corporate diversification and firm performance in selected Nigerian companies. While the specific objectives of the study are to: 1) Examine the intents and/or objectives necessitating corporate diversification by Nigerian companies; 2) Investigate the diversification strategies of these companies; 3) Appraise empirically the relationship between corporate diversification and firm performance of the companies under study; and 4) To formulate recommendation regarding corporate diversification and firm performance.

Research Questions

The primary purpose of this study is the systematic discovery of the relationship between corporate diversification and firm performance in selected Nigerian companies. The following research questions are employed to guide this study:

- 1) What specific intents and/or objectives necessitate the adoption of diversification by Nigerian companies?
- 2) What are the diversification approaches or strategies used by these companies?
- 3) Is there any association between corporate diversification and firm performance of Nigerian companies that use diversification as a corporate strategy?

Literature review

The purpose of this section is to provide a review of the literature on diversification and to develop conceptual as well as theoretical framework for this study. Following a review of the research that has examined the impact of diversification on performance; the concepts of diversification as used by previous researchers are reviewed. The major common elements of corporate diversification are then modeled in order to provide a conceptual framework for judging and classifying the companies studied according to its levels of diversification.

Conceptual Framework

The concept of diversification is yet to be clearly defined and there is no consensus on its precise definition among researchers. Definitions of diversification are many.

What is needed, therefore, is a comprehensive definition which is both theoretically valid and managerially meaningful. Reed and Luffman (1986) pointed out that the term "diversification" has different meanings when research interest varied. Earlier definitions of diversification, such as Gort (1962) and Berry (1975), approached the subject from products or services across industry or market boundaries. Later definition extended to the means, particularly investment or partnership that enables a focal organization to achieve growth or reduce overall risk (Hoskisson and Hitt 1990; Remanunam and Varadarajan 1989).

In general, diversification refers to a firm's entry into a new market. It means the increase by a firm in the kinds of businesses which it operates, being that diversity either related to products, geographical markets or knowledge (Penrose, 1995).

The grand strategy involving diversification represent distinctive departure from the firm's existing base of operations, basically from acquisition and internal generation (spin-off) of a separate business with possibilities counter balancing the strengths and weaknesses of the two business. However, diversifications occasionally are undertaken as unrelated investments, because of the high profit potential and their otherwise minimal resource demands (St. John, and Harrison, 1999).

Motives for Diversification

There are many possible motives behind diversification strategies (Jung, 2003) and due to the nature of this research problems, the researcher intends to discuss the motives related to competitiveness and performance.

1. Synergistic Motive: The first and obvious motive is shown in cases where synergy exists when individual units are operated as a single organization. Synergy occurs when the sum of all businesses together equals more than the sum separately (Hitt, Ireland, and Hoskisson, 2001). Amit and Livnat (1988) argue that diversification into related businesses may augment the market power of the diversified company which in turn may help the company enhance its long-term strategic position. Additionally, synergy may be created if operations of the individual units complement one another, so there are benefits from offering consumers a complete line of products. The size and reputation of such a firm might deter entry to the industry.

2. Financial Motive: This motive is based on the fundamental premise of portfolio theory that "one should not put all one's eggs in one basket". It may also be argued that a firm should diversify and not depend on a single operation. As shown in finance theory, whenever the cash flows of the individual units are not perfectly correlated, the total risk, as measured by variability of consolidated cash flows, is reduced by diversification (Amit and Livnat, 1988).

3. The Market Power Motive: Diversified firms have conglomerate power which makes them thrive on their diversity (Hill, 1985). In his own view, Gribbin (1976) says a firm will not have conglomerate power if it does not hold significant positions in a number of markets.

Montgomery (1994) explains three possible sources for the market power view:

- Cross-subsidization, a firm may use its excess profit from one business to

enter in another, and hence give this new venture an advantage.

- Mutual forbearance, companies can meet on another market to compete less severely.
- Reciprocal buying, large and diverse firms can also buy reciprocally in other markets to seal competition from smaller competitors.

Lindstrom (2005) highlights the anti-competitive actions often associated with motives for diversification. The diversified companies are able to exploit, extend, or defend their power by strategies and tactics. In conclusion, the market power motive is not thought of as to increase efficiency, companies diversify to gain market power, and thereby earn profits.

4. The Agency Motive: There are a number of motives behind diversification from an agency perspective that will not benefit the principal. The reason for this is the separation between the owner and manager, where the manager does not own any equity. This is in agreement with Sambharya's (2000) motive for diversification that it may reflect top management aspirations and goals. Four main reasons for managers to diversify the company are:

- Empire building, the managers diversify in order to create their own empire (Montgomery, 1994).
- Managerial entrenchment, managers will diversify into markets or products in a way that increases the demand for their skills and abilities (Schleifer and Vishny, 1989).
- Risk reduction, managers try to reduce their employment risk by diversifying into different markets and products

and thereby make the organization less dependent on a single market or product. The basis of portfolio theory that states that a firm should not put all her egg in one basket (Amit and Livnat, 1988).

- Free cash flow theory, instead of paying stake owners the managers spend the excess cash flow on acquisitions (Jensen, 1986). The reason for this is that in the beginning of the firm's life cycle there are lot of profitable opportunities for reinvestments, however, when the firm becomes mature these opportunities become more scarce and hence the cash flow from earlier innovations are being used for opportunistic diversification (Mueler, 1972).

5. The Resource Motive: Conventional wisdom suggests that the bigger the company the more resources it controls, hence it should perform above average in an industry. This wisdom is the resource-based motive which states that bundled resources and capabilities that are aggregated over time also underpin a company's competitive advantage (Barney, 1991). When a firm has underused resources that can be profitably employed, it also has an incentive to expand. Furthermore, diversification is driven by the need to use these excess resources (Caves, 1980). In order to grow the firm needs to specialize and the profit or resources from the successful growth will be underused and eventually used to growth by diversification.

Diversification Strategies

There are three general types of diversification strategies discussed in the literature:

- a) growth into a new non-competing product/market which is related to the firm's technological and marketing skills base often termed related or concentric diversification;
- b) growth into a new product that will appeal to current customers often called horizontal diversification; and
- c) growth into a new product/market which is unrelated to the firm's present technological or marketing skills base commonly called conglomerate diversification. Each of these diversification strategies has its own set of issues, benefits, and drawbacks.

Theoretical Framework

1. The Linear Model

Beginning with Gort (1962), industrial organization economics spawned decades of research based on the premise that diversification and performance are linearly and positively related. This position rest upon several assumptions, including those derived from market power theory and internal market efficiency arguments, among others (Grant, 1998).

Integrating the argument outlined above, a linear and positive linkage is suggested and presentations of theory continue to mention these arguments as part of diversification-performance puzzle. But does the evidence support this position? In the recent review of relevant research, Denis, Denis and Sarin (1997) conclude that empirical evidence suggests the cost of high level of diversification outweigh the benefits, that focused firm out perform their diversified counterparts. However, it should be noted that these

findings are not universal across or within studies (Servaes, 1996). These inconsistencies have lead to researchers using alternative models, particularly those that are curvilinear in orientation.

2. Curvilinear Models

In contrast to the argument presented above, a number of researchers have developed theory positing a curvilinear diversification-performance relationship. This theory recognizes that increasing diversification may not be associated with concomitant increases in performance, at least not through the entire relevant continuum. Two alternatives have surfaced in the literature; the Inverted-U Model and the Intermediate Model. Each of these posits that some diversification (i.e., moderate level or related diversification) is better than none; however they differ in their predictions of the performance trend as firm move toward even greater (usually unrelated) diversification. These curvilinear models are presented below.

The Inverted-U Model

Limited diversification presents a strategy of restricted business where the firm focuses on a single industry, thus limiting opportunities to leverage resources and capabilities across divisions. The argument outlined above (i.e. linear model) indicates that limited diversifiers as a group are unlikely to generate above average profits. Lubatkin and Chatterjee (1994) observe that single business firm do not have the opportunity to exploit between unit synergies or the portfolio effect that are available only to moderately and highly diversified firms. That is, focused enterprises do not have multiple businesses, so they do not enjoy scope economics. Also,

these firms bear greater risk since they have not “diversified away” that risk by combining less than perfectly correlated financial streams from multiple businesses. This has negative implication for the debt capacity, cost of capital, and market performance of single business entities (Shleifer and Vishny, 1991).

The Intermediate Model

Few people have questioned the superiority of related over limited diversification. However, the relative performance contribution of related versus unrelated diversification is often debated. It may be that related and unrelated diversification is somewhat equal in their contribution to performance. The primary issue in this controversy arises from concerns that related firms may not be able to exploit fully the relatedness designed into the portfolio business. It was argued that related diversifiers will outperform their unrelated counterparts only to the degree that they are able to exploit relatedness “to create and accumulate new strategic assets more quickly and cheaply than competitors” (Markides and Williamson, 1994). Simply amortizing existing assets through economies of scope will yield short-term benefits at best.

In general, the Intermediate Model can be tied to the notion that diversification yields positive but diminishing returns beyond some point of optimization. Markides (1992) provides a helpful review of the argument supporting this view. He pointed out that as a firm increases in diversification, it moves further and further away from its core business, and the benefit of diversification *at the margin* decline.

Empirical Studies on Diversification and Performance

A large number of empirical studies from the perspectives of a number of business disciplines such as industrial economics, strategic management, and finance tried to hypothesize and test empirically the question, which type of company or diversification strategy has led to better performance. Rumelt (1974, 1982) propounded that related diversification will lead to superior levels of performance while unrelated diversification will recognise inferior levels of performance. On the empirical side, Salter and Weinhold (1979) note that "unrelated diversification does not lead to higher corporate returns". Other scholars such as Nathanson and Cassano (1982) concluded that diversity can hurt profits but appropriate organisational structures and strategies can help mitigate the damage, Gort (1962) also imputed that the premise that diversification and performance are linearly and positively related. Finally Lubatkin and Chatterjee (1994) also recognize the fact that increasing diversification may not be associated with concomitant increases in performance.

The empirical evidence on performance and diversification can be divided into three different groups:

- a) Related performs better than unrelated.
- b) No differences between related and unrelated.
- c) Unrelated outperforms related.

Sambharya (2000) addresses that the contradictory results is related to: different time periods, various measures on profitability, and different measures on diversification.

Research Hypotheses

In order to answer the research questions and achieve the objectives of the study, the following hypotheses are advanced and will be tested in the course of this study.

- 1) H_0 : That a high level of diversification is not widely practiced among Nigerian banks.
 H_1 : That a high level of diversification is widely practiced among Nigerian banks.
- 2) H_0 : Diversification is not needed and unimportant to companies' growth and survival.
 H_1 : Diversification is needed and important for companies' growth and survival.
- 3) H_0 : Diversification is not a reliable corporate strategy and does not relate to performance of Nigerian companies.
 H_1 : Diversification is a reliable corporate strategy and relate to performance of Nigerian companies.

Research methodology

This section deals with the specific procedures utilized in the conduct of this study. The term methodology is a system of explicit rules and procedures in which research is based and against which claims of knowledge are evaluated (Ojo, 2003). Therefore, this section focuses on the research techniques adopted and used for this study with the aim of achieving the research objectives. For the purpose of this study, survey research design is adopted. The research design chosen is perceived as a good method because it helps

identify changes in corporate performance due to diversification. The theoretical population of the study consisted of the entire manufacturing companies in the South Western Nigeria. This choice stems from the fact that the Headquarter Offices of these companies were located in this region of the country. For effective coverage and lower cost, this study was restricted to Lagos State, the commercial centre of Nigeria. Primary method of data collection was used in the study. The close-ended questions were used in order to simplify the coding and analytical procedure. The questionnaire is titled "Strategic Corporate Diversification Questionnaire."

To ensure the validity and reliability of the questionnaire used for the study, even number of experts were consulted to look at the questionnaire items in relation to its

ability to achieve the stated objectives of the research, level of coverage, comprehensibility, logicality and suitability for prospective respondents.

Data collected from the questionnaire were analysed with the aid of descriptive statistical techniques such as total score, and percentage while inferential statistics such as correlation coefficients was used to proof the level of significance in testing stated hypotheses.

Verification of hypotheses

1) H_0 : That a high level of diversification is not widely practiced among Nigerian companies.

H_1 : That a high level of diversification is widely practiced among Nigerian companies.

Correlations

		Do you think that a high level of diversification is being practiced by Nigerian companies?	Does diversification have any impact on organization's performance?
Do you think that a high level of diversification is being practiced by Nigerian companies?	Pearson Correlation Sig. (2-tailed) N	1 44	.851(**) .000 44
Does diversification have any impact on organization's performance?	Pearson Correlation Sig. (2-tailed) N	.851(**) .000 44	1 44

** Correlation is significant at the 0.01 level (2-tailed).

Coefficient of Determination (C.O.D)

The coefficient of determination is given by the formula

$$C.O.D = r^2 \times 100$$

$$= (0.851)^2 \times 100$$

$$= 0.724201 \times 100$$

$$= 72.42\%$$

$$\text{where } r = \text{Pearson Correlation} = 0.851$$

Correlation is significant at the level 0.01(2-tailed)

The correlation of $r = 0.851$, means that there is 72.42% shared variable between diversification and performance. This means that diversification has 72.42% relationship with performance.

Interpretation: The relationship between diversification and performance using Pearson's Correlation coefficient. There is a positive correlation between the two variables [$r = 0.851^{**}$, $N = 44$, $p < 0.01$]

Decision: the correlation ($r = 0.851^{**}$) gives a 72.42% relationship between diversification and performance and it is significant

at the 0.01 level which is less than 0.05 level, thus we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1). This implies that there is high level of diversification being practiced by Nigerian companies.

2) H_0 : Diversification is not needed and unimportant for companies' growth and survival.

H_1 : Diversification is needed and important for companies' growth and survival.

Correlations

		In your opinion is diversification important to your organization	Is diversification needed in the modern business
In your opinion is diversification important to your organization	Pearson Correlation Sig. (2-tailed) N	1 44	.823(**) .000 44
Is diversification needed in the modern business	Pearson Correlation Sig. (2-tailed) N	.823(**) .000 44	1 44

*** Correlation is significant at the 0.01 level (2-tailed).*

Coefficient of Determination (C.O.D)

The coefficient of determination is given by the formula

$C.O.D = r^2 \times 100$ where $r = \text{Pearson Correlation} = 0.823$

$= (0.823)^2 \times 100$ Correlation is significant at the level 0.01(2-tailed)

$= 0.677329 \times 100 = 67.73\%$

The correlation of $r = 0.823$ means 67.73% shared variable between diversification and the organization. This means that diversification is 67.73% important to organization growth and survival.

Interpretation: There is a positive relationship between diversification companies growth and survival using Pearson's Correlation coefficient. There is a positive correlation between

the two variables [$r = 0.823^{**}$, $N = 44$, $p < 0.01$]

Decision: The correlation ($r = 0.823^{**}$) shows a 67.73% correlation between diversification and the organization growth

and survival is significant at the 0.01 level which is less than 0.05 level, thus we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1). This implies that Diversification is needed and important for corporate growth and survival.

- 3) H_0 : Diversification is not a reliable corporate strategy and does not relate to performance of Nigerian companies.
 H_1 : Diversification is a reliable corporate strategy and relate to performance of Nigerian companies.

Correlations

		In your opinion do you think diversification is a wise corporate strategy to adopt	Do you advise other organizations to adopt diversification
In your opinion do you think diversification is a wise corporate strategy to adopt	Pearson Correlation Sig. (2-tailed) N	1 44	1.000(**) .000 44
Do you advise other organizations to adopt diversification	Pearson Correlation Sig. (2-tailed) N	1.000(**) .000 44	1 44

** Correlation is significant at the 0.01 level (2-tailed).

Coefficient of Determination (C.O.D)

The coefficient of determination is given by the formula

$$\begin{aligned} \text{C.O.D} &= r^2 \times 100 & \text{where } r &= \text{Pearson Correlation} = 1.000 \\ &= (1.000)^2 \times 100 & \text{Correlation is significant at the level } 0.01(2\text{-tailed}) \\ &= 1.000 \times 100 = 100\% \end{aligned}$$

The correlation of $r = 1.000$ means 100% shared variable between diversification and reliable corporate strategy. This means that diversification is 100% important and related to corporate performance.

Interpretation: The relationship between diversification as a reliable corporate strategy and performance using Pearson's Correlation coefficient is [$r = 1.000^{**}$, $N = 44$, $p < 0.01$]

Decision: The correlation ($r = 1.000^{**}$) between diversification and corporate

performance is significant at the 0.01 level which is less than 0.05 level, thus we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1). This implies that diversification is a reliable corporate strategy for enhancing firms' performance.

Discussion of main results

The study investigated the relationship between corporate diversification and firm performance in Nigerian companies. From the data generated, analysed and interpreted, the major results of the Pearson's product moment correlation are: 1) $r=0.851$; 2) $r=0.823$; and 3) $r=0.100$. These suggest, among other things, that: 1) That a high level of diversification is widely practiced among Nigerian companies, 2) Diversification is needed and important for companies' growth and survival, and 3) Diversification is a reliable corporate strategy and relate to performance of Nigerian companies.

The reason why these companies made use of diversification strategy is varied. They include synergistic, financial, market power, resource based as well as agency motive. These companies have adopted a number of diversification strategies ranging from related to unrelated diversification, and product diversification among others in their efforts to improve performance.

Recommendations and conclusion

In the light of this study, the following recommendations of the researcher

were given to effectively maximize the dividends of corporate diversification on firm performance.


First, the companies should engage in more feasibility studies and improve the management of both the human and material resources. Second, the organization should understand that diversification and performance are linearly and positively related. Third, these companies should also embark on geographic diversification in addition to other diversification strategies they are used to.. This means that they need to extend their businesses to other countries as well as other continents of the world. Finally, prudent management of diversification strategies is very important in any business as it is said that diversification enhances the well-being of the business and it effective and efficient management will contribute to sound performance and profitability of the business.

Various reasons, models and explanations have been given in this research to enlighten people about the positive impact of diversification on the organization's performance and the reason why Nigerian managers should welcome diversification in their business and avail themselves of the prevailing benefits of adopting diversification.

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Economic reasons for the expansion of ENP (European Neighborhood Policy)

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Abstract: As a tool to promote democratization EU has set up the Copenhagen criteria which clearly define political, judicial and economic prerequisites for EU membership. The justification of implementation of such criteria can be found in high levels of corruption, autocracy and inefficient political systems in potential members and ENP countries. Potential candidates and ENP countries are looking up to EU and expecting financial aid which only becomes available after Copenhagen criteria have been met. It becomes clear than that it is necessary to establish a fertile political ground in ENP partner countries prior to economic cooperation with the EU members. Therefore, this paper will seek to examine if the European Neighborhood Policy (ENP) promotes economic cooperation through establishment of synergy between political and economic policies? Is it equally beneficial for EU and partner countries?

Key words: Copenhagen criteria, European Neighborhood Policy(ENP), synergy, economic integration, regional cooperation, international markets, competitiveness,

Introduction

It has become increasingly questionable whether the very existence of European Union (EU) is actually justified. One could argue that such a provocative statement is in fact valid due to numerous inconsistencies in both political and economic spheres of EU. On the one hand, the EU is based upon democracy and self-governance of all its

member countries and yet inclusion of new member states and expansion of the ENP¹ (European neighborhood policy) is dependent

¹ The following countries are covered by the ENP: Algeria, Armenia, Azerbaijan, Belarus (observer at this stage), Egypt, Georgia, Israel, Jordan, Lebanon, Libya (observer at this stage), Moldova, Morocco, Palestinian Authority, (Russia) – has a special status as a strategic partner, but are likely to be eligible for ENP funds, Syria, Tunisia, Ukraine.

on the promotion subsidiarity and collective synergy between political and economic factors in all member states. Individuality and self governance is in fact one EU's strongest attributes, however, in practice, EU has double standards for potential candidate countries including the new neighboring countries after the last large EU expansion in May 2004. Term subsidiarity is used to describe the loss of power by a country for the benefit of the entire EU community. To be more precise democratic form of governance is required from potential EU candidates as well as ENP members especially Ukraine, Russia, Georgia, Tunisia, Morocco, Israel and The Palestinian Authority. Nilufer Goksel defines the ideas of the EU democratization in a much simpler way:

The EU provides aid to expand Europeanization; European ideas, values and policies to those countries without membership perspective. In the short term, the ENP facilitates economic integration to the EU market; and achieving the four fundamental freedoms of movement, persons, goods, services and capital in the long term. It is easier to realize democratization during the EU membership process, yet, the neighborhood countries are also expected to realize democratization in partnership with the EU².

As a tool to promote democratization EU has set up the Copenhagen criteria which clearly define political, judicial and economic prerequisites for EU membership. The justification of implementation of such criteria can be found in high levels of corruption, autocracy and inefficient political systems in potential members and ENP countries. Potential candidates and ENP countries are looking

up to EU and expecting financial aid which only becomes available after Copenhagen criteria have been met. It becomes clear than that it is necessary to establish a fertile political ground in ENP partner countries prior to economic cooperation with the EU members. Therefore, this paper will seek to examine if the European Neighborhood Policy (ENP) promotes economic cooperation through establishment of synergy between political and economic policies? Is it equally beneficial for EU and partner countries?

Economic side of the ENP

Creation of ENP was justified in many ways but primarily as many authors would define it as creation of a friendly ring of countries which surround the EU. Naturally one would prefer to be surrounded with neighbors of the same or similar political affiliation which would in turn promote stability and economic cooperation. However, these are only the reasons for the EU to promote this ring of friendlines. On the other hand, ENP participating countries find their reasons purely in the financial sphere and financial aid which is guaranteed if they agree to specific adaptations to EU laws and norms. Nevertheless, this cooperation and agreement between the two has a tendency to be mutually beneficial regardless of reasons on either side.

Susanne Milcher and Ben Slay define three main purposes of the ENP:

- 1) ENP seeks to surround the enlarged EU with a 'ring of friends' who share the EU's values and pursue security and other foreign policies that are broadly consistent with the EU's
- 2) ENP will offer countries significant

² <http://www.jhubc.it/ecpr-istanbul/virtualpaper-room/062.pdf> (17.6.2008)

- improvements in access to the single market and expanded technical assistance. In this way, the ENP seeks to offer its neighbors the kind of 'market access for reform' grand bargain that was instrumental in the dramatic improvements in governance institutions that the new member states experienced during their accession processes of the 1990s
- 3) ENP represents an implicit recognition of the fact that the EU's further expansion, in terms of the accession of new members in the CIS, is not anticipated³

One could infer that the EU has purely political motives for promotion of ENP while at the same time it offers an alternative to countries which are unlikely to enter EU. Political stability is still defined as prerequisite for successful economic reforms needed for EU membership or its alternative ENP. In any case, the synergy effect between political and economic policies is necessary if the EU has any intention to promote cooperation among the ENP countries and secure itself from potential threats and negative spillover effects.

One of the key issues is the ability of ENP countries to enter the single market created by the EU for its members. Increased trade and elimination of tariffs are just some of the steps on the road to full inclusion ENP countries into the free trade area within EU. One could argue that some ENP countries are already in regional preferential trade agreements which could collide

with SEM (single economic market), however, new trade benefits are welcomed by all ENP countries. According to Aaslund and Warner this combination of liberalized market access and technical assistance could yield extensive benefits for the neighborhood economies⁴. This is of course based on the assumption that EU is willing to give political and financial support for the ENP program. Costs of 'running' the EU institutions are extremely high and cannot sufficiently support ENP programs. If this remains to be the case than the ENP countries will have to focus on a somewhat different approach to economic reform and reorganize and prepare their economies for enormous amounts of FDI (foreign direct investments).

A common illness for all ENP countries is still political instability, corruption and dysfunctional economies. GDP levels are low, unemployment is relatively high (figure 1), public expenditure is high and level of competitiveness on international markets is insubstantial. All these factors present a poor picture with very depressing future. Copenhagen and Maastricht criteria are far from being fulfilled if this political and economic situation persists. Even if these criteria were removed and ENP countries were to enter EU single economic market they would not be able to take on the social and political obligations put forth by the EU as well as to quickly diversify their trade and fulfill the requirements of free market economies. ENP is an exception in itself in both political and economic terms. In political terms EU member states had to fulfill political requirements

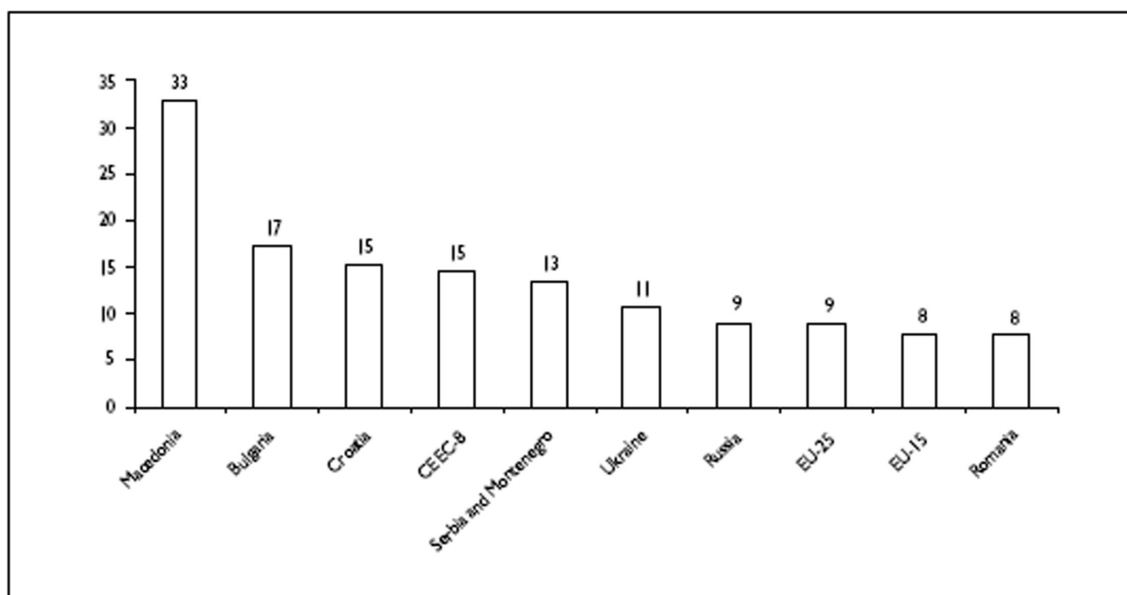
³ Susanne Milcher, Ben Slay. *The economics of the European Neighborhood Policy': An initial assessment*, Centre for Social and Economic Research, Warsaw, March 2005.

⁴ Aaslund, A. and Warner, A. (2004), *The EU Enlargement: Consequences for the CIS Countries* in: Dabrowski, M., Slay, B. and Neneman, J. (2004). *Beyond Transition: Development Perspectives and Dilemmas*. Ashgate.

before signing the SAA (Stabilization and Association Agreement) and receiving IPA (instruments of pre-accession). On the other hand, EU has already created ENI (European neighborhood instrument) for ENP countries which show that EU in fact has double standards. However, financial aid is justified by

the promotion of regional cooperation and establishment of multilateral trade agreements among ENP countries. Preventive development of such a large geographical area cannot be accomplished without costs which would most likely bear the citizens of EU member states.

Figure 1: Average unemployment rate 2000-2003



Source: CISSTAT 2003. Leon Podkaminer et al., 2004, *Transition countries on the Eve of EU enlargement*, WIIW

Due to high levels of unemployment in EU candidate countries and ENP countries, economic cooperation and free trade agreements are used as a carrot and stick approach. Belarus is used as an example of reluctance of EU to work with a totalitarian regime and offer them financial aid and other benefits of economic cooperation. Incentive based politics on the side of ENP has actually proven to be extremely successful. Preparedness of many countries to enter such an agreement and except the rules of ENP is financial

beneficial in the short term. In the long term it establishes democracy, enables implementation of economic reforms and improves the overall situation in a country. Countries with little experience in the international arena are also looking forward to possible inclusion in other international organizations such as WTO if they continue to be in good graces with the ENP program. It must be noticed that political and economic reforms must be simultaneous in all ENP countries for regional development to be successful.

Regional development promotes expansion of EU as it can be seen from previous cases of EU enlargement primarily due to continuous economic and political convergence of all EU member countries.

Political and economic synergy

Institutional, political and economic convergence still remains a challenge for many ENP countries. The emergence of the new plan of action for further development of the ENP had to be clearly defined with numerous issues that needed to be covered. Taking into account that some of the ENP participating countries cannot economically converge with others instruments of financial aid were increased for the period from 2007-2013. The overall financial aid of course depends on the countries needs and efforts to be a part of the ENP.

Michael Emerson defines these efforts to converge as 'europenisation' and puts them into three different synergetic areas:

► **legal obligations** in political and economic domains flowing from the requirements for accession to the EU, and/or from Council of Europe membership and accession to its Convention on Human Rights and Fundamental Freedom;

► **objective changes** in economic structures and the interests of individuals as a result of integration with Europe; and

► **subjective changes** in the beliefs, expectations and identity of the individual, feeding political will to adopt European norms of business, politics and civil society

Although the ENP participating countries have no legal obligations mainly

because they have not reached the level of accession to EU, they are still obligated to show effort in convergence towards *Acquis Communautaire*. Economic structures must be reformed towards working and operating within a single market while at the same time protecting the interests of entrepreneurs. The toughest challenge will most likely remain the ability to change the mindset of the population and direct them towards specific laws and norm of the EU. These changes are necessary for several reasons. Adoption of the laws and regulations of democratic societies are extremely demanding but in order to increase the regional communication and cooperation among the ENP participants all participants need a stable governing body. Communication with EU and other participants must be successful for any program to be implemented on national level. Although the EU has not established the controlling body to follow the implementation of its policies, regular annual reports present statistical data upon which the results could be drawn. Russia and Belarus continue to fail in the sphere of political stability and human rights while Moldova and Azerbaijan are still showing the least progress in economic reforms with the lowest levels of GDP and high unemployment rates.

Transfer to a democratic regime remains a challenge mostly because the countries participating in ENP have been oppressed for years by the communist and/or totalitarian regimes. More specifically, regime types of most of the ENP participants are listed below in Table 2. This is one of the reasons why a collision between the economic cooperation and political regimes may occur.

Table 2. Explanation of Scorecard

Democracy Score	Regime Type
1-2	Consolidated Democracy
3	Semi-consolidated Democracy
4	Transitional Government or Hybrid Regime
5	Semi-consolidated Authoritarian Regime
6-7	Consolidated Authoritarian Regime

Source: <http://www.freedomhouse.org>

ENP has based its entire program on the linking ENP to EU or other regional organizations both political and economic. However, immense differences among the ENP participants may thwart the future development of the good neighborhood. Sieglinde Gstohl states that 'the ENP countries are politically and economically very heterogeneous and (with the exception of Israel) noticeably below the EU average in terms of GDP per capita or the degree of democratization.'⁵ Furthermore, she explains the need for the synergy between the political and economic systems, as well as the preconditions needed for ENP to succeed. 'ENP participants have lower-quality infrastructure and greater political risk and lack the necessary institutional and administrative capacities for an EEA-like internal market association, even in the more distant future.'⁶ It is without a doubt very questionable then how the ENP is to survive in the years to come. However, one could argue against this statement with the very fact

⁵ **Gstohl, Sieglinde**, *Blurring Economic Boundaries? Trade and Aid in the EU's Near Abroad*, in Mahncke, Dieter and Gstohl, Sieglinde (eds.), *Europe's Near Abroad: Promises and Prospects of the EU's Neighborhood Policy*, Brussels, P.I.E. Peter Lang, 2008, pp. 133-159.

⁶ *Ibid.*

that EU is much more diverse especially after the last two enlargements in 2004 and 2007, and yet it is much more organized, functional, and integrated while at the same time it is ready for new enlargements. Of course one has to take into account that a significant time period has to elapse before ENP shows its true benefits for both EU and participants.

ENP and the future

Indeed it is necessary to do and overview and reexamination of ENP to be able to prepare for the future and allocate resources successfully. Originally ideas behind the ENP gave way to creation of new cooperation among the states which were not EU members but either had tendency to join EU or were in the neighborhood. If we look at ENP through a sphere of mutual benefits one could infer that it actually benefits both the EU and the partner countries.

After the EU has decided to enlarge towards Eastern Europe and include the countries of the former communist block it became clear that enormous financial funds will have to be injected in all potential candidates. In a short period of time most of the countries from the last two enlargements had to overcome immense political and economic

reforms prior to entrance into EU family. Since most of them were unable to fulfill all the criteria simultaneously (Bulgaria and Romania) they were given a grace period where they would converge with political and economic systems of EU. However, this has put an enormous financial strain on EU funds and created the so called enlargement fatigue. For all these reasons the EU has created the policies of ENP and regional cooperation among the sixteen participating countries. Long term planning and establishment of stable economies in the region would eliminate the financial strain on EU once new potential candidates apply for membership.

However, similar minds think alike and that is why democracy is also promoted as one

of the main pillars of ENP. EEA (European economic area) has been created with a similar purpose and it functions because all members have democratic political systems. Needless to say that ENP is offering conditional aid to those countries which they see as having the most potential of adopting democracy. Table 3 shows the differences among the ENP participating countries and one could see that Algeria and Russia and the two partners who are still unwilling to fulfill the ENP requirements. Such unwillingness could point out that either those countries have no synergy between political and economic spheres on national level, or it shows that they will most likely be unwilling to cooperate once they become EU members.

Table 3: Categorization of partner states of the ENP

With Action Plans	Without Action Plans
Willing partners <i>East</i> Moldova – European identity, don't take no for answer, wants more* Georgia – <i>idem</i> Ukraine – <i>idem</i> Armenia – want more, but has other security priorities <i>South</i> Morocco – wants more Tunisia – economic anchorage to the EU Palestine – desperate for aid Israel – European identity Jordan – reformist partner	Reluctant partners <i>East</i> [Russia – from the beginning excluded itself formally from ENP, but is included in ENPI and four common spaces resemble Action Plans] <i>South</i> Algeria – oil rich, averse to conditionality, in ENPI & Barcelona process
Passive partners <i>East</i> Azerbaijan – oil rich; govt. lags behind civil society over political values <i>South</i> Lebanon – superficial participant, desperate for support Egypt – regional leader, averse to conditionality	Excluded partners <i>East</i> Belarus – lack of democracy currently excludes activation of ENP <i>South</i> Syria – in ENPI and Barcelona process, but activation of ENP currently excluded Libya – in ENPI & Barcelona process, but activation of ENP currently excluded

	Excluded entities East Transnistria – non-recognised entity Abkhazia – <i>idem</i> South Ossetia – <i>idem</i> Nagorno Karabakh – <i>idem</i> South Western Sahara – occupied territory
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* “Don’t take ‘no’ for an answer” means that the partner state considers the EU’s refusal of membership perspective to be unsustainable in the long run if it sticks to its European ambitions, and therefore considers the EU’s lack of incentive itself to lack credibility.

Source: Emerson, M., G. Noutcheva and N. Popescu (2007), *European Neighborhood Policy Two Years on: Time Indeed for an ENP Plus*, CEPS Policy paper No. 126, Centre for European Policy Studies.

In any case ENP has to stick with the program and look forward to its expansion. In a search for the best possible solution the ENP has actually come up with a fifteen point program:⁷

1. The optimal bilateral-regional-multilateral balance
2. Advanced association (or otherwise named) agreements
3. Institutional issues
4. The membership perspective question
5. Democracy promotion
6. Deep free trade – bilateral
7. Basic free trade – multilateral
8. Energy and transport networks
9. Movement of people
10. Association with foreign and security policy
11. Crisis management
12. ‘ENP light’ for difficult partner states and entities

13. The Black Sea and beyond

14. Budget resources

15. Investment and coordination with the IFIs

For the purpose of this paper only points 5-7 will briefly be discussed. As much pride as ENP takes in promoting democracy in partner countries it can still not be complemented on its success. There are many failures especially in the countries such as Israel, Russia, and Moldova where there is constant political chaos and lack of protection for human rights. It shows that ENP is still not prepared to cope with larger issues.

Deep free bilateral trade is and remains to be the key element among partner countries. Increase in levels of GDP between trading partners are evident and all trade is based on the ENP rules and regulations. Removal of trade barriers among countries brings ENP participants one step close to adopting the laws and regulations of the EU’s free market. In the future some of the trade issues may have to be changed due to EU enlargement

⁷ Emerson, M., G. Noutcheva and N. Popescu (2007), *European Neighborhood Policy Two Years on: Time Indeed for an ENP Plus*, CEPS Policy paper No. 126, Centre for European Policy Studies.

but deep free trade still remains a backbone of economic stability for ENP participants.

European Commission has created an interesting term for the possible multilateral basic free trade Neighborhood Economic Community (NEC). This may be seen as a tool to exploit the participant countries but it actually creates a regional multilateral trading design. However, this is unlikely to happen mostly due to large demands on the side of WTO and membership of some the ENP participant countries which would have to brake the WTO rules. Trade liberalization may collide with the very idea of ENP to economically develop participating countries in such a manner that it could create an opinion that ENP participants have the status of the most favored countries. However, the future of ENP holds different political and economic plans which would transform ENP into ENP plus. ENP plus would according to Emerson hold the following improved points⁸ :

- 1) an advanced association model for the able and willing partner states,
- 2) a strengthening of regional-multilateral schemes,
- 3) an upgrading of some of the standard measures being deployed,
- 4) an 'ENP light' package for states/entities with difficult political regimes

The able and willing partner states could be offered the following incentive package:

- 1) Advanced association agreement,
- 2) Possibilities to participate in agencies, programs and institutions,
- 3) 'Open door' language for European partner states,
- 4) Deep free trade, going as far as

associate EEA status,

- 5) Visa facilitation with perspectives of visa-free travel,
- 6) Association with CFSP declarations and actions,
- 7) Participation in ESDP missions and
- 8) Privileged access to performance-related budgetary funds.

Concluding remarks

Synergy effects between political and economic sphere in all participating countries are absolutely necessary. Conditionality upon which the ENP decides where to direct the funds is the well established democracy or a transitional country which has made the most effort towards democracy and europeanisation. Only then does the EU open deep bilateral free trade which improves the economic stability within a country, therefore the synergy between the two is inevitable. To a novice it may seem that ENP is yet another scheme by the rich to exploit the poor but it actually benefits more the poor than the rich. Immense amounts of financial aid are pumped into ENP participating countries under the condition that they embrace democracy and accept EU political and economic reforms. It is not being forced but rather offered to all countries surrounding the EU. Promotion of such a ring of mutual understanding, cooperation and regional development the EU shows that it is prepared for new enlargements and offers aid to countries who will need 30-40 years of political and economic adaptation to become potential candidates. Overall, mutual benefits prevail over potential costs on both the EU and ENP participant's side.

⁸ *Ibid*

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Evaluating factors that influence egg production at Konsoni Poultry Company

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Abstract: The main focus of this research is to evaluate the factors thought to influence the monthly egg production of Konsoni Poultry Company. The linear regression employing different variables of interest is used to predict the future monthly egg production of the largest poultry farm in Kosovo. The general purpose of multiple regressions (the term was first used by Pearson, 1908) is to learn more about the relationship between egg price, local competitors and egg imports as independent or predictor variables (x_i) and dependent or criterion variable, egg production (y).

$$Y = B_0 + B_1 \cdot X_1 + B_2 \cdot X_2 + \dots B_n \cdot X_n$$

The results of the research come from the observed fluctuations in egg production at Konsoni Poultry Company during the period of 24 months. Many factors that effect egg production are poorly understood from managers of Konsoni Poultry Company. This study examines the statistical results and identifies the relationships between depended and independent variables. The study shows that there is a strong relationships between depend variably (y) and independent variables (x_i). and low correlations among independent variables The adjusted R^2 of the multiple linear regression model is 0.48 which tells us that 48% of variation in egg production are explained by evaluated variables.

Konsoni Poultry Company covers 20% of the market share for eggs in Kosovo. In general, multiple regression is used to answer the general question what is the best predictor of Konsoni egg production.

Introduction

Since the 1999 conflict, the poultry industry has made rapid rehabilitation and with that significant contribution to Kosova's agricultural economy. In late 1999 Kosovar egg industry started with 250,000 layers covering only 30% of annual needs. The egg laying industry in 2007-08 has reached the peak of production with 900,000 layers producing 275,000,000 eggs or 100% of Kosovo annual egg needs, and in times needing to unload the surplus in markets of neighboring countries such: Serbia, Macedonia, and Albania.

At present Kosovar egg industry counts 143 commercial farmers that have from 1,000 to 165,000 layers in production. Konsoni Poultry Company are the largest poultry company in Kosovo .

Koni was a privately owned business that started its operation in 1992 as an egg trader. Initially, Koni started its egg trade by supplying eggs to groceries and other traders but, later started opening his own selling points first in Pristina and later Kosovo wide. Koni was purchasing eggs from local producers but was also importing them from European countries. During all this time Koni was facing one big problem of not being able to keep the steady supply of always fresh eggs so there were times when eggs needed to be destroyed due to improper transport and storage. In 2001 Koni rented one farm placing 25,000 layers which they kept until mid 2002, unfortunately they lacked production knowledge so they were facing difficulties with production .Soni was a privately owned commercial poultry farm that has started its operation in 1998 with the capacity of 10,000 egg layers producing 3,000,000 eggs annually or 2% of the Kosovo egg consumption. Soni was mainly focused in supplying

eggs to traders and groceries. Unfortunately, due to instability of the market and large imports of eggs from regional countries Soni was facing difficulties in with his plans of expanding his business.

In 2002 Koni & Soni have signed a partnership agreement for joining their production and sales activities with aim to become the market leaders in poultry industry in Kosovo (Konsoni Company). Initially, Koni & Soni rented the SOE in Gjakova where they placed 150,000 layers in production and latter they rented another SOE in Gjilan where they raise pullets for replacement and for the market. Two companies operate from three different business centers. The poultry farms are located in Gjakova and Gjilan while the trading activities lead from Prishtina. The main activities of Koni & Soni include production of consumer eggs, animal feed, replacement pullets and lately broilers (poultry meat). Starting as companies with 3 employees each, it has now grown to an esteemed, contemporary company with over 120 employees. The group has privatized the modern farms in Gjilan which they rented in 2003 and has also privatized the farms in Gjakova which they were renting since 2002. A solid proof for the quality of Koni & Soni's eggs is provided by its customers all over the country. Through its modern established sales network of over 25 shops and discount stores the company is continuously endeavouring to make the products more approachable to the end users. Presently Koni & Soni operates only in the Kosovo market and its market share is estimated to around 20% of the whole egg market in Kosovo. The purpose of the research was to confirm the hypothesis that the selected parameters are correlated with egg production.

Material and the working method

In order to determine the role of parameters that have an impact on the profitability and the sustainability of Konsoni Poultry Company, a Regression Analysis statistical package is used (Cliff T. Ragsdale, 2001). The biggest problem in estimating a model was in determining which variables should be in the model. That is, what are those variables that explain the variation in the dependent variable. We started out with what we believed to be the best model given the data that we were able to obtain to examine the model for logical soundness after estimation. After sampling numerous independent variables, those that contained the correct signs and proved to be statistically significant were retained in the model. Through regression analyses we have identified the factors that influence the egg production of Konsoni Poultry Company. This statistical program is used as a tool to statistically confirm the correlation between egg production and the above mentioned parameters which are the main factors that have an impact on the profitability and the sustainability of Kony sony poultry farm. The multiple linear regression model was used to evaluate the impact of independent variables as to possible effect on the egg production which in multiple linear regression model is presented as a dependent variable, whilst all other parameters were considered as fixed variables.

Results

The statistics of the regression model: the root mean square error (RMSE), coefficient variation (CV), the average of the dependent variable (egg production), standard deviation (Std DEV) R square, adjusted R

square, intercept and other coefficients are presented in Table 1 and Table 2.

According to the results of regression analyses there is a direct correlation between the dependent variable intercept egg production and the price coefficient which means that when egg price is increased the egg production is increased as well. In this study the one euro increase in price of eggs per box will increase the egg production for 117 boxes. Selling price of eggs is definitely a factor that has an impact on the increase of egg production. This is explained with the fact that the P value is below 0.05. This means that we are between 95% and 99% confident that egg selling price has an impact on the egg production. Whilst the correlation between the local egg competitors and the egg production is indirect which means that for one box of eggs produced from local egg competitors the egg production from Konsoni Poultry Company farm will decline on average by 0.3 boxes of eggs the significance level of this coefficient lies between 90% and 95%. The correlation between the dependent variable intercept egg production and the coefficient of the egg imports is indirect, which means that when egg imports is increased the egg production is decreased. In this study on average 0.4 egg boxes will be produced less from Konsoni Poultry Company, for each imported box of eggs. The P value shows that we are 86% confident of the results of this coefficient. The standard error (RMSE), in the regression model shows the unexplained variability around the regression line, the true random variability after the effect of independent variables has been removed. The RSME is much smaller than standard deviation of sample size. Adjusted R square shows the proportion of total variability in

egg production explained by the regression model, which means that 48% of the changes in egg production are caused by the analyzed

parameters. The statistics of the multiple regression model tell us that regression model is better than reference model.

Table 1. Multiple linear regression statistics for Koni Soni poultry farm egg production as a function of three variables using linear functional form

Variable or Statistics	Functional form	
	Linear	
	Estimated Coefficient	P - value
Intercept	24,931	0.011
Selling Price/egg	117	0.003
Loc Competition	-0.3	0.072
Import Egg/month	-0.4	0.139

Note: egg production depended variable

Table 2. Regression model statistics

Dependent variable mean	11842
Dependent variable standard deviation	1105
Standard Error of the Estimate (RMSE)	795
Coefficient of Variation (CV)	0.07
R-Squared	0.55
Adjusted R-Squared	0.48
F -statistics	0.00
No. of Observations	24

Discussions

The poultry sector is important since it supplies the citizens of Kosovo with fresh eggs at reasonable prices. Poultry production has long been recognized as one of the quickest ways for a rapid increase in protein supply in the shortest run (S.A. Yusuf and O. Malomo, 2007). One of the current challenges for commercial poultry farmers in Kosovo is how to reduce the costs with egg production efficiency. Eggs are homogeneous products, consumers are more willing to switch from one brand to another when product is homogeneous and tend to be less loyal because any brand of eggs will meet their needs (D. Besanko, D. Dranove et al, 2003). The sale of eggs depends on their

price, size and freshness. Supplying markets with fresh eggs is essential to increase the demand for the Konsoni eggs that consumers are willing to buy. Good relationship between Konsoni suppliers and retailers is essential in improving the competitiveness of the egg production.

