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From Overproduction to Normality

Numerous causes stand behind the current economic crisis, generating domino effects over the society, the impact of which is difficult to assess.

Nowadays civilization has reached a point where „THE MEANS TO AN END“ has distorted to such an extent the relation between people and their environment, that we have lost our ability to recognize such, and even to recognize ourselves. Greed and stupidity have become the elements of a system in which multinationals manage to subject people to permanent pressures, such that they would enter the carousel of loans and consumerism. Reckless resources use has caused devastating effects which no longer can be annulled in the current context, because their causes are profit generators for the large multinationals, which have no interest in eliminating them. We are permanently facing a hilarious media show in which pieces of truth are introduced, that create a pseudo-reality where people play the role of Pavlov's dogs. The current crisis is also an overproduction crisis because technology provides incredible possibilities for producing impressive amounts of products and services. The increasing speed by which production cycles are reinitiated has contributed to the overheating of the world economy and to severe environmental issues.

Replacing the current context with a new one in which balance to exist between:

- Offer and demand*
- Income and consume*
- Income and investments*
- Use of resources and production*

would give people the chance of saving the environment and the possibility to survive.

The normality status will create the conditions for man's permanent development. The age of appearances in which we live must be transformed into an age of reality, where people would take over from large multinationals the environmental management responsibility. „Good“ can no longer be done by force, and that is why each individual is entitled to take part in creating the social Wellbeing.

Prof. Ph.D. Paul Marinescu

Mentoring and coaching on an organizational level

~ Ph. D. Professor **Paul Marinescu** (Faculty of Business and Administration)

Abstract: This paper is aimed at suggesting a few of the advantages of mentoring and coaching that could be equally beneficial to employees, managers and organizations. Organizational performances can be increased if people understand the sense of their development in connection to the development of competencies that are so necessary to organizational performance. The nuances of coaching and mentoring activities emphasize two professions that, if well dosed, can provide satisfactions to both the individual (employee) and the organization. Along with other methods and techniques (NLP, social intelligence, emotional intelligence), coaching and mentoring allow for synchronized actions to be taken in order to achieve organizational development.

Key words: coaching, mentoring, organization, leadership

Mentoring

Mentoring, as one of the oldest managerial approaches, is recognized as a valuable tool for both organizational development and the improvement of business outcomes.

Mentoring mainly refers to one employee being supervised and counseled by another employee who is more experienced, for the purpose of developing the first mentioned one's personal potential. Mentoring is

mainly focused on the long term career objectives, and not on immediate performances. Most times, it is carried out outside hierarchical rapports, by persons who work within the organization or not.

The main role of mentoring is to reduce the mobility of the organization's employees, initiating those who are to be promoted to leadership roles and rapid development of the best of them. This training process needs to be initiated within a well designed system,

it needs to have a supportive structure and should use a set of tools designed in such a manner such as to ensure system efficiency.

A mentor is a counselor who cares, a wise adviser, a journey partner, a trusted friend. A mentor is a mirror for the disciple, showing one what one can become. Frequently, this mirror can help the disciple to see from a positive perspective, allowing him/her to admit his/her own future strengths and opportunities. A mentor is the one who can help the disciple to feel comfortable in his/her own skin and to appreciate the disciple's qualities, while providing him/her with new opportunities and thinking models. Finally, a mentor is the one who can establish a strong connection with the young disciple and to use it as a catalyst of a positive change and growth. Mentoring is a long term relationship between two or more persons, a rapport in which the mentor provides permanent support, counseling and help to the young disciple.

Mentoring helps filling in the gap in the relationships with the rest of people. It can face protégés with new information, which might help them make decisions on their current and future job or in life.

Mentoring is about trusting the unlimited potential of each disciple one helps. It maintains expectations high for those who benefit from such program.

Mentoring is about time and patience.

Mentoring is about rendering the disciple accountable, and not about replicating the mentor's ideals and personalities.

Mentoring can be tough. Relationships can emphasize the mentor's own insecurities, and relationships call for commitment and great work, as they are the cornerstone of mentoring. A biased mentor risks to lose

his/her disciple's trust or to give inappropriate advice.

A mentor can provide resources and can give help only and if his/her disciples want it.

A mentor is not a resources provider; this means a mentor should not feel obligated to interfere in the employee's financial situation.

A mentor is not a savior. Goals should only be set out after an interpersonal relationship is created, as the mentor cannot know from the very beginning which will they be. Mentoring can simply provide the comfort of knowing that the disciple has a life (or job) support source and only this feeling can be an extremely powerful impact.

Three major expectations should be considered that a mentor should have from this relationship:

► A mentor should take responsibility for the relationship

Most mentors will probably face difficulties in setting up meetings. The more so in the case of those who live in a chaotic environment, consistency could be a whole new concept. Testing the mentor's commitment and flexibility can often be met in a disciple who has instable relationships with others. Due to a subconscious fear of disappointment, such a disciple would instinctively tend to sabotage the relationship with the mentor, as a means of survival.

► Mentors should know their disciples before helping them on their problems, either emotional or behavioral. If mentors do not take their time to analyze the disciple's problems and the reality which he/she faces, then the mentor's answers will not be adequate.

► Mentors need a extensive support network in order to succeed. Mentors need to understand the importance of using the

program designated staff, group activities and existing training opportunities. Each mentoring relationship is unique, because each mentor and each disciple are different.

Mentorship as an organizational activity describes a special relationship between a person who is more experienced, willing and able to provide support and a newly come, a person newly appointed on a new job or a person who needs support in a particular career phase.

Mentorship is based on a dynamical relationship that evolves over times and which reflects the phases of group development in a learning context. The specialized literature provides a four phases classic mentorship model:

a) **Initiation** is the phase where those involved try to best get to know each other, to learn more about one another, to know their expectations and thus to gain mutual trust and respect. Their relationship should be based on honesty, as the mentor should enhance the disciple's feeling that he/she is sustained, that he/she can count on the mentor's support ("I am here for you").

b) Once the process is initiated, there follows the **cultivation phase**, defined by the valorization and capitalization of the young one's strengths, by "building" his/her professional development. In this phase, the mentor's tactfulness becomes essential, as he/she needs to avoid passing judgments on the disciple, dominating him/her, imposing his/her own action or thinking approaches, as well as in conflicts. The mentor needs to be the one that emphasizes difficulties, problems and to help the "apprentice" to identify potential perspectives, consequences and solutions. The feeling enhanced in this phase is trust in the young employee's abilities of becoming

accustomed with the secrets of his/her new career ("I believe in you").

c) Trust building and support awareness favor the **transformation of the young employee**, who starts to take responsibility for his/her actions, to take initiative and to extend his/her autonomy, while the mentor's role is to provide appropriate and concrete feedback, and the enhanced feeling is that the disciple will not fail ("I will not let you fail").

d) The last phase, the **separation** is the peak of the mentorship relationship, when the disciple takes risks, tries new approaches. It is the moment of thinking, reassurance, explicit learning. The young employee (disciple) knows his/her strengths and know what he/she wants, succeeds to handle his/her job, and the credit from the mentor refers to power acknowledgment ("It is in your power").