Avoiding possible problems, communication links must be established and utilized on regular basis, to improve the competitiveness a trusting relationship with partners in the egg supply chain must be developed (Robert B. Handfield, Ernest Nichols, jr, 1999).

The results presented lead us to conclude that Konsoni Poultry Company has the potential to follow the market trends and by increasing egg production gain more market share.

Conclusions

The price of eggs has the highest impact on the profitability of Konsoni Poultry Company. Therefore, the managers must take responsibility to improve the production efficiency and compete with imports, and local competitors. It is essential for Konsoni Poultry Company to fully understand the egg market structure in Kosovo, and be able to evaluate if the market is working efficiently and whether Konsoni is getting an acceptable share of the Kosovo egg market. Konsoni will improve the profit and gain more market share by making sure to produce fresh and appropriate size eggs while keeping the costs as

low as possible; consumers are assumed to buy a product up to the point where the perceived value of the product equals the price of the product (Ronald A. Schrimper 2001). This study points out to Konsoni the opportunities for a proper approach in the future to avoid factors that contribute to lower competitiveness of local egg production thereby gaining the trust of consumers.

Acknowledgments

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Global Economic Crisis. Case Study on the Romanian Financial Market

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Abstract: The first part of the present paper proposes to study the concept of global financial system and the issues that led to outline its approach frame, as well as what effects could have the actual economic crisis on the global financial system and which are the factors considered to be the causes that generated economic crises in the last few years.

Moreover, in this paper we refer to the concept of financial instability, more precise we underline the fact that banks can represent the main financial instability stimulus.

In the final part of this paper we analyze the Romanian capital market on the global economic crisis background being emphasized the fact that the effects of this crisis are felt also on our national economy.

Keywords: economic crisis, global financial system, financial instability, portfolio, return, risk, Markowitz.

1. Introduction

Alan Greenspan, the ex Federal Reserve Chairman has recently defined the economic crisis as “a credit tsunami that arises once in a century”¹, the instability wave generated by this tsunami being spread from one sec-

tor to the other, first from the property sector to the banking sector, then to other financial markets, and finally to all the real economy domains.

On the other hand, the governor of the Romanian National Bank, Mugur Isarescu, appreciated² that “the evolutions on the inter-

¹ Justin Yifu Lin, (2008), *The impact of the financial crisis on developing countries*, The Korean Development Institute.

² The conference “*The way towards european standards in financial services*”, held on 23 september in Ramnicu Valcea.

national financial markets of the last months have had no precedent in the whole postbelic period making governments and the central banks from the United States of America and the other developed countries to take drastic measures". He also emphasized that the present "financial crisis has overlapped a less benefic period for the real sector of the economy. The aggregated demand in the most developed economies has recorded a decline, whilst energy and raw materials prices have attracted inflationary pressures, which have limited authorities' capability to reduce interest rates."

So, on the background of the latest evolutions in the world, the economic crisis effects are felt also in Romania, the financial system - one of the most important components of a country's economy - being also affected. This paper's start point has been to analyze the global economic crisis and efforts have been made to underline the effects of this crisis on the Romanian capital market.

2. The Global Financial System

In the last few years a wave of change has been felt in the global financial system, the private capital flow from the industrialized countries towards the developing countries rising considerably. Moreover, not few have been those that questioned in the last two decades if a global financial system is desirable.

In order to answer this question one must first understand the role of the financial system for a country's economy, and only after extend the analysis. So, the financial system has a well defined role in capital resources mobilization from those who own them (the investors) towards those who need them (private or public entities). Through the

financial system the economy grows along with the growth of investments generating high earnings, the consumers also grow their capacity to consume, risks are shared, and individuals confront with a smaller volatility of the weights they are able to consume. All these correlations that take place in a country's economy extend to the level of the global financial system, a system that works as a powerful and efficient mechanism when the economy is characterized by stability.

Whereas the potential of the financial system certainly exists, words like "moral hazard" or "adverse selection" remind us that the economic theory has identified the reasons why financial markets do not always work perfectly, the failure of one or more markets generating losses for the other ones under the conditions of a global financial system. The financial crises that have said their word along time, culminating with the recent economic crisis, are the ones that teach us very clearly that the capital flows guided by the financial markets can represent something very different from an efficient and optimal allocation of savings towards the right investment projects.

3. Causes of international financial crises

Leo Tolstoy observed that "every happy family is the same. Every miserable family is miserable in its own way." Similarly, Lawrence H. Summers said that every financial crisis is different and implies its own elements. Summers also stated that there can be elements specific for many emerging financial markets. So, with some exceptions, the pattern for all crises seems to implicate three distinct elements.

Firstly, after a period of sequential substantial capital in-flows, investors (internal, as well as external) have the tendency to reduce the volume of assets held in the affected country as a response to the manifested influences.

Secondly, after analyzing the economic situation of the respective country, they canalize their attention towards the behavior of the other investors. Once the information is disseminated a panic phenomenon settles and its propagation is done rapidly leading to interpret the crisis in terms of liquidity.

Thirdly, the capital withdrawal and the sudden changes of interest rates as well as the restricted access to capital, generates general weakness, the financial markets response being exacerbated. The real depreciation of the interest rate leads to the revenue and real savings reduction.

So, in order to understand the economic crises each of these three elements has a special importance. Also very important in the economic crises analysis is the financial instability phenomenon, that eases the installation of a financial crisis and leads to the amplification of crisis effects.

4. The financial instability phenomenon

As we have already underlined, the essential function of the financial markets is to canalize funds towards individuals or firms that hold productive investment opportunities. In the case that the financial system fails to realize its objective, the economy does not function properly, and economic growth is affected. So, the financial system has to confront itself with issues regarding information asymmetry.

Regarding the issues related to informational asymmetry, the main purpose for financial intermediaries such as commercial banks, insurance companies, mutual funds or pension funds, from which banks play the most important role, is to hold the capacity as well as the economic incentives to address the problems of informational asymmetry.

The natural advantages of banks in collecting information and reducing information asymmetry problems are the ones that can explain why they hold such an important role on the financial markets in the world. Once banks do not possess the capacity to make financial intermediation and give loans, investments and aggregate economic activity reduction will be produced. The lack of credits will determine firms and individuals to cut down on their expenses, resulting in a contraction of the economic activity.

The triggering factor of the actual economic crisis has been precisely the failure of the fourth bank in America as dimension, Lehman Brothers Holdings. Its disappearance from the market led to falls on the European and Asian stock exchanges, the Bucharest Stock Exchange Indexes also deepening their losses on the correlation frame with the evolution of the external markets.

5. The Markowitz financial assets portfolio management model

As we already mentioned the purpose of this paper is to underline the present instability background of the Romanian capital market, financial instability representing the stimulus that led to the economic crisis in our country.

So, starting from the basic hypothesis of the Markowitz Model we have tried to

determine two minimum variance portfolios for two different periods of time (between 3 October 2001–12 September 2008), selecting 7 stocks from two different sectors: 5 stocks from the financial investment sector:

- SIF Banat-Crisana (SIF1), SIF Moldova (SIF2), SIF Muntenia (SIF3), SIF Transilvania (SIF4), SIF Oltenia (SIF5);
- And 2 stocks from the banking, insurance and financial services sector:
- BRD Groupe Société Générale (BRD) and Transilvania Bank (TLV).

We have chosen these sectors because we consider them to be fit to test whether financial instability is present or not on the national capital market starting with 2007, the year presumably first signs of instability have appeared. So, the initial time horizon has been divided in two sub-periods: 3 October 2001 – 19 December 2006, 3 January 2007 – 12 September 2008. These two data bases led to the calculation of the returns given by the titles, the formula used to compute the results being

$$R_i = \frac{p_{i+1}}{p_i} - 1, i = \overline{1, 780}.$$

Firstly we have applied the model for the period of time between: 3 October 2001 – 19 December 2006. In order to determine the minimum variance portfolio we have parted from the following initial combination of titles: 14% SIF1, 14% SIF2, 14% SIF3, 14% SIF4, 14% SIF5, 15% BRD and 15% TLV with the purpose to minimize the risk of the portfolio, this type of scenario being specific for the investors that have strong risk aversion.

In order to optimize the financial results we have used “Microsoft Excel Solver” taking into consideration the fact that an asset portfolio is optimal when it offers the smallest

risk for a given expected return and that the aggregation of the portfolio weights must equal one, and short sales are not allowed meaning that all portfolio weights must be bigger or equal to zero.

We have computed the minimum variance portfolio of 0.0787% that gives the title combination with a minimum risk of 2.8061% for a given expected return of 0.4997%. We have come to the conclusion that the following title combination leads to the obtained results: 14.2% SIF1, 10.34% SIF3, 10.56% SIF5, 24.63% BRD and 40.27% TLV. According to the results we can appreciate that for the given period of time the optimal investment possibility is to invest in the banking, insurance and financial services sector, due to the fact that the feedback given by the capital market leads to this conclusion.

The second part of the analysis lied in the application of the model for the following period of time: 3 January 2007 – 12 September 2008. We used the same initial portfolio weights, the optimization process leading to the following results: 25.18% SIF1, 3.7% SIF4, 29.92% SIF5, 12.62% BRD and 28.58% TLV. The minimum variance portfolio of 0.3274% presents the above title combination with a minimum risk of 5.7215% for a given expected return of 0.4055%. As it can be observed this time the optimal investment choice is to invest more in the financial investments sector, and the expected portfolio return is negative fact that clearly indicates a reduction in the expected return in comparison to the preceding analysis.

6. Conclusions

On the current economic background, the global economy is splintered by the

effects of an economic crisis without precedent in the history of the last century. The main occupation of researchers along this century has been to determine the conceptual and practical frame for the global financial system. Precisely this wish has maybe been the factor that led to a harsh recession that started in the United States, spreading afterwards in all the other countries. So, short while after the New York Stock Exchange crashed significant losses occurred also for the European and Asian stock exchanges, including the Bucharest Stock Exchange.

Banks, financial intermediation institutions, are the ones that hold one of the most important roles of the world's financial markets, because they can gather information and reduce problems of informational

asymmetry. Once they can no further carry on their activity an economic blocking is produced that spreads towards all the economic sectors on the level of a country's national economy, afterwards following the countries that had held till then economical relationships with the country initially affected.

According to the analysis done in this paper we can appreciate that the national capital market has experienced reductions in stock returns in the last two years, especially in the banking, insurance and financial services domain, the investors tending to possess more confidence in the domain of the financial investments sector, for example.

All in all we conclude that the effects of the global economic crisis have put their print on the Romanian financial system.

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Information and Communication Technology (ICT) and SME in Kosovo

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Abstract: The new information and communication technologies are transforming the structure and functioning of the economy having impact on the creation of a new society and economy. Rapid development of this kind of technology and the benefits of it, are forcing classic enterprises to transform their businesses into digital ones. Having into consideration the actual ICT trends in global dimension as well as necessity of transformation of the enterprises in Kosova into digital one, in this paper will be presented some aspects of ICT of the SME-s in Kosova with particular emphases on informatization as factor of rising of competitive advantages of the enterprises as well as the link of informatization with increase of turnover, productivity and modern way of business development.

The modern trends of businesses and ICT technology are taking place in Kosova too, but not yet in adequate and sufficient way. In the near future, in these direction must be undertaken much more activities.

Keywords: Informatization of economy, Informatization of the SME-s, Information and Communication Technology (ICT).

1. Introduction

This research is based on a survey with about 600 small and medium private enterprises (SME) in Kosova, which was carried out from the Riinvest Institute (Institute for Research and Development). The

questionnaire was realized on May 2008 and includes the sample of 500 private enterprises and 100 public owned enterprises, which were privatized from Kosova Trust Agency. This research observed the development of enterprises according to their size and sector through all Kosova. The purpose of this

research is to show the influence of information technology application in the development and growth of businesses in Kosova. At this regard, we can notice a growth rate of informatization and other aspects of information technology by Kosovo SME side. The results of questionnaire show that application of this technology is accompanied with productivity growth, cost deductions and growth of competitive capacity. The research is structured as follows: Firstly, has to do with expected changes and innovations from information and communicative technology. Secondly, is continued with informatization technology analysis as a competitive capacity factor, as well as relation with other factors. We continue with link-up of informatization with revenues, productivity, and investments. At the end we submitted a summary.

2. Expected changes and innovations from information and communication technology

Informatization of economy is expressed with the rate of computer usage during business activities. And in the developed countries is result of high growth of production of electronics and huge investment on these equipments. Therefore, countries that have taken characteristics of information society are: USA, because of their multiple investments per capita in informatics equipment other developed countries. Productivity growth and cost deduction in developed countries relies on computer management of production, productivity robotize and at the computerization of administrative work¹. Information society is a new characteristic of human civilization, where universal services

¹ **Mustafa, Muhamet** (1995): *Kibernetikë dhe hyrje në informatikë*, Prishtinë, fq. 254.

and equal access in information together with systems and developed infrastructure of electronic communications contributes to sustainable social-economic development, poverty reduction, and better standard life condition.²

In Kosova, in new economy conditions³, globalization process has stimulated connection between different companies, increasing of usage of information technology, and cooperation in business with business, with partners and customer.⁴

3. Informatization as a competitive factor and his relation with other factors

Under pressure of growth of competition SME's are forced to fight for new markets, new products and new distribution canals. These environment movements can be faced only by those businesses that have support of quality information systems. This support should equip businesses with proper software for resource governance and quality decision making. Most of the problems rise due to lack of knowledge to manage available resources.

According with research realized from the Riinvest Institute⁵ (2008), over 70% of

² Ministria e transportit dhe telekomunikacionit (2006): *Strategjia nacionale për shoqëri të informacionit*, Prishtinë.

³ In accordance with Don Tapscott new economy or global economy is nothing more then trade with goods, services, work capital and information. See: Grup autorësh (1998): *Tema të zgjedhura nga informatika*. Prishtinë. 1998

⁴ Grup autorësh (1998): *Tema të zgjedhura nga informatika*. Chapter: Don Tapscott: The digital economy

⁵ Riinvest Institute carries out researches almost every year..

business are equipped with computers, which makes us understand that Kosovar business has understood the importance of information technology usage in business processes and the changes that this powerful equipment usage can brought to them. Research also has shown that except SME rate growth which possesses computers from year to year, it has also increased number of computer per enterprise. In 2007 (6.7 computers) comparing with 2003 (4.8 computers), growth is almost 40%. While, sector that includes the highest percent of technology is trade (40%), followed by service sector (34.5%), and manufacturing (25.5%).

Initially, small and medium enterprises used computer just for financial evidence and text processor. Today, computer usage by SME is changing in quality way. Especially, positive dynamic of computer usage is noticed in the last three years in the market and planning research (14, 2%). Furthermore, positive movements of computer usage have been shown by production leadership (10.4%) and quality control (6.6%).

Table 1: Computer usage by SME in Kosova

	2005 (%)	2007 (%)
Financial evidence	41.6	33.8
Planning	13.7	14.2
Text processing	14.5	16.0
Market research	14.2	14.2
Production leadership	6.8	10.4
Quality control	5.0	6.6
For something else	4.3	4.6
Total	100.0	100.0

Source: SME Research, Riinvest Institute, 2008

Computers network usage⁶, in business processes has enabled effective communication in 24 hours per day, 7 days per week, space and time restriction in communication, and transferring of consummators request from one time zone to another one. Computer networks create communication facilities and give the capability small enterprises to cooperate in order to achieve success in economy. Therefore, we should not be surprised why today the whole world is connected with Internet⁷ which is the most powerful media of communication. Mentioned research show us that over 96% of SME in Kosova that have computers are connected with Internet. Current worldwide movements show us that usage of communication and information technology will be an important factor for competitive growth of SME in global and regional markets. Some actual worldwide trends are noticed also at SME in Kosova, which mark growth of computer equipment from year to year. Positive trends were marked in 2005 and 2006. In year 2007 a higher growth is observed comparing with prior years (2005 and 2006).

Informatization of economy and business processes are connected with Internet usage and exponential growth of its users. The speed of computer network technology usage and Internet went beyond usage of other technologies and mediums such

⁶ With computer network, we understand the connection of two or more computers with each other in order to communicate, exchange information and use common equipments such as printer and other equipments.

⁷ Internet has come across in '80 and '90 of XX century, but the origin of it can be found in global computer networks, which were shown in the beginning of '60 of XX century (accurately in 1968). See: Berisha-Namani, Mihane (2004): Informatika e biznesit-Ligjërata, fq. 156.

Table 2: Informatization and SME revenues

	Revenues	Number of enterprises	Average revenue
Enterprises which have computers	16,667,500.0	341	48,878.3
Enterprises which do not have computers	725,000.0	145	5,000.0
Total	17,392,500.0	486	35,787.0

Source: SME Research, Riinvest Institute, 2008

as phone technology, automobile technology, etc. Kosovar business is continually remarking growth of usage of this technology for business purposes. This growth from the year 2005 (68.6% of surveyed enterprises) in 2007 (76.2% of enterprises) is 11%. SME's use Internet to cooperate with business partners and consummators, and for promotion of their business activities in distance, with clients and suppliers finding, as well as for product launching in markets. We may say that in Kosova, information and communication technology (ICT) is still not used enough for these purposes, so in the near future in this direction much more activities need to be taken.

Having into consideration the fast growth of ICT development and their application, adaptation of Kosovar businesses in global business environment is a hard challenge, especially if we take into account that Kosovar market has limited size. Therefore, restructuring can be done only through development, which intends to substitute import with local products and stimulate export. The importance of informatization SME's in Kosova is illustrated with the fact that in 2007 the export in average was higher for at enterprises which have been informatized than at those that were not.

SME for their businesses should use as a primary base information systems, while this system is seen as compounded of people, equipments, and procedures in order to gather, coordinate, analyze, and distribute

necessary information at appropriate time. Information systems can gather, supply, and report data of different sources in order to assure all needed information for decision makers in all managerial levels⁸.

One of the factors with which economical development of one country is measured is the intensity of information technology usage, which are finding fast usage due to many priorities such as cost deduction, faster communication, faster realization of products and services, transport cost deduction, effective and rational promotion, etc. It is important to emphasize that Kosovar enterprises are in initial phase of electronic business transaction development through Internet. Over 46% of SME develop business transaction with each other (business-to-business B2B), whereas over 35% of them develop business transaction with client (business-to-costumers B2C).

4. Informatization and SME revenues

Even if private enterprises hesitate to show the level of their revenues, the survey carried out from Riinvest Institute, offered us the answer opportunity via intervals. The results clearly show us that enterprises which

⁸ Hicks, O. James (1993): *Management Information System*, 3rd Edition, Virginia Polytechnic Institute and State University, fq.25

Table 3: Informatization and revenues

	Revenues	Number of employees	Average for employee
Enterprises which have computers	16,667,500.0	8370	1,979.4
Enterprises which do not have computers	725,000.0	495	1,464.6
Total	17,392,500.0	8865	1,961.9

Source: SME Research, Riinvest Institute, 2008

have computers have distinctly higher revenues (48,878 €), than those that do not have computers (5,000 €). This comes due to fact that informatized enterprises have a lot of informatized activities (table 2).

5. Informatization, productivity and investments

Employee work productivity is connected with employee's professional preparing and with the usage of information technology (table 3). Effective usage of information technology depends highly from the level of employee's education in enterprises and from the age of the employees. Therefore, taking decisions in higher levels of management based on information technology is a critical point for the SME existence and development.

Today, new enterprises model request new forms and structures, which assure flexibility and equip them with a new educated management. As a result, economical value in SME is created from the usage of new technology and teamwork, where the majority part of the created value comes from non-material factors: information and knowledge. The connection between business and information technology caused huge changes in the structure of business enterprises, and this change firstly is result of changing way of leadership and organization, which assures

new views comparing to classic and old enterprises.

The results of this technology usage are seen in the production cycle, which is shortened more and more for production, while for some services within a day. We may say that information technology and economy based on knowledge are producing new products and services that until now were unknown, while they are creating new way of doing business, known as electronic business⁹.

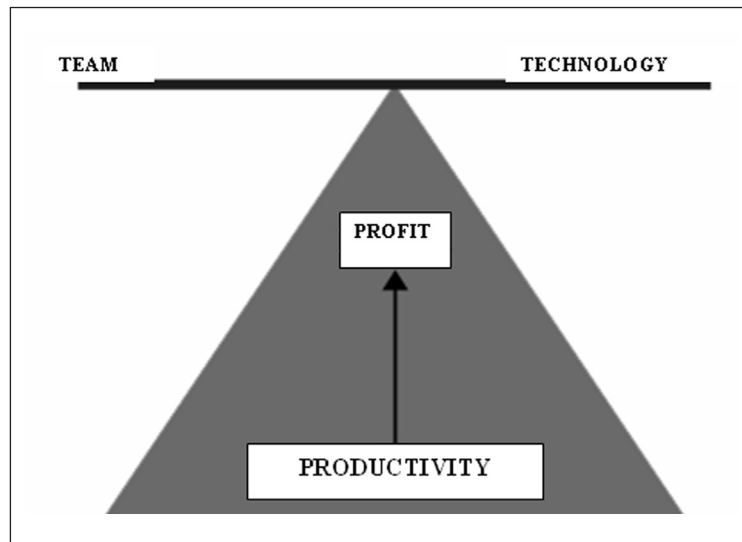
This way is created a new economy structure and network economy intelligence, which has become new reality. All of these technologies made possible that SME in Kosova are also developing, transforming and raisin their productivity.

In order to achieve a higher productivity, which results in higher profit, it is more than needed to balance an educated team with new updated technology¹⁰. The research shows us that we cannot have success if we combine new technology with uneducated (illiterate) structure of employees, or educated structure of employees with old technology.

⁹ The most known forms of electronic business are electronic market, electronic marketing, electronic banking transactions, electronic prosecutor, electronic government, etc.

¹⁰ Hoxha, Naim: Projektimi i sistemeve informatike, Ligjërata të autorizuar, viti shkollor 2005/2006.

Figure 1: Informatization and productivity



Source: Naim Hoxha Projektimi i sistemeve informatike, Lectures, 2005/2006

Regarding the connections of SME informatization with level of made investments, the research show that over 76% of SME in Kosova made investments in 2007, in compare with less than 24% of enterprises which made investments in 2007, but were not informatized.

6. Summary

Informatization of Kosovar enterprises show positive movements of development since 2005 to year 2007 and this is expressed in trade enterprises. The research demonstrates that because of SME informatization in Kosova the productivity has grown up, costs decreased, and product life cycle was shortened. In addition, tendency of growth is positive regarding computer usage not only for financial evidence and for text processing, but also for market researching and planning, for production leadership and finally

for quality control. Enterprises which have computers have higher revenues (48,878 €), than those that do not have computers and we cannot achieve success if we combine new technology with un-educated structure of employees, who do not know how to use the potential of ICT technology. Even we have growth of this technology usage in SME in Kosova, it is still not used in satisfactory level.

The research also shows us that informatized enterprises have distinctly higher level of sale and exports, comparing to them that are not informatized. We may conclude that fast changes and innovations of this technology create economical growth and competition in global market. Although, SME in Kosova have informatized businesses in considerable way, this technology is still not used enough for business purpose, so in the near future in this direction much more activities must be done if we want to be competitive in the market.

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Intellectual Capital During the Worldwide Economic Crisis

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Abstract: Reality revealed a very important resource that can act for or against a business, its administration having a crucial influence. It is the intellectual capital we are talking about, mainly based on knowledge.

Under the current economic situation we have to find that ideal solution that is able to get the economy out of the crisis, to find the blue ocean. The main question here is that if a correct evaluation of intellectual capital will help economies get their goals.

The main idea we can withdraw out of these theories is that values have changed the hierarchy, that is the physical resources ceased their place to intangible assets that tend to become more and more important for the companies.

Key words: capital intellectual, know-how, human capital, structural capital, relational capital, fuzzy analysis.

1. The present state of research

"Intellectual Capital is the new currency of the millennium. Its correct usage is the key to success in Knowledge era". (Nick Bontis, Manager, The Research Institute for Intellectual Capital)

This is exactly why it can be seen as the hidden value of an organization, unable to be measured up to now.

Can this resource help us anticipate the decline of a company or even avoid it? Is the intelligent usage of this capital the key to avoiding bankruptcy?

Before the industrial revolution the economy was facing major declines and the economists could not see any way out. It looks like once again we are in a time of economic crisis out of which we can get with a correct management of our available resources.

The idea of intellectual capital first appeared during the 1990s. By the time we reached the middle of the decade it was more and more obvious that there were two separate ways to deal with intellectual capital; and even as such we could distinguish a bonding between them.

One was about information, the power of mind concentrating towards creation and extending the creation inside the company. The other one, based on resources was focused towards getting profit out of the unique combinations between intellectual capital and tangible assets.

Later on they have defined three basic components of this capital: the human capital, intellectual capital and relationship capital. These three components evaluate the intangible assets and reevaluate the informational voids to enhance the competitive advantage.

Organizational culture must embrace creation, innovation, transfer and reuse of information and knowledge in order to take maximum advantage of all that intellectual capital has to offer.

A couple of the intangible assets that compose the intellectual capital are: the employee ability to create, the employee ability to execute, manufacturing technology, internal procedures and rules, the capacity to maintain company performances, the capacity to adapt to novelties, the capacity to influence demand, the degree of participation in the market, the capacity to prospect the

market, own prognosis, the capacity to diversify the offer.

Up to now they have defined around 130 such components of intellectual capital.

2. Evaluation models for intellectual capital

The first company that tried to build a model for measuring intellectual was Skandia, a Swedish company that implemented this model, trying somehow to connect the accounting system with intellectual capital. Unfortunately, not up to the present day did they manage to agree with authorized accountants upon the way to quantify the human capital and introduce it in the balance of a company, under invisible actions.

Edvinsson, the creator of this model, at that time employed at Skandia, saw the potential offered by this capital and continued research outside the company. In 1998 Edvinsson was named "Brained of the Year" in detriment of Bill Gates.

Skandia Navigator model divides the market value into financial capital and intellectual capital. This one, in its turn, divides into human and structural capital (formed of innovation capital and process capital).

The second model that appeared on this subject is that of Sveiby, that approaches this theme more practically. He correlates the three types of assets and helped by his programme he helps the small and medium sized companies to better understand the true structure of the invisible capital.

In the attempt to quantify the intellectual capital of a nation we can identify a large amount of indicators, divided accordingly to the patrimony that they belong to: scientific, educational, cultural, of health, cultural-sport and confessional.

A new approach of strategic management was developed at the beginning of the 1990s by doctor Rober Kaplan and David Norton. They named it the Balanced Scorecard. Admitting the weaknesses of the preavious approaches this method offers a clear vision of what the companies should measure to balance the financil perspective.

The tehnological broker introduced by Annie Brooking brings a practice contribution offering three models for measuring in order to help calculate the dolar value of Intellectual Capital. Brooking offers a practice contribution to the measurement of Intellectual Capital and defines it as a moulding of its four components-market shares, human oriented actives, intellectual actives and infrastructure actives.

The competition in the attempt to measure intellectual capital is amaizing. They have created different measuring instruments , suited unfortunately only to specific applications. These include:

2.1. Management risk matrix and the Boston consultancy group

This is a technique that uses a cadran divided into four to show performances. The chosen variables for the two axes must be correlated. Unfortunately, the methods used by this consultancy group are called by specialists as arbitrary.

The Kepner-Trigoe decision process brings in front key criterias for a selection process and uses a numerical scale to classify the choices. This method is very useful whentrying to solve problems through identifying potential causes. This approach illustrates the importance of a well defined criteria and correctly divide nto two cathegories-musts and wants.

The Blake managerial grill-shows the subjectivity of internal organizations in companies.

The Myers Briggs personality test-used to enhance the dynamic of a group.

In the last years the sector with the most significant growth is without a doubt that of knowledge. Intellectual capital is the key to the development of companies.

Those who understood this reorientated their activity from the service area to the knowledge area and had only winnings. The companies in this field do not produce anything , they do not sell tangible objects, but employee knowledge.

The knowledge based organizations belong to a subgroup in the service area. This sector is not a discreet phenomenon but more like an area of types of companies from the ones totally adapted to its clients to the ones that refined their output and presented it differently. The latters belong more to the classic type of organizations.

In the last decades they concluded that the tangibile assets are just a part of a company's or nation's fortune. The accounting value of a company often wrongly represents its power, either by neglecting its potential future or in some cases by assuming of an unreal lifetime of production processes. Out of Top 500 companies in 1954 , 360 no longer appear in similar tops done nowadays. The problem is now if a better understanging of our intangibile assets can helps us forecast a decline.

Between tangibile assets and intellectual capital there is a major distinction. Tangible assets have an intrinsic value independent of the one that analyses them. However, the value of intellectual capital mostly depends on the one that analysys it. The tangible ones

lose their value in time, unlike the intangible ones, that gain it.

The classic companies have a logic based on efficiency, pre-programmed industrial production whose main target is the large amount of people. McDonald's exemplifies this the most, as even the smile we received as clients is pre-programmed in the employee manual.

On the other side there are the knowledge based companies. The service is the result of a continuous process, of a permanent team work between clients and experts. Companies must treat their clients individually. Knowledge based companies cannot force the clients to adapt to re-established services and outputs.

The production of knowledge based companies is in fact the solving of the problems that are hard to solve in a classic manner. The employee must be well trained.

The production of these companies depends only on the way these managers look at both the clients and employees.

The logic of knowledge based organizations is on short:

- 1) Attract the personnel.
- 2) Attract the clients.
- 3) Match the clients with the personnel and create that chemistry.

These companies hire extremely educated people whose only target is the solving of their clients problems. Most often they process information.

The result of this processing is not tangible as a product and generally is part of certain reports. The most obvious result is the growth of the client's business.

We cannot talk about a quantification of the inputs of these societies. They have not up to now found any suited indicators to

quantify these inputs or the outputs. The lack of these indicators is known and accepted. This is how they explain the lack of data available. However they must not neglect the investment in intangible assets. All investments imply a transfer of liquidities.

When a knowledge based organization invests in intangible assets such as know-how, the accountants do not allow to introduce that value in the balance sheet, so the investment will have an invisible correspondent. The investment will be represented by a negative cash flow and a loss in the winning and losses account.

We must also remark that the specialists in knowledge based companies consider that training is not only a waste of time but also of money. They would rather recommend a more expensive investment in research and development, but this one would worth its expense in time.

Both type of investments have the same effect-sacrifice the profitability on the short run for that on the long run.

2.2. Tango simulation

Knowledge based organizations invest a great deal in intangible assets. This can only be done through sacrifices such as:

- 1) Expense balance-will grow the costs for interests.
- 2) The giving up of a capacity that would otherwise produce an income.
- 3) Pay more than necessary for the solving of your clients problems.

The profit of these organizations is generated by the management of intangible assets. This is the most obvious difference from the classic type of organizations whose profits are based on tangible capital. This difference

is the most important as all the models we use nowadays are based in tangible assets.

Tango offers a model that clarifies the logic of functioning of these knowledge based organizations and define specific factors that grow profitability. These include tangible factors such as capacity, but also critical intangible factors such as image, know how, personal chemistry and individual structure.

The know how of a company is divided into two categories: organizational and professional. The professional one is made up of systems, rules, programmes, manuals, concepts, etc that have been developed by professionals as individual research and development projects. In a law firm these rules are actually standards for contracts, in a laboratory they are systems and testing mechanisms.

The most important characteristic of this know how is that the systems cannot be bought from the outside, are unique for every organization and are part of it. A great deal of a knowledge company's success depends on the level of education of their employees in order to use this know how more efficient than their competitors.

Organizational know how is also useful otherwise knowledge based companies shall not survive. It includes creation strategies, marketing, planning, accounting, management, etc. The value of organizational know how is measured through the ability of the company to maintain and grow the total value of an organization.

In TANGO the organizational know how is represented by the total amount of knowledge and ability that one brings with and the ones that he learns during the simulation.

Participants in TANGO see how intangible factors are directly related to financial results and learn practical strategies to manage them. The biggest mistake that a knowledge based organization can do is to concentrate solely on the clients.

Unlike in the manufacturing industries, the knowledge based organizations cannot afford to concentrate too much only upon their clients, that is because these organizations are in a permanent challenge on two markets: the market for clients and the market for key employees.

3. Fuzzy analysis

At a microeconomic level we can use fuzzy analysis to quantify the value of intellectual capital.

Let the time series $\{X_t\} = \{0.8; 1.4; 2.8; 3.6; 4.2; 3.6; 4.3\}$ that represent the variation of the benefits taken by the employees during the past 7 months. The total range is $4.3 - 0.8 = 5.5$. We shall divide $[0.8; 4.3]$ in equal parts.

$$U = \{(0,1), (1,2), (2,3), (3,4), (4,5)\}$$

The linguistic variance according to these series is:

- Very low = $L_1 \in (0,1]$
- low = $L_2 \in (1,2]$
- medium = $L_3 \in (2,3]$
- high = $L_4 \in (3,4]$
- very high = $L_5 \in (4,5]$

The medium for each partition is $\{m_1=0.5; m_2=1.5; m_3=2.5; m_4=3.5; m_5=4.5\}$

$$X_1 \in (0.5, 1.5), \text{ so } \frac{1.5 - 0.8}{1.5 - 0.5} = 0.7 \in L_1 \text{ and}$$

$$\frac{0.8 - 0.5}{1.5 - 0.5} = 0.3 \in L_2$$

The fuzzy value for X_1 is $F_1 = (0.7; 0.3; 0; 0; 0)$
 $X_2 = 1.4, X_2 \in (0.5, 1.5), F_2 = (0; 0.1; 0.9; 0; 0)$

Similarly

$$F_3=(0;0;0.7;0.3;0);$$

$$F_4=(0;0;0;0.9;0.1);$$

$$F_5=(0;0;0;0.3;0.7);$$

$$F_6=(0;0;0;0.1;0.9);$$

$$F_7=(0;0;0;0.2;0.8).$$

Table 1

	Very low=1	Low=2	Medium=3	High=4	Very high=5
F ₁	0.7	0.3	0	0	0
F ₂	0	0.1	0.9	0	0
F ₃	0	0	0.7	0.3	0
F ₄	0	0	0	0.9	0.1
F ₅	0	0	0	0.3	0.7
F ₆	0	0	0	0.1	0.9
F ₇	0	0	0	0.2	0.8

$$E(x) = \frac{0.7}{1} + \frac{0.4}{2} + \frac{1.6}{3} + \frac{1.8}{4} + \frac{2.5}{5}$$

$$E(x) = \frac{0.1}{1} + \frac{0.06}{2} + \frac{0.23}{3} + \frac{0.26}{4} + \frac{0.36}{5}$$

4. Conclusions

The use of fuzzy analysis helps to a better understanding of actual phenomenons on

the work market and last but not least to an objective analysis of the current situation.

Unlike the previous methods used to measure intellectual capital, which have been considered as arbitrary, subjective and not fitted to a company's unique profile, the questionnaires created for the evaluation on intellectual capital using the fuzzy analysis assure a unique result based on each client's inputs and outputs.

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Knowledge Economy and its Effects in Romania

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Abstract: Knowledge economy implies that the rationality of individuals is limited because they make and adapt their choices in an environment affected by risk and uncertainty. The first part of this paper proposes an analysis of the knowledge economy, based on its interdisciplinary nature. Thus, classical theories adapt to visions that pertain to the dynamics of human interactions, the restructuring of the social network theory, the general equilibrium theory and the game theory.

The research part of this paper identifies and explains the link between innovation and knowledge, as well as its effects on the Romanian economy's competitiveness and innovation. The conclusions illustrate that the consolidation of knowledge-based economy in Romania implies setting certain priorities, such as: investing in education, developing entrepreneurship, creating an innovative and efficient system made up of companies, research centers and universities, which enables new technologies to be absorbed, adapted and created for the society.

Keywords: knowledge economy, sustainable development, human capital, innovation, efficiency.

1. Introduction

Nowadays, knowledge economy is a challenge, as it is one of the forms of organization of human society. The rationality of individuals is limited because they make

and adapt their choices in an environment affected by risk and uncertainty. The collective behavior of economic agents is formed in a complex system of institutions, norms and conventions, laws, markets etc. that make up huge social networks.

Knowledge economy implies an interdisciplinary approach that adapts classical theories to visions related to the dynamics of human interactions, the restructuring of the social network theory, the general equilibrium theory and the game theory. Modern technology and engineering, as means of computerization and knowledge, definitely impact on the economy. Furthermore, new economy implies sustainable development, but it also brings about a new approach of the sustainable development itself.

Knowledge economy is based on the following main pillars: technological innovations and research & development costs; practice-based learning and knowledge propagation; accumulation of capital that generates positive technological externalities; improvement of the education & training, which generates work effectiveness, an absolute must for sustainable economic growth, conservation and reasonable use of non-regenerating resources, as well as a balance between resource consumption and regeneration.

The ideal solution seems to be to consider both nature and economy as part of a so-called "active circular flow" closed circuit. This means that, at the current state of knowledge, it is economically effective to use natural resources and to recycle waste material. Numerous efficient technologies for the use of raw materials are already available, but these must be applied and generalized, while others could be developed by intensifying research.

The current production, when viewed in the long run, seems to be higher than several years ago, but its contribution to improving the quality of life was markedly less significant than its growth, because the difference

represents costs and productions meant to reproduce natural conditions that the nature used to provide for free. Costs related to restoring the nature, as well as protecting and developing environmental assets should be taken into account to redefine the concept of economic efficiency.

Growth theories and, to a greater extent, the developed activities, approach natural environment as man's economic arena. This biunique relationship must be beneficial to the environment as well. Within it, human beings must meet environmental requirements to ensure their own perpetuity. Sustainable development imposes a wider view on the social equity by considering the man-environment relationship.

The authors propose an analysis of the knowledge economy, based on its interdisciplinary nature. The research part of this paper focuses on identifying and explaining the link between innovation and knowledge, as well as its effects on the Romanian economy's competitiveness and innovation. The aim of the final conclusions is to set certain priorities for the Romanian economy, such as investing in education, developing entrepreneurship, creating an innovative and efficient system of companies, research centers and universities, which enables new technologies to be absorbed, adapted and created for the society.

2. Literature Review

Each society had its own economy, which was considered new as compared to the economy of the previous society. The economic progress generated such ample changes that it was thought that a new economy was born, while in fact this only meant a

new stage acquired by the economic science. Thus, the progress was made from the classical economics to the neoclassical economics and later to the new classical economics. In this respect, the New Cambridge School was founded in the last decades, which laid the foundations of new economics, represented by such economists as J. Robinson, P. Sraffa, L. Pasinetti. They provided new explanations or formulated often categorical conclusions, which were overall considered to form the "new economics".

During the last decades, the concept of **new economics** has been widely used to refer to a new type of economic approach. Some economists believe that modern economies are rather *dynamic adaptive systems* than *closed equilibrium systems*, as it was long believed. Among these, we mention *Kenneth Arrow*, Nobel Price laureate and one of the first initiators of the modern neoclassical model and *Brian Arthur* of the Santa Fe Institute. *New economics* is also known as *the Santa Fe economics* because a great part of the economists preoccupied with this complexity are affiliated to the interdisciplinary research center of the Santa Fe institute. The complexity of the modern economic environment determined some authors to plead for a new economic approach based on a dynamic adaptive system. That is why the economists who study the new mode of economic thought are also referred to as complexity economists. According to these economists, economies are similar to biological systems in that they follow the same fundamental laws. These laws act differently in economics, and if we can improve our level of understanding, we will be able to comprehend the working mechanism of markets and companies to a greater extent.

New economics claims a rethinking of the production factors theory. Knowledge becomes the essential component of the contemporary economic and social development system. The spreading of innovation and the convergence of peak technologies will play a key role in boosting the importance of knowledge in the context of the globalization process. A knowledge-based organization can inspire entrepreneurship and drive top managers to transform the organization so that it becomes capable of absorbing, applying and developing value as a result of implementing new competitive technologies. Advanced knowledge and technology can significantly transform the economy of a nation.

3. Competitiveness and innovation in the Romanian economy

Despite the 6-8% annual growth rate, the lack of competitiveness of the Romanian economy provides reasons of concern. The main features of a competitive economy are high productivity and high efficiency in using available resources. At population level, this translates in higher incomes and a better quality of life, i.e. wellbeing.

Each year, the EU Directorate General for Enterprise and Industry publishes the European Competitiveness Report¹, with concrete proposals regarding the macroeconomic effects of the EU policies (table 1).

A preoccupation for improving *macroeconomic competitiveness* may be noticed.

In Romania, several plans and structural programs exist; however, these cannot

¹http://ec.europa.eu/enterprise/enterprise_policy/competitiveness/1_eucompetrep/eu_compet_reports.htm

Table 1: Macroeconomic effects of EU-27 horizontal policies

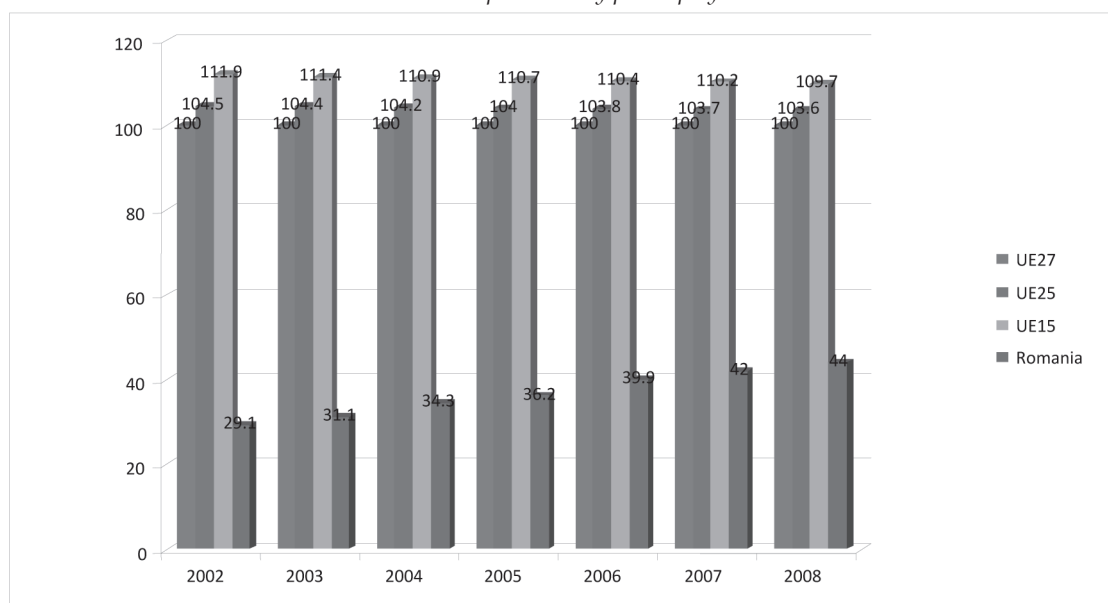
Index	Workforce qualification	Research & development	Administrative burden	Internal market	Energy efficiency	Total
Structural effects of the horizontal policy measures (%)						
GDP	0.5	3.0	1.5	1.7	0.9	7.7
Consumption	0.5	1.6	1.4	5.5	0.9	9.8
Export	0.5	4.8	1.4	40.6	1.8	49.0

Source: European Competitiveness Report: The future of manufacturing in Europe – a survey of the literature and a modeling approach, 2008

replace the *national competitiveness strategy* in the long run. A public body that specializes in competitiveness issues should be established. This governmental think-tank based

on a public-private partnership should develop a database to assess and monitor competitiveness, as well as case studies and other comparative analyses.

Chart 1. Work productivity per employee



Source: EUROSTAT database

An extremely negative aspect of the Romanian economy is that its *productivity* is less than half of the average EU-27 level. According to Eurostat, Romania is the last but one among the EU states in terms of work

productivity per employee, before Bulgaria, despite the high average number of working hours.

Eurostat figures illustrate that work productivity per employee in 2008 in Romania

was 42% of the average of the 27 EU member states, while in Bulgaria it was 35.6% (chart 1). According to the same source, work productivity in Romania in 2002 was 29.1% of the

EU average and improved constantly between 2002 and 2008.

The situation of work productivity by sectors in Romania is shown in chart 2.

Chart 2. Work productivity by sectors of national economy

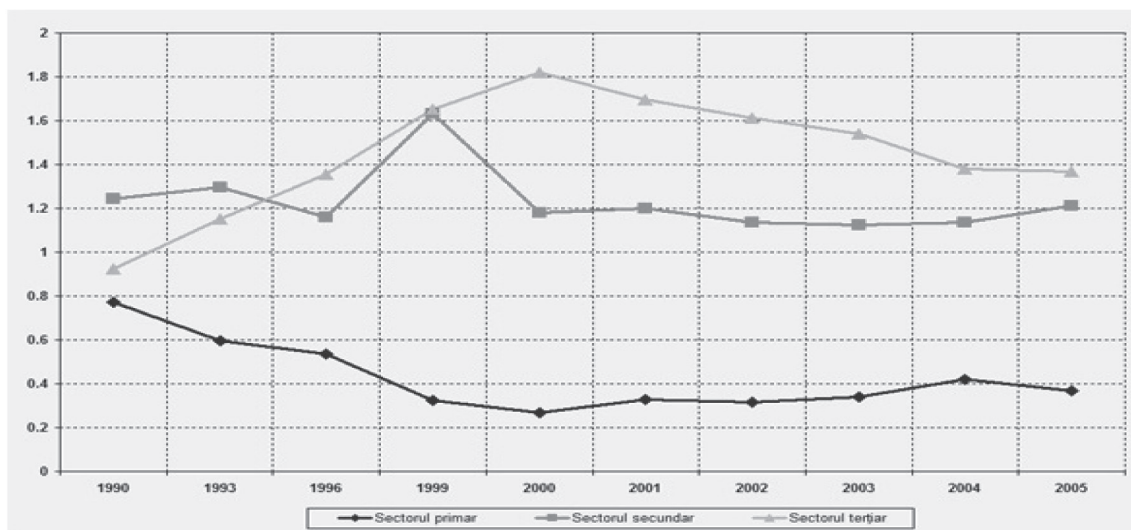


Chart 2 shows that the lowest productivity is in agriculture, with a level lower than in 1990. Industry has maintained a constant productivity level after 1989. In 1999, it registered a sudden growth, but then fell back to the levels of previous years. In 2005 it grew slightly, while the level of productivity in the other two economic sectors slightly regressed. Work productivity in the services sector was low at the beginning of the analyzed period, partly because services only began to develop after 1989. By the year 2000 services registered a solid growth, then a constant regression each year.

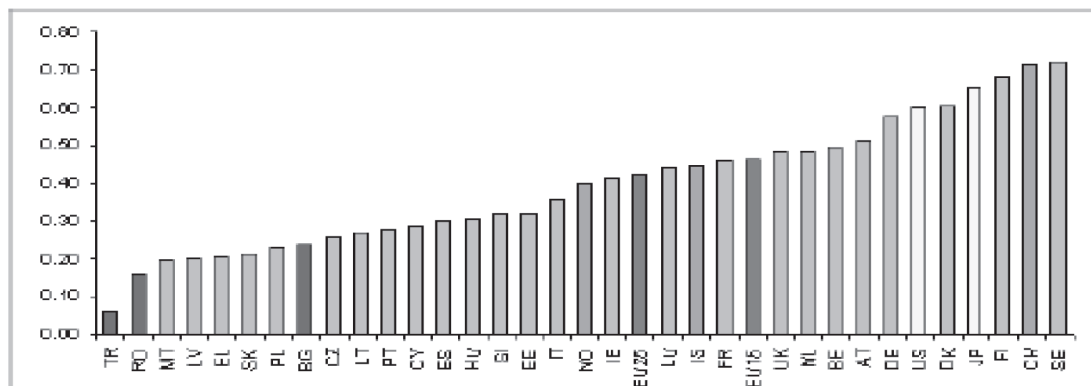
Romania is one of the growth leaders among the Catching-up countries, with an innovation performance well below the EU27 average but a rate of improvement that is one of the highest of all countries. Relative

strengths, compared to the country's average performance, are in Innovators and Economic effects and relative weaknesses are in Finance and support and Throughputs.

Over the past 5 years, Finance and support and Throughputs have been the main drivers of the improvement in innovation performance, in particular as a result from strong growth in Public R&D expenditures (18.0%), Private credit (17.4%), Broadband access by firms (24.3%), Community trademarks (36.0%) and Community designs (44.3%).

In terms of productivity, despite the Romanians' numerous award-winning original ideas, the application of fundamental research at the production level is quite limited, either due to technological deficit or to prohibitive costs that annul process efficiency.

Chart 3. Innovation index values in 2008



Source: Annual Innovation Policy Trend and Appraisal Report, Romania, 2008, p. 82 at <http://trendchart.cordis.lu/>

The efficiency of the national innovation system, a key element of the innovation policy, represents the ability of companies to transform innovation inputs into innovation outputs and is calculated as a ratio between the composite innovation index consisting of input and the composite innovation index consisting of output. According to the European Innovation Scoreboard report, Romania is ranked the last but one among the European countries with respect to scientific research, with a performance higher than Turkey (chart 3).

Innovation and knowledge are determining factors for improving micro and macroeconomic competitiveness in the current regional economy, which increasingly lies on the production of non-material added value.

3. Conclusions

Each society had its own economy, which was new as compared to the economy of the foregoing society. The economic progress has generated such complex changes that it was thought that a new economy emerged, while in fact this only meant a new stage, a

new explanation provided by the economic science.

Romania's progress towards the new economy and the knowledge society requires that efforts be directed towards scientific research and technological development. These are the fields where a daring policy should be applied in order to reduce discrepancies. Romania must invest more in research and high technology to be part of developed countries. The current economic growth in Romania is based primarily on the low labor cost and reduced added value exports, as well as a low level of infrastructure and innovation mechanisms, which are at the beginning of their development state and do not have a significant contribution to economic growth. These issues cause workforce mobility in search of higher salaries and create unbalances on the labor market. In the long run, Romania has to invest in rebalancing the labor market, in education etc.

Romania's presence in the sphere of world technological development is insignificant. While a million European citizens succeed in registering over 100 patents each year, the same number of Romanian citizens only

exceeds 2 patents (Eurostat 2008). Romanian innovators have an extremely low capacity to transform an idea/product/method/technology in a patent and the latter in a business.

The imports of technology, the transfer of knowledge and the sale of new ideas from abroad are essential. Effective financial and fiscal stimuli are needed. Objectives should be clearly defined, more costs should be involved in innovation, and companies should elaborate evaluation criteria from the very phase of design.

The chances for Romania lie in boosting sustainable industrial development and proactively sustaining innovations and scientific research. The new European industrial

policy suggests initiatives for industrial development related to: competitiveness, energy and environment; intellectual property rights; better industry regulations; industrial research and innovation; market access for companies; qualification of specialists and changes in the management structure.

The consolidation of knowledge-based economy in Romania implies setting certain priorities, such as: investing in education, developing entrepreneurship, creating an innovative and efficient system made up of company partnerships, research centers and universities, which enables new technologies to be absorbed, adapted and created for the society.

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Managing the Students' Behavior in the Contemporary Education System

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Abstract: *Changes and quality improvements take place in all organizational structures, including higher education institutions. Every activity and process needs coordination and therefore, since in universities people (professors) work with people (students), an important function of the education is to adjust the behaviors of the young generation, when needed.*

This paper proposes new principles of interaction between professors and students in order to increase the latter capacity of efficient involving in economy and society. The objectives of this paper consist of the following:

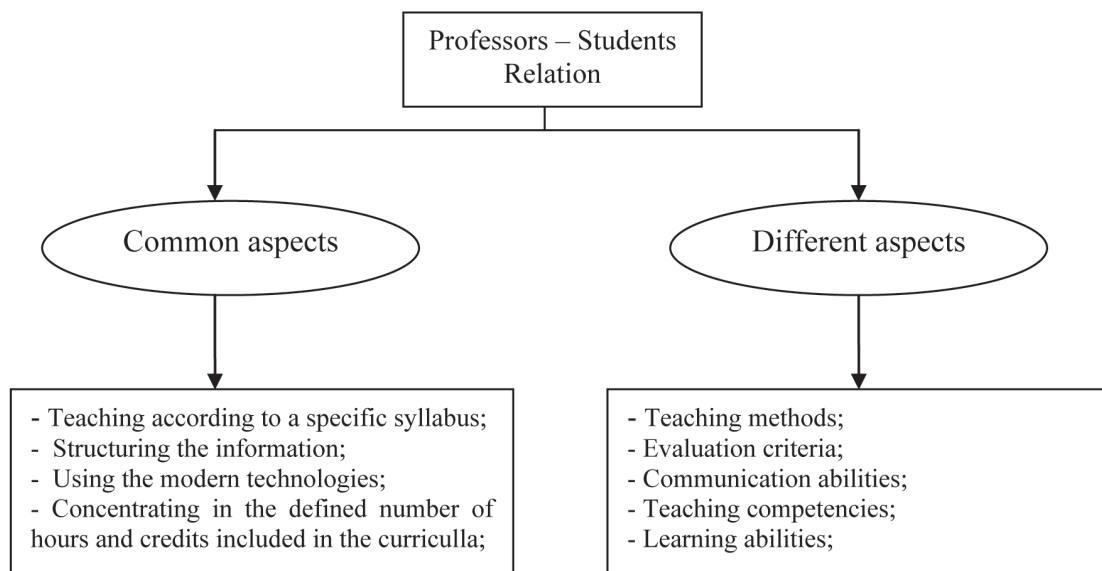
- *to identity the main less visible aspects of the students' behaviors;*
- *to explain the principles of a new professors- students relation;*

The Contemporary education system has been changing into a flexible set of processes that even apparently are the same, they are managed completely different. The reason is that over the general rules that apply in a higher education institution according to the European and motivational

legislation, each structure has its own autonomy, to some extent.

Some of the common aspects, as well as the different ones that refer concretely to the education are generated by the characteristics of the professors' and students' managerial abilities. (See Fig. no 1).

Figure no. 1: Common and Different Aspects of the Interaction



Between Professors and Students

In the Contemporary Education system the subjects face the lack of time when explaining interpreting or analyzing some theoretical or practical topics. Therefore, the need of individual study comes out as imperative for the students to make them competitive for the more and more restricted labor market. When the student have raised with less work or learning discipline, they find difficult to fulfill their assignments and tests. More than that, they become less integrated in the system and reject the normal way of learning looking for alternatives to survive as students. Some of the behaviors that are generated by the less adapted students are the following:

- 1) cheating at exams, looking for easy passing and not effective learning;
- 2) contesting the result of their

evaluation for reasons that they want to present as discriminatory compared to their colleagues;

- 3) pressing the professors to diminish the exigency for different reasons;
- 4) complaining about the teaching style.

In spite of the continuing preoccupation for quality assurance in higher education, such behaviors are part of the contemporary education system. Therefore, the professors' role must increase in the sense of working not only according to criteria, standards and indicators which represent the official rule, but of also working in an efficient sense according to new principles.

The principals of new professors – students relation are the following:

- 1) the principle of self – example; professors must not ask the students to behave in a way they do not, just

- because they are in a position of managing the class and the lesson;
- 2) the principle of different or systemic evaluation; professors should promote a complex system of evaluation so that to capitalize the students different abilities of learning;
 - 3) the principle of respecting their colleagues; professors have to promote equal treatment to all the students and to reveal the good parts of their contributions as well as the wrong ones, but in an improving manner;
 - 4) the principle of demand and supply; professors should be flexible in accepting suggestions or new topics for the discussions when the student demand for;
 - 5) the principles of creativity; professors must stimulate the students' creativity, being themselves creative

and discovering new possibilities, tasks, competition processes, etc.

Managing the students' behavior nowadays is not a simple process. Some professors fail in this interaction and generate conflicts or unsatisfactions.

To conclude, managing the students' behavior is possible in an efficient manner by flexible and communicative professors which have increased their ability of dealing with the new generation.

This means a good:

- planning of the activities;
- organization of the teaching learning processes;
- consolidation of the activities and processes;
- motivating system;
- decisions;
- controlling and evaluating processes.

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Measuring the Distributional Impact of Public Health Spending on Poverty in Nigeria

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Abstract: Most African health systems are replicas of what was inherited from the colonial era and are therefore unevenly weighted toward privileged elites and Urban centers. Improved health status leads to increased productivity, educational performance, higher life expectancy, savings and investments, and decreased debts and expenditure on health care. Ultimately this would lead to greater equity, economic return, and social and political stability. The health impacts of climate change can occur through a number of direct and indirect causal pathways, and the severity is in part determined by the adaptive capacity of the population. Those groups particularly at risk include poorer countries and communities, those geographically vulnerable to extreme weather events, and those highly dependent on agriculture for their livelihood.

The paper examines the impact of public health expenditure, and poverty among the general populace. The trend of the country human development index and public expenditure on health were analyzed using correlation coefficient and regression analysis and simple descriptive analysis. The findings reveal that the variations in the human development index could be traced to the budget estimates.

Keywords: Health, expenditure, disease, public, poverty.

Introduction

Much of the attention concerning the provision of health care to the poor are centered on the public sector. It is taken as understood that health care is a basic service, essential in the fight against poverty, (World Bank, 1990). The poor are the most vulnerable to further impoverishment if faced with high costs from illness or family death. Health inequality has been studied using a number of wellness measures: health status, health service spending/financing, and health service use. The evidence available from multi-country surveys show large poor-rich differences in the range of health outcomes (Gwatkin 2000).

Public spending on curative health care in Africa does not seem to be reaching most of the poor. On average, government subsidies for curative health care are imperfectly targeted at poor households and primarily benefit the wealthy (Castro-Leal, et al. 2000). Even though poverty is closely tied to rural areas, the majority of government health care facilities in Africa are located in urban areas (Hjortsberg 2002). The constraints arising from distance to care combined with the uncertainty of receiving the necessary drugs or treatment from the public health care services, too often leaves the poor with two options: locally available private providers, or going without health care services altogether. The public sector's inability to provide essential health care services at minimum levels of accessibility and quality makes services offered by private providers attractive by comparison.

Even where public facilities exist, equivalent privately delivered services are many times perceived by the user to be of higher quality, irrespective of empirical evidence that often suggests the opposite (Brugha

etal, 1998). In developing countries, private sector delivery of primary health care is usually poorly regulated and prices are usually scaled to the ability-to-pay of the client (Hongoro, 2000; Kumaranayake, et al. 2000; Soderlund, 2000). As a result, when the poor seek treatment from private providers they are likely to spend a greater proportion of their income on health than would be the case if care were sourced from government, leading to an increased financial burden on the individual and family.

The poor state of Nigerian health system is traceable to several factors: organization, stewardships, financing and provision of services. These have been compounded by other socioeconomic and political factors in the environment. The overall availability, accessibility, quality and utilization of health services decreased significantly or stagnated in the past decades.

Federal Ministry of Health (FMOH) indicates that in 1999, there were 18, 258 registered PHC facilities, 3,275 secondary facilities and 29 tertiary facilities. The proportion of households residing within 10 kilometers of health center, clinic or hospital is 88% in the Southwest, 87% in the Southeast, 82% in the Central, 73% in the Northeast and 67% in the Northwest regions, FMOH (2000).

Literature Review

Evidence from National Health Accounts research, economic studies of health seeking behavior, and analysis of Demographic and Health Surveys (DHS) data suggests that an increase in government services, when and if it comes, will not be sufficient to increase diagnosis and entry into treatment to the rates set by the Millennium Development Goals

(Ngalande-Banda et al, 1995; Rosen, et al 1999; Leonard 2000). However, as has been documented in both developed and developing countries, the difficulties in regulation and perverse financial incentives inherent in providing fee-for-service treatment often results in highly variable quality of care. Since decentralization in the health sector is often politically driven (Atkinson et al, 2004), the theoretical benefits tend to get more attention than the more concrete facts of actual experiences in other countries, which is mixed (Mubyazi, Kamugisha et al. 2004).

Developing countries across the globe face a myriad of problems ranging from poor governance, poor programme implementation to corruption just to mention a few. The resultant effect of this is manifested in rising poverty levels, food insecurity, deplorable state of infrastructural facilities and a general poor service delivery system. In most cases the end users of projects embarked upon by policy makers are not taken into cognizance especially at the planning and implementation stage and the outcome of this action is that projects executed are not based on the need of the people concerned but primarily on the basis of the administrator's political and personal inclinations.

Poverty is more easily acknowledged than defined. Hence, a universally acceptable definition of the term has remained elusive. As a social phenomenon, it has been in existence in Nigeria since the country gained political independence in 1960, and even before. Yet, not many Nigerians have much awareness of the policies designed to eliminate or reduce it from society, let alone the particular knowledge embodied in such

policies and its consequences for the reduction of poverty. One such consequence is the inability of the people to contribute to the policy process from the vantage point of their experience. The poor linkage between community and government further weakens the people's blurred poverty knowledge (CEDAR, 2002). One result is government's relative ineffectiveness in formulating enduring policies of poverty alleviation.

Climate change

There is now a very strong scientific consensus that global warming is occurring,

(Trenberth, 2001), that it is largely attributable to human emissions of greenhouse gases, that the effects are now observable, and that further warming will occur (IPCC, 2007). A recent report by the Intergovernmental Panel on Climate Change (IPCC) estimates current global warming to be almost 0.8°C above pre-industrial levels and project a further rise of 1.1–6.4°C by 2100. The impacts of current global warming are now observable in physical systems such as the rise of sea levels, glacial retreat, alterations in rainfall patterns; and in biological systems such as earlier spring activities of numerous plant and animal species (Parmesan). The most recent IPCC report confirms that it is human emission of greenhouse gases that has been mostly responsible for global warming over the past 50 years, and that even if emissions are greatly curtailed, the existing backlog of emissions has committed us to some degree of warming over the coming century (IPCC, 2007). Areas of Australia particularly vulnerable to warming include Alpine regions, the Great Barrier Reef and the Murray Darling river systems (Hughes, 2003).

Climate change and Human Development

Human development is about people. It is about expanding people's real choices and the substantive freedoms—the capabilities—that enable them to live lives that they value. Choice and freedom in human development mean something more than the absence of constraints. Three people whose lives are blighted by poverty, ill-health or illiteracy are not in any meaningful sense free to live the lives that they value. Neither are people who are denied the civil and political rights they need to influence decisions that affect their lives.

Climate change will be one of the defining forces shaping prospects for human development during the 21st Century. Through its impact on ecology, rainfall, temperature and weather systems, global warming will directly affect all countries. Nobody will be immune to its consequences. However, some countries and people are more vulnerable than others. In the long term, the whole of humanity faces risks but more immediately, the risks and vulnerabilities are skewed towards the world's poorest people. Climate change will be superimposed upon a world marked by large human development deficits. While there are many uncertainties about the timing, nature and scale of future impacts, the forces unleashed by global warming can be expected to magnify existing disadvantages. Location and livelihood structures will emerge as powerful markers for disadvantage. Concentrated in fragile ecological areas, drought-prone arid lands, flood-prone coastal areas, and precarious urban slums, the poor are highly exposed to climate change

risks—and they lack the resources to manage those risks.(UNDP, 2008)

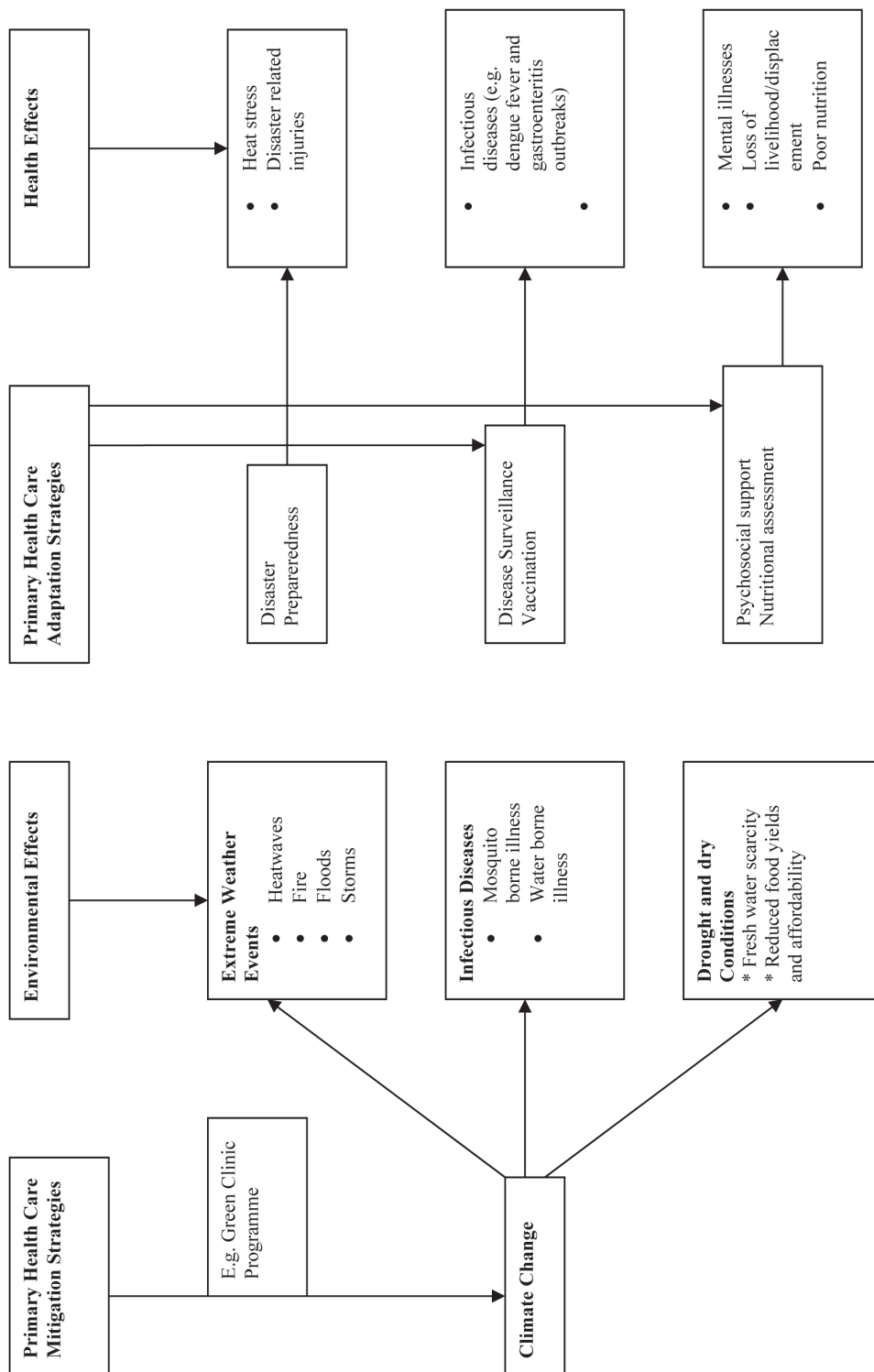
Climate change and health

The health impacts of climate change can occur through a number of direct and indirect causal pathways, and the severity is in part determined by the adaptive capacity of the population (Confalonieri, 2007). Those groups particularly at risk include poorer countries and communities, those geographically vulnerable to extreme weather events, and those highly dependent on agriculture for their livelihood. An overview of some of the pathways by which climate change can impact on health and potential primary health care adaptive strategies is shown in *Figure 1*.

Health Franchising and Service delivery

Health franchising is an application of commercial franchising systems to socially motivated health programs (Montagu, 2002; Smith, 2002). At its most basic, this means that individual franchises operate for-profit outlets or clinics, but in accordance with clear and strictly defined clinical and quality guidelines set forth in a contractual relationship with the franchiser. As a method of organizing an unstructured private sector franchising is attractive because it incorporates into one system all of the interventions that have been shown to have some effect individually (training, oversight, performance-based incentives, accreditation and certification, vouchers or other external payment schemes, ongoing support relationships and monitoring).

Figure 1



Poverty and Human values

A concise and universally accepted definition of poverty is elusive largely because it affects many aspects of the human conditions, including physical, moral and psychological. Different criteria have, therefore, been used to conceptualize poverty. Most analyses follow the conventional view of poverty as a result of insufficient income for securing basic goods and services. Others view poverty, in part, as a function of education, health, life expectancy, child mortality etc. Blackwood and Lynch (1994), identify the poor, using the criteria of the levels of consumption and expenditure. Further, Sen (1983), relates poverty to entitlements which are taken to be the various bundles of goods and services over which one has command, taking into cognisance the means by which such goods are acquired, and the availability of the needed goods. Yet, other experts see poverty in very broad terms, such as being unable to meet "basic needs" – (physical; (food, health care, education, shelter etc. and non – physical; participation, identity, etc) requirements for a meaningful life (World Bank, 1996).

Poverty can be structural (chronic) or transient. The former is defined as persistent or permanent socio-economic deprivations and is linked to a host of factors such as limited productive resources, lack of skills for gainful employment, endemic socio-political and cultural factors and gender. The latter, on the other hand, is defined as transitory/temporary and is linked to natural and man-made disasters. Transient poverty is more reversible but can become structural if it persists. It is generally agreed that in conceptualizing poverty, low income or low consumption is its symptom. This has been used for the construction of poverty lines.

Limitation of Study

This study focused on the impact of Government spending on health and its effect on poverty. Poverty was measured using literacy level, life expectancy rate and average standard of living, compressed into the human development index. This data was provided periodically every 5 years up to the year 2005. This data was measured with the budget estimate in the same manner for objective analysis based on the available data from our secondary source.

Statement of Problem

The severity of the impacts of climate change is determined by the adaptive capacity of the population. The level of poverty is related to the level of risk. This paper seek to determine the relationship between public health expenditure and poverty among the general populace, using the human development index.

Methodology

Data were gathered from secondary sources such as the Central Bank of Nigeria annual reports and UNDP reports for Nigeria. The data used covered a period of 1980 to 2005 with a periodical interval of 5 years.

The method of analysis was based on correlation coefficient between budget estimate on Health and Human Development Index of Nigeria. The budget estimate was also regressed on the Human Development Index of Nigeria. The standard errors of the estimate were obtained to ascertain the statistical significance of the estimates. Descriptive statistics were also used to show the relationship between budget estimate and Human Development Index.

Model Specification

$$B = a + bI + \mu$$

Where

B = Budget estimate

I = Human Development Index of

Nigeria

μ = error term

Analysis**Federal Government Budget Estimates on Health and Human Development Index**

Table 1

Years	Recurrent Expenditure (000)	Capital Expenditure (000)	Total Expenditure (000)	Human Development Index
1985	167.7	56.2	223.9	0.378
1990	401.1	257.0	658.1	0.391
1995	3,335.7	1,725.2	5,060.9	0.411
2000	11,612.6	6,569.2	18,181.8	0.432
2005	33,254.5	6,431.0	45,704.5	0.470

Sources: Central Bank of Nigeria Annual Reports (2006) and UNDP (2007)

Figure 1

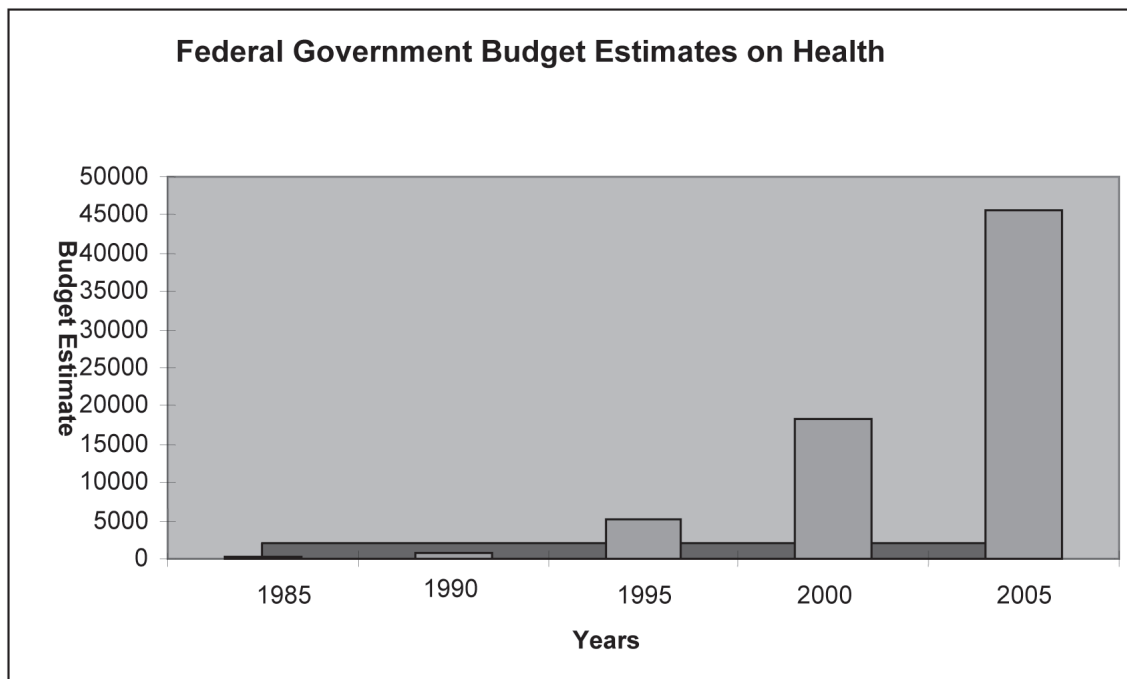
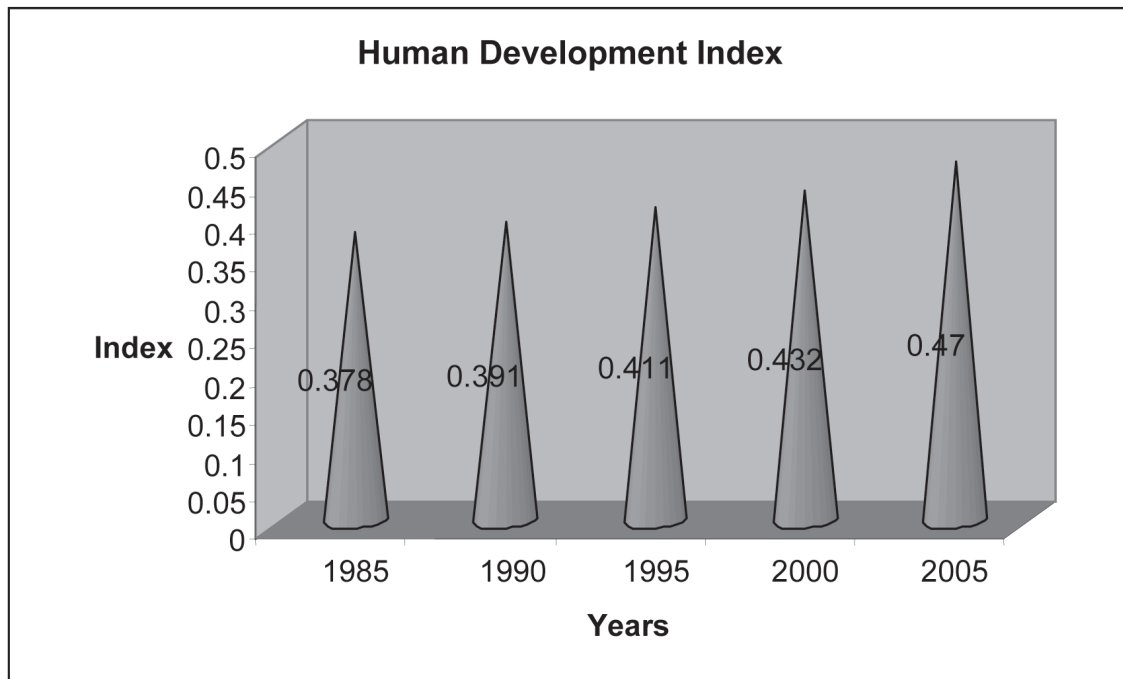


Figure 2



Findings and Discussions

Correlation Coefficient	0.93
\hat{A}	1580.12
\hat{B}	4040.5
$S_{\hat{A}}$	648.94
$S_{\hat{B}}$	627.06

Using the spearman's correlation coefficient, the value 0.93 indicates that there exist a positive linear correlation between the budget estimate on Health and the Human Development Index of Nigeria. This was also established by the regression equation obtained from the model specification and the charts. The standard errors of the estimate was discovered to be less than half (1/2) the value of the estimates in the regression equation. This implies that the estimates are statistically significant at 5% level.

The implication of this is that the change or slight increase noticed in the Human Development Index of Nigeria could be traced to the budget estimate covered by this study.

Conclusion and Recommendation

Public health systems vary in different parts of the world, depending upon the prevalent health problems. In the developing world like Nigeria, where sanitation problems and limited medical resources persist, infectious diseases are the most significant threat to public health. The health impacts of climate change can occur through a number of direct and indirect causal pathways, and the severity is in part determined by the adaptive capacity of the population. Going by the findings and discussion above, the

implication of this is that the change or slight increase noticed in the Human Development Index of Nigeria could be traced to the budget estimate covered by this study.

In order, to correct this trend, we recommend increase in the current level of per capita expenditure, which will require substantial effects in resources mobilization using the opportunities created by increase donor interests in Nigeria. Funding from domestic

sources all government levels as well as private sector will need to be harnessed for rational utilization and sustainability. World Health Organization (WHO) together with other partners will continue to support advocate for resource mobilization at all levels of government and from the private sector to ensure that additional resources are allocated to the health sector.

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The Assistant Manager – a Key Factor of the Managerial Team

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Abstract: *The new economic context, marked by the crisis and by radical transformations of the labor market, generates the need for more and more sophisticated skills for the assistant manager. That is because the efficiency of the secretarial activity implies both strategic skills and complex abilities, starting from knowledge about the specific activity of the company/institution where the person works as assistant manager, to connected areas such as: management, marketing, human resources, brand communication, company's culture etc. Whether the manager changes his job together with the "boss", or the boss is changed and he is bond to adapt to new conditions, a strong team spirit between the manager and his assistant is one of the most important elements that contribute to the productivity and efficiency of the both. The loyalty to the boss and to the company where he works, his adaptation capacity, his competence and his professionalism make the today's assistant manager a key factor of the managerial team. The essence of the assistant manager job consists in making more efficient the managerial activities, namely, to make it respond to the expectations expressed or not of the manager, or even to anticipate them.*

Keywords: assistant manager, team spirit, professional performance, informational technologies, types of managers, interpersonal relations.

Along with society's global changes, we are witnessing a series of transformations in the labor force. Recently, new jobs appeared and the ones already existent have gone through multiple transformations, firstly, thanks to the new computer and

communicational technologies. The secretary profession is one of those jobs that in the past 20 years have met significant transformations. Some of the reasons for these changes are:

- Introduction of office equipment and automatic data processing, with

- impact on new tasks (charts, graphs, data base etc.);
- Development of Internet, Intranet and other software;
- Development of team work;
- Total or partial informatization of the administrative processes (reservation of the travelling means, sitting and conference rooms, collective planning etc.);
- Externalization of certain parts from the old institutions;
- Cultural and social diversity (appearance of multinational companies);

A poll made by a team from Office Team (France) in a number of countries from Europe (Belgium, France, Czech Republic, Germany), regarding the changes considered opportunities for the professional development of assistants and secretaries, show that 32% of the interviewees mentioned the *adaptation capacity* as the first of the essential qualities for a successful change, following: initiative (22%), autonomy (18%), diplomacy (15%), loyalty (13%).

The new technologies efficiently "secretarize" a part of the manager's activity, and through the access to information, contribution to taking decisions, the secretarial activity also gains a managerial connotation. As prof. Mircea Malita was saying, *it is easier to find an expert or a strategist than a good secretary.*

The introduction of new notions and competences from connected fields like: communication theories, public relations, branding, marketing, management, publicity, human resources management etc. calls forth for a new profile of the secretary/assistant manager, in the context of our integration in the European Union. Thanks to the changes generated by the communication

needs of the different corporations, the secretariat takes over a series of attributions of HR and publicity, functioning as interface of the company's image and its management in relation with important clients, partners, but also with producers and media.

Taking into account the fact that the secretary/assistant job is more and more complex, the selection process is not simple (because of the polyvalence of the skills and necessity to keep the job as long as possible). The new communicational technologies can replace a secretary? This is a question we hear often. The answer is no, it cannot replace it, but they can transform it: the traditional secretary disappears in front of a secretary that knows very well all the communicational and informational technologies. Today, the computer can be set to "speak" with the persons that call, but this cannot diminish or clear off the interlocutor nervousness. Also, the computer cannot keep a secret if more than one person knows the access password. No matter how much the technology will evolve, we don't think it will ever be invented a device or robot to show tact and diplomacy (characteristic to the secretary) in front of a nervous or hurried client. His traditional role of information "adjuvant" will always exist, but he will carry his role with the help of instruments like: electronic agenda and messages, data bases, Internet, Intranet etc.

Regardless of the way the institution is organized (firm, company, governmental or non-governmental organizations etc.) any manager or director knows how important is to have a trustable assistant. More and more managers wonder where and how they can find a motivated, ordered, serious, responsible and well trained person.

Traditionally, the assistant manager is recruited from the graduates from an economic or technical faculty, if these have the necessary qualities and aim to become managers. Today we can also talk about a graduate from the Department of Managerial Assistance and Secretariat, part of the Faculty of Letters. This department forms secretaries and assistant managers with higher studies, that respond to the requests and needs of the new institutions. After finishing the studies they have knowledge in the field of management, secretariat and managerial assistance, law, they know well one or two foreign languages, they have skills in using the computer, in communication etc. It is true that they lack experience, but they have the necessary theoretical and practical knowledge. We consider that, with regard to the peculiarity of every institution, in order to easily integrate the graduates from such a department have to be helped only to know better the organizational culture, the managerial values and policy. It is very important that every manager know to better "exploit" the assistant's knowledge and skills. We want the manager of our times to have the capacity to discover in his assistant those qualities and skills that better valorize him.

The manager of a company was saying that, participating to the interview in order to recruit an assistant, he realized that the respective person was having more knowledge than those necessities for a simple secretary. It would have been a waste to hire that person as a secretary, he was saying, because she wouldn't have felt good in that position and even he, as manager, wouldn't have benefitted from all her knowledge. Then he decided, because he was having

two departments (communication and marketing) to hire her for one month as an assistant manager for the two departments. At the end of the trial period he saw that the person was having better results in the communication department. After only four years, said the manager, the person who was hired as assistant manager arrived at being general manager of the respective department.

If 25 years ago, being a secretary was meaning a life somehow trouble less, under the wing (figuratively and literally) of the boss, a life in which the requests was the boss's morning coffee, newspapers, some correspondence, the telephone, but most of all protecting the boss against the inconvenient visit of different solicitors, things are different today. This image perceived by the "public eye" as risible disappeared almost entirely, thanks to the high degree of professionalism, thanks to the communication skills, as also thanks to the adaptation to the new business context. It is necessary to say that this job was for men only until the beginning of the 20th century, when the civil rights denied to women for centuries began to be promoted. Today the statistics show that the majority of the secretarial functions are held by women. The sociologists explain this by women's disposition for details, greater capacity to obedience and a higher emotional intelligence coefficient.

What does being an assistant manager means? Some say it is a more evolved secretary, others say that assistant manager is only a better denomination for the old secretary. Those who wish to respond correctly to this question have to be aware of the

everyday more alert and complex business environment. To this question we can answer that the assistant manager is the "right hand" of the manager, the interface between the manager and the employees, partners and external collaborators. For an assistant manager this job means more than answering the phone, reading correspondence and receiving guests. In fact, those who worked and work as assistant managers know that his job is as complex as an executive position, when it is done with dedication and responsibility.

Knowing the values and the organizational climate, the client management, the business etiquette, dealing with the classic and electronic correspondence, knowing the time management, planning the work agenda, organizing the business trips and meetings etc. are the manager's expectations from his assistant. Many consider that, even though it is not a life job, it develops professionally and personally the employee, offering many opportunities. The assistant manager function is seen as a starting point in career. The access to information from the business environment, relations outside the company, growing capacity to analyze and operate with information, development of the common sense, knowledge of the organization business model etc., all are opportunities of the assistant manager for his future career. Today more and more managers admit: a competent secretary/assistant is gold. Managers are everyday busier and their agenda becomes scanty. The solution is not another agenda, but a competent person to help him, to better organize his time, to create all conditions so that he "the boss" can take the most appropriate decisions.

What is the secret of an efficient collaboration manager-assistant?

The manager and the assistant have to form a team, with rights and obligations from each side. It is essential for them to think, plan and act as a team. Their work is hard to divide. As the success of tennis players at double depends on the ability of each to anticipate the other's strike to complete and synchronize to it, so the manager and the assistant have to collaborate in order to develop the team strategy. The manager's actions are also the assistant's, and they have the same aim. For example, a report has to be written: the director conceives, the assistant elaborates it. The only purpose of their action is to present a report, but it was made with the contribution of the both.

Also, the assistant manager is representative for the public image of a company or institution: the way in which he behaves, communicates, dresses, talks about the respect towards himself, towards colleagues and towards the external collaborators. The image of the company and of the manager is closely related to the way in which the assistant communicates and expresses his messages; is the first person with whom the others get in touch (and we all know the cask savors of the first fill). Not once we heard or thought: "if the assistant looks and talks like this...what to say about the boss?" And we shouldn't forget that today the image is related to our sensibility, intelligence and ideology and that we deserve to be called an image civilization. In the same time, it has to be a mean of attraction; the office has to look as a hospitable and efficient place. There is a Romanian saying: "the man blesses the place". It is true and perfectly valid also in our case. The office

where the assistant/secretary and the manager work has to be a true “shop window” of the company; it has to be a pleasant and comfortable place. The way their office looks influences both their behavior and the ones who visit it. The environment can be a first condition for the professional performance. That is why their office has to be functional, esthetic and efficient, in an ergonomic way.

The essence of being an assistant manager consists in “efficientizing” the manager. The assistant has to meet the daily commitments and changes together with the manager and their team. When can we talk about a successful professional relation between the manager and the assistant? When:

The assistant and the manager are a team;

- The assistant anticipates the manager's needs; the managers appreciate when, for example, the assistants take over the everyday correspondence or obtain beforehand information on a certain project;
- The manager supply the assistant the necessary information in order to solve certain tasks;
- The manager gives power of decision to the assistant, under conditions he accepts (and the other managers have to be informed about it);
- Their relation has to be more a collaboration;
- The manager is efficient and focused on responsibilities;
- The assistant thinks in a managerial way, anticipating certain situations and resolving them before they manifest (only in this way he will be part of the managerial team).

The assistant manager has to know the typology of his manager (responsible controller/micromanager, responsible trainer, responsible collaborator etc.) in order to understand his reactions and to adapt to his behavior. Communication is very important. Many times the assistants say: “I don't understand what he wants from me and I cannot adapt to his requests”. The assistant has to adapt to the requests of his boss for a better collaboration. But the question is: do the managers adapt to their assistants? The answer is yes, but for both the cases patience, time and diplomacy is needed from the assistants/secretaries.

Let us see the following situation: *Andreea works for a multinational company and she has a new boss who is Italian. She knows very well Italian and English, but, for the first time, she works with a foreign boss. She wonders how she should behave, what the exigencies of the new boss would be, taking into account that he knows neither the company nor the Romanian characteristics. Here are some advice: to have a positive attitude, receptive to change; to find out a few things about the boss (if he came alone or with the family); not to be afraid of him; she knows better the employees and the external collaborators; she doesn't have to hurry in showing him the files and make copies before he asks for them; not to forget that she is his assistant and not his “servant”; she doesn't have to “bother” him with too many information, but the boss has to find on his desk every morning the files he needs; to ask him from the beginning what are the priorities and the requests, in order to arrange her agenda; if he wishes to know better all the procedures of the company she has to inform*

him accurately; the assistant has to inform the manager about her tasks; if she manages well with the tasks, her boss will leave her full freedom (autonomy) to continue in solving tasks.

In a company there can be a few executive directors. The assistant manager has to understand the role of each member of the executive and to take part to the well being of the company. Many times, the success of the managerial team is in her hands.

The relations manager-assistant have to be based on respect and mutual help, confidentiality and loyalty. Also, the assistant has to make sure all the information passed to the executives are exact, so that they don't have to verify all documents; to be capable to diplomatically respond to each phone call, and the executive has to trust him about keeping confidential all the information related to the company.

Globally, the economic crisis influences the companies' behavior in relation with the employees, producers, business partners, and the volume of negotiations is bigger. The present crisis brings different situations for the managerial team to solve, financial, but also psychological, and overcoming them depends on the managerial team's skills to communicate, namely, to negotiate (the assistant manager is also part of this team).

Let us imagine a situation that proves the important role of the assistant in the managerial team: *A message sent to the director general of the bank X (with subsidiary also in Romania) taken by his assistant, announces that in all subsidiaries in Europe there will be a reduction in staff of approximately 1000 employees. The news was to appear in the newspapers*

all over the world. Even though Romania is not directly affected by these reductions (because of the small number of subsidiaries) the information would surely have created panic in the subsidiaries, and even more between the clients. Unfortunately, the director was on leave and he was to come back only in a few days time. What should the assistant do in this case? He decides to call the director to make sure he also received the information. The director says he knows about the situation because he had received the information by e-mail. He also said that he will come back the next day to hold a press conference. After the call, the assistant communicates to the press that the next day the director will hold a press conference, talks with all the subsidiary directors, announcing them about the director's action and tells them that the bank won't be affected by the crisis (the number of the employees being minimum). This was an example by which we wanted to prove that by being prompt the assistant solved a situation that could have lead to serious consequences.

To conclude with, we can say that today's secretariat is complex and it develops continuously. Also, the assistant manager has a well defined role in the managerial team and no matter how much the technology will evolve, we don't think there will be any device or robot to replace the assistant. The assistant manager, that professionally evolves by continuously bettering his performances and that advocates for a quality work, will always be a key factor of the whole managerial team. Behind a successful manager there is always an efficient assistant. Consequently, we don't have to only identify the persons who would suit for a job of assistant manager, but to train them at university and post-graduate level.

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The Impact of New Communicational Technologies on Negotiations

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Abstract: This article is intended as a continuation of the one published in the previous issue of the magazine, covering the role of e-mail in organizational communication, the advantages and constraints of this communication means. We have shown that electronic message has its rules and its traps, of which we need to be aware, because they can influence the winning or loose of a business. In this article we shall discuss the way in which and the reasons why new communicational technologies can influence both the result of negotiations, and the negotiators' behavior, while it is of common knowledge the fact that in a negotiation communication implies more than a simple information exchange. The economic crisis places the managerial team in front of various situations both on a financial and psychological level, and that is why the volume of direct negotiations has increased. The success of negotiations under these circumstances highly depends on the communication (and negotiation) skills of the manager and his/her team; it also depends on the way in which the manager and his/her team negotiate with the employees, and with those outside the company (customers or suppliers, partners, financiers etc.).

Keywords: communicational technologies, electronic negotiations, behavior, non-verbal language, "techno-negotiators"

Organizations are like automobiles. They only run by themselves downwards – said a technician of the corporate world. By his place and role in rapport to the company's management, the manager represents an important success factor in an organization, because he is at the center of the communication flows.