Specialized literature, as well as Western organizations' and institutions' practice consider that the mentor-disciple relationship is a crucial one not only to the development and result of the entire process, but also for the disciple's potentially taking over the mentor role in the future.

While a modern manager needs to be more than a leader to his/her employees, it is exactly for such reason why he/should play a number of simultaneous roles: mentor, trainer and coach. Such a training could ensure business success to the manager, as he/she would work with a well trained and motivated team. Thus, managers who are well trained in the field of organizational psychology can develop their employee's native abilities, which provides them with the possibility of efficiently using the team they run.

In order to get the intended outcome, employees need to be counseled, trained and helped to best develop their job related

abilities from the very beginning. Such coaching is achieved most times by managers who are trained in this field or by persons with strong mentoring or coaching knowledge.

Thus, coaching and mentoring represent the best ways for organizational culture to be developed and for correctly guiding personnel's potential for the purpose of increasing organizational performance.

Coaching

Before initiating the coaching process, the real needs of the company (department) need to be as seed. Depending on the goals, the coach does nothing else than initially indicating the direction for achieving a balance and that is because most times coaching is called for when a blockage exists.

The secret for efficient coaching is the open relationship between those who are involved. Most times coaching is initiated and coordinated by the manager or by someone auxiliary to the organization. Professional collaboration characterized by an open and relaxed relationship between the manager, supervisor and employee generates a positive effect over employees in terms of their motivation and commitment to the organization, which generates the context for an overall successful business.

Coaching refers to developing a working relationship the end goal of which is to stimulate the employee to set up and achieve his/her professional objectives. By coaching the manager actually gets his/her employees involved in a simple personal discovery process, for the purpose of rendering their activity more efficient.

However, it is not easy for a manager to develop abilities and to increase his/her

employees' performances. For this reason, any manager who gets involved in such a process needs time and resources in order to develop his/her own set of necessary abilities, including: listening capacity and patience, assessment related critic spirit etc. Also, another extremely important feature is the ability of working with people, which also implies problem solving capacities, including in terms of mental blockages. A manager with such a set of abilities can verify his/her "performances generating force" by his/her employees' being pleased to get to work, feeling they are efficient and useful and finally, demonstrating increased efficiency in their activity.

Mentoring and Coaching—a Comparison

A successful manager will always consider the efficiency of his/her employees and to such end he/she will coach and mentor his/her employees whenever necessary.

Both mentoring and coaching are development, training and assessment process provided to employees by their hierarchical superior or by someone from outside the organization who is well trained in this field. Numerous similarities exist between the two processes, and that is because they both aim at the mentor's and coach's training and assessing the employees. Nonetheless, the differences between the two procedures are major.

While mentoring is focused on an individual, his/her career and the support he/she needs in order to develop from a professional standpoint, coaching refers to performance. Mentoring works with and for the individual, while coaching is impartial and performance focused.

The basic role of the mentor is to facilitate and is achieved without a preset mentoring program. It is based on a bilateral relationship in which the mentor teaches the employee how to discover his/her professional path. Coaching however is carried out for a well determined period and under a fixed schedule. The coach sets the objectives from the very beginning and in each meeting or discussion he/she verifies the achievement level of such. Mentoring on the other hand is more flexible, based on logic, confidence, assessment etc.

The type of relationship developed between the employee and the mentor or coach is different from one method to the other. In mentorship, one is free to continue or not, can decide when to stop or when to get the relationship more intense. One chooses one's mentor, while the coach comes with the job as a facilitator of the optimal integration of the employee in the occupied position.

In regards to influence, the mentor is equally influential to the employee as he/she is valued by the said, and is greatly dependant on the professional relationship between the two. On the other hand, the influence of the coach is given by the authority level corresponding to his/her position in the organization.

The relationship between the mentor and the employee is not a material one, based on the employee's or organization's increasing their profit; a mentor is chosen by the employee in order to help him/her to develop a certain aspect of his/her professional life. Coaching, however, is from the very start clearly focused on developing the abilities that might lead to performances increase.

Mentoring and coaching are useful tools for a manager who aims at organizational

performance. The two methods are practically a rather moral than financial "investment" which any modern manager should consider and apply.

Mentoring is the type of client working in which the mentor is specialized or experienced, which gives him/her the possibility to act as a model or as an expert. The mentor knows which are the necessary performances and competencies, so he/she will be the one who could decide on the moment when clients have reached the necessary level.

Mentors who act this way are usually top professionals, with remarkable success in their line of business. They are senior managers who have proven their abilities of efficiently operating in an organization. In the mentors' category can also be included the experts who have gave up managerial activity.

Although the approach is here and now, and clients are invited to analyze what they learn by themselves and with the mentor, the usually unspoken idea exists that the mentor knows best.

Coaching is another term used when working in here and now, yet with a whole different strategy. Of course, the coach and the client also interact in a logical manner – including emotional intelligence logic, based on dialogue, co-creation of new meanings, a new client reality, co-creation that involves the coach's role as a facilitator, active factor, actual creator of a referral framework for client. Any ability or specialized knowledge of the coach are intentionally forgotten, let aside as potential distorted prejudice, such that the client map to be the actual action basis.

In order to facilitate the exploration by the client of his/her own world model, by using active, implicated silence and rarely key

questions, so that to encourage the client to explore by his/her own imaginary and to evaluate options. The coach avoids giving opinions or advice, so that the responsibility for taking decisions would be entirely the client's. A coach provides to his/her client something else than his/her expertise as a consultant. He/she provides the possibility of a new referral framework in which the client rethinks his/her problem and finds his/her own solutions. Thus, any coaching session involves client focused pressure: he/she is the one who has a problem, knows the details of the problems, is aware of all its implications, and not the coach. A good coach only thinks about the problem, and not about potential solutions, as it is the client's job to think about solutions.

In order to put pressure on the client, the paradox is that coach needs to do as little as possible – preferable nothing. He/she only needs to actively, provocatively wait, in a certain way. A good coach knows NOT to do; the client is the one who needs to do his/her job. The coach teaches the client nothing, but creates a comfortable learning space. If he/she wants, the client can use such space in order to learn how to see his/her map and the reality in which he/she moves. This is his/her responsibility. The learning space is mainly achieved by facilitating internal dialogue; the coach accompanies the client throughout this dialogue, stimulates him/her in the nuances of such dialogues, in its nuances.

Coaching and Mentoring in Team Work

The professional association of the students of the University of Bucharest – Team Work (www.teamwork.org.ro) was established in 2002. Projects are carried out in

its departments (Communication, Human Resources, Training, International Relations, Teamwork School) by which students gain practical experience in various areas of activity.

Team Work was designed to ensure that young people have the freedom of choice. The lack of options is a de-motivating factor and almost always leads to physical, psychical and intellectual exhaustion. The will of helping students to discover ways for developing their talents, to create competencies and to experiment in contexts created not only by others, but also by themselves, is valued and materialized by voluntary work.

Team Work is aimed at enhancing enthusiasm and passion for a work that is beneficial to both the society and every member of the organization. Ideas consolidation is pursued, followed by their valorization in either the university or the business environment.

Long term Team Work philosophy is for the organization to function to the benefit of students as well as to the benefit of the society because in the end by creating opportunities the true quality of people is unrevealed.

Young people's freedom of choice represents an important condition for the design of the systems that need to develop harmoniously. From the very beginning Team Work has aimed to transmit courage to young people in being themselves.

By Team Work context creation is pursued, by which obstacles can be overcome, by associating the useful with the pleasant, as grounds for an efficient cooperation, good team work, and as a bridge between personal benefit and common interest of the people in the society. Team Work encourages the valorization of ideas, which can only be achieved by work, which in its turn facilitates the

overcoming of physical-material and psychical barriers.

By coaching, the Team Work students develop their efficiency by academic and practical activities, unleash their individual resources and develop communication skills. In Team Work the role of coach is played by college graduates (former Team Work members) with wide professional experience, teachers and professional coaches who bring along their field expertise. Performances are increased by self-knowledge and permanent development. Thus, the coach becomes a person who helps an initiate unrevealing his/her potential by facilitating personality development, increased performance standard and the capacity of changing behavior and thinking models.

By mentoring the new comer in Team Work is granted special attention for a while, so that he/she would get accustomed with the association's conditions. Mentorship is the process the purpose of which is to transmit information and to form a set of abilities under supervision from experienced individuals, by efforts focused by the organization towards its debutants.

In Team Work we have used over time a set of methods and techniques by which personalities have been developed who are capable of making decisions in stressed situations and are able to be responsible: NLP, emotional intelligence, social intelligence, coaching, mentoring, counseling, supervision, etc.

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Organizational culture diagnosis - a new model

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

Abstract

Organizational culture is a key source of competitive advantage. There is a demonstrated relation between organizational culture and organizational performance. This paper reviews previous research in the field and introduce a new model for understanding, diagnosing and changing organizational culture. The main advantage of the new model is based on regarding culture as the management and work practices that are either hindering or helping an organization's bottom line performance.

Keywords: organizational culture, organizational performance, cultural model, culture diagnosis, cultural change.

Introduction

Organizational culture is a key source of competitive advantage. Understanding, diagnosing and conducting interventions to change organizational culture will impact the overall organizational performance. This paper reviews previous research in the field and introduce a new organizational culture model allowing management consultants and management teams to obtain insights and initiate interventions to increase performance.

The paper begins by discussing the concept of organizational culture and the impact on organizational performance. This first section is followed by a review of various approaches to measuring organizational cultures that have been presented in the literature. The third section introduce an overview of a new organizational culture model, including a discussion of the conceptual framework and definitions of key concepts and dimensions. The fourth section of the paper summarizes the results and indicates further needs for research.

Organizational Culture and Organizational Performance

There is considerable agreement as to the general definition of organizational culture and most cultural models and diagnosis tools define culture as: "a set of cognitions shared by members of a social unit" (O'Reilly, Chatman, & Caldwell, 1991, p.491), or more fully: "a system of shared values and beliefs that produces norms of behavior and establish an organizational way of life" (Koberg & Chusmir, 1987, p.397) .

This latter definition is important because it pinpoints that the culture construct can be

equivocally understood to deal with "major beliefs and values" (Goll & Zeitz, 1991), or alternatively as "norms and patterns of behaviors and norms"(Gundry & Rousseau, 1994).

According to Schein's (1981, 1985, 1992) theory, organisational culture is defined as „A pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as a correct way to perceive, think and feel in relation to those problems. According the Schein, organisational culture is the learned result of group experiences, and it is to a large extent unconscious (Schein 1992). Schein considers culture to be a three-layer phenomenon: artifacts and behaviors, espoused values, and assumptions.

"Artifacts", the most superficial manifestations of culture, and "basic assumptions", the deepest layer of culture have been typically studied using qualitative approaches. Values and behavioral patterns have been

measured using quantitative instruments. Organizational values refer to the principles which underlie patterns of behaviors and norms. Patterns of behaviors and norms have been defined as the "ways of thinking, behaving, and believing that members of a social unit have in common" (Cooke and Rousseau, 1988).

Compared to values, behavioral norms would be easier to learn and they could be readily influenced by the organization, through the management practices. As Gundry and Rousseau (1994) put it: "newcomers are likely to experience and incorporate as their own the more perceptible and concrete aspects of culture such as norms and patterns of behavior before they are able to internalize values". Indeed, Hofstede (1990)'s data show that the different organizations within the same national culture could be distinguished from the behavioral norms (day-to-day practices) they differently adopt and not from their values. Because of their sensitivity to change and to inter-organizations variations, behavioral norms questionnaires produce information particularly useful for the purpose of intervention.

Grounded on the considerations mentioned above we define culture as management and work practices which are either hindering or helping an organization's bottom line performance.

Comprehensive research projects (Kotter and Haskett, 1992, Gordon and DiTomaso, 1992, Collins and Porras, 1994, Sorenson, 2002) demonstrate that culture drives business performance. They all point to the same conclusion: organizations who sustain great performance over time have four common traits embedded throughout

the entire organization that make it possible for them to adapt and execute:

- Leaders who provide crystal clear vision and mission (far beyond being financially related) and who know how to meaningfully engage all employees and create deep pride, accountability, and ownership for the vision and mission (versus “paycheck entitlement” mentality).
- Leaders who manage change and risk as a positive and necessary function of business (versus developing risk-aversion).
- Employees who practice effective teamwork and co-operation, and are able to reach consensus on difficult issues (versus “it is not my business” and “each one for him/herself” mentality).
- A level of organization and control which maintains both flawless execution capacity and organizational flexibility (versus paralysing beaurocracy).

The Comparative Measurement of Organizational Cultures

Organizational culture researchers have long debated whether cultures can be compared and measured. Some researchers have concluded that the “deeper” levels of culture such as symbolic meaning, semiotics, and underlying beliefs and assumptions are no subject to comparative analysis and are best understood through clinical or ethnographic methods (Schein, 1992; Van Maanen, 1988). Whereas other culture researchers, while acknowledging the limitations of comparative research for understanding the deeper levels of culture, have persisted in the development

of systematic approaches to comparative measurement.

Qualitative approaches used in initial research on organizational culture assess culture along unique dimensions, reflecting the inner view of organization’s members. Although rich in detail, this process has two inherent weaknesses: (a) the dimensions of culture identified in one milieu through this approach are idiosyncratic and not necessarily relevant in another context, (b) this approach is unable to produce culture information coherently linkable to major outcomes such as organizational performance (e.g., Cameron & Freeman, 1991) and individual behaviors (e.g., Koberg & Chusmir, 1987). To allow comparisons across organizations and to study relationships between organizational culture and other constructs, several quantitative measurement instruments have been designed.

For example, one of the first approaches to be developed (Cooke & Lafferty, 1989) created the Organizational Culture Inventory, which was based on perceptions and expectations regarding behavioral norms. This approach identified twelve cultural styles in three categories: constructive styles, passive/defensive styles, and aggressive/defensive styles.

A second approach to the comparative measurement of organizational culture has grown from the work of Hofstede (1980) on national differences in work practices. Working from the set of items and dimensions developed in cross-national research, Hofstede, Bond, and Luk (1993) and Hofstede, Neuijen, Ohayv, and Sanders (1990) have developed a set of six dimensions of organizational culture from a study of 20 Dutch and Danish firms. Their dimensions

included process vs. results orientation, employee vs. job orientation, parochial vs. professional orientation, open system vs. closed system, loose vs. tight, and normative vs. pragmatic.