Globalization, increasing competition in the economy place new challenges in front of negotiators, and negotiation is gaining a new dimension. The interaction speed is increasing, due to new communicational technologies, and those who negotiate should exceed the cultural borders in order to fulfill their

tasks. Businessmen in Romania have started to become aware of the need of professional negotiation, because by successful negotiation they can increase their incomes, they can improve their self-perception and their attitude to others.

We live in a society in which coordinating all activities depends on the way in which people interact. Negotiation goes beyond the business environment and becomes a social regulation tool. Negotiation is an art, also containing technical elements. The negotiation technique can be achieved by education and practice. Knowing negotiation techniques, tactics and strategies has become a purpose for managers, as well as for their assistants, helping them to develop their ability of closing down profitable business under both an economic and psychological aspect.

May they be simple or complex, negotiations are all about people and communication. Nowadays, the two important aspects of human community are increasingly referred to: *communication* in general and *negotiation* in particular, as the latter cannot exist outside communication. Negotiation takes place by communication and within such, and it determines great adaptability, flexibility and particular nuances to communication itself, depending on the negotiation situation.

Negotiation can involve two or more individuals; it can take place within or between companies, between different activity areas or between states. The circumstances that determine the need for negotiation are extremely varied and numerous. We negotiate both in our personal lives (with our children, wife/husband, with our neighbors etc.), and in our professional lives.

The economic crisis influences companies' behavior in relation to their employees,

suppliers, business partners, with increased negotiation volumes. We get involved in more direct negotiations, because due to the deepening of problems, companies' faith depends on such negotiations, and the role of the manager becomes particularly important: employees' salaries are renegotiated, namely reduced by upon certain percentage (sometimes with the employees' agreement); negotiation is used in order to cut down certain benefits and bonuses (launch coupons, company cars etc); costs are renegotiated, as well as mergers with other companies or even the sale of stock packages. The economic crisis generates various situations for the managerial team, both on a financial and psychological level, and it is up to the managerial team's abilities of communicating and thus of negotiating to overcome such situations.

Numerous definitions of negotiation have been suggested, because, we like it or not, we live in the "negotiation era". In a wide sense, "Negotiation – said Leigh Thompson in his book "The Mind and Heart of the Negotiator" – is an interpersonal decision making process, which is necessary whenever we are unable to achieve our objectives by our own". Business negotiation is a particular form of negotiation, focused on the existence of a product or of a service on one hand, and of an unsatisfied need, on the other hand. Agreement is of commercial nature and it can take the shape of a trading deed, a convention, an order, a sale-purchase agreement, a joint venture, a leasing agreement or simply the amendment of a clause, of the price, of quality conditions, delivery, transport etc.

Negotiation can also be regarded as a main form of interpersonal communication, a complex set of processes, activities

consisting in contacts, meetings, consultations and discussions between two or more partners for the purpose of reaching an agreement. Negotiation implies several phases that need to be understood and prepared by negotiators.

The phases of the negotiation process are pre-negotiation, negotiation and post-negotiation. Beside these phases, a fourth phase exists called by specialists "proto-negotiation", comprising the permanent tacit harmonization of view points, attitudes and interests. The framework in which this phase takes place (economic and political situation, internal and international conditions, the mass-media created atmosphere) are particularly important in the finalization or blockage of discussions, yet it cannot replace the negotiation itself.

Modern communication techniques, rapid business internationalizing and globalization have determined major changes in the way negotiations are being carried out. Depending on the manner in which they take place, negotiations can be:

- Direct (face to face) – in the same time, in the same place;
- Indirect – by letters or by modern communication means (phone, e-mail, phone or video conference etc.); in this case, a system (E) addresses to another (R) by using various channels (C); such can be in the same moment, yet in different places (phone, video-conference) or in different time and place (e-mail, vocal messages, letter). Knowing the advantages and disadvantages of each negotiation modality allows for managers and professional negotiators to achieve a rational and efficient combination of

the communication forms used in various situations.

Indirect contact is preferred by most negotiators for initiating business relations, when negotiators know each other only briefly, or when "sensitive" negotiations are involved, such as price negotiation for instance.

Unlike phone, e-mail and other indirect communication, direct communication stimulates synchronization and the establishment of interpersonal rapports, which leads to increased trust and adoption of cooperative behavior from business partners. First, the face to face contact is the best way of building an efficient relation; it is a modality allowing for the partner to evaluate our message and for immediate reaction from such, so that to allow for the message to be "adjusted" to the receiver's reactions: questions can be asked, issues can be raised, objections can be withdrawn etc. Secondly, although they rarely become aware of this, people also use non-verbal signals in their communication. Specialists estimate that approximately 70-80% of the messages' sense is comprised in the non-verbal side of communication. Sometimes face expression, mimics, posture, gestures, statute, distances, physical appearance, tone of voice, rhythm of speaking etc. are more important than words. In negotiation, a message is transmitted even when partners are quite or when they make no gesture. For instance, silence in negotiation has certain communicative functions: it reinforces or creates tensions in the relation, it can derange or encourage, it expresses agreement or disagreement, it is an indicator of caution or reflection etc. Also, silence can be an element of action, used either in order to provoke a moment of crisis, or in order to overcome one.

As words, non-verbal communication should not be removed from its context. It should be interpreted depending on the environment, previous relations, cultural context etc. Non-verbal elements of human behavior are essential in setting up close rapports between negotiators (they help them synchronize their opinions, to be on the same "page", which is very important for the way in which negotiations go on). For instance, if our negotiation partner stands far away from us, if he/she crosses his/her arms (which can be interpreted as a defensive attitude, or a sign of resistance to our gestures) or if he/she avoids eye contact, that means he/she is a distant, not too sincere person. Usually non-verbal message is transmitted together with the verbal one, with which it is complementary. Cases exist when the sense of the non-verbal message conflicts with the verbal one, in which case we are tempted to believe the non-verbal component. That is why those who are part of the negotiators team should be good psychologists in order to detect, for instance, a nervous person hiding behind fine humor.

We can say that clear unequivocal situation in interpretation of non-verbal messages are quite reduced when it comes to different culture (nodding one's head from back to front has an affirmative meaning in some cultures, and an opposite sense in other cultures). That is why, when our partner comes from other cultures, we should prepare ourselves accordingly, we should study the "adversary", in order to know what to expect during the meeting and which habits are more important. Business etiquette and intercultural diversity have become essential not only for executive, but also for employees. Global and transnational business entities have brought people together and have emphasized different values, behaviors and habits.

Disregarding the business partner's culture could lead to conflicts. Here is an example: Euro Disneyland in Paris was created by Walt Disney Company. The project included Disney costumes for all employees, behavior rules forbade alcoholic drinks in the park, and meetings were to be held in English language. French people considered these prerequisites and restrictions as an attempt from Americans to impose their culture. From this to conflict it was only one step. Employees mobility was extremely high for these reasons and costs increased considerably.

Almost with no exception, the status and position of negotiators influence discussions and direct negotiations. Following studies in this area, it has resulted that managers speak more than their subordinates, men speak more than women, and the person sitting at one end of the table speaks more than the others. Also, it has been noticed that negotiators who sit facing each other establish closer personal relations than those sitting side by side, and appearance (those wearing suits get more attention than the others) influence the perception over status.

It is not by chance that managers of large companies pay great attention to choosing their negotiators team. For instance, it matters of how many members the team is formed: they do not have to be too many, nor too few, and one woman should be included in such. The presence of a woman in the negotiators team, say the specialists, slows down high tone discussions and rude language. Also, if the team has "filling" persons, the other team will spot them, which might influence the morale of the entire team.

We must admit that face to face negotiations can come to dead ends, but improvised conversations, continuing discussions

outside conventional discussions (for instance, in front of a beverage automatic machine, in the coffee break or on lunch) can save the situation. This is not the case of indirect negotiations (phone, e-mail, letter). The manager's traveling for thousand of miles in order to have direct negotiations with business partners is perfectly justified. The best results can be achieved by direct contact, nonetheless involving higher costs.

Direct meetings, say psychologists, create important processes on a behavioral, cognitive and psychical level, and the focus on human factor represents a mandatory prerequisite from negotiators.

Lack of direct contacts can determine tensions or conflicts, which can be more rapidly solved by direct interpersonal communication. We can say that face to face negotiations benefit of the following advantages: high levels of closeness between business partners, which can lead to initiating and developing positive communication relations; communication is spontaneous, direct and benefits both from verbal messages, and of non-verbal messages; feedback is instantaneous.

It is equally important the fact that in the current context, communicational technologies remove cultural barriers, communication inhibitions, it eliminates social distances and differences and helps us win time.

In the information era, in the business world the concept "time is money" can be replaced by "technology is money", because due to new information and communication technologies, distances between business partners are no longer an obstacle to the closing and even carrying out of thousands or millions of euro.

As said before, negotiation consists

of several phases and most times partners cannot meet face to face during the negotiations, and that is why they use the telephone, e-mail, video or phone conference. From all, electronic mail (e-mail) has become the most used techno-negotiation means.

It is important to know how new technologies (especially the e-mail) influence negotiations, and the behavior of negotiators.

In case of interaction by electronic means such as e-mail, the statute differences are minimal. Some negotiators become more powerful, more persuasive in supporting their arguments when they are in front of their computer than if they were face to face with their partners. Obstacles related to appearance, sex, age, manners disappear, making people react more easily and more firmly than in direct interaction. Sometimes those who lose a position negotiating face to face win by communicating by e-mail. Also, negotiators who use technology in order to communicate are tempted to risk much more in respect with winnings and losing.

The "electronic" negotiations do have some disadvantages:

- lack of non-verbal language;
- the quantity of electronically transmitted information or even information sent by classic mail is smaller than the one transmitted by direct communication. The quantity of directly transmitted information, the wideness of the message referring to the number of subjects approached in the discussion contribute to the reinforcement of interpersonal relations (the two partners have the chance of finding more about one another). Another important aspect in a negotiation is the depth of the message, which implies that interlocutors provide essential information about their relation, information of personal

nature, expressed by themselves (projects, concerns etc.). In this respect, Irwin Altman and Dalmas Taylor, in their paper *Social penetration: The development of interpersonal relationships*, 1973, created a model of social penetration by noticing that depending on the level of implication of their message's wideness and depth in establishing interpersonal relations, a relation can self-destruct or on the contrary it can evolve and become more powerful. In the electronic communication (phone or video conference, e-mail) the wideness and depth of messages are almost inexistent;

- the lack of immediate feedback;

- e-mail negotiation can make people break social norms more often, to forget about etiquette; they are much less polite than in direct interaction, and are more concerned with the content of the message and less concerned with the way in which it is formulated. Sometimes, electronic messages are more aggressive and negotiators forget that they are not "passing", because an e-mail message can be recovered at any time, even if deleted. Let us not forget that what is written remains written, even if we are speaking of a classical letter or an e-mail. A well written e-mail can represent us in a place where we cannot be, it can protect our interests when for objective reasons we cannot do it in person, and transmitted information can be extremely persuasive;

- lack of unconventional discussions and lack of small talk leads most times to blocked negotiations.

All these inconveniences make technonegotiators suspect one another of lack of trust and lying.

More and more concerned with their companies' success, businesspeople have

found solutions to this. They think a mix of the two types of negotiation can lead to good examples, especially when distances are very large, and time is becoming a problem. Thus, in case of direct negotiations, in order to gain time it is recommended for initial discussions to be carried out by e-mail, and direct meetings to solve the main issues in detail.

Also, before starting electronic negotiations (by e-mail) it is recommended for a brief face to face meeting of the partners, or for a video-conference or phone discussion to be arranged. Prior discussions before starting the actual electronic negotiations have the role of increasing the quality of the relation, of increasing cooperation and trust. It is important to know that the success of business relations also depends on the informal discussions during exchanging gifts, having coffee or tea etc., which are personal only in direct, personal relations.

The increasing use of electronic format in the business world imposes for the same trust and security feeling from partners as in the case of the classical business doing. This aspect has been solved by the digital signature.

The impact of using electronic negotiations goes beyond all management and information securitization aspects: electronic communication can represent evidence in court. By using digital signatures, potential scenarios from negotiators regarding the forgery of e-mails or contractual information are becoming unlikely. Also, digital signature provides increased "weight" to electronic documents in front of dispute settlement courts. For Romania one of the main issues of electronic commerce is the dispute resolution regarding cases of agreements concluded online. And that is because the classic juridical

system is not yet adapted to the dynamic of electronic trading, and the costs of using such are sometimes too high compared to the rewards.

We live in a society based on information and knowledge, and large companies are using more and more the rapid transfer of information from one point to another. If words become obstacles in front of clients' getting the message, they would lose too much time in order to decipher such and will renounce the company's services or products. Most times the message is hidden behind logos and appealing visual concepts, yet it remains the product of less elaborated thinking. That is why business people should pay particular attention to drafting messages in both the classic form (letter) and in the electronic form (e-mail). The material support of the letter influences the way in which people write, so that the freedom of expression and independence of the rhetorical plan should be reconsidered.


Correct drafting of messages allows one to get to know the others and oneself, and

represents the way to efficient communication. Here are some prerequisites that need to be complied with by those drafting business messages: efficiency and credibility of transmitted information, grammar accuracy of the message, appropriate drafting style, psychological effect (ideal case: motivation, not manipulation), positive attitude and expression etc.

In conclusion, we can say that the new communicational technologies can influence behaviors, negotiations results, especially the economic and social aspects. A certain communication channel can influence the form and content of the message, yet it is important for negotiators and managers to fully understand the advantages and disadvantages of the used communication means (channels).

The impact of IT&C on business leads to a change in the perception of information as production factor. If business used to be about people, technologies and capital, in the new economic vision we can speak of people, technologies, capital and information.

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Public Expenditures, Budgetary Sustainability and the Assessment of Management of Public Expenditures in Kosovo

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Abstract: Public expenditures are public outlays which competent state organs realize for the purpose of fulfilling obligations of general public interest. They are manifested in different forms and in different social, economic and political areas. Public expenditures produce direct and indirect effects in production and influence consumption and prices. Economic structure and conjectural courses of one country have an impact on the highness of the public expenditures. Economic and social subsidies present the main instruments for achieving economic and social effects through the policy of public expenditures, whilst in conjectural economies; the effect of public expenditures is large and is realized through the mechanism of multipliers which are used when the economy is in the state of economic stagnation and recession. After the war, Kosovo built a new fiscal system according to the best international practices. The tax system consists of some taxes, it has a wide spread of tax charges and applies relatively low tax rates. Both budgetary revenues and budgetary consumption have marked certain variations in relation to GDP. Currently, The Kosovo Consolidated Budget (KCB) is completely fulfilled by domestic revenues. It is considered that, even if the budgetary consumption increases up to 30-34% of GDP, this raise will not endanger budgetary sustainability of the country. According to the World Bank assessment (PEFA document- 2006) on the Effectiveness of Management of Public Expenditures in Kosovo, based on the performance of main indicators of management of public finances, the effectiveness of management of public expenditures in Kosovo is relatively satisfactory. According to the draft-document of the World Bank and the Government of Kosovo (PEFA-2008), the quality of management of public expenditures in 2008 has been profoundly improved.

1. The meaning and forms of manifestation of public expenditures

Public expenditures are public outlays which competent state organs realize for the purpose of fulfilling obligations of general public interest. Funds that are used for these purposes are gathered from physical and juridical persons in the form of taxes, contributions, fees, loans, customs, etc. Therefore, public revenues and public outlays are closely linked with each other and, hence their treatment should be seen as a causal inter-dependency.

Effects of public expenditures are manifested in different forms and different social, economic and political fields, whose intensity depends on the conjectural courses and the economic structure of a country.

Public expenditures may have multiple effects in production, expressed in direct and indirect forms. Direct impact of public expenditures in production is the result of committing funds for production capacity building, investments in economy (modernization of existing enterprises and building of new ones) and this will directly increase production and consequently increase incomes.

Indirect impact of public expenditures in production has to do with their engagement in the area of education, in the area of health insurance, social welfare, health care, etc, and which will have positive effects in national economies. In one way, public expenditures may have an expansionistic or restrictive impact on the economic courses. Expansionistic impact will happen, for instance, in investments in construction of modern road nets, which will positively impact the development of car industry and income generation from a whole related productive chain of this industry.

Public expenditures may also have a restrictive character in production affecting reduction of production and consequently the GDP. If expenditures are high, then, this means that, in order to fulfill them, a larger portion of GDP should be re-distributed. This re-distribution means that, through taxes and other fiscal revenues, the economic and purchasing power of tax payers will be declined, and consequently with this, purchasing of products will decrease. This then influences the decrease in production, which should adjust to the level of demand, but this also decreases self-financing possibilities of economic subjects respectively their ability to fund expanded reproduction.

Public expenditures affect the consumption level in different ways as well. One of the effects, for instance, we can take the transfer of a certain type of expenditures to those categories of users where the purchasing power did not exist before, or partially existed, for example pensioners, unemployed, etc. As their purchasing power increases, no matter how low their purchasing power may be, the consumption will increase, too.

Effects of public expenditures consumption may also have an impact on the level of prices (they may rise, go down or have a neutral activity). Construction and equipment of health and education facilities, public expenditures for military needs etc, may have an impact of increasing the price of products and related necessary services. These effects may change depending on conjectural courses for certain products. For example, if the need for certain military products increases, the production capacities will broaden and we will have an expansion of those products. This will enhance possibilities of new employments by which the consumption will be

increased, as well as productions and general incomes and vice versa.

The conjecture has also an impact on the type and highness of public expenditures, which either adjust or do not adjust to these conjectural cycles. Therefore, we differentiate three types of adjustments:

- a) Public expenditures which change at the same time with the productive conjecture (cyclic public expenditures), for example, expenditures for goods and services go down along with productive conjecture due to fall of prices and salaries.
- b) Public expenditures which are neutral in relation with the conjecture (non-cyclic public expenditures, for instance, public expenditures for the service of public loans, contracted obligations, pensions and salaries of state officials etc.
- c) Public expenditures which change in an anti-cyclic manner, that is, they behave contrary to the productive conjecture, for example transferable data (compensation for unemployed, expenditures for maintaining the existential minimum and similar).

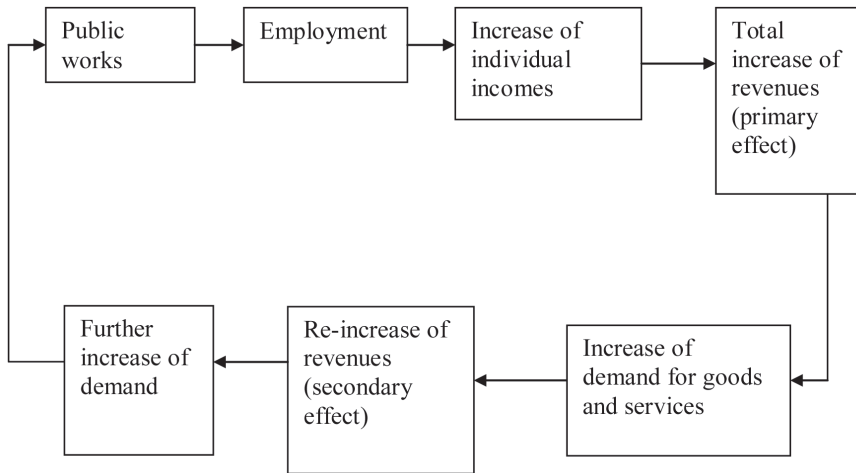
Economic and social effects may be reached by the policy of public expenditures as well, and not only by the policy of public revenues. As the main instruments for achieving these effects are the following: a) economic subsidies and b) social subsidies. a) Economic subsidies may be direct and indirect and their impact is reflected in prices by subsidizing production (where subsidized products would be more competitive in the market and the producer would be more interested in the production), however, the consumption may be subsidized in a manner that

the state would be in charge of compensating the price for certain products dedicated to consumption. b) Social subsidies, which are often called social expenditures, are expenditures in the form of social assistance, scholarships etc dedicated to those who can not afford to cover certain expenditures. These types of expenditures impact production and consumption. An important role in social subsidies play expenditures dedicated to permanent education and perfection, which have positive return effects in production and national revenues. Therefore, it is thought that investments in human resources are the most profitable investments. However, it must be pointed out that social expenditures may have negative effects in saving, investments in employment, productivity, etc.

Effects of public expenditures, in particular, have an impact on conjectural economies, where functions the mechanism of multipliers which are used in circumstances when the economy is in the condition of economic stagnation and recession appears as a hindrance to development. In these cases, the so called conjectural-political investments appear by applying *public works*, where the mechanism of multipliers with its direct and indirect effects may appear as in Figure 1.

A lot of public works are implemented in order to eliminate depression and unemployment, a situation which enables higher employment of workers. With this, more individual incomes are created and therefore, the total of revenues is increased (primary effect of multipliers) and also a new demand for goods and services is created. This has an impact on re-increasing the revenues again (secondary effect of multipliers) and re-increasing the demand (see Figure 1).

Figure 1. Functioning of multipliers' mechanism in creation of revenues and increasing the demand.



In the economic and financial literature, the difference between the so-called active public expenditures and neutral public expenditures can be found, depending on their relation with the socio-economic structure of a country. If public expenditures have changed that structure, they are called active public expenditures and vice versa, if they do not change that structure, they are called neutral public expenditures.

In the classical financial theory, we find demands for neutral role of public expenditures in the socio-economic life of a country and the reasons for such demands are supported by the essence itself (character) of liberal capitalism, according to which, any initiative which is not a private initiative, endangers the development of relations in the liberal capitalism. However, modern financial theory supports the need of an active role of the state in orienting the socio-economic courses of the country as regards public expenditures which, along with other financial instruments, should achieve this goal.¹

¹ Barbara Jelčić, *Javne Financije (Public Finances)*, Zagreb 2001, 484-492

2. Budgetary Sustainability

After the war, Kosovo built a new fiscal system based on the best western experiences. Until 2002, the Central Fiscal Authority within UNMIK operated with the budget, whereas with the establishment of the Ministry of Economy and Finance, the situation changes since the ministry starts to exercise a part of competencies from the area of finances.

The tax system in Kosovo has continuously advanced and with the application of VAT and taxes on personal incomes, taxes start to be displaced on consumers.²

The tax base has continuously been broadened and now it includes the largest part of direct and indirect taxes, which is also

² In Kosovo, some forms of taxes have been applied, some of which now are not being applied. Tax on hotel industry has been applied since 2000, presumed taxes (July 2000), VAT (July 2001 modified in 2002 and 2004), taxes on salaries (April 2002), taxes on earnings (April 2002 until 31.12.2004 replaced from January 2005), taxes on personal incomes (January 2005), taxes on corporations' incomes (January 2005).

Table 1. General budgetary balance in rapport with GDP (mil. euro)

	2000	2001	2002	2003	2004	2005	2006	2007
Budgetary revenues without grants	124.52	283.14	499.60	586.86	619.20	642.15	712.01	902.98
Budgetary consumption	198.53	264.62	389.91	546.60	749.72	696.13	655.94	673.46
Total balance	-74.01	18.52	109.69	40.26	-130.52	-47.98	56.07	229.52
Incomes/ GDP%	8.28	12.77	22.24	26.09	27.13	29.07	31.64	26.56
Consumption/ GDP%	13.12	11.93	17.36	24.30	32.85	31.53	29.15	19.81
Total balance/ GDPV%	-4.92	1.2	4.88	1.79	-5.72	-2.17	2.49	6.75
GDP/MIL.*	1.504,00	2.217,00	2,246,00	2.249,00	2.282,00	2.209,00	2.250,00	3.400,00**

Source: Financial statement 2000-2007, Departament of Treasury , MEF.

*IMF Tables 4, 31 May 2006, Aide Memorie

**Department of Micro-economic Policies, MEF,MFE, 2009-2011, Table 2.

a practice of other countries in transition, but businesses still have suggestions to change the tax rates (taxes on earnings, on salaries, etc) and on their linearity. At the beginning of 2009, important reforms took place in the tax system of Kosovo, especially in taxes on personal incomes, taxes on VAT and taxes on corporations for the purpose of stimulating economic development of the country.³

Collection of budgetary revenues in Kosovo has marked an improvement since 2000. Table 1 presents budgetary courses in rapport with GDP for the period 2000-2007

General budgetary revenues have marked an increase in participating in GDP since 2000 until 2006 (from 8,28% to 31.64%), while in 2007 they reduced their participation

³ Tax on earnings is reduced from 20% to 10%, VAT increases from 15% to 16% and taxes on personal incomes (salaries) have been reduced from 20,10,5,0% ,to 10,8,4 and 0%.

to 26.56% due to increased assessment of Gross Domestic Product for this year, although they marked an absolute increase during this year.

Meanwhile, budgetary consumption showed variations from year to year and the lowest participating in GDP was in 2001(11.93%) whereas the highest in 2004(32,85%) of GDP.⁴

High budgetary expenditures in Kosovo in 2004 and the lack of revenues to follow the trend of expenditures which were covered by budgetary accumulation of previous years imposed the need for a better control of

⁴ In some countries in transition, participation of budgetary consumption in GDP in 2006 was as follows : Albania 28.4%, Bulgaria 35.3%, Macedonia 33.7%, Latvia 37.5%, Rumania 32.1%, Croatia 47.7%, Serbia 42.1% : Source : EBRD Country Report 2008 based on the data of state authorities of each country.

budgetary consumption in 2005 in order not to cause high deficit and long term budgetary unsustainability.⁵

Also, the highest negative general balance was in 2004 (-5.72%) while the highest positive balance was in 2007(6.75%).⁶

Currently, the Kosovo Consolidated Budget is entirely fulfilled by domestic revenues. Around 75% of tax related revenues are realized in boundaries and 25% from internal taxes. The intention of institutions is to change this relation for the purpose of long term consolidation of budgetary sustainability.

Creation of participatory rapport of budgetary revenues in GDP with around 30% would provide budgetary sustainability even in the case of the increase of budgetary consumption up to the level of 30-34% of GDP. However, in such cases, measures of budgetary control should be increased for the purpose of increasing the effectiveness of budgetary expenditures.

In Table 2 ,due to accuracy of the data, they have been presented as per the rate of realization of budgetary allocations for the period 2003-2007.The data indicate that the category of wages and salaries had the highest coefficient of spending budgetary allocations for this period (97,45%),then the category of subsidies and transfers (95,22%), goods and services (91,53%) and the lowest coefficient of spending budgetary allocations was realized in the category of capital expenditures (71%). Overall, the general coefficient

of using budgetary allocations was 87, 09% or annual average coefficient of using budgetary allocations was 76, 25%. Looking at it from the aspect of the level of budgetary expenditures, such realized level (87, 09%) is significant in the institutional building aspect as well. From 2002 and onwards, a new reality was created in Kosovo, entirely new in the institutional, political, economical, financial aspect. Kosovo built its institutions, and today we have a consolidated fiscal and budgetary system, a consolidated education and health system, a social system administered and controlled, although there is a lot to be done in order to treat different categories of society in the aspect of social welfare; a public administration almost completely new has been built, many economic, infrastructural, order and safety aspects have been taken into consideration etc. All budgetary requests in these areas have been covered by the Kosovo Consolidated Budget as of 2003. However, given these meaningful aspects of public funding, a higher level of using budgetary allocations is required, taking into consideration developmental needs of the country and, particularly implementation of capital projects. Analyses show that many indicators have influenced the low level of using budgetary funds in the category of capital expenditures and we will mention just few of them:

- budgetary planning;
- managerial problems;
- preparation of projects, especially capital projects;
- public procurement procedures;
- lack of necessary training of administration (despite achieved results);
- system of payment (cash payment, especially for larger projects);
- insufficient capacities of economic operators;

⁵ Report of December, 2004, IMF

⁶ It is worth mentioning that the data on the highness of GDP differ, depending on the source of information. After calculations and analysis, we have estimated the presented data as more sustainable.

Table 2. Coefficient of budgetary allocations for the period 2003-2007. Economic classification (mil. euros)

	Wages and salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Municipal Expenditures	Reserve	Total
2003							
Allocated							
Budget	148,97	183,61	135,77	130,64	-	42,87	641,81
-Realized							
Budget	145,70	175,50	129,95	93,10	-	2,35	546,60
2004							
-Allocated							
Budget	191,66	216,59	207,51	311,69	-	9,84	937,69
-Realized							
Budget	184,41	188,31	185,50	187,44	-	3,96	749,72
2005							
-Allocated							
Budget	198,68	157,69	215,58*	165,57	-	7,36	744,88
-Realized budget	194,60	142,88	213,85*	144,88	-	-	696,13
2006							
-Allocated							
Budget	209,45	142,43	163,40	189,95	20,15	1,93	727,31
-Realized							
Budget	206,98	134,33	157,99	138,38	18,37	-	656,05
2007							
-Allocated							
Budget	216,44	145,17	161,51	221,19	19,21		763,52
-Realized							
Budget	208,92	132,88	154,55	159,21	17,90	-	673,46
Total							
Budget :							
-allocated	965,20	845,49	883,77	1.019,04	39,36	62,00	3.814,86
-realized	940,61	773,90	841,54	723,61	36,27	6,31	3.322,24
Coefficient of Realization of allocated Budget	97,45%	91,53%	95,22%	71,00%	92,14	10,17	87,09% or Annual average 76,25%

*Includes additional 22.mil.euros borrowings for KEC and Airport

Source: Financial statements 2003-2007, Departament of Treasury, MEF, and processed by the author.

- the lack of obey of law in cases of misuse of law by the budget organizations and by contractual economic operators.

3. Assessment of effectiveness of management of public expenditures

Assessment of effectiveness of management of public expenditures in Kosovo is supported by the System of Finance Management in Kosovo (SFMK).

The System of Finance Management in Kosovo (SFMK) is quite advanced and it has been implemented for registration, management and reporting on the budget, in all phases of its execution. The financial management

system is uniform, fast, flexible, and comprehensive and allows access to the data of all budgetary agencies, as well as comparison of those data at all levels and institutions. According to World Bank Assessment of the main indicators of management of public finances in Kosovo, it results that the effectiveness of management of public expenditures in Kosovo is relatively good. Below, we will present the assessment of financial management of public expenditures for the year 2006 based on the documents of the Government of Kosovo (MEF) and the World Bank, known as the PEFA document, whereas for 2008 based, on the draft-document of the Government of Kosovo and the World Bank.

Table 3. Main indicators of assessment of management of public expenditures in Kosovo for 2006 and 2008

	INDICATOR	2006	2008
	Budget Credibility		
1	Total of expenditures' flow as compared with the approved budget	N/A*	C
2	Content of expenditures' flow as compared with the approved budget	N/A**	A
3	Total of revenues' flow as compared with the approved budget	A	A
4	Fund and monitoring of debt payment expenditures	D+	B
	Transparency and comprehensiveness		
5	Classification of Budget	D+	A
6	Inclusion of information in the budgetary document	D	B
7	Dissemination of governmental reported activities including donors' funding	A	A
8	Transparency and inter-governmental fiscal relations	A	B+
9	Supervision of fiscal risk	C+	C+
10	Public access to key fiscal information	A	B
	Policy based budget		
11	The rule and participation in the annual budgetary process	B+	B
12	Long term perspective in the fiscal policy, planning and budgeting	D+	B
	Anticipation and control of expenditures' execution		
13	Transparency of obligations and commitments of taxpayers	B+	B
14	Effectiveness in registration of tax payers and tax assessment	C	D+
15	Effectiveness in collection of taxes	B	D+

16	Effectiveness of cash flow planning, management and monitoring	B+	A
17	Registration and management of cash debt and guaranty	A	A
18	Effectiveness and control of the payroll	D+	D
19	Competitiveness, value of money and controls in procurement	D+	B
20	Effectiveness in internal controls	C+	B
21	Internal Audit Effectiveness	C	C+
	Accounting, registration and reporting		
22	Deadlines and regularity of calculated balances	B	B+
23	Reliability of the source of information obtained from units that provided services	D	D
24	Deadlines, quality and distribution of executive reports during the year	B+	A
25	Deadlines of audit financial statements, submitted to the Assembly	A	A
	Revision and internal audit		
26	Purpose, nature and implementation of the reports of external auditor	D+	B
27	Annual budgetary review in the Parliament	B+	B
28	Review of the external audit report in the Parliament	D	C+

**Due to changes in the budgetary principles that display this indicator in accordance with standard criteria of PEFA, this indicator has not been assessed. If we consider the deviations of 2005, then the assessment for this indicator will be B.*

***as in *but the assessment might be D.*

Source: Public Expenditure and Financial Accountability (PEFA) Assessment Report, Government of Kosovo and World Bank, April 2007, supported by DFID, EAR, IMF, USAID and PEFA 2008, Draft document of the Government and the World Bank.

The letters A,B,B+,C,C+,D,D+ ,indicate the level of assessment of the quality of assessed indicator beginning from A-that indicates the highest assessment of the quality of indicator's performance to D-which indicates the lowest assessment of the quality of the indicator's performance. The letters with the sign + show that the indicator has substantial improvement, aiming to be categorized in the assessment with the letter in front of the sign. For example, if the indicator has been assessed with B+ then this indicator is very close to reaching the assessment level of the letter A and similarly.

By analyzing all these indicators, according to the established criteria and

standards on budgetary policies and budgetary credibility, budgetary transparency, control on execution of expenditures, accounting, registration and reporting, internal and external audit of public expenditures, it can be concluded that the management of public expenditures in Kosovo in the post war period is quite credible and transparent, *however, it requires annual evaluation of indicators' performance in order to maintain and improve their sustainability.*

Moreover, the management of public expenditures is a financial category and extremely sensitive managerial activity that is threatened by mismanagement and misuse of budget.

4. Results

Public expenditures in Kosovo introduce one of the most important components of financing public consumption, stimulating economic development and functioning of the institutions of the country.

► The fiscal system has been built according to the best international practices, but the fiscal policy, although it has undertaken some reforms recently, still has a character which is mainly fiscal and not sufficiently developmental.

► The coefficient of implementation of the budget, still low, especially in capital expenditures (71% in the period 2003-2007)

► Budgetary consumption is within the permissible limits and, for the moment, is not endangering the budgetary sustainability (See Table1)

► Participation of public expenditures in GDP in Kosovo in the period from 2000-2007 was 22% distinctly lower than in the European Union countries with (42.8%), or with the OECD countries (42.9%)

► Budgetary deficit/surplus, from 2005 Kosovo has budgetary surplus (Table1).

► Assessment of management of public expenditures in Kosovo-relatively on satisfactory level.

5. Conclusions

The successful management of public expenditures in Kosovo will have a tremendous impact on economic growth. Kosovo is currently facing with the situation of overcoming the transitional phase of economic development. The use of internal funds for building the economic, education, health infrastructure will have an impact on the decrease of the unemployment as well, which is estimated to be around 40% of the work force, decrease of the poverty and extreme poverty level, which is estimated to be at 18% of the total population in Kosovo.

Competent institutions in Kosovo should improve even more their performance especially as regards collection of fiscal revenues, fight against fiscal evasion, fair allocation of public funds and successful implementation of investment projects, financed by these funds. Moreover, the increase of the level of transparency through the mechanism of control and oversight over the government (through the Parliament) will result in the improvement of the quality of budgetary indicators by which is made the assessment of the effectiveness of the management of public expenditures in Kosovo. According to World Bank document (PEFA), drafted in 2007, it is estimated that the effectiveness of the management of public expenditures in Kosovo is relatively good. This assessment was also made in 2008 and the data indicate that, in comparison with 2006, this year has marked improvements in the performance of indicators measuring the quality of management of public expenditures.

ABBREVIATIONS


1. **GDP** – Gross Domestic Production

2. **UNMIK** – United Nations Mission in Kosovo

3. **VAT** – Value Added Tax

4. **MEF** – Ministry of Economy and Finance
5. **IMF** – International Monetary Fund
6. **MFE** – Mid-term Framework of Expenditures
7. **KEC** – Kosovo Energy Corporation
8. **SFMK** – System of Finance Management in Kosovo
9. **PEFA** – Public Expenditure and Financial Accountability
10. **EAR** – European Agency for Reconstruction
11. **DFID** – Department for International Development
12. **USAID** – United States Agency for International Development

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Regulating the Electricity Supply Industry in Nigeria. An Assessment of Consumers' Attitudes

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Abstract: *The power sector is critical to the development of any country and Nigeria is no exception, incessant power outage has been the bane of economic development in the country. For the past three decades, the power sector of the country has been plagued by a lot of problems ranging from low power generation and distribution, decaying facilities most of which were commissioned before and shortly after the country's independence. The interaction of the electric power industry with climate is manifested both in the effect that severe weather has on the power system and through the contribution of electric power to the production of greenhouse gas (GHG) and other pollutants.*

The paper examines and provides answers to (i) the nature of consumers' attitudes towards power consumption and (ii) suggest ways of informing the consumers on the need to conserve power when not in use. This study was carried out in Alimosho Local Government Area of Lagos State, south-west Nigeria. The findings show that 61 percent of electricity consumers' agreed that rationing of electricity consumption would stabilize the electricity distribution, whereas 39 percent were not in agreement. The study also shows that about 90 percent of the consumers were not satisfied with the services being offered by the Government owned company, while the remaining 10 percent were satisfied. We suggest the authority take to prepaid method of electricity consumption and also intensify efforts to enlighten the public on the need to conserve power.

Keywords: Electricity, Generation, Consumers, Development, conservation and Consumption

Introduction

The history of electricity in Nigeria dates back to 1896 when electricity was first produced in Lagos, fifteen years after its introduction in England (NPR, 1985). The total capacity of generators used then was 60kw. In other words, the maximum demand in 1896 was less than 60kw. In 1946, the Nigerian government electricity undertaking was established under the jurisdiction of public works department (PWD) to take over the responsibility of electricity supply in Lagos State. The history and perceive role of the power during the pre- and post-colonial period was one of a service utility. There was an apparent lack of futuristic planning or call it insight or projection for improving consumer access and best business practice. Supremely the electricity supply market in Nigeria eventually transformed into a vertically integrated monopoly, which was dictated by Electricity Corporation of Nigeria (ECN) and (NEPA). (Ehiorobo, 2007).

In 1950, a central body was established by the legislative council which transferred electricity supply and development to the care of the central body known as the Electricity Corporation of Nigeria (ECN). Other bodies like Native Authorities and Nigerian Electricity Supply company (NESCO) has licenses to produce electricity in some location in Nigeria.

There was another body known as Niger Dams Authority (NDA) established by an act of parliament. This was merger with Electricity Corporation of Nigeria (ECN) in April 1972, to form a new organization known as National Electric Power Authority (NEPA), (NPR, 1989). Since inception of NEPA, the Authority expands annually in order to meet the ever-increasing demand.

Unfortunately, majority of Nigerians have no access to electricity and the supply to those provided is not regular (Okoro, 2004).

Literature Review

Within the particular conception of socio-economic processes which underscore every economic system, economic development, globally, revolves around the issues of the character, structure, pattern and evolution of desirable inter-personal relations of production, allocation and utilisation of available resources in any country. In order to optimally develop and efficiently manage such available resources, equitably allocate and effectively utilise them and subsequently put economic development firmly on course, modern operational technologies with respect to production, allocation and utilisation are designed and tied strictly to the use of energy in one form or the other. Thus, the quest to rapidly and firmly put the Nigerian economy on the course of economic development is technically, a function of adequate supply and distribution of energy, particularly, electricity.

In this regard, adequate supply and distribution of electricity constitute a central development issue which cannot be over-emphasised. Apart from serving as the pillar of wealth creation in Nigeria, it is also the nucleus of operations and subsequently the 'engine of growth' for all sectors of the economy. In recognition of the consolidating linkage between the energy sector and the other sectors of the economy, electricity development and utilisation therefore have pervasive impacts on a range of socio-economic activities and consequently the living standard of citizens in the country.

The foregoing assertions subsequently explain why one of the most frustrating and disturbing economic development issues in the Nigerian economy and society, particularly since the 1990s, is that of the inadequacy of electricity supply and distribution. The situation of the emerging electricity outages from the supply inadequacy, especially one year before the inception of the Obasanjo led-civilian administration on May 29, 1999, was that of persistent electric power outages at alarming frequencies in the face of abundant primary electricity resources - coal, natural gas, geothermal, tide, solar, biogas, biomass etc. (CBN, 2001)

Incidentally, some analysts (Iwayemi, 1991; Adegoke, 1991; Ayodele 1992 & 98) have defined this period as a period of serious electricity crisis; a crucial or decisive movement; an undesirable turning point; a time of difficulty and distress; a state of confusion when things no longer happen in the normal or usual manner. In all, the situation of electricity supply inadequacy shows the emergence of a crisis situation in which electricity supply could not catch up with the demand requirements.

The Interaction of Electric Power and Global Warming

The interaction of the electric power industry with climate is manifested both in the effect that severe weather has on the power system and through the contribution of electric power to the production of greenhouse gas (GHG) and other pollutants. It is estimated that the United States is the source of one-fourth of the world's GHG emissions and that the electric power industry accounts

for one-third of the nation's GHG emissions. Within the total GHG emissions, CO₂ emissions account for more than 80 percent of the overall U.S. contribution and 38 percent of this amount comes from the electric power sector [Morgan, 2005].

The sources of greenhouse gas, GHG, emissions, the cause of global climate change, are from both natural (biogenic) and human (anthropogenic) sources. These are emissions from land use pattern, agriculture, transportation, and electric power.

Interaction of the Production of GHGs and Electric Power

The public and the electric utility industry are showing greater interest in environmental issues, including global climate change. It is widely known in scientific circles that life on Earth would not be possible without the greenhouse effect. The greenhouse effect plays a crucial role in maintaining the Earth's average temperature at about 59° F (15° C). Without the greenhouse effect, the Earth's average temperature would be about 60° F colder. Key naturally occurring greenhouse gases are carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), and water vapor. The greenhouse effect occurs when some of the radiation from the sun that reaches the Earth's surface through the atmosphere is prevented by atmospheric gases from being reflected back into space. This is similar to what occurs within a glass-enclosed space, such as a car or a greenhouse. On a global basis the greenhouse effect causes a rise in the Earth's temperature until there is a balance between incoming and outgoing radiation. Studies have shown that water vapor and CO₂ are responsible for most of the

Earth's greenhouse effects. Through a process known as the carbon cycle, the concentration of CO₂ in the atmosphere is regulated. The carbon cycle involves the movement of CO₂ between the atmosphere, the land and the oceans, with natural processes such as photosynthesis playing a dominant role.

Electricity Generation and Distribution in Nigeria

Power outages are the most dramatic instances the consuming public will see to make them see reasons why there is need for power to be rationed and conserved. This is as a result of the high costs of alternative supply for those who rely on the public supply of electricity, quality and reliable services have deteriorated and have adverse impact on consumers. (Ehiorobo, 2007). This failure may be associated with low operating efficiency caused by lack of maintenance, willful damage on power installations, and lack of strategic planning on the part of the authority and attitude of consumers towards electricity power consumption. It could also be associated with lack of investment caused by misappropriation of funds.

CONCEPTUAL FRAMEWORK

How much did the last administration spend on electricity? and why is the country still unable to enjoy uninterrupted electricity? These are questions that the House of Representatives is seeking answers to in the light of the disclosure by President Umaru Yar'Adua that the administration of former President Olusegun Obasanjo expended \$10 billion on electricity.

President Yar'Adua had on 14 January, 2008 told a World Bank team led by Mrs.

Oby Ezekwesili, a vice president in the organisation, that the Obasanjo administration spent a whopping 10 billion dollars on electricity within eight years. Mrs. Ezekwesili, who was a minister and a member of the economic team of that administration, later challenged that figure, saying the figure was not accurate.

The last administration embarked on various power projects with a pledge to increase electricity generation to about 6,000 megawatts (MW) by last December and 10,000 MW by the end of this year. Electricity generation before that administration came on board was about 3,500MW. But while a colossal \$10 billion, according to the figure given by President Yar'Adua, was spent on the power sector, the result in electricity generation has been minuscule. More than anything, Nigerians' battle with constant power outages and outrageously high electricity bills has become intense and frightening.

Therefore, because of the unimpressive result of the previous investment, President Yar'Adua said his government was not in a hurry to commit more funds to the power sector. According to the president: "While we are targeting 6,000MW by 2009, the \$10 billion invested in the sector between 2000 and 2007 has not translated into power generation, transmission and distribution. So we are exercising caution to ensure that any further funds to the sector would translate into production and delivery of energy to the ordinary Nigerian."

But, a new twist was introduced into the electricity generation issue when the Speaker of the House of Representatives, Honourable Dimeji Bankole, claimed that the Obasanjo administration actually spent \$16 billion on electricity. The House has already raised a

panel to investigate the power projects embarked upon by the last administration.

Already, the panel had invited some state governors, Olusegun Agagu of Ondo State, Liyel Imoke of Cross River, Danjuma Goje of Gombe and Gabriel Suswan of Benue, to appear before it. They were at one time or another ministers and Senate Committee Chairmen on Power and Steel in the Obasanjo government.

One of the promises the Obasanjo government made when it came to power in 1999 was the provision of adequate power supply within 24 months. However, the late Chief Bola Ige, who made the promise as Minister of Power and Steel, was shortly after redeployed. He was transferred to another ministry. And the promise the late Chief Ige made on behalf of that government was put on hold.

The administration later went into partnership with some organisations both within and outside the country on various power generation projects and began what is known as independent power projects (IPPs). This was in addition to the billions of naira the government sank into the National Electric Power Authority (NEPA) which was later unbundled into several companies as Power Holding Company of Nigeria (PHCN). In spite of these huge investments, the power situation has remained epileptic.

This pathetic power situation has caused great economic distress to the country. Many thriving industries have collapsed; they had to close shop because they could not meet the cost of diesel. Not too long ago, Michelin closed down its Nigerian production office. The once thriving textile industry is tottering towards collapse. Even the small businesses are not spared the agony of poor electricity generation. Hundreds of macro

and micro-economic ventures have been battered into extinction. Those that are still operating are doing so at a great cost. All these have taken a serious toll on the employment situation in the country.