A third approach is based on the Competing Values Framework for cultural assessment distilled by Quinn and Rorbaugh (1983) from analysis of Campbell's longer list (40 descriptors/dimensions of organizational culture) into a four dimensional pattern: clan, adhocracy, hierarchy and market. The OCAI (Organization Culture Assessment Instrument) developed by Quinn and Cameron (1999) has six categories in which you distribute 100 points between four sub-items for each that represent the four Competing Values cultures: dominant characteristic, leadership style, management of employees, organizational glue, strategic emphasis and criteria for success.

Comparative measures of organizational culture have also been developed by researchers interested in the socialization and selection of new employees (Chatman, 1991; O'Reilly, Chatman, Caldwell, 1991). This line of research identified eight dimensions of culture (innovation, attention to detail, outcome orientation, aggressiveness, supportiveness, emphasis on rewards, team orientation, and decisiveness) that were used to assess person-organization fit in a public accounting firm. This method was used to predict the level of satisfaction of new employees and the likelihood that they would leave the firm.

Each of these approaches grew out of a specific research agenda and defined the relevant dimensions of culture in a way that served that research agenda. Each of them also made important contributions to their

own line of research and helped to shape the research that followed.

Ashkanasy, Broadfoot, and Falkus (2000) have presented an extensive review of eighteen survey measures of organizational culture that shows a wide range of approaches. Also, a comprehensive study by Delobbe, Haccoun and Vandenberghe (2002) reviewed twenty organizational culture questionnaires to identify the commonality among cultural dimensions. The dimensions included in their model are: recognition-support, commitment-solidarity, innovation-productivity, control, and continuous learning.

The model introduced in this paper followed a similar process by focusing specifically on the issue of organizational culture and organizational effectiveness and developing an approach to understanding organizational culture that help to explain differences in the performance and effectiveness of organizations.

Overview of the Organizational Culture Model

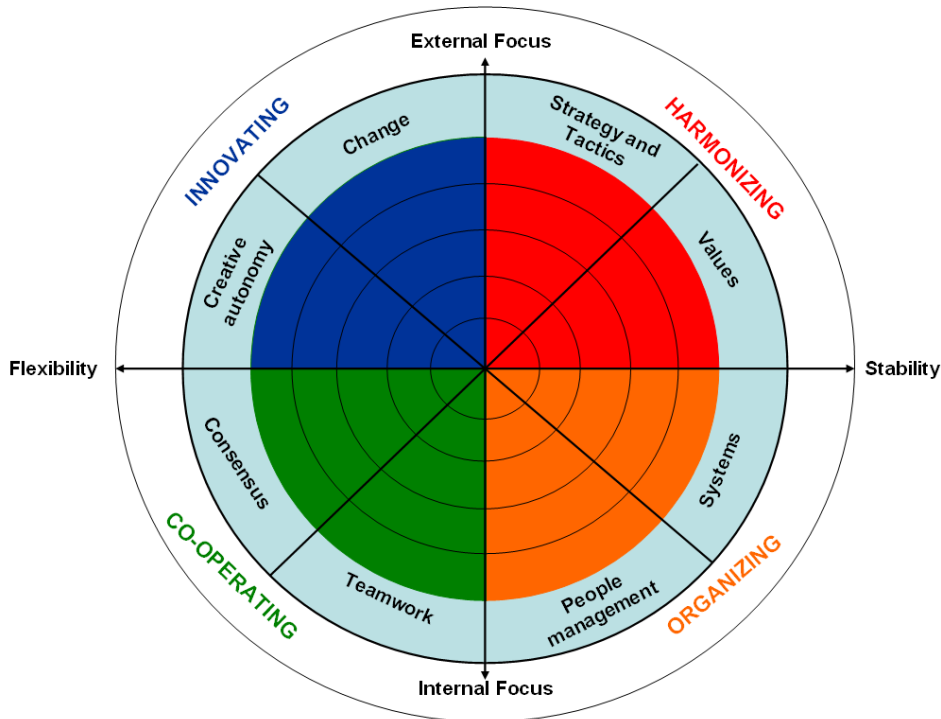
The new organizational culture model that is the focus of this paper is based on the functions of culture: external adaptation and internal integration (Schein, 1992). The model uses the two functions as a framework. The two axes describe various types of culture on a continuum ranging from external focus to internal focus (external adaptation) and from stable to flexible (internal integration).

This framework generates four types of organizational culture: Co-operating, Innovating, Harmonizing and Organizing. Each of these cultural types is measured with two component dimensions.

We developed a questionnaire with 66 items measuring the eight dimensions of the

organizational culture model and 7 items measuring organizational performance perceptions. The organizational culture mix of an organization has a direct influence on organizational performance (as shown in the literature). The organizational performance

is measured by: quality, customer satisfaction, employees loyalty, sales, market share, profit and social responsibility. This section of the paper provides an overview of the model and definitions of the key concepts and dimensions.



This model is focused on a set of tensions. The trade-off between stability and flexibility and the trade-off between internal and external focus are the basic dimensions underlying the framework. A competitive organization has a dynamic balance between these tensions at a level appropriate to the position it has during its life cycle, industry and market specifics.

The four cultural types described in the model are: Co-operating, Innovating, Harmonizing and Organizing.

1. Co-operating. This type of culture is positioned in the area generated by internal

focus and flexibility. The Co-operating culture is focused on teamwork, dialogue and development of competencies. The organization is a friendly, family-like place. Leaders are mentors concerned with employees' development and morale. Teamwork is encouraged in achieving goals and objectives, and in problem solving. Consensus building communication is widely used. The long term focus is on developing competencies, consolidating the team and creating a supportive climate to ensure employees loyalty and involvement. This culture is measured with two dimensions.

1.1. Teamwork. Working cooperatively in problem solving and achievement of goals and objectives for which all employees feel mutually accountable is valued and encouraged. The different teams and departments within the organization are capable to work very well together to accomplish common goals. Organizational boundaries do not interfere with getting work done.

1.2. Consensus. Members of the organization are able to reach agreement on critical issues, reconcile differences when they occur and solve conflicts in a constructive manner.

2. Innovating. This type of culture is positioned in the area generated by external focus and flexibility. The Innovating culture is focused on adaptability to market in a creative way. The organization is a creative, dynamic, flexible, client-oriented and entrepreneurial work space. The organization transform market trends in adaptive actions for change which generate value for clients. Leaders are innovators and risk takers. They encourage creative autonomy, initiatives and experimentation. The long term focus is on developing new services and products, new markets, new resources and on continuous improvement. This culture is measured with two dimensions.

2.1. Creative autonomy. Employees have the authority, initiative and responsibility to manage their own work and to innovate.

2.2. Change. The organization is able to read the business environment, react quickly to current trends, anticipate future changes and to create adaptive ways to meet customers' changing needs and wants.

3. Harmonizing. This type of culture is positioned in the area generated by external focus and stability. The Harmonizing culture is focused on values centered leadership which seeks alignment of strategy, systems and people with organisational values, vision and mission. The organization has a clear direction. Individual objectives give a sense of orientation for each employee to understand how he or she contributes to the achievement of the overall goals of the organization. Organizational values are used in decision making and are reinforced by leaders' behaviours and other systems. Leaders are charismatic and visionary. Employees are proud of their work and the organization which makes control in these organizations internal (self-control) and informal. This culture is measured with two dimensions.