There is every need to know what happened to the huge amount the last administration spent on electricity. Nigerians and even the administration of Yar'Adua need to know what went wrong. And if it is as Mrs. Ezekwesili stated, that the profit of that huge investment takes time to grow, Nigerians need to know when they will start earning the profit of uninterrupted power supply. It is against this background that we are in full support of the panel raised by the House of Representatives to get to the bottom of the power generation crisis.

Whether it is \$10 billion or \$16 billion that the last government spent on the power projects, it is the result that matters. But as it is, the state of the country's power sector grossly contradicts these amounts. All well-meaning Nigerians and the Presidency should support the House of Representatives in the task to unravel the mystery surrounding the nation's power sector. The findings of the panel will go a long way in getting a solution to the country's energy crisis. They will instructively reveal what went wrong and what the country needs to put right. This is why the House of Representatives Committee should take the assignment with all seriousness. The country can never get it right, if either \$10 billion or \$16 billion was spent on a sector without any tangible result and without Nigerians knowing how such a huge amount was spent.

Like the former president, President Yar'Adua has set a target for his administration

on electricity. The 6,000MW he promised by the end of 2009 can only be realised if the administration musters enough political will and courage. The president should note that without adequate electricity, his seven-point agenda will be as cannot be actualized; it will be unrealistic and unreliable.

The foundation of any meaningful and enduring economic prosperity lies in the power sector. Therefore, it is important for the Federal Government to know how either \$10 billion or \$16 billion went down the

drain— or if it was spent judiciously or stolen— so that it can learn useful and appropriate lessons from that. Nigerian Tribune (2008)

Electric power has remained the major source of energy throughout the world. Virtually all facets of economic and social development of nations are highly if not totally dependent on electricity energy. There are originally eight government owned and seven private owned power generating stations in Nigeria. Table 1 below shows the generating capacity of these stations.

Table 1

Owners	Technology	Generators	MW Generated (Ave)
Federal Government	Thermal	AFAM	266.9
Federal Government	Thermal	DELTA	482.7
Federal Government	Thermal	EGBIN	99.3
Federal Government	Thermal	GEREGU	0
Federal Government	Thermal	SAPELE	42.72
Federal Government	Hydro	JEBBA	514.8
Federal Government	Hydro	KAINJI	388.9
Federal Government	Hydro	SHIRORO	527
Private Companies	Thermal	AEES	233
Private Companies	Thermal	AGIP	426.2
Private Companies	Thermal	AJAOKUTA	72.06
Private Companies	Thermal	ELEME	0
Private Companies	Thermal	OMOKU	0
Private Companies	Thermal	T/AMADI	0
Private Companies	Hydro	NESCO	33
Total			4007

Source: Ehiorobo (2007)

Methodology

Questionnaires were administered to one thousand (1000) respondents of Alimosho

local Government area at the point of payment of their electricity bills. This was done for a period of two weeks (2) using systematic random sampling K^{th} interval was taken as ten (10).

Findings and Discussion

The table 2 below shows the respondents' source of electricity supply. The table reveals that most electricity consumers are

being supplied and charged based on the electricity meter reading system i.e 88 percent while prepaid system, generating sets and solar energy system contributed only 12 percent of the total respondents.

Table 2

Respondents	PHCN Meter Reading System	PHCN Prepaid System	Generator set	Solar Energy System	Total
Numbers	813 (88.08)	13(1.41)	84(9.1)	3 (0.33)	923 (100%)

Sources: Field Survey (2008)

Table 3 reveals the respondents' service delivery rating of the electricity provider. The study shows that about 90 percent of the respondents are not satisfied with the

services being offered by the Power Holding Company of Nigeria (PHCN), while the remaining 10 percent are satisfied.

Table 3

Respondents	Satisfactory	Unsatisfactory	Total
Numbers	98 (10.62)	825 (89.38)	923 (100%)

Sources: Field Survey (2008)

The table 4 of the study shows that the respondents' attitudes towards electricity consumption and conservation patterns. The findings show that the larger percentage i.e 61.1% of the respondents agreed that

rationing of electricity consumption will stabilize the electricity distribution; where as about 39 percent of the respondents were not in agreement.

Table 4

Respondents	Agree	Not Agree	Total
Numbers	564 (61.11)	359 (38.89)	923 (100%)

Sources: Field Survey (2008)

Conclusion and Recommendations

In recognition of the consolidating linkage between the energy sector and the other

sectors of the economy, electricity development and utilisation therefore have pervasive impacts on a range of socio-economic activities and consequently the living standard of

citizens in the country. In this regard, adequate supply and distribution of electricity constitute a central development issue which cannot be over-emphasised. Apart from serving as the pillar of wealth creation in Nigeria, it is also the nucleus of operations and subsequently the 'engine of growth' for all sectors of the economy. From the findings and discussion above, most electricity consumers are being supplied and charged based on the electricity meter reading system, that majority of the respondents are not satisfied with the services being offered by the Power Holding Company of Nigeria (PHCN) and most of the respondents also agreed that rationing of electricity consumption will stabilize the electricity distribution. Like the former president, President Yar'Adua has set a target for his administration on electricity. The 6,000MW he promised by the end of 2009 can only be realized if the administration musters enough political will and courage. The president should note that without

adequate electricity, his seven-point agenda will not be actualized; it will be unrealistic and unreliable. Whether it is \$10 billion or \$16 billion that the last government spent on the power projects, it is the result that matters. But as it is, the state of the country's power sector grossly contradicts these amounts. All well-meaning Nigerians and the Presidency should support the House of Representatives in the task to unravel the mystery surrounding the nation's power sector. The findings of the panel will go a long way in getting a solution to the country's energy crisis. They will instructively reveal what went wrong and what the country needs to put right. This is why the House of Representatives Committee should take the assignment with all seriousness. The country can never get it right, if either \$10 billion or \$16 billion was spent on a sector without any tangible result and without Nigerians knowing how such a huge amount was spent.

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Rethinking the Impact of Inter-human Relations in an Organization in the Context of the Global Economic Crisis – a Current Perspective

"The energy between two persons is what makes great marriages, families, teams and organizations possible."

(Tom Rath)

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Abstract: The challenge launched by this paper is to get to know the true implications of the inter-human relations and that is why we consider that the strategies of certain companies have omitted a set of key elements in respect with the psychological and social aspects of the individuals. The attempt of shifting individuals away from their real psychological and social needs and the idea of creating a working environment that lacks everything that is human has only led to the depersonalization of nowadays society and created a cold, hostile and dangerous environment around us.

Keywords: inter-human relations, knowledge, global economic crisis, new challenges.

Science is the one that needs to rethink the way in which human relations are perceived on a global level. For this purpose, from the analysis of an outstanding paper covering the development of human relations according to the growth of friendship, written by Tom Rath (2008) and entitled **Essential friends. The Ones you can't live**

without, Editura Alfa, Bucuresti, (Gallup Organization), there can be noticed that *"Potential is hidden in every one of the relations that exist in the life of an individual."*¹ Another

¹ **Rath, Tom** (2008), *Essential friends. Those you can't live without* (Romanian: *Prieteni esentiali. Cei fara de care nu te poti descurca*), Editura Allfa, Bucuresti (Organizatia Gallup), pg. 15

important paper in the field of inter-human relations is the one written by Dr. Dean Ornish (2008), **Love and survival. Good relations give you health and a good state**, Editura Curtea Veche, Bucuresti.

Inter-human and the way how such are perceived by the economic science are essential elements in the social development. And here is why: "(...) **Friendships are among the fundamental needs of the human being**. The reality is that we are biologically predestined to enter such relations, and our social environment enhances this predisposition each day. Without friends it is extremely difficult for one to get along with things, let alone to prosper."²

But for friendship, one could not speak of the true values of life, of family or work. Inter-human relations are essential for this purpose: "**Friendships render significant values to marriage, family, labor and life. Upon a certain level, everything that we notice and feel is the product of a personal relation**. Look around and try to see if you can identify something created in isolation in the true meaning of the term. Once you think about this for a few moments, you might realize how dependant we are of the connections with other persons. Remove relations from this equation and everything else will disappear."³

Like social sciences, the economic science needs to rethink the way how friendship relations are perceived nowadays by individuals and education programs should be introduced according to the new life demands. Education should be started by each individual, and the idea that must be accepted here is that the economic science will have to consider as well as other social sciences the particularities of every single individual. For

this purpose, the following main ideas can be introduced: "**Self education is the basis for learning systems** at this is obviously about an activity that is worth supporting. However, shouldn't the next element in the equation be introduced? Have we ever taken a class on friendship? Why couldn't the second grade pupil benefit from such study? How about high school student, or the student in the first year of university studies, or our supervisor, or ourselves? Considering that we have spent significant periods in order to improve ourselves, isn't it possible for a great portion of the magic potion – our capacity for personal and professional improvement – to come from the improvement of our friendships? (...)

Maybe the accent placed on the individual is too narrow – and the accent on the whole group is too large. Authentic energy comes from each connection between two persons, which can exponentially generate other positive accumulation."⁴

Dr. Dean Ornish (2008), in his paper **Dragoste si supravietuire. Relatiile bune va confera sanatate si o stare de bine**⁵, referred to the importance of growing relations, for the purpose of having a balanced life, in a world that is permanently changing, in which old values have gradually lost their importance, have started fading, and individuals' demands and expectations have increased. The new economy, with its new challenges, has represented a cornerstone for individuals everywhere, as mentioned by Dean Ornish in his paper.

Worldwide is facing today, as part of the global new economy and the coverage of the economic crisis, with the **need for human**

² *ibidem*, pag. 25

³ *ibidem*, pag. 26

⁴ *ibidem*, pg. 27 - 28

⁵ **Ornish, Dean** (2008), *Dragoste si supravietuire. Relatiile bune va confera sanatate si o stare de bine*, Editura Curtea Veche, Bucuresti

re-spiritualization⁶ and the increase of the inter-human relations role, as mentioned in the quote below: "We are facing nowadays the imperious evidence of the fact that if our civilization is meant to survive, we will need to **cultivate the science of human relations**". It is for that purpose that the following key aspects need to be considered:

- a) Human relations represent the way to self-achievement and to happiness. An individual's psychic well-being is essential in the current conditions of global insecurity: "(...) perhaps the most important thing is the fact that some **strong social relations represent the main indicator of happiness**, generally speaking, and these discoveries occur as substantial in all countries and cultures."⁷ The main idea is that of strong human relations to be created based on sound values.
- b) Human relations represent the way to achieving physical wellbeing, and not only on a mental level, with an essential role in maintaining the health of individuals: "**Friendship has a sound effect on our physical wellbeing**. (...) Having positive relations improves health and eliminates depressions. One does not

necessarily need medication and medical treatment in order to achieve such – what one needs for this are friends."⁸

Specialists have proven that happy human relations represent the best "medication" for an individual's physical and psychical state.

- c) Human relations represent the way to developing friendship relations between individuals. The lack of friendship is a destructive element for the psychical state of an individual, also supported by Friedrich Nietzsche, who said in one of his studies that "It is not the lack of love, but the **lack of friendship**, that causes unhappy marriages"⁹
- d) Happiness is what should ground all human relations, it actually needs to be the drive for this sort of relations: "**The basis of negative moments is an error. The best measure for a healthy relation is the happiness of each individual throughout daily interaction**"¹⁰
- e) An individual's relation with his/her family is an extremely sensitive one. This sort of relation can be significantly affected by the relation between the individual and his/her job. In the new economy, due to dramatic changes on a general level and to the development of an increased insecurity feeling, a particular attention should be paid to any kind

⁶ See Popescu, Cristina Raluca (2006), *Competitiveness in international relations. Case study on Romania's integration in the European Union* (Romanian: *Competitivitatea in relatiile internationale. Studiu de caz pe exemplul integrarii Romaniei in Uniunea Europeana*), Editura Gestuinea and Popescu, Cristina Raluca (2008), *Competitiveness for the health of the whole living* (Romanian: *Competitivitatea pentru sanatatea intregului viu*), Editura Gestuinea, Bucuresti

⁷ Rath, Tom (2008), *Prietenii esentiali. Cei fara de care nu te poti descurca*, Editura Allfa, Bucuresti (Organizatia Gallup), pg. 30

⁸ Rath, Tom (2008), *Essential friends. Those you can't live without* (Romanian: *Prietenii esentiali. Cei fara de care nu te poti descurca*), Editura Allfa, Bucuresti (Organizatia Gallup), pg. 31 and pg. 36

⁹ *ibidem*, pg. 37

¹⁰ *ibidem*, pg. 40

of inter-human relation, because the impact is an extremely important one: *"A recent study revealed the fact that the employees definitely take their job indispositions at home. (...) The borders between job and family are extremely permeable, and this is yet another proof that people tend to bring job related tensions at home (...). (...) employers contribute by the way how they treat their employees to their positive state of mind both on the job and in their family lives. Everyone is talking about the need of a job/personal life balance – but perhaps it is not that easy to separate the two. Personal life does not stop when one gets to work, and one cannot stop thinking about what has happened at work as soon as one gets home."*¹¹

- 6) Peter Drucker said that managers in the new economy would be much more prepared and would take decisions a lot better if they knew the leverage behind inter-human relations: *"Business schools teach managers that relations are important with both those on higher hierarchical levels and those on lower hierarchical levels, however the most important relations nowadays are those which have nothing to do with organizational hierarchy. If I was to name only one thing that most managers I know have much to learn about, that is the way in which they handle the relations which do not involve authority or hierarchical order"*¹² As there can be noticed in this quote, managers generally focus on the art of learning and analyzing things from a scientific

standpoint, instead of trying to view things in view of communication and human relations.

- 7) Friendship is a key factor of human relations, it is an extremely powerful factor: *"Here is one of those secrets we have learned from great managers (or great teachers, in the same time): they get to know each person as an individual, adjusting their management formulae depending on each employee's preferences. Instead, the key is to know the areas in which each friendship has the highest starting potential (...) people have significantly superior friendships when they know or can describe the specific contribution of each friendship in a relation."*¹³
- 8) The human relations specialist Leil Lowndes mentioned in his recent paper that the simplest way to relate even with the most difficult individuals, whether we are speaking of a simple socialization act or the business environment is to treat people as large children. His specific suggestions are *"Treat people as if they were large children"*¹⁴.
- 9) In agreement with the opinion of Leil Lowndes, Nicholas Boothman considers that relating with people is an art which is easy to learn. *"It is not difficult to discover the "secret" of success. The better we learn the art of*

¹³ *ibidem*, pg. 68

¹⁴ Lowndes, Leil (2008), *How to communicate with everyone. 92 behavior rules for guaranteed success* (Romanian: *Cum sa comunicu cu oricine. 92 de reguli de comportament pentru un succes garantat*), Editura AMSTA Publishing, Bucuresti, Chapter V: *How to win hearts by reacting to the child inside* (Romanian: *"Cum sa castigi inimile reactionand la "copilul dinlăuntrul lor"*), pg. 39

¹¹ *ibidem*, pg. 49

¹² *ibidem*, pg. 67

creating personal relations, the **better the quality of our life will be**"¹⁵. For this reason, the author is the adept of this theory: "**People like individuals who resemble themselves**"¹⁶.

- 10) Intimacy is one of the key elements in any relation, may it be a simple friendship, or a love affair, or even a strictly professional relationship. The way in which individuals have the capacity of interacting with one another is an extremely important element in the functioning of any organization or family or community. Dr. Dean Ornish in his paper **Dragoste si supravietuire. Relatiile bune va confera sanatate si o stare de bine**¹⁷, refers to this particular aspect in the second chapter of the paper, suggestively entitled "Scientific basis for the healing power of intimacy", where he refers to the specifically human features regarding the individuals' relations and the way how in order for such to establish intimate relations, a relation can be created (on solid bases) or destroyed.

¹⁵ Boothman, Nicholas (2007), *How to build personal relations in 90 seconds or less* (Romanian: *Cum sa construisti relatii personale in 90 de secunde...sau mai putin*), Editura Almatea, Bucuresti, pg. 11 (preface)

¹⁶ Boothman, Nicholas (2007), *How to build personal relations in 90 seconds or less* (Romanian: *Cum sa construisti relatii personale in 90 de secunde...sau mai putin*), Editura Almatea, Bucuresti, pg. 11 (preface) Chapter VI: „Oamenilor le plac indivizii care seamana cu ei”, pg. 63

¹⁷ Ornish, Dean (2008), *Love and survival. Good relations make you healthy and they make you feel good* (Romanian: *Dragoste si supravietuire. Relatiile bune va confera sanatate si o stare de bine*), Editura Curtea Veche, Bucuresti

Considering that we are the adepts of the conception according to which the mentality on inter-human relations needs to be changed or at least improved, we have analyzed a series of specialized papers. For this purpose, we have focused on a study based on inter-human relations and have attempted to see how this study appeared and how was it thought by specialists: "**By asking the interviewed to describe to us how has each friend contributed to the growth of their life quality or professional performance, we have not discovered a unique pattern or an "ideal friend". Although some persons wanted their friends to cover all essential aspects, we have not found such a case. Instead, we have heard many speaking of how their friends are very good in some respects. This represented a major revelation for our team – it seems that a set of essential roles exists which our friends have in our life.**

In order to quantify and describe the unique roles of friends, we have decided to establish an evaluator. In order to do so, we started exploring the fundamental needs of such friends in our lives."¹⁸ From analyzing the method of results measurement the need has occurred of setting down an evaluator, and at that moment the fundamental needs were sought which can be met by friends in the human existence. Specialists made a set of tests as it follows:

"Hundreds of ideas and questions were analyzed, to identify a set of 66 items and 8 essential roles that differentiate positive and productive friendships of other sort of interactions."

¹⁸ Rath, Tom (2008), *Essential friends. Those you can't live without* (Romanian: *Prieteni esentiali. Cei fara de care nu te poti descurca*), Editura Allfa, Bucuresti (Organizatia Gallup), pg. 81

THE EIGHT ESSENTIAL ROLES:


- BUILDER
- CHAMPION
- COLLABORATOR
- COMPANION
- CONNECTOR
- ENERGIZER
- MINDOPENER
- NAVIGATOR

The result of the study was the discovery of a great deal of essential roles played by a friend in human relations, which has led to the idea that without friendship relations, an individual's life cannot be imagined and in the same time that inter-human relations should be re-analyzed and re-thought along with the social evolution.

Bibliographical references include recognized papers in the field of inter-human relations, including Rath, Tom (2008), *Essential friends. Those you can't live without* (Romanian: *Prieteni esentiali. Cei fara de care nu te poti descurca*), Editura Allfa, Bucuresti (Organizatia Gallup) and Ornish, Dean (2008), *Love and survival. Good relations make you healthy and they make you feel good* (Romanian: *Dragoste si supravietuire. Relatiile bune va confera sanatate si o stare de bine*), Editura Curtea Veche, Bucuresti. Also, we have focused on the study of two recent papers: Lowndes, Leil (2008), *How to communicate with everyone. 92 behavior rules for guaranteed success* (Romanian: *Cum sa comunicu cu oricine. 92 de reguli de comportament pentru un succes garantat*), Editura AMSTA Publishing, Bucuresti and Boothman, Nicholas (2007), *How to build personal relations in 90 seconds or less* (Romanian: *Cum sa construisti relatii personale in 90 de secunde...sau mai putin*), Editura Almatea, Bucuresti.

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Social Protection Programmes Crisis – Solutions Between Pragmatism and Paradigm Changes

~ Prof. Ph.D. Răzvan Papuc (University of Bucharest)

Abstract: The aim of this paper is to examine the redefining of the support policies related to the contemporary 'welfare' state from the context of the public policy proposals coordinated by the World Bank, the European Union and 'The Third Way' of the British economist Anthony Giddens. The new strategies of support and inclusion on the labour force market are outlined through the design of educational policies, and furthermore, emphasis is given to the transition from a generous state based on inalienable civil rights towards one within which citizenship is being replaced as grounds for access to some natural rights with the micro and macro social intervention management based on 'testing the means' and on the 'management of social risks', - while the sustainability of the proposed systems relies on the actual possibilities of concurrence between the national and regional directives, within the context of certain social risks – both national and global.

The paper also examines the reforms of the 'welfare' state through the filter of their effectiveness and feasibility as basic requirements in the balanced implementation of the current social policies.

Key-words: effectiveness, social inclusion, social policies, reform.

Introduction

The political and social goals of the national authorities, as well as the worldwide economic, demographic and technological evolutions on the onset of the 21st century, bring back into the analysis focus of economists, sociologists or philosophers the

concept of 'welfare' state and its sustainability. The society's evolution towards contexts rather regional and global than national brings along new needs: the role of the state is being defined through new economic and social policies deemed appropriate to identify the needs of the contemporary society and to meet them effectively.

The role of the traditional 'welfare' state, designed to meet those needs of its nationals which are basic, homogenous and universally valued, is to be redefined within this new global context, that is, there is a need to reform its core institutions as their institutional deadlocks and inefficient policies weigh heavily upon public budgets which support the systems of social protection which are increasingly failing to fund some wide and generous social rights based on the status of citizen (national).

Thus, the redefining of the 'welfare' state both in terms of the conceptual-philosophical view and from the more pragmatic standpoint of the public policies has been shaped into three points of view of large notoriety in the peer community and at large; they stem from the core of several referential bodies in the economic and social life of the 20th and 21st century, and, added to them is the view promoted by a number of public figures of exceptional status in the international community, namely Anthony Giddens – sociologist and economist-, the Labour politician Tony Blair or the Democrat Bill Clinton.

As a result, three types of reforms are highlighted:

- 1) The right-wing philosophy (doctrine) of the 'welfare' state endorsed by the World Bank;
- 2) The center-wing philosophy (doctrine) endorsed by the European Union
- 3) The philosophy (doctrine) of the 'third way'.

We will here forward commit to briefly touch upon these three views, with a particular focus on the third.

1. The right-wing doctrine of welfare

Stemming from patterns of thinking which stress upon the negative impact on economy of the 'welfare state' systems, namely unemployment insurance has caused a rise in 'natural' rate of unemployment, payment of disability benefits has caused the people to leave the labour force early, or event PAYGO state pensions have lowered the rate of capital accumulation, - a type of neo-liberal economic policies was designed with an aim to produce a top-down reform of the 'welfare state' benefits.

At institutional level, the key supporter of this view is the World Bank – in team with the IMF. Their approach with regards to the issues of the 'welfare state' institutions is in concurrence with the principles of the 'Washington consensus', namely to downsize the role of the government, to cut down the public expenses and to re-gear them towards primary services for the poor population, including here the expenses for social protection and the introduction of some neo-liberal governance principles based on policies related to monetary and fiscal austerity, to stabilization, privatization and liberalization¹

"Stabilize, privatize, and liberalize, became the mantra of a generation of technocrats who cut their teeth in the developing world and of the political leaders they counselled." (Dani Rodrik)

Stiglitz calls these neo-liberal policies 'one size fits all' to thus outline the lack of regard by the designer of those policies for an approach based on national and regional differences.

¹ **Rodrik Dani** – *Goodbye Washington Consensus, Hello Washington Confusion?*, Harvard University, January 2006

From the start, it must be noted that this view did not manifest only in theory or concept, and that redesigns of the 'welfare' institutions have already been identified assumed, in general, by developing states – not only in their social concept but also in their fiscal or monetary policy. At least with regards to the pension systems, almost all OECD countries have proceeded to amending their pension systems along the lines of the afore-mentioned trends.

A major focus of this institution is the transition from the 'universality' of the aids to granting them on the basis of 'testing the means', the 'eligibility' for publicly funded assistance being determined rather by the lack of means and not on the basis of citizen status in relation to which support is a natural right (i.e., child benefits will no longer be a right available to all children, but only to those whose parents' income is below a certain level).

The World Bank is one of the key and fervent supporters of the pension reform systems based on privatization, complete financing and 'multi-pillar' approach. In the 1994 "Averting the Old Age Crisis", the World Bank is calling for rethinking the role of pension. For countries that inherited unsustainable PAYG systems, the best way to proceed in the World Bank view is to first scale down the generosity of the system (by indexing benefits to price level rather than wages) and increase contribution. In addition, a fully funded system should be introduced, transforming the part paid through general taxation into individual accounts. At the same time, governments should promote a third pillar of voluntary private savings. Reform programmes of pension systems in OECD

countries imply: pension indexation is now linked to consumer prices and no on average earnings, for most of the OECD countries, with a closer tie between contributions and benefits, tax concessions for richer pensioners, a three pillar pension system².

These approaches stem from the idea of a 'social risk management'³, ex-ante and ex-post, which develops a unitary action model with regards to the management of social risks in acceptance of the heterogeneity of the national features and with regard for the differentiated management of these risks at national level.

This concept dwells in a basic observation: in response to natural and human produced risks, the communities, ménages and individuals have developed complex 'self-protection' mechanics in a wide range, from strictly individual ones (generating income through savings, diversifying one's income sources) to socialized systems, first within the community and, further, at national level. According to the World Bank, this approach was operated too often without an appropriate coordination and without a clearly defined strategy – and this eventually led to an inefficient use of costly resources. As a result, the concept of 'social risk management' insists upon the use of techniques which dwell in the 'firm management' aiming at optimizing social measures.

The approach by the World Bank targets primarily the developing countries which are in the process of creating social protection

² OECD, *Pensions at a Glance: Public Policies across OECD countries 2007*, p. 2

³ **Holzmann R., Sherburne-Bnz, L., Tesliuc E.**, *Social Risk Management The World Bank approach to social protection in a globalizing world*, Washington D.C., 2003

systems and concerns less those countries with solid systems already in place. The World Bank guidelines which also refer to the developing countries focus on the growth in the labour market flexibility, reduced average minimal income, the link between benefits and contributions, 'multi-pillar' pension systems, the minimal pension, and the 'testing of means' in awarding social assistance – seen as key factors in the sustainability of the social protection systems.

A proof that the view of the World Bank is deemed pertinent is reflected in the increase of the retirement age and the growing focus on active policies on the labour market in order to increase the employability rate. The 'multi-pillar' approach for the pension systems in the developing countries enjoys less interest – while the opposite is true for the underdeveloped countries where these systems are emerging realities. In the reform of the pension systems, the World Bank is using a systemic approach, while the European Union deploys a parametric approach.

2. The 'welfare' doctrine of the European Union

The document at the core of the new social protection at European level is 'A Concerted Strategy for Modernising Social Protection' and it originates in a conclusion reached by means of public perception of the welfare institutions, namely that the European citizen 'clearly expresses the wish to preserve high social protection benefits to the disadvantage of certain principles of public efficiency or budgetary discipline'. The objectives stipulated in the aforementioned document are:

- that work be paid
- that the pension be guaranteed and the pension systems be sustainable
- to promote social inclusion
- to ensure high standards of quality and sustainability for the health system.⁴

A strong social protection system is an essential component of the European Social Model. In the view of the European Commission – at least as a principle – 'social protection stands for a productivity factor', with input in the economic performance. The European Commission find that the aforementioned objectives can be attained through social policies and via access to appropriate benefits, through policies meant to allocate income for the ever increasing number of individuals who are being compelled to face increasingly extended and recurrent 'in between jobs' periods or with policies designed to reconcile family life and career. The support policies designed to maintain decent levels for pensions will be geared towards a balance between the PAYG systems and the systems based on private schemes.

Other measures are meant to discourage the trend of early retirement, to encourage flexible retirement or active measures for pensioners' employability.

The health systems must provide for a reduction in the inequities in health coverage and the universal access to health coverage in the context of an improved health system. To ensure coordination of policies, the European Commission launched the 'open method of coordination' (O.M.C.) process

⁴ A Concerted Strategy for Modernising Social Protection, p. 3, 1999

which implies ongoing reporting by the E.U. countries whose input is assessed against the Commission's guidelines.

The O.M.C. involves 'a dissemination of the best practice models and the achievement of a better compliance with the E.U. objectives.'

This method is designed to support Member States to develop their own policies and it involves the following: fixing guidelines and timetables for achieving short, medium and long-term goals, defining quantity and quality markers and benchmarks; transposition of the guidelines by the Member States in the form of national and regional policies, targeting specific goals which are tailored to the national and regional specific, periodic monitoring and review.

One of the achievements of this approach is the creation of a set of benchmarks related to the social inclusion policies and designed to measure the national progress in this field. To date, the E.U. has not established fix guidelines and it has allowed Member States to set up the targets by encouraging their implementation. Common objectives have also been established for the pensions, yet, to this date no specific sets of benchmarks have been defined.

Unfortunately, despite the extent of these coordination policies at the E.U. level – as far as coordination is concerned – no significant output is foreseen on short and medium term. If we are to consider the precedent of the European Strategy on Employment (1997-1998) – according to an analysis by Schlude (2003), there is not clear evidence that the police of learning from best practice models has actually led to policy coordination with regards to employment.

The E.U. aims at implementing a consolidated system of social insurances in the Member States, involving the cooperation amongst states in order to identify the strategies best suited to meet the goals established at European level.

The harmonization of the European social insurance system is instrumental also in the context of discrepancies amongst the Member States in terms of the GDP percentage based funding, which outrank the per capita GDP differences amongst the Member States. For instance, the ratio between the state with the lowest expenses in terms of GDP percentage (Romania) and the state with the highest level (Sweden) is 8 to 1, while the GDP ratio of Sweden versus Romania is only 3 to 1.⁵

3. The 'third-way' doctrine: A 'must to' list

"The third way" is a rather vague concept which many social-democrat parties have embraced in the context of an ideology deadlock between traditional politics: right-wing (actually the new right-wing) and left-wing (actually the former social democracy). Its origin is rather clear, as the Blair-Schroeder manifesto speaks for itself – and added to it is the theoretical input of the ideologist *du jour*, Anthony Giddens, sociologist with the London School of Economics.

On the other side of the Ocean, the 'Reinventing Government' Agenda by President Clinton represents the political framework at the core of a reorientation in the 'welfare state' governance from the

⁵ Commission of the European Communities, Monitoring progress towards the objectives of the European Strategy for Social Protection and Social Inclusion, 2008, p. 54, Brussels.

concept of 'passive welfare' to 'active welfare' or 'workforce'.

The launch of the manifesto triggered a debate as to what extent this was only a political slogan or it carried the seed for a new official policy of a government or of a financial institution. Coherence is the first challenge with regards to the objectives and the way to reach them, since the general goal is 'to abide by the social-democrat traditions of equity, social justice, freedom, equal opportunities, solidarity and responsibility, but also modernization of the programs in order to meet these traditional goals.'

The economic polices of the third way must seriously consider the issue of globalization. First, the key-element in this approach is **the design of an uniform transnational or at least regional framework, meant to defend the rights of all nationals (citizens) and to transform them into 'gladiators', to provide for better conditions in terms of wage-based or post-wage-based income.** This is feasible through the implementation of a **multilateral control over speculative flows**, in order to improve their impact on the exchange rates and the interest rates. Also, exercising pressure on the I.M.F. to also include in the structural adjustment strategy both committed social programs and programs which target the creation of new jobs – this stands for another type of public policy action specific to the third way.

The financial crisis of the recent years has compelled governments to give consideration to the issues generated by financial speculations and by the weak regulatory system governing these markets. At the recently concluded G20 Summit in London, Gordon Brown said that 'the epoch of the Washington consensus has ended'.

The meritocratic neoliberal views deem that the solution to the rapport between freedom and equality based on the term of 'equal opportunities' does not materialize in the current format of income distribution – as it actually generates even deeper inequities. As for the labour market, this type of meritocratic society will lead in relation to an optimal paretian system to the issue of descending mobility – for some to climb, others must descend. At a macroeconomic scale this will lead to a lack of social cohesion and to a growing class of the 'excluded'. A meritocratic society is a 'contradiction in terms'. The contemporary society is heading towards such a meritocratic model since we are noticing two manifest forms of exclusion: according to Giddens, exclusion at the top end and exclusion at the bottom end. Both exclusions detach individuals from the social integration group, leading to effects previously unforeseen by the social institutions, - which affect both the state and the private business as well. For instance, the lack of real equal opportunities in education generates in the long term both challenges for the 'welfare' state and for the firms which endorse the decrease in egalitarian policies – an acute deficit of qualified individuals in certain domains is thus paired with elevated national unemployment rates in certain developed countries.

We are experiencing a boomerang effect. Inequity as a means of exclusion should not be accepted as a fatality and, most of all, in similar fashion, it should not be accepted that the current distribution of income is a fatality and a necessity so that most individuals can live better than 20-30 years ago. The issue in focus – the dissolution of the social through financial egocentrism – should come as no

surprise. The ever more frequent revolts in the large European and American metropolis, revolts of the excluded at the bottom end, are the outcome of such neglect. Not even the social bewilderment of some that the aim of the revolts is uncertain (see the riots in the Paris suburbs) should distance us from the real cause behind such extreme attitude.

The 'third way' advocates the creation of a new social contract meant to redefine risk and security in the contemporary society, by prompting active measures in social policies rather than passive ones – which have led to a decreasing awareness of the individual in relation to the community. **There are no rights without responsibilities** – insists the new social policy. Rights no longer stand for unconditional demands. The unemployment benefit, for instance, should in its new formula emphasize the principle of **do ut es** – I give so that you give – the proactive employment search being a requisite in receiving it – and not the mere context of job loss.

Awareness should be generalized, including both those excluded at the top end and those at the bottom end. The new welfare state must persuade companies that in the absence of larger budgets for social insurances they must deploy other mechanisms to support inclusion. Distributing shares to employees stands for a very effective measure of genuine economic inclusion.

Endorsing a public-private partnership for public education, for the health system represents the way to acknowledge interdependency between the welfare of those at the bottom end versus those at the top end. Otherwise, the exclusion effects are self-reproductive. As stated in the REPORT OF THE SOCIAL JUSTICE COMMISSION (1994) any strategy which removes the 'pauperization'

cycles should be reapplied: 'It is absolutely essential to help the adults which lack key skills or qualifications to acquire them, to help individuals with outdated skills to update them and to restore confidence for all those whose moral is undermined by lengthy unemployment. Individuals lacking skills are 5 times more likely to become unemployed than those with a higher level of education; ultimately, jobs go to those capable to get hired.'

If we are to look in retrospect at the 70's and the format of the expenditure budgets of the welfare states, we will notice several significant aspects. First, the highly marketed continuous growth of these budgets in real terms is not quite accurate. International statistics point rather to a stagnation of these expenditures as share in the GDP. Second, it must be noted that numerous expenditures deemed as social in nature have decreased by comparison to the previous years; namely, the expenditures for education or building of social housing. Third, the social insurance expenses have actually increased in excess of 100% by ratio to the referential period. The factors behind this growth are unemployment, growth in the number of poor (pauper) workers, changes in the demographic patterns, in the family structure, etc. – in a nutshell, those elements which have grown acutely manifest due to globalization.

The neoliberal theory defines this as a liability of the social-democrat welfare states. The critics which they voice against the protectionist state are first of all tied to the moral dilemmas generated by protection. A moral dilemma becomes apparent when individuals use the protection they receive to change their behaviour and thus to redefine the risk for which they are being insured.

For instance, the unemployment benefits can generate unemployment per se, if they are deployed as active measures of defence against the labour market risks. For instance, their increased level and their unconditional distribution over an extended span of time can lead to a diminished appetite for work.

These moral dilemmas ensure the increase in public expenditures for social insurances. As a result, emphasis should move from **negative welfare to positive welfare**, and it should be instrumental in generating revenue with input from the individuals themselves. Emphasis should move from **direct economic funding to indirect funding of the human capital**, such as it was implied by Schultz, Dennison and Beeker. As Giddens used to say, the welfare state should be replaced by the *welfare society* in which allocation of aid from the top to the bottom end should be replaced by a more localized system in which the civil society would play an increasingly instrumental role.

Social expenditures should become social investments. For instance, with regards to the pensioners: one of the most challenging proposals of the new social theory refers to abolishing the fix retirement age – a measure included in the other two reform models focusing on the welfare states. The pensioner, as a social category, would cease to exist as this is a category separable from the retirement funds in the sense that it is pointless to freeze retirement funds for those who have reached the retirement age. These individuals can use such funds as choose to: pensions, funding of profit-generating activities, and partial coverage for expenditures if they continue to work part-time, etc. The pensioner becomes both a holder of rights and a carrier of obligations; or, in the context of creating

new jobs and reducing unemployment, the initiatives in social investments can come in different forms such as (Moss Kanter, 1998): entrepreneurial initiatives, continuous learning to access transitional jobs, compliance of the education practices with the standard requirements to be met by employees of large international corporations, or the redistribution of the work hours while maintaining salary levels and increasing productivity, etc.

Providing for decent public services, fighting poverty by means of policies focused on family and children and a reduction in the labour related fiscality and the social contributions from low-wage jobs – all these are goals of the third way, Green-Pedersen (2001), as it is considered that these elements could generate the core statements of a coherent view in terms of ideas and macroeconomic policy.


Conclusions

Society's evolutions require new approaches for the socio-economic issued, and thus the views stated in this paper are subject to amendments every year, as the strategic trends of the international institutions add new references and they modify and reform systems. The strategy-mix proposed by various international bodies is contained in each of the current societies and they are being implemented with no regard to the actual situation in a national context. The standing benchmark cannot prove its effectiveness due to its misperception by the reformers: the essence of a policy is extracted where it does not apply, or, all the more concerning, a system is being copied with no prior assessment of its results.

Performance, efficiency – such

worldwide promoted terms – translate into the national social systems of the developed countries through the implementation of measures which alas succeed for a while, in certain contexts and in certain states, in the absence of a prior internal feasibility study.

The final conclusion is that we find that no ‘welfare state’ reform can achieve effective and lasting results unless it is paired with a philosophical validation of the governance’s role. Otherwise, such a beautiful idea would end under the burden of its own weight.



Transactional Analysis - Cultural and Educational Perspectives of Negotiation -

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Abstract: This study introduces the negotiation topics from one modern perspective, as an managerial, cultural and protocol structure. The traditionally orientation, psycho-social and communicational, technically and instrumentally, has been extended with one dynamic and very actual approach to the protocol procedures. Here is also analyzed principals negotiation's components, which are frequently mentioned in handbooks of management and negotiation, from the organizational and operational its consequences point of view.

1. The importance of negotiation as an element of transactional analysis

In the activity of administrative institutions, firms and economic agents the transactional analysis and negotiation, its pragmatic realization, represent a crucial moment, an art materialized through the negotiator's talent and vocation, as well as a science developed by experiencing, learning and training.

The goal of negotiation is to initiate and expand upon discussions to eliminate difficulties emerging in the relationships between partners, in order to get to the best solution

for both parts and to make a minimum of concessions. The first aspect of the negotiation process is represented by confrontation between partners to gain certain advantages. This requires the use of logics, argumentative theory, and transactional analysis and so on.

As experts in communication theory have shown, negotiation as psycho-social process cannot be separated from human communication, since it is inevitably based on dialogue. Practically, negotiation is a particular/ specific way of communication, based both on the existence of some good or service and of a need to be satisfied.

Ana Lazar's paper on "The Initiation of Commercial Contracts with Foreign Partners" („Initierea de contracte comerciale cu parteneri straini", Universitatea din Bucuresti, 2001), the conditions to be fulfilled by a certain activity so that it can be accepted as negotiation process are the following:

- Complementary interests of two or more parts involved in offers and/ or requests virtually accepted;
- The request or offer expressed by one part does not fully correspond with the offer or request expressed by the other part;
- Reason/ Desire and interest to get to an agreement between parts, who are willing to make concessions;
- Lack of previously established and mandatory rules and procedures or the lack of authority over two diverging parts so as to impose an agreement beyond their will.
- The negotiation process may have different goals which allow an individual or combined approach. In order to determine these goals a series of conditions need to be followed:
- Detailed defining process to ensure its clear and unitary identification by partners;
- Quantification by establishing concrete and precise parameters that are to be developed;
- Time span and echeloning;
- Defining qualitative aspects, specific conditions that need to be fulfilled in order to meet the partner's requests;
- Establish temporal, financial patrimonial and other restrictions;
- Determine responsibilities and obligations in the partial or complete realization of the negotiation's goal.

2. Transactional analysis – processes of negotiation

"Negotiation involves the existence of a joint project of the parts. It cannot be conceived without the existence of converging factors in the parts' interests and bringing these common interests to the surface for mutual benefit represents the goal of negotiations in itself."¹

Negotiation, as a complex developmental process of the psycho-social dimension of institutional/ organizational management, must follow the principles listed below (see also Ana Lazar, quoted work):

- *The principle of mutual advantage*, according to which, each part will adjust requests and review the initial goals; this principle does not exclude the possibility for one part to gain more advantages than the other;
- *The principle of compensatory action* which means that no part will receive anything unless that partner gives something in return; without making concessions one cannot benefit from concessions;
- *The principle of morality and legality* implies that negotiation ranges in the limits of what is legal and moral.

The main condition for negotiations to succeed is to rigorously prepare them, by developing the premises for the presentation of parts' position, for communication between partners and the beneficial closing stage of treaties. It is not recommended to finish negotiations without drawing any conclusions.

Failure in negotiation process cannot be ignored and is the result of little preparation, behavioural and/ or communication gaffes.

¹ Pistol Gheorghe, quoted work, p.220

Persistence of these mistakes may have unfavourable consequences over the organization's prestige. In order to eliminate them by specific interventions one has to use much greater material effort than that needed for a proper preparation of each negotiation.

In the above mentioned work the author asserted that negotiations can be approached following the principle "observe and do it yourself", so as to obtain beneficial results without training based on complex information of the negotiating team. Nevertheless this is the mere exception – such negotiations end in failure and most of the times one doesn't even reckon this failure. This is why negotiations based on improvisation, emphasizing personal experience and charm, are less and less common. They are replaced by negotiations thoroughly prepared with the aim of avoiding and diminishing the risk posed by unpredictable factors that can emerge in business as much as possible (Lazar, A. Quoted work).

The main stages of negotiation, those more frequent in papers related to this domain, are the following: pre-negotiation, actual negotiation, post-negotiation, proto-negotiation. In this paper we will focus on negotiation.

The process of negotiation

This stage is represented by the dialogue between parts. Dialogue is used during treaties, each part knowing his best interest in the object of negotiation. Now partners present themselves, makes offers, requests, and presuppositions, brings arguments followed by counterarguments, some concessions may appear, most of which are reciprocal.

Usually, negotiation is a predictable

process that begins with profound investigation and with the analysis of wishes and possibilities regarding the negotiation issue. It then continues with examining the position towards the negotiation partner. In the end various possibilities are analyzed and the most efficient one will be elected.

It is important for both partners to start this process bearing in their minds the idea that no negotiation has winners and losers from the very beginning. Only when negotiations are over they can reach a common agreement which actually represents the end of the negotiation process.

Whether we exchange emotions, ideas or products, the art of getting along with the trade partner avoiding any conflicts is called negotiation. Thus, by dialogue, many actors with contradicting interests and positions aim at reaching a mutually beneficial arrangement whose terms are not known right from the start. During various stages the parts involved bring arguments and evidence, develop and review demands and objections, make compromises to avoid any rupture in the relationships or an open conflict.

Determining factors in the process of negotiation

Negotiation is strongly influenced by:

- Culture;
- Negotiator's personality;
- Fighting potential of the negotiation team;
- Climate of negotiation.

Culture

Culture influences the duration of negotiations and the strategy used since it refers to the system of basic values which are

dominant in society, to moral and behavioural norms, to traditions and customs that show membership to a certain social group. Consequently it is wrong to approach negotiation without taking into account cultural differences.

These cultural differences not only influence superficial behaviour, but are also essential conditions in understanding values adopted by the negotiator.

Each partner comes to the meeting with habits which often exist only at a subconscious level.

A skilful negotiator must develop his own style, appropriate to his attitudes and strengths, according to his cultural background. When he meets other negotiators who act in a different manner, according to other cultural backgrounds, it is important to respect different points of view and behaviours, but not to be their servant.

Usually a negotiator from one culture becomes suspicious when a partner from a different culture tries to imitate his behaviour, but will respect the one who accepts his customs by preserving his own.

Cultural diversity proves the flexibility and changeability of human organizations. Understanding and appreciating this diversity is crucial in business relationships that cross the borders of one specific country.

The concept of culture in international negotiation is a basic one. Without this concept negotiation can end unsatisfactory. When two partners from different cultures negotiate, a so-called "protection zone" emerges in their behaviour. Partners will no longer react as they would in their own culture. As a general rule, once they find themselves on strange territory, negotiators will obey the "lex loci".

Therefore we identify various negotiation styles, specific to different areas:

American style with the following features:

- Bargaining skills/ exuberance/ professionalism;
- Americans consider negotiation to be a constructive competitive process;
- They are friendly, not so formal, they tend to be "egalitarian" whether it is about leaders or subordinates, they are powerful individualities, with strongly positive thinking, they are unhesitating people;
- They show little interest in foreign cultures;
- They appreciate punctuality, efficiency and make quick decisions (this is also the result of the flexible commissions they receive);
- Their financial range is generous, they pay great attention to financial aspects and tend to take risks;
- Argumentation is based on efficiency, they prefer negotiation "point by point", gradually approaching the compromise solution;
- They go rapidly through all stages of negotiation.

German style:

- The negotiator will make carefully prepared offers; this is his strong point;
- He is scrupulous, systematic, well prepared, with little flexibility and inclination towards a compromise/ he is utterly punctual;
- During conversations he will make clear, firm and open offers.

French style:

- They are firm;
- They insist on speaking French during negotiations;
- They use a horizontal style as opposed to the American vertical approach;
- They prefer to settle a preliminary agreement, then a virtual agreement and finally an absolute agreement.

English style:

- They are amateurs compared to the Americans
- They are open, friendly, sociable and pleasant/ flexible;
- They are rather underprepared than over-prepared.

Northern European style:

- They are quiet, speak rarely and help the others get all information necessary about their position;
- They exploit creative possibilities very well and will make creative decisions;
- Their strong points are frankness and openness they show in exploration stages/ they can be stubborn sometimes;
- They are somewhat reserved when they enter the social environment in the beginning of negotiations.

Mediterranean style:

- They are warm, exuberant and use ample gestures;
- They manifest certain difficulties in directing discussions towards a particular problem or during certain stages of negotiation;

- The use of bribery is common; this is something normal in nature, not revolting.

Communist style:

- It is bureaucratic and most of the times it takes political nuances;
- A great number of people gets involved;
- A representative of the political system is part of the negotiating team; the methods as well as the goals are bureaucratic;
- Agreements are very detailed and they are signed by all participants to negotiation.

Middle Eastern style:

- Negotiation is based on the tradition of the desert which stipulates great hospitality;
- Trust that visitors must gain is extremely important/ duration has no relevance which generates often interruptions and delays;
- The exploratory stage, of climate building, can take a longer time span.

Chinese style:

- Great attention is paid to reputation/ they have good specialization;
- They are somewhat suspicious towards Western partners, therefore avoiding to discuss political issues and concentrate rather on family life;
- They prefer to negotiate with someone who is in a leadership position in the respective firm;

- The team includes many technicians, which makes negotiation more difficult, since each of them wants to defend his own reputation by trying to get the best offer.

Consequently, negotiation with a foreign partner requires a careful study of the culture that he belongs to in order to be able to choose the best strategies and tactics. Also, understanding and respecting traditions and values of the foreign partner during negotiation are key elements in obtaining a beneficial and lasting agreement.

Negotiator's personality

Good results of negotiation depend greatly on the personality of the partners. Negotiator's personality is given by his native qualities, like talent, patience, power, individual charm, spontaneous communication etc. as well as by environmental influence: education, training, individual efforts, experience and so on.

Aside from intrinsic traits there are also attributes regarding motivation, since motivation has great influence over the process of negotiation, mainly argumentation, patience, duration and outcome of negotiation.

Many dormant qualities of the negotiator may be activated and accentuated through training and improvement in the process of negotiation.

The whole compound of elements that define human existence – personal life, health, studies, behaviour in society, culture, human relationships, familial relationships, professional training etc. influence the negotiator's personality and implicitly the negotiation process.

The fighting potential of the negotiating team

The power to negotiate or the fighting potential represents the sum of instruments and mechanisms negotiators benefit from in order to complete their actions. The better prepared the activity of negotiation the more chances have the negotiators to make the best in front of their opponents and the higher is fighting potential.

Climate

The climate of negotiation may be warm, friendly, precise, formal, cold, intransigent, difficult or tense.

A positive climate means cordiality, collaboration, agility, and good for business.

Such a tone is achieved with diplomacy. Business related problems will not be discussed immediately. A certain time span is required for the two parts to get to the same level in dialogue, to adjust their thinking and behaviour so as to reach a common field.

This is an effort which both partners have to make. Conversations, even on everyday issues have to be friendly but not indiscrete (too personal questions have to be avoided). The partner must feel good therefore diplomacy, eulogy etc. are used.

If we notice that certain subjects are boring or unpleasant, then it is recommended to avoid them. Moreover when someone strongly maintains something which has nothing to do with the subject of our debate and with which we disagree, there is no point in contradicting our interlocutor, trying to make him give up his own ideas.

Eulogy must be pleasant. Any exaggeration and anything that may sound artificial has to be avoided. Eulogy we receive will be accepted elegantly, with no false modesty.

When silence is uncomfortable, we may start an everyday conversation or mention something interesting about the future of the business.

Other influences on climate may result from:

• *Interlocutor's face expression and gestures:*

While verbal communication is used mainly to send information, non-verbal communication (face expression and gestures) is used to express interpersonal attitudes, given the fact that most of the times the expression of our face and gestures escape our control, which a fine observer knows how to interpret and find out what our real position, emotions and thoughts are.

Contradiction between verbal and non-verbal communication is quite embarrassing. Researchers assert that using gestures is impossible, but educating them is not. The more educated and higher in social rank a person is, the less he or she will use gestures and body movement. Face expression can be controlled and shows the partner reactive information such as: satisfaction, distrust, disapproval, anger and so on.

• *Eyes:*

It is said that eyes are a mirror to the soul. The way we look at others and we are looked at has to do with our desire of acceptance, trust, friendship. Even not looking at someone has a certain meaning. Interpreting someone's glance means desire to communicate, while gaze may be annoying sometimes.

Moving the eyes upwards means the intention to remember something. Moving the eyes downwards expresses modesty, sadness

and timidity. Dilated pupils show strong emotions and insistent blinking expresses anxiety.

• *Posture:*

The position of the body, shoulders, and spine sends messages of obedience, pride or dominance; drooping head and shoulders, crooked back, all transmit obedience and weakness. Head up shows easiness.

• *Physical control:*

Shaking hands, touching shoulders, arms or body are messages that may convey lots of things about the unuttered attitudes and intentions of the partner.

• *Head movements:*

The position of the head shows us if our interlocutor is listening to us or if he is indifferent. Moving head up means approval, understanding and encouragement. Moving head sideward shows disapproval.

• *Hostile actions:*

Clenching hands, grinding teeth, frowns, tense muscles are signs of hostility.

• *Hiding the mouth:*

This indicates the fact that someone is lying or prepares a surprise. The same interpretation is suited for rubbing the nose with the pointing finger.

• *Hands and fingers:*

Putting fingers together upwards in the form of a coif suggests certainty. Looking through fingers, at the eyes' level, expresses lack of confidence. Clenching fingers is a sign of hostility and aggressiveness. Presentation of the thumb shows superiority.

• Feet posture:

Crossed feet convey a negative and defensive attitude. Crossed ankles are a sign of discomfort, nervousness or fear.

Place where negotiations take place; room design

The place where partners meet must be comfortable: clean, well lit, well ventilated, with a pleasing temperature, comfortable seats, (mineral) water, enough notebooks and pens, all the necessary means to present the audio-visual material.

Light and colours

The nature and intensity of illuminating devices have a crucial role. Too little light represents a stressful element, capable to cause depressive states. Powerful light may cause agitation. Therefore suitable light that bolsters communication is recommended.

Colours influence communication as well: they interfere with metabolism and induce certain states: dark sky blue expresses peace, while yellow is the colour of hope. Vivid tones are preferred by action people (extraverted), while quiet colours by introverted people.

The significance of colours is different from one country to another: red, for instance, is associated in China with joy, celebration. In Japan, the same colour means anger, fight. In America red is for masculinity, while in Europe it stands for love. Black is in Europe the colour of sadness. The same feeling is expressed in China and in Japan through white. In European countries green represents envy, while in Asia it expresses joy and in other countries hope. Yellow means cowardice and jealousy for Europeans. The same colour

expresses intellectuality in America and purity in Asia.

Clothing

Conservative style is the most appropriate. Women must not wear trousers, too short skirts (above the knee), shirts without sleeves or with cleavage, shoes with extremely high heels, noisy jewellery, striking make-up, complicated hairstyle.

Scent

This aspect concerns both the scent emanated by certain sources (odorizing systems, sprays etc.) as well as perfumes or after shaves used by participants to the meeting. In both cases the scent must be very discrete and natural (powerful scents are excluded from the very beginning since they can distract participants or even disturb them). Good quality products are recommended, but also paying attention to quantity.

Rhythm of negotiation

Time is seen as something highly precious and personal. The science that deals with the study of time language is called chronomics. The language of time expresses the attitude towards the interlocutor. Time language may or may not be used to manage, control, express respect and interest.

Coming late to a meeting may be seen as disrespectful. The more a person is waiting, the more humiliated and undervalued he or she feels.

Nevertheless in assessing intention the cultural factor also plays an important role: Americans, Germans, Chinese, Japanese, Russians pay great attention to punctuality, which is not the case of Arabic

or Latin-American businessmen who can be late up to an hour.

In addition, the rhythm of movements (rapidity in entering the room, in exercising attributions, the pace discussions from the start) may suggest special interest as well as the intention to gain time in a certain stage of negotiation.

Position of participants at the table

Position at the negotiation table is an organizational element with strong implications over the power to negotiate of one part or another. For example, if the discussion is held in one of the partners' office, then the host's territory is automatically larger than the visitor's, who has to find some place on the desk which makes him feel somewhat embarrassed, inferior and diminishes his chances of success in negotiation.

Protocol organization

Protocol represents the debut of negotiation. Apparently protocol refers to anything else than actual negotiation: people are introduced to each other, there is an exchange of polite greetings, small symbolic gifts are given and received, and discussions are about family, weather, sports.

This introduction is necessary and reasonable, given the fact that negotiation is a process of communication between people. It requires adequate language and attitude, in a corresponding climate. In order to create such a favourable ambient for negotiation, little gifts placed on the table of negotiation are extremely relevant (pens, calendars, trinkets, notebooks, beverages and so on).

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The Bright New Financial System

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Abstract: By the end of 2008, Mr. Paul Volcker gave financiers a devastating critique. "For all its talented participants, for all its rich rewards" he said, the "bright new financial system" has "failed the test of the marketplace".

In light of the events of recent weeks, it is hard to disagree. A financial system that ends up with the government taking over some of its biggest institutions in serial weekend rescues and which requires the promise of 700 billion dollars in public money to stave off catastrophe is not a trustworthy system. The disappearance of all five big American investment banks – either by bankruptcy or rebirth as commercial banks – is powerful evidence that Wall Street failed "the test of the marketplace". Something went wrong.

But what exactly and why? A more serious analysis needs to distinguish between three separate questions: what is Mr. Volcker's "bright new financial system"? Second, how far was today's mess created by instabilities that are inseparable from modern finance and how far was it fuelled by other errors and distortions? Third, to the extent that modern finance does bear the blame, what is the balance between its costs and its benefits and how can it be improved?

Keywords: trust, the "bright new finance", securitization, cheap money, leverage, financial regulation.

Introduction

When the financial system fails, everyone suffers. Over the past 24 months, the shock has spread from American housing, sector by sector, economy by economy.

Some markets have seized up; others are being pounded by volatility. Everywhere good businesses are going bankrupt and jobs are being destroyed. For the first time since 1991, global average income per head is falling. Even as growth in emerging markets has

come to a halt, the rich economies look set to shrink. Alan Greenspan, who was a chairman of America's Federal Reserve oversaw the boom, calls the collapse "a once-in-a-half-century type of event" (Greenspan, A., 2007). Financial markets promised prosperity; instead, they have brought hardship.

Financial services are in ruins. Perhaps half of all hedge funds will go out of business. Without government aid, so would many banks. Britain has suffered its first bank-run since Disraeli was prime minister in the 1870s. America has stumbled from one rescue to the next. Hundreds of thousands of people in financial services will lose their jobs; many millions of their clients have lost their savings.

For a quarter of a century, financial globalization spread capital more widely, markets evolved, businesses were able to finance new ventures and ordinary people had unprecedented access to borrowing and foreign exchange. Modern finance improved countless lives.

But, more recently, something went awry. Through insurance and saving, financial services are supposed to offer shelter from life's reverses. Instead, financiers grew rich even as their industry put everyone's prosperity in danger. Financial services are supposed to bring together borrowers and savers. But, as lending markets have retreated, borrowers have been stranded without credit and savers have seen their pensions and investments melt away. Financial markets are supposed to be a machine for amassing capital and determining who gets to use it and for what. How could they have been so wrong?

Finance is increasingly fragile. Barry Eichengreen of the University of California

at Berkeley and Michael Bordo of Rutgers University identify 139 financial crisis between 1973 and 1997 (of which 44 took place in high-income countries), compared with a total of only 38 between 1945 and 1971. Crises are twice as common as they were before 1914, the authors conclude.

The paradox is that financial markets can function again only if this lesson is partly forgotten. Financial transactions are a series of promises. You hand your money to a bank, which promises to pay it back when you ask; you invest in a company, which promises you a share of its future profits. Money itself is just a collective agreement that a piece of paper can always be exchanged for goods and services.

Imagine, for a second, how finance began, with small loans within families and between trusted friends. As the circle of lenders and borrowers grew, financial transactions were able to muster larger sums and to spread risk, even as promises became harder to enforce. Paul Seabright, an economist at the University in Toulouse, France, observes that trust in a modern economy has evolved to the miraculous point where people give complete strangers sums of money they would not dream of entrusting to their next-door neighbors. From that a further miracle follows, for *trust* is what raises the billions of dollars that fund modern industry.

Trust is also the cornerstone of the new financial system.

The "Bright New Financial System"

The "bright new finance" is the highly leveraged, lightly regulated, market-based system of allocating capital dominated by Wall Street. It is the successor to "traditional

banking", in which regulated commercial banks lent money to trusted clients and held the debt on their books. The new system evolved over the past three decades and saw explosive growth in the past few years thanks to three simultaneous but distinct developments: deregulation, technological innovation and the growing international mobility of capital.

Its hallmark is *securitization*. Banks that once made loans and held them on their books now pool and sell the repackaged assets, from mortgages to car loans. In 2001, the value of pooled securities in America overtook the value of outstanding bank loans. Thereafter, the scale and complexity of this repackaging (particularly of mortgage-backed assets) hugely increased as investment banks created a dangerous mixture of new debt products. They pooled asset-backed securities, divided the pools into risk tranches, added a dose of leverage and then repeated the process several times over.

Meanwhile, increasing computer wizardry made it possible to create a dizzying array of derivative instruments, allowing borrowers and savers to unpack and trade all manner of financial risks. The derivatives markets have grown at a stunning pace. According to the Bank for International Settlements, the notional value of all outstanding global contracts at the end of 2007 reached 600 trillion dollars, some 11 times world output. A decade earlier it had been "only" 75 trillion dollars, a mere 2.5 times global GDP. In the past couple of years, the fastest-growing corner of these markets was credit-default swaps which allowed people to insure against the failure of the new-fangled credit products.

The heart of the new finance is on Wall Street and in London, but the growth of cross-border capital flows vastly extended its reach. Financial markets, particularly in the rich world, have become increasingly integrated. Figures show that the stock of assets and liabilities held by rich countries has risen fivefold in the past 30 years and doubled in the past decade. The financial integration of emerging economies has been more modest, but has also increased considerably in recent years, though with a peculiar twist: emerging economies, in net terms, have exported capital to the rich world as their central banks have built up vast quantities of foreign-exchange reserves (Obsfeld, M., Shambaugh, J.C., Taylor, A.M., 2008).

The innovations of modern finance generated great profits for its participants. But were these innovations the root cause of today's mess? That depends, in part, on whether you begin from the premise that financial markets are efficient, or that they are inherently prone to irrational behavior and speculative excess.

The rationale behind financial deregulation was that freer markets produced a superior outcome. Unencumbered capital flow to its most productive use, boosting economic growth and improving welfare. Innovations that spread risk more widely would reduce the cost of capital, allow more people access to credit and make the system more resilient to shocks.

Today, however, a different premise has become popular: that financial markets are inherently unstable. Periods of stability always lead to excess and eventual crisis, and freer financial markets only lead to greater damage. This view was famously expounded by Hyman Minsky, a 20th century American

economist. Minsky argued that economic stability encouraged ever greater leverage and ambitious debt structures. Stable finance was an illusion.

The trouble is that financial innovation did not occur in a vacuum, but in response to incentives created by governments. Many of the new-fangled instruments became popular because they got around financial regulations, such as rules on banks' capital adequacy. Banks created off-balance-sheet vehicles because that allowed them to carry less capital. The market for credit-default swaps enabled them to convert risky assets, which demand a lot of capital, into supposedly safe ones, which do not.

Politicians also played a big part. America's housing market – the source of the greatest excesses – has the government's fingertips all over it. Long before they were formally taken over, the two mortgage giants, Fannie Mae and Freddie Mac, had an implicit government guarantee. As Charles Calomiris of Columbia University and Peter Wallison of the American Enterprise Institute have pointed out, one reason why the market for subprime mortgages exploded after 2004 was that these institutions began buying swathes of subprime mortgages because of a political edict to expand the financing of "affordable housing".

History also shows that financial booms tend to occur when money is cheap. And money, particularly in America, was extremely cheap in the past few years. That was partly because a long period of low inflation and economic stability reduced investors' perceptions of risk. But it was also because America's central bank kept interest rates too low for too long, and a flood of capital swept into Western financial instruments from high-saving emerging economies.

So, modern finance should not be indicted in isolation. Its costs and benefits are, at least in part, the result of the incentives to which the "money men" were responding. But, given those distortions, did the new fangled finance boost economic growth, welfare and stability?

Critics answer no to all three counts. Mr. Volcker, for instance, points out that the American economy expanded as briskly in the financially unsophisticated 1950s and 1960s as it has done in recent decades. But plenty of things, other than finance, were different in the 1950s, so such a simple comparison is hardly fair. And although economists have long been divided on the theoretical importance of finance for growth, the balance of the evidence suggests that it does matter.

According to Ross Levine, an economist at Brown University who specializes in this subject, numerous cross-country studies show that countries with deeper financial systems tend to grow faster, particularly if they have liquid stock markets and large, privately owned banks (Levine, Ross, 2004). Growth is boosted not because savings rise, but because capital is allocated more efficiently, improving productivity.

Within America, several studies have shown that states which did most to deregulate their banking systems in the 1970s grew faster than other states. In 2006, economists at the IMF compared deregulated Anglo-Saxon financial systems with more traditional bank-dominated systems, such as Germany's or Japan's and found that Anglo-Saxon systems were quicker to reallocate resources from declining sectors to new, fast-growing ones (Global Financial Stability Report, 2008).

Many economists argue that financial innovation and the quick reallocation of the

capital that it promotes was one reason why America's productivity growth accelerated in the mid-1990s. Technology alone cannot explain that advance because inventions such as the internet and wireless communications were available to any country. What set America apart was the *strong incentives* it offered for deploying the new technology. Corporate managers knew that if they adapted fast, America's flexible financial system would reward them with access to cheaper capital (Kose, A., Prasad, E., Rogoff, K., Shang, J.W., 2006).

Just because financial innovation can boost growth does not mean it always will. Not every technological breakthrough improves productivity. The mortgage-backed securities helped create a glut of new homes that did little to promote long-term growth. But finance's recent focus on housing rather than more productive forms of investment may have had more to do with *the government guarantees* inherent in housing than finance itself.

What about people's lives? Even if financial innovation does not boost growth, it is a good thing if it improves *welfare* (Prasad, E., Rajan, R., 2008). Modern finance improved people's access to credit. Computers enabled lenders to use standardized credit scores and the risk-spreading from securitization made it safer to lend to less credit-worthy borrowers. This "democratization of credit" let more people own homes. It enabled more households to smooth their consumption over time, reducing their financial hardship in lean times. Studies show that consumers in Anglo-Saxon economies cut their spending by less when they suffer temporary shocks to their income than those in countries with less sophisticated financial

systems. Smoother household consumption often means a smoother economic cycle, too. Many economists believe that financial innovation, including easier access to credit, is one reason for the "great moderation" in the business cycle in the past few decades (Beck, T., Levine, R., Levkov, A., 2007).

Still, in the light of today's bust that welfare calculus needs revisiting, not least because broader access to credit plainly fuelled the housing bubble. Demand for complex mortgage securities led to a loosening of lending standards, which in turn drove house prices higher. Wall Street's fancy computer models, based on recent price histories, underestimated how much the innovation was pushing up house prices, understated the odds of a national house-price decline in America and so encouraged *an unsustainable explosion of debt*. The country's household debt rose steadily, from just under 80% of disposable income in 1986, to almost 100% in 2000. By 2007 it has soared to 140% (Federal Reserve Statistics, 2008). Once asset prices started to come down and credit conditions tightened, this borrowing binge left households – and the broader economy – extremely vulnerable. Not surprisingly, the "wealth effect" (the extent to which a change in asset prices affects people's spending) is bigger in the indebted Anglo-Saxon economies than elsewhere. If financial innovation fuelled the bubble, so it will exaggerate the bust.

That leads to the critics' third point: that far from enhancing economies' resilience, modern finance has added to their *instability*. Mr. Volcker, for instance, points to the absence of financial crises just after the Second World War. At that time, finance was tamed by the rules and institutions introduced after the Depression. But the 1950s were unusual.

In a recent book, Carmen Reinhart of the University of Maryland and Ken Rogoff of Harvard University survey eight centuries of financial crises. Their numbers suggest that, despite all that financial innovation, recent years have seen a surprising period of quiet – at least until the recent crash (2009).

The incidence of crashes is only one measure of risk, however: their *severity* also matters. In theory, derivatives, securitization and a choice of financing should spread risk, increase the financial sector's resilience and reduce the economic damage from a shock. Before securitization, the effect of a crash was intensely concentrated. A property bust in Texas meant mortgages held by Texan banks failed, starving Texan companies of capital. The expectation was that today's decentralized and global system would spread risk and reduce the economic impact of a financial shock. In his book, "The Age of Turbulence", Alan Greenspan points to the aftermath of the telecoms bust in the late 1990s, when billion of dollars went up in smoke, but no bank got into trouble (2007).

At first, that resilience seemed to be on display during the crisis too. The fact that mortgage defaults in Chicago triggered bank losses in Germany was a sign of the system working. But that resilience proved ephemeral. One reason was that risk was more concentrated than anyone has realized. Many banks originated mortgage-backed securities but failed to distribute them, holding far too much of the risk on their own balance-sheets. That was a *perversion of securitization*, rather than an indictment of it (Laeven, L., Valencia, F., 2008).

More troubling to proponents of modern finance was the crippling impact on market liquidity of uncertainty about the scale of

risks and who held them. To work efficiently, markets must be liquid. Yet, the past year has shown that *uncertainty breeds illiquidity*. High leverage ratios and a reliance on short-term wholesale funding rather than retail deposits, two features of the new finance, left the system acutely vulnerable to such a panic. Forced to shrink their balance-sheets faster than traditional banks, the investment banks, hedge funds and other creations of the new finance may have made the economy less resistant to a financial shock, not more (Setser, B., 2008).

That is the conclusion of a new analysis by Subir Lall, Roberto Cadarelli and Selim Elekdag, published in the IMF's latest "World Economic Outlook", (2008) which argues that *the economic impact of financial shocks may be bigger* in countries with more sophisticated financial markets. The study looks at 113 episodes of financial stress in 17 countries over the past three decades and assesses the effect they had on the broader economy. Financial crises, the authors find, are as likely to cause downturns in countries with sophisticated financial systems as in those where traditional bank-lending dominates. But such downturns are more severe in countries with the Anglo-Saxon sort of financial system, because their lending is more procyclical. During a boom, highly leveraged investment banks encourage a credit bubble, whereas in a credit bust they have to deleverage faster.

Excessive and excessively pro-cyclical leverage is clearly dangerous, but was it caused by the new financial instruments and deregulation? Again, not alone. Financial excesses often occur in the aftermath of innovation: think of the dotcom bubble. But throughout history, *loose monetary conditions* have fuelled the cycle: cheap money

encourages leverage which boosts asset prices which in turn encourage further leverage. Sophisticated finance meant that havoc spread in a new way.

What To Do Next?

Given the past year's calamity, how far must Anglo-Saxon finance be remade? The market itself has already asked for dramatic changes – away from highly geared investment banks towards the safety of lower leverage and more highly regulated commercial banks. Some sensible improvements to the financial infrastructure are already in the works, such as the creation of a clearing house for trading credit-default swaps, so that the collapse of a big force in the market, such as AIG, does not threaten to leave its counterparties with billions of dollars in worthless contracts.

The harder question is *where and by how much financial regulation should be extended*. Proposals for reform are pouring out from central banks, securities regulators, finance ministries, banks and universities, much as securitized mortgage debts once poured out from Wall Street. But, just as financial innovation bears only a part of the blame, so regulatory reforms will, at best, yield only a part of the solution (McKinsey Global Institute, 2008).

Indeed, some popular suggestions will not yield much. There is a lot of talk, for instance, of *reforming credit-rating agencies*, which encouraged the creation of mortgage securities by publishing misleading assessments of their quality. But the problem with credit-rating agencies lies in the tension between their business model and their use as a regulatory tool. The markets and regulators use ratings to determine the riskiness of an

asset. Yet credit-rating agencies are paid by the issuers of securities and so have an in-built incentive to tailor their ratings to their clients' needs.

Another popular suggestion is *to change the incentive structures* within financial institutions *to discourage reckless and short-term behavior*. The American government's bail-out will include curbs on the pay of the bosses of troubled banks that benefit from it. This is a poor route to follow. Governments are ill placed to micromanage the incentive structure within banks. Besides, even firms with compensation systems that encouraged their managers to lend carefully got into trouble. In both Bear Stearns and Lehman Brothers, for instance, employees owned a large part of the firm's shares.

Rational risk taking is indispensable to material progress. When it is impaired or nonexistent, only the most necessary actions are taken. Economic output is minimal, driven not by the calculated willingness to take risks, but often as a result of state coercion. The evidence of human history strongly suggests that *positive incentives are far more effective than fear and force*. The alternative to individual property rights is collective ownership, which has failed time and time again to produce a civil and prosperous society. It did not work for Robert Owens' optimistically named New Harmony in 1826, or for Lenin and Stalin's communism, or for Mao's Cultural Revolution.

The evidence suggests that for any given culture and level of education, the greater the freedom to compete and the stronger the rule of law, the greater the material wealth produced. But, regrettably, the greater the degree of competition – and, consequently, the more rapid the onset of obsolescence of

existing capital facilities and the skills of the workers who staff them – the greater the degree of stress and anxiety experienced by market participants. Many successful companies in Silicon Valley, arguably the child of induced obsolescence, have had to reinvent large segments of their businesses every couple of years.

Confronted with the angst of the baneful side of “creative destruction”, some of the developed world and an ever increasing part of the developing world have elected to accept a lesser degree of material well-being in exchange for a reduction of competitive stress.

Could tighter government oversight produce better results? No one doubts that America’s complicated, decentralized and overlapping system of federal and state financial supervisors could be improved. Nor that the enormous new markets, such as the 55 trillion dollars global market in credit-default swaps need more oversight. Nor that better disclosure and transparency are necessary in many of the newest financial instruments. But it would be unwise to expect too much. An entire government agency was devoted to overseeing the housing-finance giants, Fannie Mae and Freddie Mac, but that did not stop them from behaving recklessly. So far, at least, a striking feature of the crisis has been that hedge funds, the least regulated part of the finance industry, have proved more stable than more heavily supervised institutions (World Bank, June, 2008).

Similarly, re-regulation should proceed cautiously and with an eye to unintended consequences. Just as many of the innovations of modern finance, such as credit-default swaps, have been used to avoid the strictures of today’s bank regulation, so tomorrow’s innovations will be designed to

arbitrage tomorrow’s rules. Even after today’s bust, bankers will be better paid and more highly motivated than financial regulators. The rule-makers are fated to be one step behind.

Nonetheless, improvements are possible. The most promising avenue of reform is to go directly after the chief villain: *excessive and pro-cyclical leverage*. That is why regulators are now rethinking the rules on banks’ capital ratios to encourage greater prudence during booms and cushion deleveraging during a bust. It also makes sense for financial supervisors to look beyond individual firms, to the stability of the financial system as a whole, and not just at the national level.

Leverage can be tackled in other ways too. For a start, *governments should stop subsidizing* it. America, for example, should no longer allow homeowners to deduct mortgage interest payments from their taxable income. And governments should stop giving preferential treatment to corporate borrowing as well. Private-equity firms and the like are encouraged to load up companies with debt because tax codes favor debt over equity.

If markets are not always dangerous and governments not always wise, what policy lessons follow? In the aftermath of the crisis, the battle will be to ensure that finance is reformed – and in the right way. The pitfalls are numerous. Banning the short-selling of stocks, for instance, makes for a good headline; but it deprives markets of liquidity and information, the very things that they have lacked in this crisis. Even if the easy mistakes are avoided, improving supervision and regulation is hard. Financial regulators must look beyond the leverage within individual institutions to *the stability of complex financial systems as a whole*. Wherever the state has

extended its guarantee, as it did with money-market funds, it will now have to extend its oversight too. As a rule, though, governments would do better to harness the power of markets to boost stability, by demanding transparency, promoting standardization and exchange-based trading.

Conclusions

Even if economic catastrophe is avoided, the financial crisis will impose great costs on consumers, workers and businesses. Anger and resentment directed at modern finance is sure to grow. The danger is that policymakers will add to the damage, not only by over-regulating finance, but by attacking markets right across the economy.

Governments have an important role to play as regulators. But evidence suggests the best approach to regulation is one which empowers the markets, rather than creating all powerful regulators who may be subject to corruption and political and industry capture. Empowering the market entails enforcing accurate and timely information disclosure and providing the right incentives for market participants to make sure they remain vigilant monitors – for example, through avoiding forbearance policies that distort risk-taking incentives.

I am similarly skeptical of notions that stepped-up regulation of financial markets could improve their performance – particularly the idea of expanding the mandate of the Central Bank to become the market-stability regulator, with broad authority to unearth incipient imbalances and bubbles. That is “mission impossible”. Indeed, the international financial community has made numerous efforts in recent years to establish such

oversight, but none prevented or ameliorated the crisis that began in 2007. Much as we might wish otherwise, policymakers cannot reliably anticipate financial or economic shocks or the consequences of economic imbalances. Financial crises are characterized by discontinuous breaks in market pricing the timing of which by definition must be unanticipated – if people see them coming, then the markets arbitrage them away.

In recent years, critics have pointed to the U.S. current-account imbalance, as indicating a major foreign-exchange-rate crisis in waiting. Instead, exchange rates have moved in the direction needed to rebalance supply and demand. But, at least so far, there has been no abrupt discontinuity. Another feared crisis in waiting was a financial implosion of a number of hedge funds, leading to a cascade of bank defaults. Many hedge funds did liquidate following August 2007, but, as for January 2009 at least, without important consequences to the financial system overall.

The same is true of any crisis or adjustment process – it will never happen exactly the way it is envisaged. That’s why I strongly believe that institutions should have adequate capital and liquidity buffers to weather unexpected turns.

This is especially the case as government regulation gradually gives way to the self-correcting adjustments of global markets. The shift is probably inevitable because the world economy has become so awesomely complex that no individual or group of individuals can fully understand how it works. That it does work is evident from the high degree of stability apparent in markets almost all the time and the ever-rising standards of living on average from generation to generation across the globe.

The exceptions are the crises that arise from human foibles. I know of no regulatory system or degree of protectionism that can transmute irrational exuberance or debilitating fear into a stable growing economy. Those who imagined that the solution lay in an economy organized and run by an elite of central planners rather than competitive market forces failed time and time again during the past century.

Many critics find this reliance on the invisible hand to be unsettling. As a precaution and backup, they wonder, should not the world's senior financial officers, such as the finance ministers and central bankers of major nations, seek to regulate this huge new global presence? Even if global regulation can't do much good, at least, it is argued, it cannot do any harm. But in fact, it can. Regulation, by its nature, inhibits freedom of market action, and that freedom to act expeditiously is what rebalances markets. Undermine this freedom and the whole market-balancing process is put at risk. We never, of course, know all the many millions of transactions that occur every day. Neither does an astronaut know, or need to know, the

millions of automatic split-second computer-based adjustments that keep his "Endeavour" in the air.

Reform is certainly needed, yet, for all the excesses and instability of finance, a complete clampdown would be a mistake. For one thing, remember the remarkable prosperity of the past 25 years. Finance deserves some credit for that. Note, too, that finance has always been plagued by crises, whether the system is open or closed, simple or sophisticated. Attempts to over-regulate finance to make it safe often lead to dangerous distortions as clever financiers work around the rules. If there were a simple way to prevent crises altogether, it would already be the foundation stone of financial regulation.

If history is any guide, new regulations will focus mainly on the causes of the current crisis: lax and fraudulent mortgage lending practices, the indiscriminate securitization of credit products and over-reliance on risky short term funding for long term assets.

In fact, the aim of future research should be neither to banish finance, nor to punish it, but to create a system that supports economic growth through the best mix of state-imposed stability and private initiative.

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The Constructivist Paradigm and The Educational Practices

~ First degree teacher graduant **Mariana Viorica Canepescu**

Abstract: *The human being must be seen as an integral organism and a social individual, as a person that perceives, thinks and acts and as a complex of social relations. Because it is a bio-psycho-social synthesis, the individual cannot be taken for its social position or relations, but it also cannot be reduced to a complex of processes, skills and internal physical states, process which would be called psychologization of the human being. It can be analyzed simultaneously, from a substantial point of view (what the human being is, what are his structural components) and from a situational point of view (he is being placed in certain situation and he acts according to it).*

Keywords: pupils' performance in learning, cooperation, cooperative learning, "superficial"/ profound learning approach

I. Introduction

The human behavior, which is psychically controlled, takes place in a social environment where the individual takes other persons as "object" for his reflections and actions, and these become interlocutors and partners of the individual who is considered responsible for his own actions (GOLU, 2000).

GUY ROMANO (1992) was declaring in a study that a person can easily go to school

for a long time, for example for 12-13 years, without ever developing his thinking skills. This should determine us to elaborate learning activities in order to favor the development of thinking skills at pupils, in general, and of critical, problem solving, increase in intellectual autonomy skills, particularly.

This perspective regards an active and interactive learning, where the one learning is involved intensely, profoundly, with all his dimensions: intellectual, physical, emotional.

Each learning activity must be effective, interesting and, of course, close to the objectives respectively the results of learning, otherwise it can bring boredom and dissatisfaction to pupils.

Each pupil operates differently with information. This information can be "thought-provoking for one and insignificant for another. According to their own cognitive and emotional structure each pupil will accept the information by relating it to the representation already present in his mind" (Nicu, A., 2007).

The constructivist pedagogy "regards the individual and social way of perception of the environment, respectively the multiple perspectives, the necessity of expressing the contra-opinions, but which are argued" (Nicu, A., 2007)

The multiple dimensions of the interior world makes possible the numerous and different reactions to the exterior solicitations. These are most of the times different from the ones the teacher anticipated.

"If we wonder how the constructivism interacts with the critical thinking, we can observe that the critical thinking is the main component of a complete definition of education" (Nicu, A., 2007).

The critical thinking is seen by teachers as the core of the teaching-learning process. According to the principles of this paradigm, the teacher must create experiences that stimulate the development of certain alternative solutions to solving problems, a clear communication, which is significant for the pupils.

The teacher's role, according to the constructivist perspective is not to "spread the knowledge, but to give pupils occasions and stimulations" (Von Glaserfeld, 1994, in Siebert H., 2001).

To get knowledge is not only an individual process, but it is determined by its context. Its purpose is "to form the social pupil, as a product and subject of the interactions developed in the learning process, in group activities" (Cerghit, I., 2002) because the pupil "does not simply exist, but it becomes, he is in a permanent process of becoming, of status and role development" (Paun, E., 2002).

"The statements of the two authors avouch the idea that learning is the result of a complex interaction between the knowledge the pupils already hold, the social context where they manifest and the task of the teacher" (Nicu, A., 2007).

As E. Noveanu (1999) states we communicate with the pupils not to deliver ideas but to orient their constructive effort.

As a conclusion we can say that the position of the teacher in his relation with the pupil must be of co-participant to the lesson in order to help him in the learning process, under an instruction organized on cooperation.

II. Hypothesis

In the context of the social group psychology and pedagogy we can approach the following hypothesis:

The pupils' performance in learning grows if we use the cooperative learning practice based on the cognitive and emotional compatibility freely expressed by pupils.

We started this research from the idea that, using the educational strategies which are specific to critical thinking, in classes organized on the cooperative learning principle, the pupils can acquire cognitive and social skills which are necessary in a democratic society.

I decided to verify if applying the constructivist pedagogy principles in the class,

using the teaching-learning strategies which are specific to the critical thinking and in a group context, I can develop in pupils a superior thinking skill and new interactional configurations within the group-class.

By organizing the class on cooperative learning principles we expect the way of thinking to change and also the interpersonal relations; the pupils' learning performance to grow – in the sense of applying the knowledge and using it on long term – if we use the cooperative learning practice based on the cognitive and emotional compatibility freely expressed by pupils.

By introducing the strategies which are specific to the development of critical thinking and organizing the class on the cooperative learning principles we expect the way of thinking and the interpersonal relations to change, these becoming factors of educational progress. The theoretical support of this hypothesis is that no cognitive structure develops isolated, but only within interactions with the other physical structures (emotional, evolutionary, and motivational) and not only in a social context.

III. Conceptual delimitation

Within the social psychology we can find COOPERATION as a way of mutual psycho-social interaction that represents the coordination of efforts for a common purpose, a mutual interaction oriented towards an objective that cannot be achieved through pure individual efforts (Golu, 2000).

The researches in this field show that, at children, the cooperation behavior appears around 3 years old. If the individual and the group efforts in resolving certain problems are compared, the cooperative group activity

is almost always followed by positive effects, say the studies.

According to this premise we can highlight the importance of introducing a change in the present Romanian school that would offer the pupils the possibility of acquiring new constructive social experiences based on collaboration and cooperation in solving life problems and that would ensure the cohabitation in a peaceful world (DUMITRU, 2000).

In order to define the concept "*learning by cooperation*" we must mention the pedagogical perspective of the term learning: the process taking place in a didactical frame in order to determine behavioral changes at pupil's personality level by modifying their capacity of acquiring knowledge, skills, strategies and cognitive attitudes. The learning process involves cognitive dimensions but also emotional, motivational dimensions of the human personality that sustain "*the intentional modification or transformation of the human behavior, conditioned by experience*" (Cristea, 2000).

Conceptualizing, in the cooperative learning pupils must be educated to be one **for** the other and not one **against** the other, to develop their skills of solving possible conflicts in a constructive and not destructive way. This objective can be achieved by promoting, in schools, the learning based on cooperation.

Learning by cooperation takes place when pupils work together, sometimes in pairs, other times in small groups, in order to achieve a common objective: solving problems, producing or creating ideas and new solutions in a given situation.

There are a few **key-elements** that define the cooperative learning: the positive

interdependence (pupil must be helped to acknowledge the fact that it is for their own good if the other pupils have good results and it is a disadvantage if the others do not learn sufficiently); direct interaction, face-to-face between pupils: the individual responsibility of each member of the group, one in front of the other and in front of all the others; the pupils skills for interpersonal relationing and the efficient team work ; time for analyzing and evaluating the efficiency of the group's activity and for establishing some necessary measures of betterment of the team work (of working together) (Dumitru, 2000).

From this perspective, cooperative learning contributes to the development of pupils' skills to understand the other ones' perspective, both from the cognitive and the emotional point of view, to manifest their attachment, care for the neighbour. It contributes to the formation of positive attitudes towards learning, towards the subjects and towards school in general, but also to a series of constructive relations oriented towards solving tasks (problems).

Researches in the field highlighted a series of characteristics of cooperative learning:

- a) Open and sincere communication of relevant information between the participants;
- b) Emphasis on accentuate the resemblances and minimize the differences between the members of the group;
- c) Positive attitude of each member of the group, one in front of the other. A cooperation process leads to trust, friendship and mutual help, to the desire of respond amiably to the requests and needs of the other;
- d) Focus on task.

Cooperation leads to considering the interests which are in a possible conflict a common problem that has to be solved by common efforts, cooperation and collaboration. In the cooperation process for solving a certain task are known: the legitimacy of interests of each member of the group and the necessity of looking for a solution to meet the necessities and interests of everyone.

Even if cooperative learning seems easy to define and describe, putting it into practice is not that easy. It implies essential changes in the way in which learning is conceived and achieved and it infers:

- Transforming the classroom in a learning community where the individual competition based on confrontation is replaced by cooperation and collaboration by using the constructive controversy;
- Acquirement of skills and specific competences by teachers by which certain myths related to learning are surpassed.

The studies in the field prove that the learning efficiency depend on the degree in which pupils get involved in solving the learning tasks, on the effort they consume in the process. Getting involved does not only mean participate, but it also implies the desire and the effective involvement of the one that learns, constant and sustained effort in order to achieve certain goals.

The degree of pupils' involvement in learning is determined by the way in which they approach learning: there are two ways:

- 1) "*Superficial*" learning approach, which is based on the pupils' intention to solve a problem ("*imposed*" by outside "*coercion*") without a

genuine personal involvement. This type of approach implies memorizing the information, the facts, the events, concepts associated to factual information, without a personal reflection, but this type also implies difficulties in differentiate the general concepts, the principles and laws, from the proves and arguments that sustain them.

- 2) Profound learning approach, which is based on pupils' intention of solving a problem by getting involved personally. Learning presupposed a personal effort determined by the desire to adequately understand certain contents. The profound learning approach implies relationing the new ideas with the elder ones, establishing new relations between the new ideological content and the everyday experience, reorganizing the mental schemes by assimilating new ideas, opening to reality; instruction of an "*inner window*" through which the aspects of the surrounding reality become visible and easy to understand.

IV. Research Objectives

O1. Project and compose a Constitution in the context of cooperative learning;

O2. Applying certain strategies for developing the critical thinking;

O3. Accentuate the degree of correlation between the strategies of critical thinking formation and those of team work;

O4. Estimate the educational progress by analyzing the argumentation capacity and the skills to compose a Constitution according to the given requests.

V. Research Sample

I decided to minutely verify the interaction type influence – as cognitive-preferential compatibility and incompatibility – between the group members over the learning performance in school. I started from the idea that not every social interaction between the group members conditions the success level, in the formation of notions and intellectual operations, and that is necessary certain compatibility, regarding the intellectual preparation level, in the social and emotional relations.

In this research I used a sample of 85 pupils of three classrooms in the 3rd year in Secondary School, from School no. 195, district 3, Bucharest.

These classroom are naturally equivalent having an approximately equal number of pupils in each, a relatively uniform distribution of the number of girls and boys per classroom and we can say that they belong to the same educational culture, and this is proven by the fact that they belong to the same school and they have the same teachers.

The sample comprises:

- **A control group**, which comprises pupils from the classroom 3rd year A, secondary school, where the usual system of forming the groups was maintained, namely, the closeness between pupils;
- **An intermediary experimental group**, classroom 3rd year D, where the groups were imposed by the teacher;
- **The experimental group** where the groups were formed according to the pupils' preferences.

The representation of the sample is ensured by the approximately equal

chronological age of the pupils registered at a certain level of education and by their preparation level.

THE RESEARCH

The research was made at the beginning of the second semester, considering that until that date the pupils got familiarized with the subject "Civic Culture". (In the 3rd year and 4th years of primary school it is taught "Civic education" and it is continued in the 3rd and 4th years of secondary school with "Civic culture").

The same request is formulated for all groups: to compose a Constitution – according to an already learnt model – for a population lacking of civilization living on an island.

Group projects are made, the pupils are involved in the team work where they have tasks and responsibilities;

Each group member presents and supports with arguments each article of the Constitution, motivating the choice.

EVALUATION – is made by observations of the teacher at every classroom.

INTERPRETING THE RESULTS

A statistic analysis of the data will be made based on finding a correlation coefficient between the variables: control group, intermediary experimental and experimental groups, cooperation by preferential cognitive emotional compatibility.

We discovered that the results obtained at the experimental group of cooperation based on freely expressed preferences are productive. This was possible also because

the pupils are at an age where they know their own cognitive capacities and limits; they know their colleagues and their capacities.

That is why the groups can have a great compatibility between their members.

The main hypothesis of the research was verified, the results of the control group based on free cooperation being the best.

This research and its results permit the generalization, in the sense that the cooperative learning practice leads to better learning performances at pupils.

CONCLUSIONS AND RECOMANDATIONS

The analysis of the research data permits a general view over the correlation between the learning performance of pupils and the cooperative learning practice based on cognitive emotional compatibility freely expressed by pupils.

This research and its results permit the generalization, in the sense that the cooperative learning practice leads to better learning performances at pupils. But the problem is that the pupils previously dispose of the team work experience, the tasks be correctly and concretely explained and cleared, and the cognitive emotional compatibility of the group be permanently ensured.

Only after these conditions are met we can talk about a correct use of the cooperative learning practice, as a new strategy for the development of critical thinking and other psychosocial skills requested by the future world, where the today pupils will integrate.

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The Crisis of The Risky American Mortgage Credits (Subprime Crisis) – The International Financial Crisis Initiating Factor

~ Anne-Mary Rotariu (*Academy of Economic Studies*)

Abstract: Financial crises have begun to be a part of our daily life. The financial crisis that the whole world is dealing with presently, initiated by the USA mortgage crisis, is merely a link from a long chain of crises: the Latin American debtors' crisis (1982), the USA savings houses crisis (1986), the Japanese banks crisis (1992), the Mexican pesos crisis (1994), the Asian crisis (1997), the Argentinean crisis (2000), the technological field crisis (2000). All these crises appeared as a result of speculations without happy ending, following a lower supervising degree of the banks and a diminuation of the control regarding the capital being under circulation since the '70s.

The US Subprime Crisis began in 2007 as a result of important disruptions in the international credit and capital markets. Had market participants anticipated the increase in defaults on subprime mortgages originated in 2005 and 2006, the extent of these market disruptions would be different. If investors in mortgage-backed securities would have demanded higher returns, borrowers would not have found credit cheap and easy to get as it happened during the subprime boom of 2005-2006.

Keywords: subprime crisis, house prices, credit default swaps, domino effect

The beginning of the Subprime Crisis

The factor initiating the international financial crisis that the whole world is dealing with since 2008 was the USA mortgage crisis in 2007 (Subprime Crisis). This crisis has produced serious effects in the entire Europe. Famous banks from Germany such as Düsseldorf IKB, WestLB and SachsenLB,

but also the greatest bank in the world, Citigroup of America, have registered losses of billions Euros.

At the same time with the bankruptcy of the investment bank Lehman Brothers of September 15, 2008, the crisis was generated at world level, leading to the situation of Ireland being threatened by national

bankruptcy. The stock exchange rates have decreased to a minimum level, casting into the shade the "black Thursday" of October 24, 1929, the beginning of the world economic crisis at that time.