3.1. Values. Members of the organization share a set of values they live by in the day-to-day activities and decision making. This creates a sense of identity and a clear set of expectations.

3.2. Strategy and Tactics. The organization has a clear and challenging vision for the future, a mission which provides pride and significance to employees and objectives which give a clear direction for each employee in his/her daily activities.

4. Organizing. This type of culture is positioned in the area generated by internal focus and stability. The Organizing culture is focused on efficiency. The organization is led by systems, rules and procedures. Leaders are organizers and co-ordinators. They require a high level of predictability in obtaining results within time and budget. The long term focus is on work processes standardization to

obtain flawless and efficient execution. This culture is measured with two dimensions.

4.1. Systems. Organizația dispune de sisteme informaționale, decizionale și organizatorice care au ca scop obținerea cu eficiență a rezultatelor dorite.

4.2. People Management. The organizations select people based on carefully defined profiles, continually invests in the development of employee's competencies, evaluates performance and offer rewards based on clear criteria in a stimulating way.

Conclusions

We introduced here a new organizational culture model linked to organizational performance. In an organizational setting, although this approach has a limited focus on the instrumental aspects of organizational cultures, it will help to legitimate a broader discussion of the deeper levels of

organizational culture and the influence that underlying beliefs and assumptions have on individual behaviors and organizational systems.

In time, using the new model and the questionnaire in a variety of industries and organisations we will be in a position to create a benchmark against which other organisations can compare their scores and design interventions.

Further analysis will be conducted in three phases: The first phase will provide evidence of internal consistency for the eight dimensions and validate the theoretical structure of the assessment. The second phase will demonstrate that respondents' ratings of organizational culture, as measured by this assessment, are sufficiently homogeneous to permit their aggregation into organization level characteristics. The third phase of the analysis will establish the criterion-related validity of the culture assessment in predicting organizational effectiveness.

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The challenges of the financial crisis

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Abstract: *In our paper “The Challenges of the Financial Crisis” we decided to analyze the impact of the financial crisis upon the European banking sector and also upon two important European countries, with important references, of course, to the major European countries and their economy.*

Introduction

The financial crisis has really put the trust of clients in the banking sector to the test, and that is the reason why securing client trust and satisfaction is of great importance for any bank that respects itself. In unsettling times, it is essential to strengthen the trust that clients have placed in banks as a reliable and professional partner, and to rapidly restore confidence in any areas where it has been lost.

1. Banks and the financial crisis effects

Globally active banks play a key role in society and the economy, because **banks**

provide governments, companies and individuals with access to capital, manage assets, steer capital flows and evaluate risks. By doing that banks create sustained added value for their clients and make an important contribution to the functioning of the economy, to public finances and to society as a whole.

1.1. Financial crisis and the turmoil in the markets or how the confidence in the banking sector has been eroded

The financial crisis and the turmoil in the markets seriously eroded confidence in the banking sector in 2008. The decline in the value of investments has been a source of concern for bank clients around the globe. There

has been particular criticism from some investors that the banks have not been able to absorb their losses, or have done so only in exceptional cases. In difficult economic times especially, preservation of a good reputation with its clients is a primary concern of banks. The bankruptcy of the US investment bank Lehman Brothers in 2008 demonstrates just how delicate the balancing of these interests can be – and just how much controversy individual cases can create among the various stakeholders involved.

1.2. Client Focus

Banks make the needs of their clients the focus of their business activities. If banks

can better understand their clients and offer better services, they can generate more business and grow as a result. In Private Banking, the key is Client Centricity. This initiative helps banks to focus even more consistently on their clients, thus providing them with access to the extensive expertise of the integrated bank and offering them comprehensive advice and solutions.

At the centre of this initiative is a five-stage advisory process (see **Figure 1: Five Steps of the Advisory Process**):

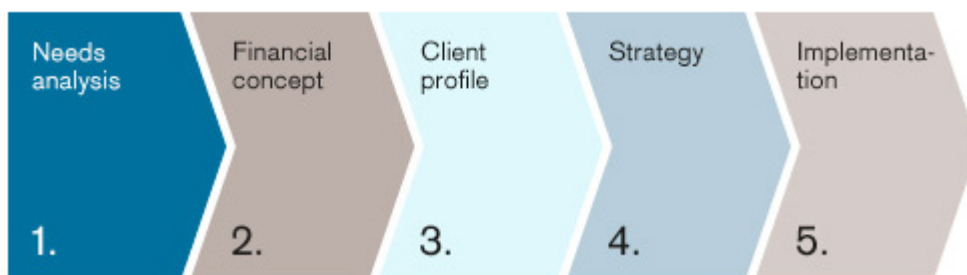


Figure 1: Five Steps of the Advisory Process

1. Needs Analysis: The client's personal situation is the starting point for the consultation. At a meeting, banks establish the client's investment behaviour, the origin of the client's assets, and the client's stage of life. Further measures are then built up around this core.

2. Financial Concept: The assets are divided into tied and flexible portions.

3. Client Profile: A personal risk profile helps the client to make the right financial decisions.

4. Strategy: Together with the client, the advisor develops an individual investment strategy, taking the client's needs and risk tolerance into account.

5. Implementation: The advisor offers the client suitable individual solutions, and subsequently provides support in the monitoring and maintenance of the investment products.

2. Euro zone members and the financial crisis effects

Greece, Portugal, Spain and other euro zone members have massive public deficits. It's one of a number of factors that are tending to drag the euro down against the dollar. More generally, difficulties in one or two credit areas around the world – such as Dubai – tend to be bad for the euro.

2.1. Greece Economy and the financial crisis effects

But clearly, the problem in Greece, which has made investors nervous, has resulted in a safe haven flow out of euros and into dollars. Politicians have not come up with a concrete plan to solve the situation. Politicians in France, Germany and elsewhere have signalled that they'll provide some kind of back-up support, but only when Greece has really taken tough measures – possibly more than they have done already – to get the deficit down. Although that may be unsettling to some investors in the very short term, it's clearly good news for the euro in the longer term. France, Germany and the other big countries are saying they're not going to write a blank check. They are going to require Greece, and indeed any other country needing support, to put its own house in order before receiving support from the others. This refusal to write a blank check bodes very well for the stability of the euro in the longer term. By the way, the European Central Bank is technically subject to the EU treaties. It is not allowed to bail out Greece. So it would have to come from the other countries on a bilateral basis.

The current events surrounding Greece are leading to the creation of a kind of model. This will provide at least a broad framework

should other countries in the euro zone get into trouble. Portugal, Spain and Ireland may be affected, as well as Italy to a lesser extent. Hence, the Greek case is very important. It's about creating a system offering some kind of residual support for weaker countries. The euro encompasses strong economies like Germany and France on the one hand, and weak economies like Greece on the other. What recent events have shown us is that France, Germany and the stronger countries are prepared to underwrite deflation in the weak countries, but not inflation. If they'd offered support before Greece had taken tough measures, then that really would have been allowing Greece to take an inflation route. As it is, by insisting that Greece cuts the budget deficit, reduces wages, gets down prices – with limited support if this leads to severe economic problems – France and Germany are in effect underwriting deflation. That is a recipe for stability in the longer run. And by the way, it's a problem that any large currency area has to face. The US for example has stronger areas, as well as weaker ones, like California at the moment.

Experience shows us that there is opportunity in every crisis. Opportunities are both local and global. Locally, some investors are now looking at Greek bonds (*the prices of which have fallen very sharply during the crisis*) and wonder if they are now starting to offer value. As with any investment strategy, a judgment has to be made as to whether the situation will stabilize, but once this begins to look more and more likely, a case can be made for some of the bonds at lower prices. These have fallen and now offer value.

But we're also looking globally at equity prices that have fallen generally during the crisis as well as – as we said at the beginning

– the weaker euro. Taking this view from here, the worst of the crisis is now over and things will begin to stabilize.

The spring summit of the EU in Brussels was preceded by a comprehensive round of meetings and negotiations between the **Union's main members**, their aim being to identify a joint solution of the Euro states, as priority, but also of the other EU members concerning the support that must be provided to Greece.

According to media sources, the day before the summit, Paris and Bonn were in permanent contact in an attempt to end the crisis. This became even more urgent as neither the 27, nor the 16 members of the Euro zone, will be able to provide a clear answer during the summit, unless the German chancellor and the French president reach a preliminary agreement. While the latter always favoured a European solution, Angela Merkel was more cautious. Concerned with both the disputes within the ruling coalition and the nearing elections of North Rhine-Westphalia, the German chancellor seems unwilling to spend German taxpayers' money for Greece. This is precisely why she supported, on several occasions, the idea of resorting to the International Monetary Fund. Spanish Premier Zapatero, whose country holds the rotating presidency of the EU, came to Brussels one day earlier and had several meetings with European Council President Herman Van Rompuy and other leaders, in view of finding a European solution to the **Greek problem**.

Yesterday at noon various diplomatic circles were putting forward the idea that Berlin finally accepted the creation of a European support mechanism for Athens.

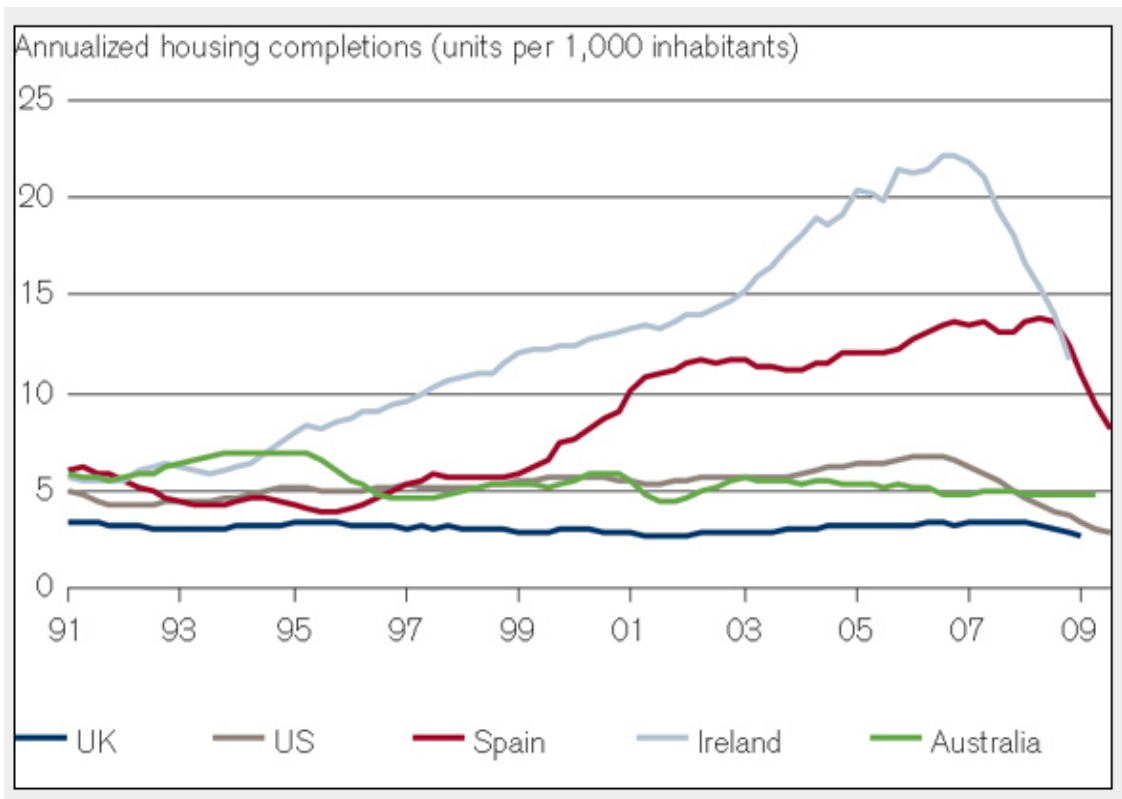
However nothing palpable was being said about how this mechanism will look like, and most importantly nothing was being said whether the IMF will be involved in this mechanism like the German Chancellor kept saying. As was pointed out in yesterday's issue, apart from the issue of Greece the Heads of State and the Heads of Government of the 27 EU members will also discuss the **'2020 Strategy' for economic recovery and job creation**. Likewise, they will debate consequences of the climate change conference in Copenhagen and the EU's tangible tasks in that regard.

2.2. Spanish Economy and the financial crisis effects

Spain has been facing a severe recession and major structural challenges.

For many years, the Spanish economy has outperformed its Euro area peers in terms of growth performance. Over the past decade, the growth of the Spain's gross domestic product (GDP) averaged 2.8 per cent compared to only 1.5 per cent in the Euro area as a whole. Even during the recent crisis, Spanish GDP has contracted somewhat less than in other Euro area countries, e.g. Italy or Germany. However, the relatively mild decline in GDP clearly masks the severity of the downturn. Domestic demand was down 12 per cent in the third quarter, compared to the third quarter in 2008. And the unemployment rate has surged from 8 per cent in 2007 to more than 19 per cent. While some of the larger Euro area economies exited recession already in the second quarter of 2009, the Spanish economy continued to contract in the third quarter (**see Figure 2: Annual housing completion in Spain**).