In October 2008, the whole world held their breath and waited for the consequences, meaning the increase of the unemployment rate, recession, falling of other banks, the auto industry blockage and the expansion of the crisis expected in the third trimester of 2009 due to the credit cards crisis.

In USA the credits benefited of variable interests, being oriented according to the American reference interest, determined by FED (Federal Reserve System). As a result of the explosion of the Dotcom Bubble ("the New Economy") at the beginning of this millennium (2000), but also as a consequence of the September 11, 2001 assaults, the American reference interest was diminished many times by the Head of the Federal Reserves, Alan Greenspan, who was aiming to attract investors and to encourage the private consume by granting advantageous credits.

After the repeated decrease of the interest by FED, its level reached a historical minimum, in this way facilitating the contraction of very low interest mortgage credits. Such reductions of the interest affected the entire situation in USA, having as consequences the decrease of the unemployment rate, as well as regular and firm incomes for the budgets of the American families, followed by an increase of the investments in real estates. All these led to the increase of the prices on the real estate market which however did not seem to prevent the Americans from investing in expensive real estates.

The American people do not approve saving (the Americans' savings rate is of

almost 3 percents, while in 2008 in Germany this rate reached 11.2 percents), so they are willing to buy anything that they can be acquired by means of credits; thus most of the real estates bought by Americans were financed in percentage of 100%. The credits granted to the buyers with low incomes benefited of higher interests, as the banks considered that the granting of so-called "subprime" credits was advantageous. The respective real estates were handed over as "subprime" mortgages, respectively 2nd degree mortgages. The second degree classification represents the fact that the debtors did not have a good business and credit worthiness, so that the creditors should be covered in case of insolvency or forced execution. The respective real estates were accepted as a protection mean. On the background of the continuous increase of their value, there were granted more and more credits. The price of the real estates increased, generating higher risks.

The State contributed to a great extent

The fact that more and more average class families could mortgage the real estates they were going to acquire fitted perfectly to the American ideal of owning a property. The middle class was encouraged to buy real estates by the effective reduction of the taxes, but the interventions of the State only intensified the crisis and led to the collapse of the real estate market. "Fannie Mae" and "Freddie Mac", the two mortgage refinancing giants were responsible for this encouragement; they were taken over by the American State starting from September 7, 2008, since then being under the control of the FHFA (Federal Housing Finance Agency), in order to avoid their bankruptcy.

Solely the mortgage loans granted by Fannie Mae turned this institution into the greatest debtor in the world, with almost 2.400 billion dollars debt. In order to prevent the risk of the 2nd degree claims being borne exclusively by them, the claims were grouped and distributed as bonds which were transacted especially by Hedge funds, by banks and insurance companies. This type of bonds was very advantageous, especially because it had as purpose a much higher increase of the value than in case of the State titles. This increase of the value attracted investors who performed transactions with such titles or took them over in their own portfolio.

Therefore, the real estates financed through 2nd degree mortgages benefited of a continuous increase of the value, at the same time constituting guarantees in case of insolvency. The creditors were granting more and more credits, thereafter grouping the claims and reselling them as bonds.

The collapse of the house prices

Together with the collapse of the real estate market prices a real catastrophe was generated on the world level. The continuous increase of the real estates value formed a balloon ready to explode any time. In order to fight against the danger of inflation increase, FED successively increased the reference interest starting from 2004. The credits granted in USA were based on the American reference interest, so automatically the mortgage credits interests also increased and several debtors found themselves in the impossibility of payment.

As the situation became worse in USA, the incomes were in a deadlock and the unemployment rate began to grow. As a

consequence, the Americans began to lose their mortgaged houses. At first this aspect was not very disturbing due to the fact that the number of those who remained homeless was still quite low and the high interests practiced by the banks partially covered the losses. However, these were the signs indicating the debut of the real estate crisis.

Everything developed normally until the real estate market prices began to decrease. As a result of the reference interest increase, the losses resulted from not reimbursing the contracted credits increased much more and the real estate market was invaded by offers of houses. The prices of the real estates financed by subprime credits decreases so significantly, that the respective real estates did not present any kind of attractiveness whatsoever.

The first banks had to liquidate an important part of the granted credits, registering significant losses. In this way was created a domino effect, which began to move faster and faster.

Because the mortgages were not covered entirely by the respective real estates any longer, the subprime mortgage bonds lost their value. The first Hedge funds, banks and insurance companies stopped the transactions with mortgage titles, the big banks and investors being forced to liquidate billions of Euros. The Hedge funds which had to sell the titles couldn't place them on the market and registered losses. This domino effect expanded to the entire financial system on world level, even threatening the Island Republic with the national bankruptcy.

"Credit Default Swaps" Innovation – CDS (insurance premiums against the phenomenon of not reimbursing the credits) was

the next decisive part of the domino effect. The product was created by Blythe Masters, a young mathematician, graduate of the Cambridge University in 1970 and employed by JF Morgan Chase of New York. She invented a product which cast into the shade the killing effect of the December 2004 tsunami compared to what was going to happen on the financial market, meaning the appearance of the product **“Credit Default Swaps”** CDS. The newly graduate convinced her superiors to promote this revolutionary product, which presently constitutes a great danger for the global economy.

By means of these CDS, the banks provided themselves mutual support in case of not reimbursing the subprime credits, the technique being similar to the insurance technique. By distributing the credit risk among more participants, there was intended the

creation of a financial system which should easily absorb the shocks. However such system has a negative side: there can be created systemic crises such as, the USA subprime crisis.

Through the separate transaction system of these risks of not reimbursing the credit, the insurant (the buyer) was ensured against certain risks found in a credit report, by paying an insurance premium on the behalf of the party who offered the insurance. Institutions such as Lehman Brothers transacted this kind of products, therefore the CDS sellers were forced to pay the agreed sums to the buyer.

However, the situation is much more complex, the end of the crisis being still far away, especially if we take into consideration that in 2009 a new phase is expected, meaning the credit cards crisis.

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The Current Economic Crisis Probable Causes – Possible Evolutions

~ Prof. Ph. D. **Paul Marinescu** (Faculty of Business and Administration)

Abstract: This paper is intended at emphasizing that the world today, too complex and vulnerable is a set of crises generating factors. Unfortunately, few are objective and the consequence of regularities. Most are created, in contexts which are difficult to foresee or manage, and they favor small groups of people. The paper intends to make value of the idea that the world of tomorrow needs a change, from the paradigm of COMFORT to the paradigm of EQUILIBRIUM AND RESPONSIBILITY.

Keywords: responsibility, recession, social security, international financial institutions

The perspective of recession imposes a reticent attitude to decision makers in respect with Romania's evolution in the next years. Previous optimistic statements demonstrated that the dynamics of the economy is unpredictable and depends on a great number of contextual factors or factors imposed by international institutions. The forecast of economic decrease imposes hard to control budgetary deficit in a system which does not produce economic goods.

The perspective of small budgetary incomes will no doubt lead to increased taxes, higher social securities contributions and excises, as well as severe expenses cut downs.

Companies which have contracts with state's institutions will face delays in payments, of impact over economic flows.

Permanent change of prognoses by financial institutions demonstrates that the said are lacking the necessary tools in order to foresee and prevent crises. Under such circumstances, the lack of information and confusion can generate unpredictable individual and group attitudes. The multilateral financing program suggested by the IMF to Romania raises questions because IMF policies have been implemented in other countries, leading to disastrous results.

Question marks appear the more so

considering that this international institution dictates for large amounts of money to go to international banks with subsidiaries in Romania, which are at the present moment in payment impossibility. It is obvious that we cannot foresee where the Romanian economy will go because we do not have enough data regarding loans and consume evolution.

It is mandatory for scenarios regarding Romania's evolution to be anchored in the reality and their content needs to support above all Romanian people's interest. Macroeconomic estimates of IMF have annulled the estimates made by Romanian decision makers. This is surprising because it can lead to the conclusion that international institutions are more familiar with Romania's economic situation than the Romanian decision makers. On an international level, Romania's macro-economic situation is first of all a matter of inter-dependencies. Strengthening the taxation policy by drastic cutting down of expenses must be done because no possibilities are left for increasing budgetary incomes considering that excises and social securities contributions have already been increased.

From a taxation standpoint it is difficult for budgetary deficit to be reduced down to zero compared to real data in an unbalanced economy, which has been for years focused on consume. Romania's fiscal strategy must start from reducing the number of taxes and duties because in some situations it costs more to collect them than the collected amount. Measures for fighting against bureaucracy can lead to a healthier business environment in the crisis period. Increasing excises and of the contributions to the pensions system, increasing health budget contributions make the companies' cutting costs policies more difficult to achieve.

The new Fiscal Code can help if all amendments are carefully considered and used if ascertained they would improve content. Financing the current account deficit and reducing short term debt represents great challenges for the Romanian state. The support asked by banks and automotive plants to the state can represent the deepening of the crisis in case the borrowed amounts do not contribute to creating a balance between production and consume. In view of the present analysis we assist among others to an overproduction crisis. We can notice that markets are no longer able to absorb products and that is why discontinuities are induced in the financial flows.

Banking circuits are blocked in two areas: the one in which population gets loans in order to consume and the one granting loans to companies in order to produce. The quantity of borrowed money has exceeded the bank's flows, leading to dramatic financial blockage. We can also speak of other factors generating the crisis: intentionally distorted image on the banking system's solidness, maintained by mass media (visual, press, audio, online), but also by political and financial factors; brazen advertising activating people's latent greed. We can also refer to a crisis of the educational system, often amplified by thesis which can generate confusion.

The credibility crisis of the world economic system puts us in front of serious questions which have answers but no immediate solutions unless deep inequalities between developed countries and those blocked on low development levels are not removed by those holding the real power. Over-evaluations have created the conditions for immeasurable losses for millions of people and millions of

companies worldwide. Thus the ideal conditions were created for mass bankruptcies due to the impossibility of individuals and legal entities of becoming efficient and efficacy parties in the economic circuits. Such bankruptcies irreversibly lead to under-evaluations creating the possibility for those who can buy to get the desired goods.

Limited resources, environmental issues, are two challenges to which mankind should answer. The vulnerability of national economy can increase also because of the disorder in public expenses, which can accentuate the lack of trust of the investors in the Romanian economy. Without promptitude and a coherent and consistent governmental plan in order to manage and adjust disequilibrium and in order to ensure financing lead to concerns regarding the perspective of a difficult to control situation. Social pressures can create a gray painting regarding the real possibilities for managing such a reality.

The evolution of the labor force after 1990 demonstrates that human resources development and motivation policies on a national level have been most times feeble. This is why two social-professional categories have left Romania in order to work in Europe's developed countries and not only (over-qualified people and those who made use of their seriousness in agriculture or services). This exodus of the population has led to the depopulation of a wide area in Romania, as decreased the qualified labor force on the national market.

Large amounts of foreign currency brought in Romania by those working abroad have been especially used on consume. Actually, after 1990 Romanian population has been encouraged to get consume loans. Thus, the conditions have been created for defining a market in which supply sources are in other parts of the world, even in areas in which expertise used to exist. Traditional markets have been eliminated for 20 years and now we are collecting the results of this sort of unconscious behavior and lack of professionalism. I am referring to the former soviet area, China, Africa, the Arab world.

We can notice that the post-revolutionary period has consisted in experiments, may them be political, economic, social, cultural, educational, environmental, most time disastrous. In view of applying the economic theories and models we can ascertain that we are living in an era in which the validity itself of these theories and models is questioned.

This world of excesses, large resources consumer, creating conflicts, dominated by greed, in which an excess of image is created invading the space of reality is necessary to have individual and group responsibilities redefined, we need to regain our trust in national public institutions, to regain respect in every single individual, to clarify the place and role of each country in the world values and interests system, to unequivocally define the role of banks and stock exchanges in the economy.

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The Level of Development and the Implementation of Accounting Standards in Kosovo – Problems and Challenges

~ Accounting Lecturer **Nexhmie Vokshi** (Public University of Prishtina)

Abstract: This study will show an analysis of the current development in the accounting in Kosova and the overall financial reports. Financial reports, based on the accounting processes of the highest quality and accepted worldwide has been evaluated as comprehensive by all users of the accounting information. This will fill in all the gaps in the Kosovar financial reports, so there would be no doubt, fore mostly for the financial reports prepared and published by the Kosova business community. The financial reports with international accounting standards based on national standards that are coherent with the international ones, supplies decision makers in business with complete information, financially accurate, which results to efficient decision making on their behalf.

Such a task is of utmost importance, given that Kosovo is now at a crucial phase, given that the foundation of a new state have just been laid with all the sacrifices that have to be overcome, with all the hard and serious work that that awaits us in all fields for creating a sound economic and social basis. To achieve this we need for everyone to work hard and sacrifice, so this will reflect in an economic and social development and all other fields, among the most important ones is the development of the accounting profession, thus giving the possibility for credible and acceptable financial reports by all.

Introduction

To study the development of accountancy in Kosovo and to see its perspectives it is needed to review the actual situation of the development of accountancy, of recognizing and accepting the accountancy standards. It

is clear that in this level the actual development and the perspective many economical, social and cultural factors have influenced. In this study work will be studied the influence of above mentioned factors; maybe this would be the objective of a special study

work. But based on the questions done by the used questionnaire used for this intention choosing a sample if interviewed persons, it is studied the level of actual development of the accountancy in Kosovo, registering problems that might occur by analyzing these answers.

So, the main aim of investigating work in this research work is to give a table of actual development of the accountancy in Kosovo, Kosovar needs for accounting information. Will be analyzed the level of application of these standards in Kosovo and new standards, need for legal discipline and different trainings about the accountancy standards and as well will be given elements that explain the actual development toward applying international / Kosovar accounting standards.

Main objectives that are foreseen in our research are registering the level of applying the regulative for accountancy and the financial reports, is it effective usage of international standards of accountancy, do you think that with applying international accounting standards will be possible to read financial statements financial reports from readers from outside, the usage of international accounting standards does affect in the transparency of financial reporting, is it needed the training of experts of the tax authorities and of private accounting experts employed with the knowledge of accountancy, is it important the financial reporting according to the international accounting standards for representing real and correct financial reports.

To realize above mentioned objectives and to get requested information was used a sample of 314 accountants, independent and employed, and were interviewed also 86 directors of small, average and big enterprises, than also bank directors, directors of post offices, and of insurance companies. The

interview method was filling questionnaires mainly through emails, filling questionnaires by sending someone to them, and in some cases also by the phone. So, were used a mixed way to get accepted costs of filling them in the appropriate level and to ensure the time and the level of requested information.

Leveling answers of the questionnaire was done in most cases in 5 levels: very well, well, not at all, no answer (NA). From the used experience in the questionnaires was evaluated that 5 levels were most appropriate for this questionnaire.

The sample has a non unique composition regarding their employment. So, expect 212 employed accountants, from them 21 in banks, 181 in production enterprises, trade and services, 4 shpk (KPS), 2 post office, 2 insurance companies, 59 chosen persons are private accountants and auditors, 35 persons are employed in the tax administration, 8 from them in the chamber of commerce, etc. This structure should be considered also the evaluation of the questions done in the filled questionnaire for this aim. Also has to be emphasized that most of the above interviewed accountants, 84 % belong to the age up to 45 years, so this predicts that their attitude toward standardized international accounting is more liberal and more open. Such a structure is approximately same also among directors of businesses where the highest percentage (59.3) belongs to director's age from 35 to 55 years, and it shows also a positive indicator about their open attitude toward standardized international accounting.

At the end we will mention the fact that answers from the questionnaire hold also a level of insecurity and non accuracy. This is connected to a range of facts as the cultural level of interviewed persons, non experience and sometimes also irresponsibility in filling

up the questionnaire, relatively limited number of interviewed persons, wrongly filling up questionnaires, etc.

Actual Situation In The Accountancy And Accounting Information

When we talk about the actual accounting situation and the accounting information in Kosovo, will be recorded fact that in general, lately it is increased a base staff for financial reports. Since the financial reports and international auditing are more rigorous and complex, the requests for well done financial reports of enterprises in the financial sector in Kosovo is increased. These reports should use international standards of accounting and auditing, attracting care more and more above the international experiences and best practices for this field.

Three main axes of developing proper financial reports are: first of all knowing international standards of financial reports, then institutional reforms establishing bodies which will take care to represent the interests of the business community and deciding about usage of regulations about financial reports, and finally developing the accountancy profession in that way to make possible professional support of necessary changes.

In Kosovo, according to the regulation used now 2001/30 are planned rules about building PF for all business organizations that exceed annual flow of 100.000 € or the total wealth is more than 50.000 €, enterprises that work with public and social funds and that need to prepare and publish financial reports for general information, and during the preparation have to use national and international accounting standards.¹

¹ Regulation 2001/30, article 4.1,4.2, 4.3

Now Kosovo started with fulfilling requests about financial report according to the accounting standards, since this has multiple importances about Kosovo, first it shows a model of high level of accounting regulations and producing the accountancy information important for decision-making from the users. This maybe the proper accounting helps a lot Kosovo in fulfilling its important interests, fulfilling the economical interests with active participation in European Union. Different interested parties about this issue were and are still interested to do a reasonable work to improve Kosovar environment of financial reports.

Such a job is increasing actually, especially through establishing main axes of the accounting profession in Kosovo - SHKÇAK-u,² about developing the accounting profession in Kosovo, and from the Body³ for financial reports (BRFK), that managed to establish the framework of financial reports,

² SCAAK, as regulatory accounting body in Kosovo since it exists has played an important role in training and certifying accountants with the aim of building a frame for a stable financial report and for a successful economy. Such professional association plays a vital role in supporting the general development of the country. This is realized first of all by identifying professionals with qualifying possibilities, by determining rigorous criteria first of all about qualification and then about continuous membership and continuous professional education.

³ Board for financial reports in Kosovo is established on 29th Oct 2001 with the regulation of UNMIK 2001/30. The work and the activity of the Board had an essential role for economy of Kosovo since it established objective standards, transparent and internationally known of accounting and auditing based on which can be developed the trade economy.

which is according to the international standards of reporting, and which consists of eighteen Kosovar standards of in coherence with international accounting standards issued by the Board of international accounting standards (BIAS). So there are two packages of accounting standards, where IAS is for public enterprises and NAS are for the private sector. So, according to the actual requests that come out from the regulation 2001/30, article 4.3, business organizations report with IAS or NAS.

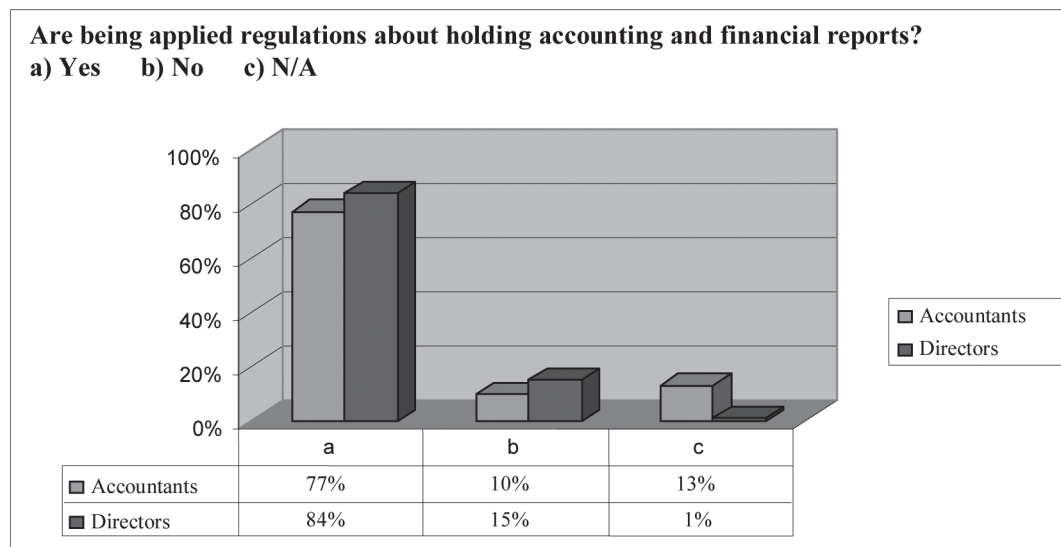
The level of acceptance of application of IAS/NAS in Kosovo

Before I present the analysis of data I want to emphasize that successful application

of international accounting standards and of Kosovar accounting standards created in coherence with international accounting standards, bring a "cultural revolution" in the accounting field in Kosovo. Kosovo shouldn't be avoided from such a tendency of time and from its perspective for integration in Europe and abroad.

Regarding the issue related to the fact do these regulations about accounting apply based on the survey here are the results: 77% of interviewed accountants positively answered for considering these regulations; 10% of them thought that these regulations are not applied, and 13% didn't answer at all. Among directors 84% answered positively about applying regulations, 15% no and 1% didn't answer (see diagram in 1).

Diagram 1



If we compare answers about the idea if the accounting regulations are applied in building financial reports with answers about not applying these regulations by the accountants, then the fact results that

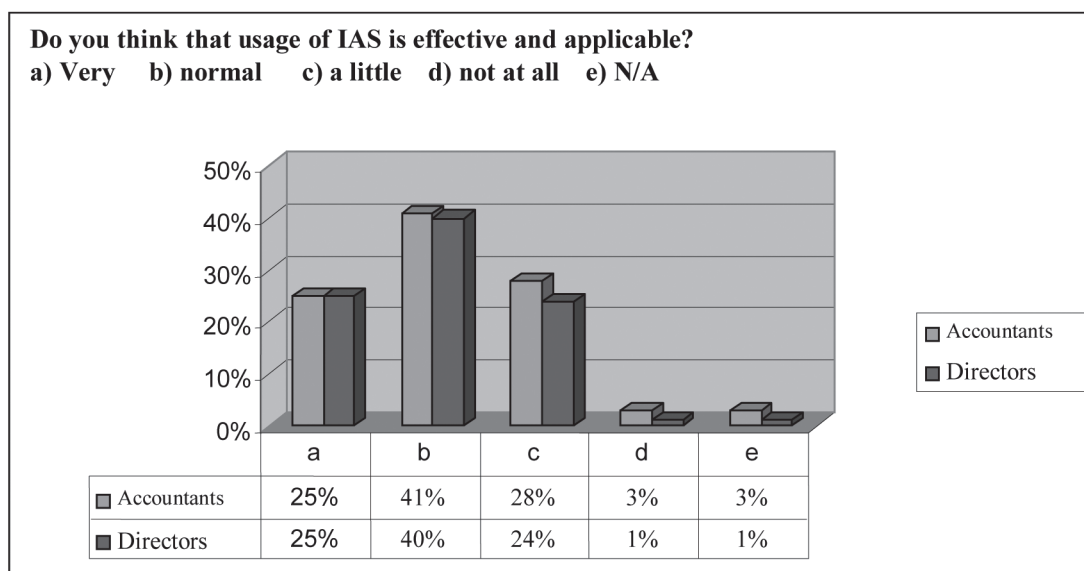
actually we have a broad usage of base rules about accounting and building financial reports, trying always to fill up eventual emptiness. Such a situation exists and comparing to the answers from directors of companies,

84% from them think that are applied base accounting regulations for accountancy.

From above mentioned, maybe stated for usage of actual regulations of accountancy, we moved on with the question how many of them think that usage of international accounting regulations is effective and used. In this case 66% of accountants think that usage of international accounting standards is effective

and it is possible more to use them, whereas 28% from them answered less effective and less usage possibility. Among directors also we have a positive comparison of given answers regarding the effect of applying the international accounting standards, since 65% think about the affectivity and possibility of usage, 24% of them hesitated in the effect that could come from application (see diagram 2).

Diagram 2



When we compare answers of above categories, then remains to understand that approximately are harmonized views of employed accountants and directors of these businesses. From that comes conclusion is that in general accountants and directors of companies are aware about the benefit and effect that comes financial reports according to the international standards. This is justified with percentages elaborated above but remains to increase in general the awareness about the effect that has usage of standards, financial reports in unified accounting language. As main starting point that justifies

the effect that comes from usage of standards is the possibility of proper presentation of financial reports, and 'proper presentation' is considered presenting accurate effects of transactions, events and other conditions according to determinations and criteria of knowing the wealth, burdens, incomes and expenses. So, almost in all occasions a right presentation is achieved through compatibility with international accounting standards being used.

Results of the above diagram seem a little strange is considered the economical and cultural situation in Kosovo. In general the

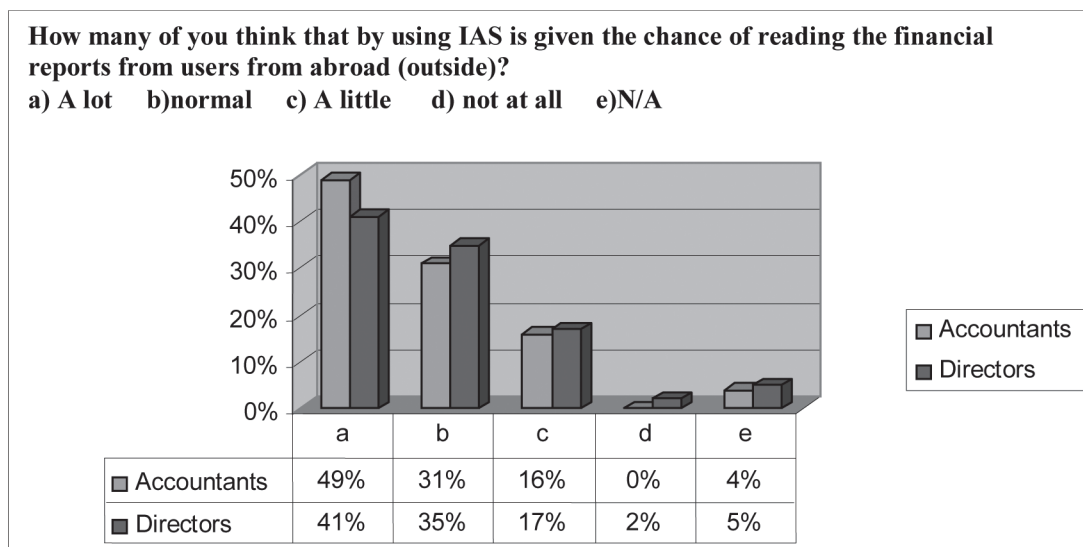
experience showed that in countries in the level like Kosovo the level of accepting international accounting standards wasn't initially very high. This because of many reasons, especially because of the low knowledge of international accounting standards, because of the lack of appropriate market for usage of international accounting standards, because of accounting culture and heritage, etc. Received answers as above in Kosovo I think come from desire of Kosovars in general to come close to western countries and to go away from the painful past as evaluated by them. I think the last one is the answer to this question.

Also, the effect coming from viability of international accounting standards is seen in the possibility of understanding the financial reports from wide range users of financial information here and abroad. This is fulfilled also by the following question how much do you think that using international accounting

standards will be given the chance of reading the financial reports to users from abroad.

This is showed in figures that follow: 80% of interview accountants emphasize that it is given such a chance, whereas 16% of them think that less chances are given for those abroad (outside). Comparison of answers of accountants for this issue makes us understand a positive opinion from their point of view (80%) for full awareness about the effect that comes from financial reporting conform international standards, which effect is seen especially in the attitude of users from outside toward our financial reports. The directors of the businesses have also a positive opinion toward those that think for poor access of abroad users in financial reports build according to the standards. This is proved with the fact that 76% of them stated for a possibility of reading and understanding them (see diagram 3).

Diagram 3

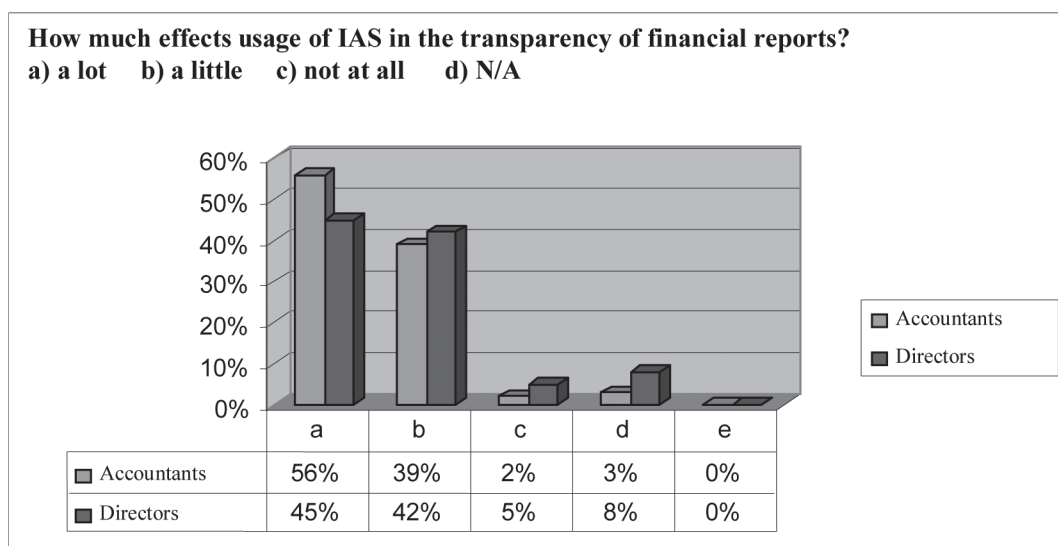


If we compare results of two interviewed categories than of course accountants are in advantage and such a fact is more clear since they are directly involved in the way of building financial reports conform standards and are totally aware about the possibility of clarity, comparison and the possibility of reading them by all users of the information that comes from them. Both parties are aware that by implementing international standards is generalized the format of financial reports and the financial reports are compared in the global level, and with this is created the common reporting language. With reading our financial reports by users from outside is possible attraction of investments from abroad, creditors, banks, etc.

Except this, usage of international standards affects that financial reports produce transparency, which is seen by the following question: how much effect does usage of international standards of accounting in the transparency of financial reports.

56% of accountants give evidence of transparency that provide financial reporting harmonized with international standards, whereas, 39% of them are more skeptic emphasizing that there is less transparency but not as no transparency at all. Also 45% of businesses directors have positive opinion concerning transparency of financial reports developed according to standards, whereas 42% of them consider that there is less transparency in this direction (see the diagram 4).

Diagram 4



If I compare responds of two parties, we will find that they are aware that financial reporting based on international standards, of course provide complete transparency, therefore stabilizing the financial system in general. The survey of both categories concerning

the issue of transparent reporting, indicates that the higher percentage of responses is for very transparency comparing with those of little transparency. However, it has to be analyzed the rationality of this result, why the abovementioned categories (39% and 42%)

are declared for less transparency that provide financial reporting in line with international accountability standards? Considering previous responses in this questionnaire, it is expected to have massive responds that financial reporting based on international standards of accountability will increase the level of transparency.

It is considered that the problem is first on the translation of international standards of accountability that are not completely translated into Albanian language. In this case, this issue inhibits transparency, due to different level of the use of English language. Therefore, except this, their statement for less transparency always based on the information that I have from survey, influenced also not publication of financial statement. If financial statement is not being published, there is a doubt if they are developed according to certain standards and how this alignment provides transparency for users of information that provide. Therefore, I consider that the fact of not publishing financial statement is not the result of not applying the international standard of accountability, but not application of international standard request nb.1 for publication of financial statement. It is remained to analyze which categories from accountants increased percentage for non transparency, where we could find if the problem is publication and providing opportunities to the public for having access to financial reports that business entity offers. Considering the employed accountants in big businesses and public ones, since they apply standards and their reports are published, 61% of them responded with yes to transparency, where 37% of them where declared for less transparency. From accountants employed in tax

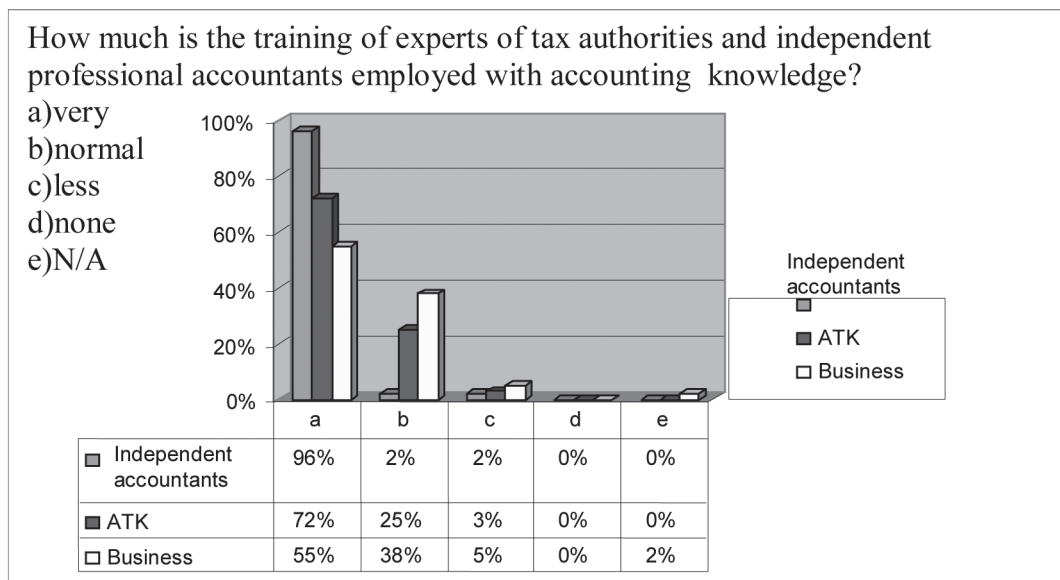
administration, 71% think about transparency, since their statement that are submitted to administration are the same ones that are being published for general purposes, compared to 29% that were for less transparency. Independent accountants responded with yes to transparency 58%, whereas 38% with less transparency. At the end, employed accountants in small and medium enterprises 54% are for full transparency and 39% for less transparency. As it is shown, the higher percentage includes employed accountants in small and medium enterprises. According to information, a number of independent accountants are the same ones that work in the small enterprises, since they represent higher percentage in the business community, therefore, at this group it is evident relative higher percentage for less transparency. I think that the presented problem is result of not publication of financial statements mainly of private sector, and of course this fact helps the problem of not transparency, since they do not preserve integrity of public. These statements are only submitted to business registration office and to the Ministry of Economy and Finance, and in those statements access to public is not available. Not having access to this document results on not having opportunities for decision making from the stakeholders, that effect on their opinion for non transparency. However, I emphasize again that non publication has nothing to do with the level of transparency that are under the international standards of accountability. This issue is seen also at the big business directors, where the diagram indicate that 42% of them were responded for less transparency, and if we analyze internally this percentage, result on the fact that directors of big businesses and those of public institutions

just 24% were declared for less transparency compared 59% that were responded for transparency, whereas directors of small and medium enterprises 49% are declared for less transparency. For this issue I will recommend extension of business registration office, providing possibilities for controlling submitted financial reports, as well as by providing relevant information for public interest, but it is recommended to increase market request for these information, since only then the willingness of the responsible actors for development of financial statements will increase concerning quality, transparency and their publication. In this case, the authorities will be aware of considering the access of public towards financial reports. Therefore, financial reports will be available for interested stakeholders, and then the insurance and alignment of financial reports of entities with legislation, considering the fact that financial transparency is one of essential components for having success in the free global market.

Considering that our country is still in the development phase of standards implementation, then the presented level of responses is normal, whereas in the future as much as the level of standard implementation increases, it will indicate on transparency of financial statements, and these on awareness of accountants, directors and business community for the positive effects that has unification of financial reporting.

All problems related to the level of capacity building and application of SNK/SKK, are related with the opportunities that are provided to experts of tax authorities and professionals of accounting for different training concerning necessary accounting knowledge. Besides, in the question related with that on is it necessary training of tax employees and independent accountants with accounting knowledge, we have these data: From independent accountants 98% are declared for necessity of the training, tax employees 97%, businesses 93% (see the diagram5).

Diagram 5



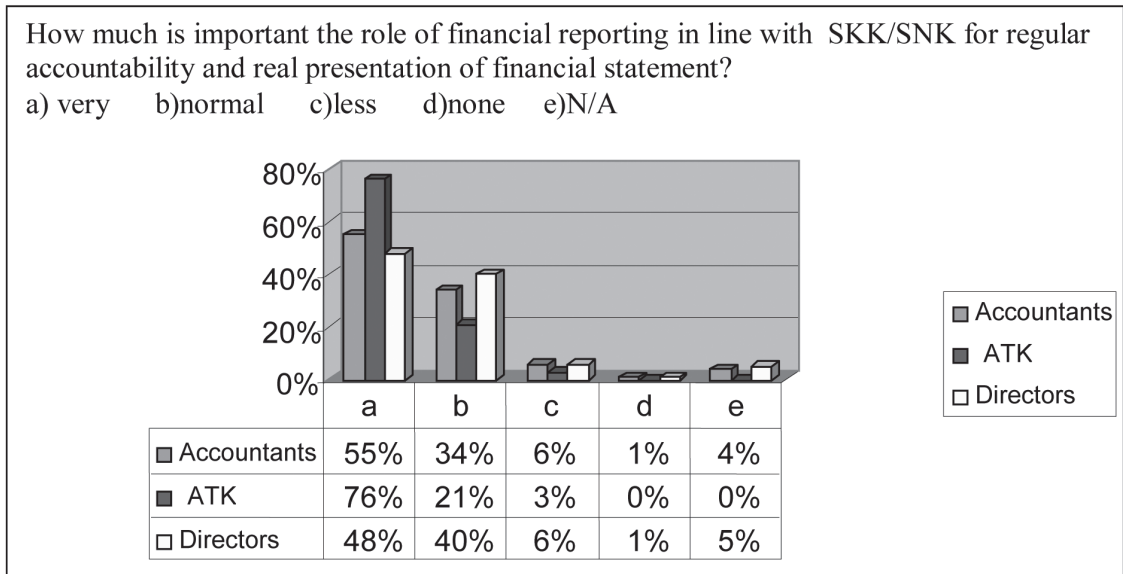
As we can see the training are needed for exercising the accountability profession, not only for those that are having this profession, but also for existed professionals. In this relation I would like to emphasize the fact that one of the request is *asquis communautaire*⁴, that should be implemented in Kosovo as well , and which is justified from the data on the diagram, that shows continuity of developing further profession, that will ensure protection and gaining new theoretical knowledge, professional capacities and their values. There is no doubt that trainings of this nature are necessity and welcomed any time.

Further, in the question how much is important the role of financial reporting in line with international standards for regular

accounting and real presentation of financial statements, we have these data from the abovementioned categories: accountants, including here independent and those employed in businesses 89% declared that such reporting plays an important role and effect the real presentation of financial statements, where only 6% of them emphasize that such role is smaller. Also 97% from tax employees have positive opinion and 88% from the directors of companies believe in this fact (see the diagram 6).

If we compare the abovementioned data between the accountants, tax employees and directors, it is shown that all of them have positive opinions and approximate percentage of responds that financial reporting that

Diagram 6



⁴ Asquis communautaire – are all laws of Eu . This term is used more from the countries that attempt to join the EU. They should approve, implement and empower all parts of Asquis in order to be accepted for being part of EU.

is developing actually in our country should be in line with international standards, and will help the real presentation of financial statements.

Therefore, from all this, I would like to emphasize that international accounting standardization today is necessity of global economic development, that will increase effectiveness of decision making by raising transparency and security of investments for information taken from the financial reporting. Standardization of accounting in Kosovo is an immediate need and request due to objectives of the Republic of Kosovo for joining European Union and NATO. New requests of accounting in Kosovo are and will be excellent step towards development of one modern financial system.

Conclusions

Economic and political development of Kosovo during the last ten years, that recorded also the transfer into an independent trade economy is associated with generation of new phenomenon's and situations that require solution of issues related to legal regulation of economic, political, aspects and also changes of mentality and culture. Within all these factors for economic development of Kosovo, it is important stimulation of direct foreign investments as well as economic development of the country. In this direction, it is necessary the qualitative and confident financial reporting. For this reason it is necessary regulation of accounting and financial reporting based on the SNK and SKK

Challenges for successfully application of these changes are great and need to be tackled by accountants, institutions that develop account policies, as well as by Kosovar businesses that will implant these regulations of accounting and financial reporting. In the survey it has been shown that the majority of interviewers from the businesses, accounting,

administration employees were positively responded the question for necessity of application of international accounting standards in Kosovo and coherence of Kosovo standards with international ones. This is considered positive fact toward facing this challenge concerning regulations for accounting. I consider that problems and challenges related to implementation of international standards of accounting are not small, and cannot be treated completely in a single research, but acceptance of realizing these standards for Kosovo presents positive step in appropriate period of time. Taking into consideration that many countries opened their doors towards foreign investments and considering that businesses are getting larger beyond the border, the private and public sector in Kosovo are seeing advantages of having framework of financial reports that is understood for all, based on the accounting standards of high quality and globally accepted. These standards are critical points for development of capital market, for returning and increasing credibility on financial reporting.

Besides, the evident of responsibilities for not accepting or not implementing international accounting standards that resulted from the questionnaire, raise the issue if we should always work in the direction of acknowledgment and full application of international and Kosovar standards of accounting in the future, in order to fulfill the gaps in the Kosovar financial reporting, first of all to develop confidentiality of financial statements prepared and published by business community in Kosovo. The level of not application of standards continuously should be reduced, particularly there where their application is possible.

The level of applying accounting standards is very much related to accomplishment of public interests, and this result on public approach into financial statements to protect interest of third parties including here creditors, suppliers, employees etc. This is because the asymmetry between the companies and third parties is being supported on protection of public from the negative possible effects and definitely investors will be more capable to differentiate best and worst possibilities of their investments and their business activities. Particularly at the economic units of public interest, should be taken more direct actions of maintaining the implementation of accounting standards, taking into consideration that financial reporting with international standards will equip policy stakeholders with complete and accurate financial information.

Therefore, we think that in the future we should make more efforts in direction of strengthening status capacities that will direct accounting and financial reporting,

strengthen the developing structures of quality standards of accounting, placing of monitoring mechanisms for continuing further with implementation of standards, increase the number of capable accountants for preparation of quality financial statement etc.

It will be of great interest if there is the particular law for accounting and financial statements that will determine better main direction related to accounting regulation for creating financial statements. Also it should be developed particular regulation related to accounting professions: certified accountants and auditors with the aim of setting right balance between maintenance of these professions by public authorities with the level of their self regulation.


However, it can be concluded that the steps that Kosovo started to undertake towards adoption of international accounting standards are essential for continuous economic development considering the stability of the country and the global economy in general.

ABBREVIATIONS:

1. **IAS (SNK)** – International Accounting Standards
2. **KAS(SKK)** – Kosovo Accounting Standards
3. **BIAS (BSNK)** – Board of International Accounting Standards
4. **BFRK (BRFK)** – Board of Financial Reporting in Kosovo
5. **ACAAK(SHKÇAK)** – Association of Certified Accountants and Auditors of Kosovo
6. **TAK (ATK)** – Tax Administration of Kosovo
7. **SME (NMV)** – Small and medium enterprises

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 6. „*A true and fair view of the principles*“, scholarly articles, abacus, a journal of accounting, finance and business studies.
 7. Kosova – Rosc for Accounting and auditing, *www.raporti* for the assessment of codes and standards
 8. *www.direktiva* – European directive for accounting asque communnatuiare. With this are named all EU laws.
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The Long Term Consequences Of the Phenomenon “Child Abandonment” Caused by Work Abroad

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~ First degree teacher **Mariana Viorica Câmpenescu**

Abstract: One or both parents leaving their home to work abroad brings important modification in the family life. Separation can be a forehand event, and all members of the respective family are familiarized with the change it implies. But many times the separation can be unexpected. The abrupt leave becomes, most of the times, a bitter event for the parents, but psycho traumatic for the child/children. In our country the phenomenon is attentively studied by the social workers, by sociologists, by psychologists, by educators, but what is the share of the economists?! Of course, the analysts are interested in the level of contribution in money of the Romanians working abroad reflected either in the GDP of the native country or of the employer countries. But is it enough?! Shouldn't we indentify and anticipate the work perspective economic consequences of the future active population, coming from families fragmented by life's shortcomings?!

Key words: home alone children, “abandoned children”, psycho-behavioral manifestations, perspective economic consequences.

The changes in a child's life, which happen after one or both the parents leave home to work abroad, are often understood from the point of view of the stages of psychological and social development of the child in relation with the life cycles and the development crisis mentioned in E. ERIKSON's psychosocial development theory (L. Iacob, “The psychology of ages” – class notes, Psychology

and Education Sciences Faculty, “A.I.I.Cuza University, Iasi, 2003). But, thinking about the child's economic evolution, and especially, at the impact it has on “tomorrow's” economy, it can't be let aside – as it still is – the almost inexistent interest of authorities for social support of the separated families, and most of all for the children which remain in the hands of the state, of relatives (in the

best of cases) or even by themselves.

The way in which the child lives and perceives the leave of his parents as life change is influenced by a series of factors:

- Familial factors – the family functionality before and after the parent(s) leaves: relations between the family members; emotional changes and the type of attachment between family members; dynamics of status and roles within the family;
- Factors related to the child – age and psychological characteristics of the child: psycho-social development; his vulnerability; his resistance;
- Environment factors: family and child social support.

Psychological theories and experience in working with home alone children show that an important role is held by the child's level of preparation, information and implication in the parent(s) decision of leaving. He needs to receive insurances in what concerns his physical comfort, the way in which his needs are satisfied and multiple emotional re-insurances. It is important for the child to feel he has a certain control over his new life situation. There are cases in which, the children initially are happy about their parent(s)'s leave abroad, thinking at the small benefits or wishes that would be fulfilled with the money their parents would send. The consequences are not seen because of their immaturity, and their optimism vanishes when they need the adult and they don't find it near.

The home alone children suffer of emotional negligence (together with other forms: nutritive, cultural, educational, medical...) because of the left parent(s), their physical absence diminish their "guard screen" or

overwhelm them by insecurity feelings. If bonds are made between the child and other relatives (grandparents, aunts, uncles, older cousins) before the parents leave, the need for affection is partly covered. Therefore, children find the necessary emotional support in the person that takes care of them.