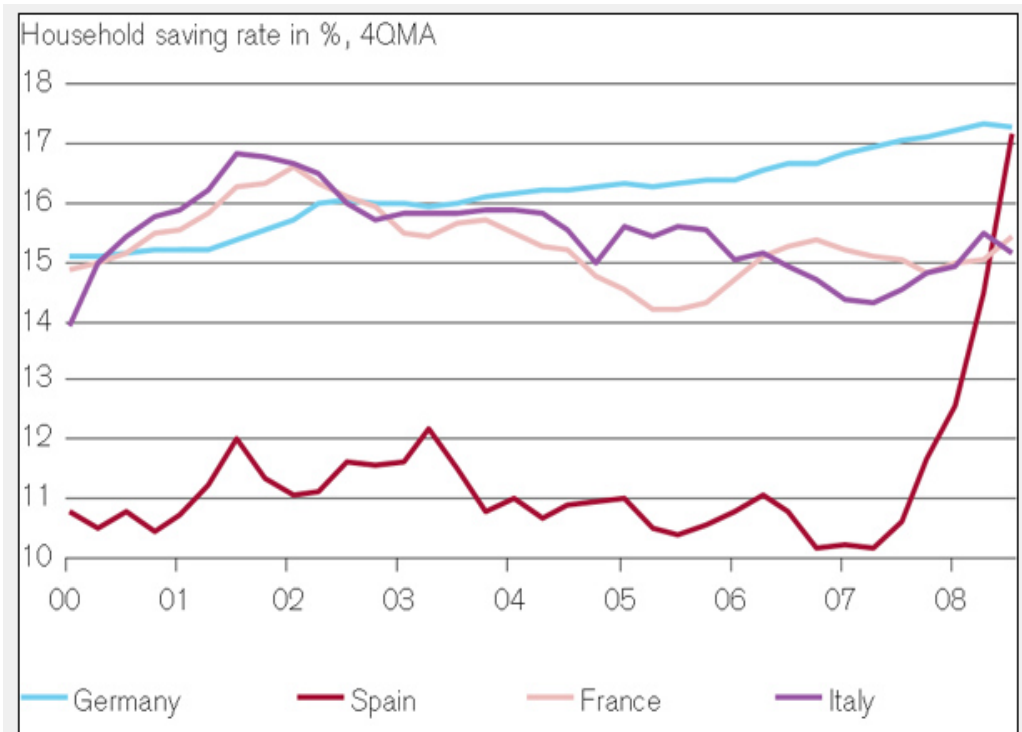
Figure 2: Annual housing completion in Spain



Similar to the USA and the UK, Spain has experienced a housing boom. At the peak, 14 houses per 1000 inhabitants were built in Spain, compared to only 7 in the USA and 3 in the UK. This construction boom was financed to a significant extent by foreign borrowing. In 2007, the current account deficit to GDP ratio reached a peak of 11 per cent, which is very high by international standards and even far exceeded the US deficit.

In particular, Spanish non-financial corporations took up significant amounts of credit: during 2007, their net borrowing reached minus 11 per cent of GDP. The debt of households also increased markedly. The ratio of household liabilities to disposable income in Spain has become the highest among the large Euro area countries in recent years (see **Figure 3: "The evolution of household saving rate in major European countries"**).

Figure 3: “The evolution of household saving rate in major European countries”



This high leverage is now being unwound. Spanish households have increased their savings markedly and the savings rate has risen from around 10 per cent of disposable income at the beginning of 2008 to 18 per cent in the third quarter. Non-financial corporations have also lowered their dependency on external finance somewhat. As a result, the current account deficit has narrowed dramatically to around minus 3.5 per cent in the third quarter of 2009. At the same time, employment has been cut very sharply (*minus 7.2 per cent in the third quarter of 2009, compared to the third quarter in 2008*).

We think the sharp deterioration reflects two factors:

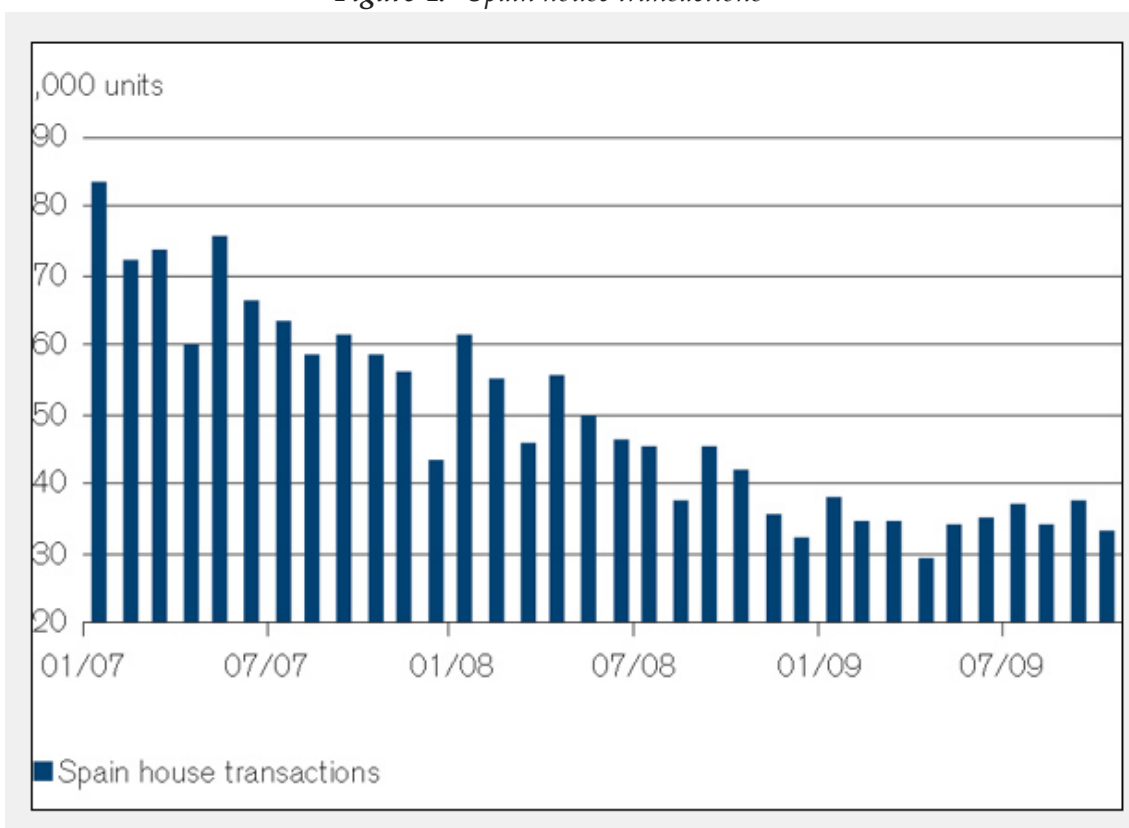
► First, Spain has the highest share of temporary workers in the European Union, and these can be dismissed easily. Indeed, the share of temporary employment has fallen from around 34 per cent in 2006 to only 26 per cent in 2009.

► Second, the downturn in the housing market has had a pronounced effect on construction employment. Construction employment has been falling for two years now, and accounts for around half the drop in total employment.

Recent figures show that unemployment is now stabilizing at a very elevated level, and we think it could start falling in coming months. Business surveys have improved. However, the improvement was clearly less pronounced than in other European countries, and as the process of debt reduction has

further to run, we expect the road to recovery to be bumpy. The planned VAT hike from 16 per cent to 18 per cent next July and the abolition of the annual tax rebate of 400 Euro (per household) to reduce the budget deficit (see **Figure 4: "Spain house transactions"**).