The experience in working with children left alone in the country and the psychological theories regarding development show that by being neglected, the under age can have the following psycho-behavioral manifestations:

- Deterioration of school activity, decrease in school performances, absenteeism, school abandonment risk, conflicts with teachers and colleagues as a consequence of lack of parent's authority;
- Abandonment, insecurity, sadness, anxiety, depressive states as a result of missing the parent, need for parental affection, appreciation and approval;
- Apathy, stubbornness, which sometimes can lead to an aggressive behavior as result of frustration and need of attention. He considers that these are indifferent to his needs;
- Attention deficit – lack of concentration – children think mostly of the fact that their parents are left, their situation, the moments when they will get in touch with them, their gifts etc.;
- Lack of aspirations on long term or the presence of unrealistic aspirations – for example "when I will grow I will also leave abroad"; "I don't need to study in order to make money". This negative attitude towards education appears and develops because of the models their parents are, that,

even if they graduated from a university, they work abroad as unqualified personnel;

- Deficit of self-esteem, which manifest as follows:
 - Over-valuation towards children that have no money and the way they dress;
 - Undervaluation in relation to their equals, whose parents are present in important events from their lives – school celebrations, parents meetings.
- Tolerance to frustration - too low/high level in the direct relation with the child's adaptation capacity, with his defense mechanisms;
- Lack of motivation – apathy, tiredness which is caused by depression states or determined by the over-charging with adult tasks;
- Adaptation difficulties – light and transitory disorders, reversible and which usually last a few months;
- (Pre)delinquent behaviors – aggressiveness, abuse of drugs, taking part in committing crimes, frequenting clubs and places unfit for their age;
- Suicidal conduct – starting with 2006-2007, cases of suicide were registered between the children whose parents were gone to work abroad. Particularly, this type of suicide is related to the emotional-affective factors and events which are psycho-traumatic for the individual that is not prepared to face them. Children's and adolescent's suicidal impresses by the fragility of its motivation, the lack of knowledge in what concerns the irreversibility of the process. The

analysis of the phenomenon, especially of the motivation, becomes difficult at this age, sometimes being an act of imitation and opposition in front of a difficult moment: the abandonment feeling, the fear of punishment, the failure in school, the impossibility of adaptation to a new and difficult life rhythm, attachment disorders because of the separation from the mother (which creates insecurity feelings), discordance between the subjective representations and the external ones give by the media. The psychiatrist Cornel Marzuk (1992) draws attention over the fact that media's popularization of the suicide is related to the growth in suicide rate. Making known the suicidal conduits grows the risk of imitation in the case of unorganized groups. Making public the famous suicides, as well as the violence scenes develops a suicidal model known as copied suicide.

All the above mentioned elements contributed to establishing a policy regarding the protection of under-ages left alone by parents. The state gets involved, as far as it can and it knows, but it is not enough. It doesn't want or it doesn't have the capacity to understand the perspective consequences of this phenomenon. Especially, when it comes to the economic aspect, it is not sufficient to only make moment expenditures, with precise destination towards "abandoned" children, forced by the needy parents. The state, more than ever, should supplementary invest in them, not only socially, at least starting from a Romanian saying that says "who gives, gives himself". If the government

would have a bird's-eye view on the human potential in our country and if the ones chosen to rule the nation would be more preoccupied on developing a constructive philosophy based on humans, on their present and future needs in the cultural, ecological, economic, educational, social, political etc. context, their actions would be different.

Starting from the hypothesis of an existence which is not abruptly interrupted, elaborating previsions and economic and social plans based on the future active population, the analysis cannot neglect the risks to which are exposed the home alone children. For now, we are talking and taking action only socially. Wouldn't the benefits be more complex and numerous (for the individual and for the society) if we would take into account also the potential effects from the economic point of view?

- Over-charging with tasks – the responsibilities taken over by the adult (housekeeping, paying bills). A child under the everyday problems, normal for a mature person, but totally traumatic for an under-age, will get tired before time. It is not true that the more tasks one person has at an early age, the more resistant will be as a grown up. The speed and the requests of our times will deteriorate prematurely the organism and the psychic of tomorrow's young person. Those persons will not wish to get involved in more tasks, but they will run away from more responsibility, and the need to gain more by honest work, appreciated by others almost disappeared at the beginning of this millennium. Under these conditions, what would

be the benefits of an organization that would employ a before time tired person?!

- Vulnerability to abuses – physical, psychical, sexual, work exploitation, traffic of children and prostitution. What kind of activity would be able to accomplish a youngster to steps in the economic world with traumas? How would he be able to see his colleagues as work partners and not as oppressors? Why work to enrich others? What would his reaction be when a superior would shout at him? For what reasons would he be able to control himself under stress or mobilize to overcome the crisis situations at work?!
- Development insufficiency of independent life skills (necessary to stand the difficulties of a grown up) – independence in taking decisions, trust in their own abilities, skills in managing time and money, relationing and communication, emotion control and expression. The lack or the unsatisfying presence of these skills is negatively reflected in the capacity of working in team, of leading the team, of realizing a performance, of valorizing the people taking part at it... Also, either in the position of a simple employee he won't be able to grow professionally, because he will never dare to express his ideas, his initiatives, he won't even think that he could decide independently. What economic agent would invest in the professional formation of a timid person, who is not able to recognize his own potential and who does not desire to evolve?!

- The defective acquirement of ethical and moral norms – in the absence of a functional familial model, of a safe and coherent environment, home alone children can import the emotional negligence model which is present in his family to subsequently apply it at his adult age. After failing professionally, what successes can he have in his family, so as the economy can register economic gains?!
- Early sexual life – adolescents seek for affection and appreciation when they need it not only from their friends but also in intimacy. The lack of a proper education regarding the sexual life, the absence of surveillance, over-charging with tasks can lead to intimacies, escapes from home, concubinage, behavior that can lead to unwanted pregnancies or sexual diseases. Where would be the earnings in money?!

At present, the interest in children who remain home alone after their parents leave to work abroad, imposes the elaboration and implementation of protection, recuperation and social reintegration plans. Without militating for stopping the parent's migration in seek for welfare outside the country, ways of protecting the children in difficulty are looked for, starting from the idea that for the home alone children a specific approach is needed. For an efficient management of the respective cases, it is necessary to appeal to different information sources (teachers, policemen, neighbors, advisors, relatives, friend groups), to seek for the professionals and resources they need to identify and repair the vulnerabilities of the home alone children or

to confirm the existence of a secured environment for their development.

In perspective, society's major interest, not only children's, regards a series of social and economic policies based on neutralizing the manifestations caused by the parents' leave for long periods of time to work abroad and the lack of parental care, manifestations such as:

- Misbehavior, deterioration of school activity, physical and psychical degradation which are caused by a superficial education control, by a lack of positive models, by problems of communication or adaptation difficulties. The aging of these children costs society effort and expenditures of all kind. It would be normal that at the moment in which the youngsters coming from temporarily separated families become professionally active to repay the society for the previous investment, but that's something that won't happen. In the best of cases, the number of persons without traumatizing memory from childhood is much under the economic expectations of life.
- Living the abandonment feeling, with repercussions over personality. Mature personalities, whose frustrations deter the understanding of the inner balance, of the psychic and emotional stability, as well as of the support of colleagues and friends are not a source of economic success.
- The way of relationing in school, answering the school requests, verbal or physical violence. Over years, all these transform in difficulties in establishing cooperation organization behaviors, in the spirit of competitiveness

and efficiency, in deficiencies in adapting to the job requests, in incapacity of overcoming situations of tension, conflict and stress.

- Over-charging with responsibilities. Who gets tired in childhood, cannot resist many years of sustained and challenging work.
- Unsolved financial problems, in most of the cases. Often, the problems in

family (bore both by the children who remain in the country and the parents who seek welfare overseas), are, unfortunately, continued, traditionally, in the years when the youngster transforms in an adult. It is valid, not only for the inner storm, but also in the case of money availabilities, always insufficient to compensate the indigence in the early life.

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The Role of Information Professionals in Reducing the Effects of Global Warming through Knowledge Management

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Abstract: As a result of global environmental change, global warming is the greatest environmental challenge in the 21st century. It could lead to the ultimate end of existence of earth and man. Potential catastrophic effects on the environment and for human life are one of the biggest concerns and most widely discussed issues in the world.

This paper will explore how Information Professionals can build knowledge management related to global warming and thus make their contribution towards a sustainable environment. With a brief discussion of causes, effects, solutions and challenges related to global warming, the conclusion suggests a way forward for librarians and information professionals.

Keywords: Informational Professional, Knowledge management, environmental sustainability, global warming.

1. Introduction

Global warming is “gradual increase in the earth’s surface temperature” [1]. It is not an issue limited to Earth, it spans to neighbouring planets, Venus and Mars. Greenhouse gases in a planet’s atmosphere can radically affect the climate. On Earth, the majority of carbon lies in the oceans and rocks. Still, this little carbon dioxide, along with water vapour and other small amounts

of greenhouse gasses can raise the average surface temperature of Earth by around 30°C and without it, Earth would be frozen [2]. The “greenhouse effect” is the heating of the Earth due to the presence of greenhouse gases. It is named after a greenhouse, since a similar effect is produced by the glass panes of a greenhouse.

Climate change and “growth and responsibility in Africa” headed the agenda of the June 6 – 8, 2007 G8 summit in

Heiligendamm, Germany [3]. In 2006, EnviroInfo's 20th anniversary was celebrated in Graz (Austria) and the conference aimed at exchanging environmental knowledge amongst scientists, public administrations, non-governmental organizations, companies involved in environmental informatics, and the end-users of environmental information systems.

Burgeoning information is available on climate change and global warming to make us all aware of what has been happening around the world. Still, many questions need answers: Are we all aware of what we need to know? What are the causes and effects of global warming? What can be done to reduce the global warming? Information professionals can play an important part in answering all or some of these questions and by doing so contribute towards environmental sustainability. This paper is an attempt in this direction namely: how information professionals can manage knowledge related to global warming in order to foster a sustainable environment in Africa. Global warming related information cover the following topics.

2. Causes of Global Warming

There are two major debates on global warning. Some believe global warming is a natural cycle of warming and cooling, while others consider it is an unusual phenomenon. However, the majority regards it as unusual and believes human activities are responsible for global warming [4]. Changes in the Sun and volcanic eruptions do not explain the strong warming in recent decades, when the effects of human-produced greenhouse gases became apparent [5].

Sharing a similar opinion, Langdon [6] confirms that there is "new and stronger evidence that most of the warming over the last 50 years is attributable to human activities". And "The evidence that humans are causing global warming is strong, but the question of what to do about it remains controversial. Economics, sociology and politics are all important factors in planning for the future" [7]. In order to stop the devastating effects of global warming, it is imperative to understand the causes of global warming. The major causes can be summarized as follows:

Solar activity and cosmic rays: These are instrumental in determining the warming (and cooling) of Earth [8]. Cosmic rays trigger cloud formation, and a high level of solar activity suppresses the flow of cosmic rays striking the atmosphere. This results in fewer clouds forming and consequently the planet is warmer.

Carbon Dioxide: Carbon Dioxide is the principal greenhouse gas. Coming from rotting trees, coal burning, natural gasses and any other gas emission, it pollutes the air in the atmosphere and as a result, causes global warming. Carbon dioxide traps the sun's heat and makes the planet warm. About 33% of U.S carbon dioxide emission comes from the burning of gasoline in internal-combustion engines of cars and light trucks. Vehicles with poor gas mileage contribute the most to global warming. In the U.S. coal-burning power plants are the largest source of carbon dioxide, which produce 2.5 billion tons carbon dioxide every year. Buildings structures emit about 12% of carbon dioxide [9]. Aviation (airplanes) causes 3.5% of global warming, and the figure is estimated to rise 15% by 2050 [10].

Methane: Methane is the primary component of natural gas and an important energy source and second most important greenhouse gas after carbon dioxide. Its concentration in the atmosphere has almost tripled in the last 150 years [9]. Its presence in the atmosphere affects the Earth's temperature and climate system. It is short lived in the atmosphere (9-15 years), yet its global warming potency is 20 times more effective than carbon dioxide in trapping heat in the atmosphere. Reducing methane emissions will lessen climate warming in a short time. Human-influenced sources of methane include landfills, natural gas and petroleum production and distribution systems, agricultural activities, coal mining, stationary and mobile combustion, wastewater treatment, and certain industrial processes. About 60% of global methane emissions come from these sources and the rest are from natural sources [11], including wetlands, termites, oceans, and hydrates [12].

Traditional cooking stoves: According to US scientists 'traditional cooking stoves used in developing countries may have a much greater impact on global warming than expected, as they emit more harmful smoke particles than previously thought'. At the same time, researchers at the University of Illinois revealed that more than 80% of families cook their meals over open wood fires in Honduras. Furthermore, a report published in the American Chemical Society journal 'Environmental Science & Technology' maintained that stoves produced twice as many smoke particles than had been predicted by previous laboratory studies [13].

Water vapour: Water vapour is the most prevalent and most powerful greenhouse gas on the planet. It is increasing due to

warming caused by carbon dioxide, methane and other greenhouse gases. It contributes to the Greenhouse Effect and leads to global warming. Water vapour makes up 60% of the greenhouse gasses; 20% is carbon dioxide and the other 20% nitrous oxide, methane, ozone and other varieties of grasses [14].

Greenhouse gas emissions: Many chemical compounds found in the Earth's atmosphere act as "greenhouse gases." These gases allow sunlight to enter the atmosphere freely. When sunlight strikes the Earth's surface, some of it is reflected back towards space as infrared radiation (heat). Greenhouse gases absorb this infrared radiation and trap the heat in the atmosphere. Over time, the amount of energy sent from the sun to the Earth's surface should be about the same as the amount of energy radiated back into space, in order to leave the temperature of the Earth's surface roughly constant. Many gases exhibit these "greenhouse" properties. Some of them occur in nature (water vapor, carbon dioxide, methane, and nitrous oxide), while others are exclusively human-made, such as gases used in aerosols [15].

Human activities: According to Global-Warming.lesinth.com [4], the following human activities cause global warming:

- a) *Driving a car* sends out emissions of carbon monoxide. An average car annually produces 22g CO for every 12,500 miles driven [16], which is multiplied by other vehicles. Motor vehicles generate three major pollutants namely hydrocarbons, nitrogen oxides and carbon monoxide. Hydrocarbons react with nitrogen oxides in the presence of sunlight and can cause eye irritation, coughing, wheezing, and

shortness of breath and can lead to permanent lung damage. Nitrogen oxides also contribute to the formation of ozone and contribute to the formation of acid rain and to water quality problems. Carbon monoxide is a colorless, odourless, deadly gas. It reduces the flow of oxygen in the bloodstream and can harm mentally and visually. In urban areas, motor vehicles produce up to 90% of carbon monoxide in the air [17].

- b) *Deforestation* i.e. cutting down large amounts of trees decreases the curative abilities of forests. Trees need carbon dioxide to live, cutting off large trees in one place imbalances the volume of carbon dioxide. The remaining trees can't absorb all of the carbon floating in the atmosphere. Hence, the carbon rises in volume in the atmosphere and causes global warming. For example, Burundi produces (47.6%), Nigeria (31.1%), and Uganda (21.1%) carbon dioxide. Reasons for deforestation are: clear-cutting for charcoal production; large roads and infrastructure projects, wildfires that destroy the forest canopy, dam construction, volcanic eruptions, chemical defoliants; and, urban expansion etc.
- c) *Chemicals* like methane and nitrous oxide when used for different purposes, e.g. rearing of domestic animals such as cows in a congregated mass or the growth of rice in flooded paddy fields, use of artificial fertilizers, can cause global warming.
- d) *Carbon dioxide* is produced by human activities when coal, oil, and

natural gas (fossil fuels) are burned to produce energy used for transportation, manufacturing, heating, cooling, electricity generation, and other applications.

- e) *Changes in land use*, e.g., clearing land for logging, ranching, and agriculture, also increases carbon dioxide emissions [18].

3. Impact of global warming and climate change.

The major global impacts are discussed below:

- **Spread of disease:** As northern countries warm, disease carrying insects migrate north, bringing plague and disease with them, where malaria has not been fully eradicated [19].

- **Warmer waters and more hurricanes:** hurricanes get their enormous energy from warm waters, so the warmer the water, the more fuel a storm has to either start up or get stronger. This is how there have been more hurricanes in the past decade and will continue increasing [2].

- **Increased probability and intensity of droughts and heat waves:** some areas of Earth will become wetter and others will suffer serious droughts and heat waves due to global warming. Africa will receive the worst of it, with more severe droughts. Water is already a rare commodity in some parts of Africa. According to the Intergovernmental Panel on Climate Change, global warming will aggravate the conditions and could lead to conflicts and war.

- **Economic consequences:** for instance, hurricanes cost billions of dollars in damage, diseases cost money to treat and control and

conflicts all will have major adverse effect on economy.

- **Polar ice caps melting:** dangerous in four ways. First, it will raise sea levels. There are 5,773,000 cubic miles of water in ice caps, glaciers, and permanent snow. With the melting of these glaciers the sea level would rise. Second, melting ice caps will imbalance the global ecosystem. The ice caps are fresh water, and when they melt they will desalinate the ocean. The desalinization of the gulf current will disturb ocean currents, which regulate temperatures. Third, temperature rises and changing landscapes in the Arctic Circle will endanger several species of animals. Fourth, global warming could increase with the ice caps gone. Ice caps are white, and reflect sunlight, much of which is reflected back into space, which further cools Earth. If the ice caps melt, the only reflector is the ocean. Darker colours absorb sunlight, and that will further warm the Earth [21].

- **Greenland's Melting & higher sea level:** Greenland is melting at a rate of 52 cubic miles per year. If Greenland's entire ice melts, it would lead to a global sea level rise of 21 feet [22].

- **Giant "Sand Seas" in Africa:** Global warming may unleash giant "sand seas" in Africa, in places where there is no vegetation. Shortage of rainfall and increasing winds may "reactivate" the now stable Kalahari dune fields [23].

- **Florida's National Marine Sanctuary in Trouble:** Global warming is "bleaching" the coral in the Florida Keys National Marine Sanctuary, killing the coral and local fish that live among the coral for protection, and therefore also having an adverse effect on tourism [24].

- **Oceans turning to acid:** When CO₂ gas dissolves into the ocean it produces carbonic acid "If CO₂ from human activities continues to rise, the oceans will become so acidic by 2100 it could threaten marine life in ways we can't anticipate," [25].

- **Rivers are drying up:** the sacred Ganges River in India is beginning to run dry. Many climate scientists already predict that less rain will fall annually in parts of Africa within 50 years due to global warming. Geologists recently projected a 10% to 20% drop in rainfall in northwestern and southern Africa by 2070. That would leave Botswana with just 23 percent of the river water it has now; Cape Town would be left with just 42 percent of its river water [26].

- **Volcanic eruptions:** British scientists warn of another possible side effect of climate change - a surge of dangerous volcanic eruptions [27].

- **Death by smog:** According to Canadian doctors smog-related deaths could rise by 80% over the next 20 years [28].

- **More heart attacks:** global warming will bring with it more cardiovascular problems, such as blockage of heart's arteries.

- **More mould and ragweed meaning more allergies and asthma** [29].

- Spread of Dengue Fever

- Starvation & famine because global warming affects agriculture [30].

- Increased border tensions and National Security problems due to increased number of refugees [31].

4. Issues of global warming specific to Africa

Global warming poses even greater risks to some nations, particularly developing

countries, including Africa, and low-lying countries where sea level rises will cause significant damage.

The issue of global warming has been receiving serious recognition in Africa since the report "Africa - Up in Smoke?" was released and now it is a major concern. It is felt that "any benefit from more aid to Africa will go up in smoke unless rich nations halt temperature rises that are robbing rainfall from a continent reliant on small-scale farming" [32]. G8 nations have failed to "join the dots" between climate change and Africa and unless global warming is checked, development gains will disappear. Due to global warming, Kenya's economy would be affected enormously, as the tea growing climate will become unsuitable - tea provides nearly a quarter of the country's export earnings. Southern Africa - Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe - could lose about 30 percent of their main crop of corn [33]. The sea level around the coast of Africa is projected to rise by 25cm by 2050 and East Africa's coastal zone will also be affected. The ice-cap on Mount Kilimanjaro has shrunk by more than 80% since 1900. East Africa's coral reefs are also in danger of disappearing.

All of these call for a new model of development in Africa, in which strategies to increase human flexibility to cope with climate change and the stability of ecosystems are central. "If carbon pollution is left unchecked, climate change will have a pervasive effect on life in Africa. It will threaten the people, animals and natural resources that make Africa unique" [34]. Therefore, "It is important to understand that Africa and climate change are intrinsically linked, as climate change

will affect the welfare of Africans for years to come" [35]. Western countries have a moral duty to act over global warming; these countries have been emitting greenhouse gases more than other countries" [35].

Global warming has confronted Africa with several challenges; the major Africa specific challenges may consist of:

- Malaria, cholera prevalence: Malaria is climbing the mountains to reach populations in higher elevations in Africa. Cholera is growing in warmer seas. Dengue fever and Lyme disease are moving north. The higher elevations of Africa, the Andes mountains in South America and the Alps in Europe are warming at a faster pace than lowlands [36].
- Intense flooding and droughts;
- Intrusion of saltwater in freshwater zones;
- Rise of sea levels [37].
- Extreme weather; increased rainfalls at high latitudes and drops in the tropics [38].
- Deforestation;
- Shortage of water;
- Giant "Sand Seas" in Africa with no vegetation;
- Famine and starvation;
- Increased border tensions and National Security due to more migration.

5. Possible solutions to prevent global warming and green gas emissions

Once knowing the causes and effects of global warming, it is critical to come up with solutions to thwart it. According to the report, "Africa - Up In Smoke?" African poverty

and climate change are inseparable; the first cannot be solved without the second. Global warming will hit Africa badly. If greenhouse gas emissions continue unchecked, the global average temperature will reach 2°C above pre-industrial levels by 2050. The first impacts to be experienced will be droughts and floods, as rainfall increases at high latitudes and drops in the tropics. Some glaciers will disappear, though crop yields in some countries could rise, scientists believe [39].

The more people realize its importance, the sooner the spread of global warming can be hampered. These causes are warnings to us to change our ways of living. Application of knowledge management is an important tool, which can be used by information professionals to help inhibit or minimize the effects of global warming. Some of the possible solutions to prevent global warming are:

- Reduction of pollution from vehicles and power plants; by increased reliance on renewable energy sources such as wind, sun and geothermal. If you can't afford to buy a new car fuel-efficient, reduce the use of a car, car-pool to work or ride the bus, walk or ride a bike for short distances. Energy efficiency is the cleanest, safest, most economical way to restrain global warming.
- "Reduce Reuse Recycle"; Reuse of all is the easiest and the best way to recycle. Save containers, bags, anything you can use in the future. Also, the use of toilet and cloth napkins instead of paper, and the use of rechargeable batteries instead of disposable ones. Recycle is only effective if people purchase products made from recycled materials [40].
- Reduction of carbon footprint! Africa's "carbon footprint", the total amount of carbon dioxide and greenhouse gas emission is far smaller than other continents; still she is blamed for Africa's current rainy disaster. She has to reduce carbon footprint in order to reduce the global carbon dioxide gas emission [38].
- Organise more educative events like African Pavilion fair to market use of organic products [41].
- Development of new crop varieties and expansion of irrigation [42].
- Re-think of aid policies for Africa in terms climate change; because the continent is uniquely vulnerable to it [32].
- Rich countries must cut their greenhouse gas emissions further, far beyond the targets laid down in the Kyoto Protocol [32].
- **Use clean wind and solar energy:** Harnessing the clean, abundant energy of the sun and wind is critical to solve the global warming problem. Solar energy technology has made remarkable progress. New photovoltaic cells can convert greater amounts of sunlight directly into electricity. Today the costs of wind and solar power are compatible with coal-fired plants [43].
- **Light bulbs replacement:** Replacement of a regular light bulb with an energy-saving model can minimise a considerable amount of global warming.
- **Think before you drive:** Use the less fuel-efficient vehicle and join a carpool.

- **Plant a tree:** By planting a tree one can make a difference, it will store carbon, provide much-needed shade in the summer, and reduce energy bills and fossil fuel use.
- **Let policymakers know about your global warming concern:** It is important to network with policymakers to ensure they get timely and accurate information in order to make informed decisions about global warming solutions [44]. This may encourage government for increased initiatives to adapt climate change.

6. Conclusion

Based on the ongoing debate on global warming and environmental sustainability, this paper appeals to all informational professionals and librarians to revisit their moral values and attitudes concerning the natural world and other damaging affects of global warming and to contribute towards a sustainable environment by improving accessibility of information about the related issues. Meeting the challenges of global warming will require the following sustained effort over decades:

- Governmental efforts should establish and implement cutting edge climate policies and make them reach the public;
- Industrial efforts must innovate, manufacture, and operate under a new paradigm based on climate change threshold;
- Public efforts to adapt and transform to a more climate-friendly lifestyles, such as, reduction of pollution from vehicles and plants; by increased

reliance on renewable energy sources; develop energy provision that does not rely mainly on burning fossil fuels such as coal, which increase carbon pollution (Pew Center on Global Climate Change, n.d.).

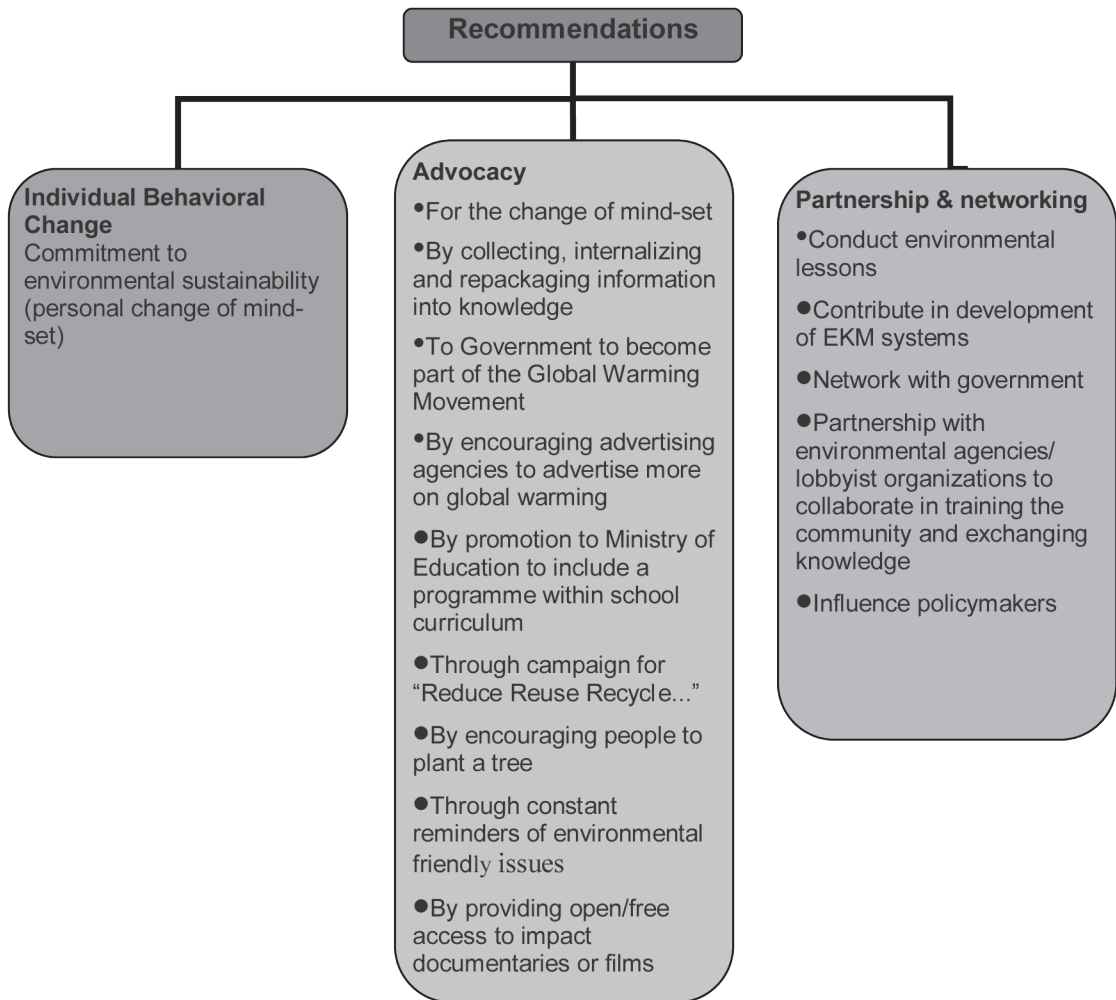
- A rethink of aid policy for Africa in terms of climate change;
- Development of environmental management system (EMS); and,
- Development of Environmental Knowledge Management (EKM) systems to filter relevant and useful information on environment and make it reach to public.

All of us contribute to global warming, so we all need to be part of the solution and participate in the above mentioned solutions. If all information professionals can take a pledge to educate and familiarize a larger number of fellow humans who are not aware of global warming causes, effects and solutions, it will reduce the amount of heat-trapping gases that we emit into the atmosphere and the amount of fossil fuels we use and consequently, lead the world towards a sustainable environment. In the absence of it, people would continue to be inadvertently destructive to the environment by their activities and misconceptions about their living style. "To make the information reaching an individual relevant and useful, KM systems generally include a capability to filter information. Environmental Knowledge Management (EKM) systems can intelligently filter environmental knowledge and deliver it to key market actors. Establishing the right knowledge networks is essential to making an EKM system work [46]. By becoming an integral part of global warming knowledge

management, information professionals can revolutionize the dissemination of that information, taking information to all reaches of

society and thereby, have a positive impact on global warming. This can be realised in the following ways:

Figure: Recommendations for Information Professionals



- By changing mind-set of people about style and standards of living through creating awareness of global warming causes, effects and possible solutions using web 2.0 techniques and other medias, such as; personal visits, seminars, exhibitions, videos, radio etc.;

- By collecting, internalising and repackaging information into knowledge to make it reach everyone in the community in a most accessible; user-friendly and understandable format);

- By facilitating the acquisition of a voice for environmental sustainability; where

everyone appreciates the need to watch-out for environment pollution;

- By advocacy to Government to become part of the Global Warming Movement and reduce carbon dioxide emissions now;

- Encouraging advertising agencies to advertise more on global warming and possible solutions on the most popular channels by including more anecdotal features on environmental issues;

- By promotion to Ministry of Education to include a programme within the curriculum of schools, starting from primary to educate children on global warming;

- Campaigning for "Reduce Reuse Recycle";

- By encouraging people to plant a tree and asking one to plant a tree;

- By influencing policymakers to make them aware that you are concerned about global warming and encourage them to take more interest in these issues and make policies based on firm and informed decisions.

- Through constant reminders of environmental friendly and unhealthy issues;

- Questioning the validity of unhealthy chemical producing material, such as wrapping clingfilms and related law,

- Commitment to environmental sustainability; people are willing to adapt to an environment-friendly in day to day life;

- By making environmental lessons on how to reduce pollution and emission of carbon footprint simple and easily comprehensible and facilitating local or mobile training centres.

- Through contribution in development of Environmental Knowledge Management (EKM) systems;

- By networking with government to influence aid agencies' policies

- Through partnership with environmental agencies / lobbyist organisations to collaborate in training the community, and exchanging knowledge.

- By providing open and free access to impact documentaries or films such as the Al Gore film.

Finally, the paper concludes with Harfagar's words [47], which place a strong emphasis on the formative role of the library. Formation is "knowledge that you internalise and carry with you to have a more meaningful impact on the community, such as one who studies up on the roots of global warming and effects a more lasting change".

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The Role of the Assistant Manager in Contemporary Economy

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Abstract: This paper represents an incursion in the problematic of the secretariat activity and managerial assistance in the contemporary administrative system, seen as a general – particular analysis in which from a general perspective regarding the secretariat and managerial assistance activity and its role we then analyse the practical secretariat practices.

In addition to presenting the activity of the assistant manager, which has already been standardized (circulation and writing correspondence, documentary and archive operations, and so on), special attention has been paid to “connecting” any action of the assistant manager to real actions of the manager, taking into consideration the condition of complementarity which is specific for this relation.

Keywords: bureautics, secretariat, assistant manager, new economy

The automatizing of informational and communicational technologies has created multiple and irreversible changes in the economical and administrative activity, which has caused the continuous improvement of the human factor for the efficient use of these technologies. Bureautics appeared as an answer to all necessities and it represents “the totality of informative and teleinformative techniques, concerning the automatizing of

secretariat and administrative tasks, of office activities”.¹

Contemporary economy is dominated by global influences and increasing speed of communication and information. In special literature, it is considered that its basic characteristics are globalization and digitalization. Authors working in this domain treat the new economy almost only from the point

¹ *Le petit Larrousse*, Larrousse Press, Paris, 2002;

of view of informatics and international relationship. Considering these aspects, the needs of the good management can be felt at any organizational level, no matter the activity field, under many aspects, some of which are: grater necessity to offer new information, growth of productivity for office activities, adopting a decentralization technique and also using the facilities in informatics, telecommunications and telematics .

About **secretariat**, as a function in contemporary administrative structures, we can talk beginning with the industrial era, which was characterized by the acceleration of work division. Secretariat is generally defined as "the service that intensifies the work of the manager in all functional aspects, contributing to the rational organisation of the activity of superior managers in the firm or a group of specialized people, with complex individual activities and tasks, reunited under a hierarchic authority".² Also, the effective use of the secretariat is an essential way of amplifying the effectiveness of the managerial work. Thus secretariats have become real "communicational knots"³, with the role of offering optimal conditions for the realisation of operational and effective contacts by the manager. Contemporary secretariats work in any system, in any type of organisation, at any level and in any field of contemporary life.

The secretariat activity is structured in specialised compartments and has a large generalisation. It takes place at different levels, in central organs of state administration, local representatives of central administration, as well as at the level of economical

agents and units with different profiles.

The secretariat activity in the system of public administration has certain particularities which are different from those of private administration, as a consequence to the fact that the management of public institutions and the organisational structure are different from those of private organisation.

The role of secretariat in the context of contemporary economy endorses two major aspects:

► "Interface of the management with the personnel and with people outside the institution

► A geminating of auxiliary directions through taking over specific attributions at compartment level. The secretary takes over a series of attributions regarding personnel, administrative activities, public relation activities"⁴

Nowadays, two concepts regarding the secretariat activity can be identified: the secretary and the assistant manager. The **secretary** is considered "the person with enough knowledge about the management activity and the sphere in which it takes place, in order to be able to make decisions, to give instructions and represent the executive in different situations".⁵ Once with the introduction of the concept of management, the term of secretary seems to be replaced by **assistant manager** in what concerns private firms. In the organisational structure of a firm, the position of assistant manager represents a superior professional step, implying

² Nicolescu, Ovidiu; Verboncu, I., *Management*, Bucharest: Economic Press, 1996, page 165;

³ Pariza, Maria, *Secretariat and managerial assistance course*, Bucharest: C.H. Beck Press, 2008, page. 6;

⁴ Vârgolici, Nina, *Secretariat and managerial assistance techniques*, Bucharest: Bucharest University Press, 2004, page. 8;

⁵ Pariza, Maria, *Secretariat and managerial assistance course*, Bucharest: C.H.Beck Press, 2008,page. 8;

“responsibilities outside the context of professional abilities characteristic to traditional secretariat”.⁶ There are situations in which the post of assistant manager is closer to that of manager, “executive assistant” being the second person in the executive chain. The position of assistant manager implies economical, management, marketing, administrative law, social psychology, public relation and communication knowledge. As a consequence, unlike the secretary, the assistant manager is a part of superior hierarchic structures, as a first subordinate, and at the same time a close assistant to the manager.

The work of the assistant manager is quite complex and varies depending on the position, the activity field, the level of responsibility and the size of the organisation. Independent to these criteria, a great deal of qualities and abilities are required.

In a secretariat, the work of the assistant manager involves a complex of activities:

- Administrative activities such as: processing and sending messages, writing in shorthand, multiplying and classifying documents, registering correspondence;
- Activities included in the description of the position, such as: documentation, correspondence, protocol, organising celebrations;
- Activities developed by their own initiative, such as courses for subordinate secretaries.

Nowadays, the assistant manager holds an indispensable position for the good functioning of the organisation of which she/he is

a part. He works for others, his work is put to use for other people's work. The profession of assistant manager is not an independent work; the assistant manager is always connected to a certain person or a certain department. Taking into consideration the condition of being complementary, directed towards the same purpose, the relationship between the assistant manager and the manager involves a strict organised and synchronized collaboration. The assistant manager must inform the manager correctly, fully and on time. The adopted decisions and the transmitted injunctions must be understood correctly, with exactness and responsibility. “An ideal assistant manager must gradually get to know his manager so well as to predict his intentions and anticipate his reactions, thinking like him and maintaining his one's own personality”.⁷ In time, the assistant manager becomes a direct auxiliary and indispensable to the manager, more than that, he is an extension of his position. Long experiments have proved that continuous dialogue, the quality of communication, are the fundament for creating a better collaboration between the manager and his assistant. A study made by Panasonic Industrial Company and Professional Secretaries International on the activity of 4000 secretaries has emphasised the fact that 70% did not communicate enough with the manager, 50% were not well informed on the global problems the firm has to deal with, 36% of them did not know their tasks.

The relations of the assistant manager with the other departments inside the organisation are relations of cooperation, thus

⁶ **Pariza, Maria.** *Secretariat and managerial assistance course*, Bucharest: C.H.Beck Press, 2008, page. 9;

⁷ **Pariza, Maria,** *Secretariat and managerial assistance course.*, Bucharest: C.H.Beck Press, 2008, page. 12;

solving a series of spontaneous professional problems which occur with certain periodicity. These relations are spontaneous, caused by the necessity of commune elaboration of paperwork, being later confirmed officially. The role of the assistant manager is that of assuring the conditions for a good deployment of the relations with other external firms.

Thus, the assistant manager is the one to contribute to the public image of an organisation. He is the first person to come in contact with the representatives of the relation environment of the organisation. The assistant manager can greatly influence the image of the organisation he represents. A favourable image leads to the increase of public trust and thus to benefit growth. The requests addressed to the assistant manager are various, including simple information, releasing documents, even complex situations of communication in the absence of the manager. The manner in which visitors are regarded, the manner in which certain information are communicated to them, the way in which the secretary addresses the clients transmit something about the demands of the organisation. Practice confirms that an elevated, consequent and level-headed behaviour can influence any person the assistant manager comes in contact with.

Current studies in management insist upon the effectiveness and efficiency of managerial work. The diminution or elimination the causes which induce deficiency imply taking action in various main directions:

► „Scientifically programming and organising of managerial work

1. *Respecting a set of programming and organising rules* (difficult and important problems are to be solved in the first hours of the

morning, and less important problems are to be solved to the end of the day; efforts are to be concentrated on key problems, which determine the success of a certain field);

2. *Using a diversified work programming instrument* (the use of methods, techniques and work programming means such as daily and weekly activity programme, daily and weekly activity graphics, problem file, is recommended);

► Rational organising of work

Considering that the main raw material of an assistant manager is information, the insurance of good work conditions is necessary.

► Optimising collaboration with other compartments

The key factor for a better collaboration between the assistant manager and personnel in other departments is permanent communication, put across by:

- building trust between parties involved;
- establishing clear missions and purposes;
- conducting active decision processes.”⁸

The work of an assistant manager involves activities that excuse the manager from a series of routine actions which are only administrative, thus contributing to the rational use of working time, but also activities which ensure accurate manipulation of information at management level and last but not least activities which ensure preliminary conditions for the fruition of efficient and operational contracts by the manager in organisational

⁸ Adaptation REUTER – GARJENS, Margit; BEHRENS, Claudia. Secretariat and managerial assistance manual. Bucharest: Technical Press, 2001, page. 289;

communication in all forms and under all aspects. All these activities lead to delineating the main tasks an assistant manager fulfils inside an organisation, which are:

- 1) The task of handling information and documents;

- 2) The task of communicational liaison and "filter";
- 3) The task of representing;
- 4) The task of direct assistance of the manager.

„The task of handling information and documents“	“The task of direct assistance of the manager”
<ul style="list-style-type: none"> - receiving and sorting mail; - internal distribution and sending long distance mail; - providing information and communicating management decisions; - writing mail; - saving information and keeping the documents which are useful to the leader (classifying, archiving, indexing); - saving information and keeping the documents which are useful to the manager; - providing materials for visual communication; - writing reports, abstracts, translating; - providing materials necessary in the elaboration of projects; pregătirea unor materiale necesare pentru elaborarea unor proiecte; 	<ul style="list-style-type: none"> - participating in organising the manager's activity by programming different meetings, daily renewing the agenda, laying down calendars of tasks and works, supervising the development of deploying works and informing the manager on digressions and dead lines; - direct assistance in business meetings, reunions; - fulfilling administrative tasks (administering equipment, performing primary accounting operations, respecting ergonomic rules, etc).
The task of representing	The task of communicational liaison and "filter"
<ul style="list-style-type: none"> - Preparing discussions with outer persons; - Receiving visitors and assuring a pleasant environment; - Accurately directing and informing the visitors in the absence of the manager; 	<ul style="list-style-type: none"> - Ensuring phone connections in all communicational directions of the organization; - „Filtering“ the requests for direct and indirect contacts with the manager; - Monitoring the direct requests and phone calls in the absence of the manager and informing him on the matter; - Keeping evidence of phone numbers and useful addresses;”

Leadership as a task of the assistant manager

The assistant manager is the main responsible for the success of the organisation.

► Conducting discussions and the technique of negotiation

The assistant manager negotiates with external service offers (travelling agencies, hotels, seminary offers, caterers, and so on).

► Motivation

The assistant manager represents a communication bridge for problems that may occur between employers and employees. He is put in the situation of intermediating in individual cases, acknowledging the proof of harassment and the phenomenon of internal resignation.

► Handling information

"The assistant manager uses as an information communication central the technical possibilities of the Internet and of the continuous development of networks – and the possibility of having permanent access to an unimaginable variety of information and the ability of processing".⁹

► Administrating meetings

The assistant manager prepares the meetings, hosts them and pursues the deference of conventions. There are also cases in which he also puts up control dates in order to avoid loss through frictions and in order to guarantee cooperation.

► Administrating projects

The assistant manager takes up positions regarding the composition of teams and the collaboration between employees inside projects. She/He ensures professional and

organisational continuity even beyond the time limits of projects.

► Replacement task

As standing in for the manager, the assistant manager decides if matters are so important as to inform the managers – whether it can wait until the manager's return or if it must be transmitted to a third party.

► Management function regarding tasks

"The assistant manager takes over from the chiefs functions of partial leadership which are delegated by the manager; for example, coordinating travelling activities and approving the ability to give dispositions when the employees must be informed out of acceptance reasons."¹⁰

► Administrating time and work techniques

Through the own appliance of time administration and work techniques, the assistant manager must be able to handle his own work amount and support the managers in increasing the efficiency of time administration.

► Control functions

"The assistant manager supervises business transactions and respecting dead lines by the managers, employees and outside service providers."¹¹

According to a study of Fraunhofer on **the role of the assistant manager from the contemporary economy perspective**, it confirms the fact that the traditional secretary, the one to elaborate, process and administrate documents upon a model during more than half of her work time, spending the rest

⁹ Klein, Barbara. *From secretariat to office management*. Wiesbaden: Deutscher Universitätsverlag Press, 1996, page. 37;

¹⁰ Reuter – Garjens, Margit; Behrens, Claudia. *Secretariat and managerial assistance manual*. Bucharest: Technical Press, 2001, page. 293;

¹¹ *Ibidem*

of her time answering phone calls, is slowly but surely to disappear. Also regarding future secretaries, three opinion tendencies have been expressed.

A first tendency considers that the role of the assistant manager is overwhelmed and will eventually disappear. Arguments for this trend are in close connection with the evolution of computers.

The second tendency contradicts the first one and argues that the role of the assistant manager is in continuous growth and neither the computer nor other technical discoveries will manage to replace it.

The third tendency alleges that in the future the assistant manager will overcome her current professional statute and that her role will involve her in paraprofessional activities. This tendency brings in the foreground a new concept, that of administrative manager.

Conclusions

In what concerns the profession of secretary in Romania, it represents one of the most exposed to transformations after 1989, once with the breaching of improved office equipment and multiple changes brought about in managerial politics. Under these circumstances, numerous professional training possibilities have been created in the Romanian educational system, which are compatible with the educational system in European countries.

Nowadays, we are witnessing an orientation of secretariat work towards efficiency and increased complexity, which means going over from the traditional secretary to the assistant manager. As a synopsis, such an orientation is materialized in the following aspects:

Comparison Element	Traditional Secretary	Assistant Manager
<i>Work complexity</i>	Given and unknown	In growth and continuous dynamics
<i>Operations</i>	Attained repetitively, in routine conditions	Based on standards and new challenges
<i>Relation with the manager</i>	Subordination and execution	Coordination and collaboration
<i>Decisions</i>	Regarding self managing of documents	Regarding more complex activities, beyond the secretariat activity limit
<i>Communication abilities</i>	Standard formulas	Extended
<i>Work efficiency</i>	Limited	In growth
<i>Unrolled activities</i>	In conditions of self managing the time	In situations of managerial performance of secretariat activities
<i>Free initiative</i>	Limited	In development
<i>Unrolled processes</i>	Following rules and procedures	According to clear standards and activity easing principles
<i>Career development</i>	Interest limited	Permanent preoccupation

The ideal assistant manager must prove “the sense of a diplomat, the modesty of a mule, the adaptability of a chameleon, the punctuality of the sun, the speed of light,

the loyalty of a sister, the skin of a rhino, the mind of Einstein, the understanding of a mother and the patience of Hiob”.

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