Figure 4: "Spain house transactions"



Spanish competitiveness has deteriorated in recent years as unit labour costs have risen more strongly than elsewhere. A devaluation of the currency is not possible in a currency union, so competitiveness has to be regained through an increase in productivity or lower relative prices. Both seem to be happening: While unit labour

costs are surging in most of the other large Euro area countries due to the sharp cut in employment, they are falling in Spain. And while core inflation in Spain used to be highest among the larger Euro area countries in recent years, it has fallen close to zero in recent months. Deflationary tendencies are becoming increasingly visible: In the producer

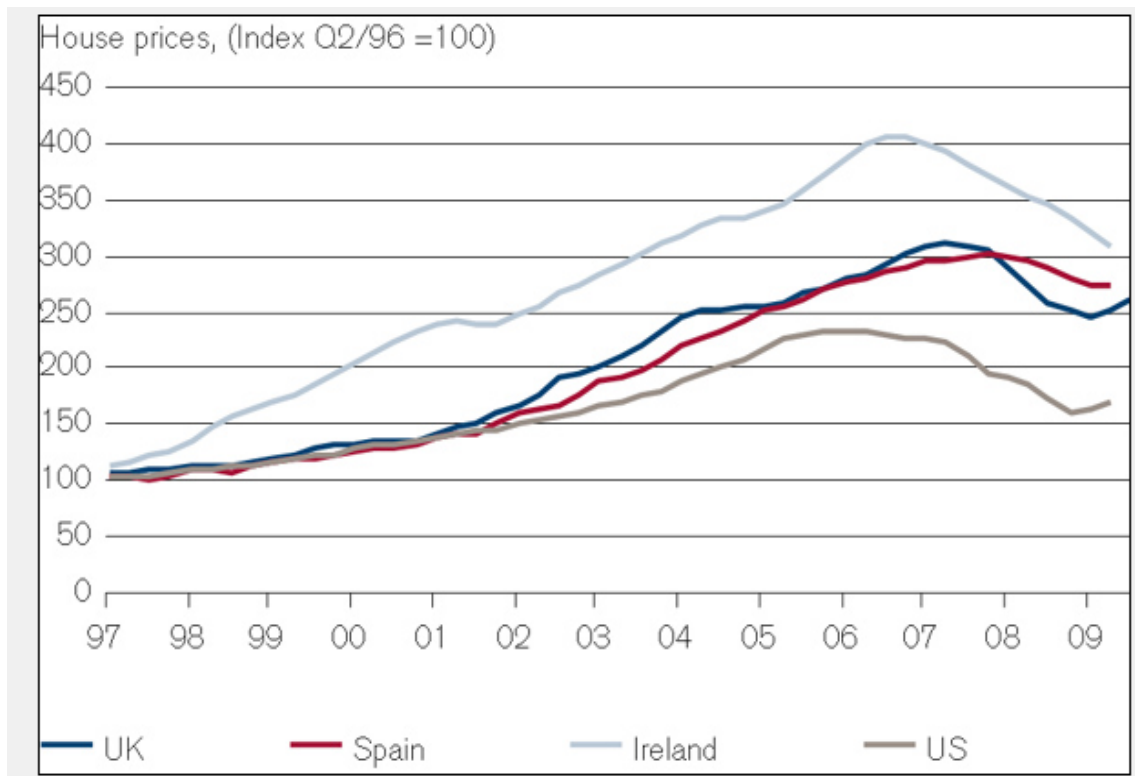
price index, prices for consumer goods were down 0.5 per cent in December (*compared to December 2008*).

The prospects for Spain's housing market are also expected to be poor in the next few years. A recovery is nowhere in sight due to the challenging economic outlook, tighter credit, weak housing demand and the significant supply overhang in residential markets.

The decline of housing demand in Spain started in 2007 and has intensified since then.

For instance, the number of new and existing home sales is currently about 50 per cent to 70 per cent lower than their peak level. A pick-up in housing demand is unlikely in the short term given the high unemployment rate and credit constraints. During the past boom, banks have been willing and able to generate lending, which has fuelled housing demand. However, for the time being, we think that mortgage credit growth is likely to remain sluggish (see **Figure 5: "House prices all over the world"**).

Figure 5: "House prices all over the world"



At the current sales numbers of about 400,000 units per year, it would take four years to absorb all the stock. Most of these units are located in coastal regions and satellite towns close to large cities where construction has been the most active during the housing boom. Moreover, there are some risks that this oversupply situation could worsen as Spanish saving banks have recently started selling off their property portfolios due to regulatory changes. **Banks and savings banks became large real estate owners in Spain** by taking over thousands of homes used as collateral on defaulted loans. **Bank of Spain** decided last October to increase provision requirements on real estate assets held by financial institutions for more than a year

from 10 per cent to 20 per cent, which is likely to lead to the sale of some of the bank's real estate holdings. However, detailed data on the bank's real estate holdings are scarce and it is difficult to assess the importance of this effect.

Overall, we thus expect an increase in the **supply/demand imbalance** and further house price declines. So far, **Spain's house price index has declined by only 9.5 per cent since its peak in the first quarter of 2008**. According to some indicators, such as house price to disposable income, residential properties in Spain are still substantially overvalued.

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A hermeneutical reading of Penrose and Nelson and Winter - Tracing origins of a misunderstanding?

~ Dr. Oliver Krone (Karlsruhe, Germany)

Abstract: This paper aims to understand based on a hermeneutical reading of Penrose (1959) and Nelson and Winter (1982) what knowledge is and where it is stored in the respective authors. Furthermore, the author wants to learn whether the subsumption of Knowledge Integration to Knowledge Management, as it can be often in the literature, has any foundation when coming from these authors. Reason for this overall analysis is the widely held view in the discipline of Knowledge Management that these authors are forefathers for it. Based on an interpretative, qualitative approach the author examines the way in which knowledge is held and created within organisations in the main work of this pair of author. The author comes to the conclusion that the discipline of Knowledge Management has seemingly overemphasised certain elements in the work of Penrose and Nelson and Winter, while neglecting the key aspect that for both author(s) the act of Knowledge Integration is much rather described in these works.

Keywords: Communication and Language, Employees, Knowledge Management, Knowledge Integration, Organisation, Resources and Services, Processes

Introduction

In the debate on Knowledge Management often Knowledge Integration and Knowledge Sharing are treated as means to allow for Knowledge Management, not to say that some authors even treat Knowledge Integration as being subordinated to Knowledge Management. Furthermore, and

quite typical for the overall approach held in the first phase of Knowledge Management, knowledge was seen as being an element that had its place in economics from the beginning (cp. eg. Nonaka & Takeuchi, 1995 or Leonhard-Barton, 1995 just to mention the most prominent authors).

When conducting research on the topic of knowledge and/or Knowledge Integration

the author (Krone, 2000, 2007, and 2008) has consistently argued that Knowledge Integration and Knowledge Management are not alike. In addition it was suggested that if the sources of the first phase of Knowledge Management like Penrose (1959) and Nelson and Winter (1982) would be read carefully, it should become evident that they cannot be forefathers for Knowledge Management, not to speak even about Organisational Knowledge.

For this purpose this paper examines two main research questions:

- 1) What, and where is knowledge stored in the work of Penrose and Nelson and Winter?
- 2) Can Knowledge Integration set be equal to Knowledge Management when considering Penrose and Nelson and Winter as real ancestors?

In the next sub-chapter a brief account of Knowledge Integration is presented. In the consecutive chapter first the conception of knowledge and where it is held according to Penrose is described. In chapter three the main analysis is conducted for Nelson and Winter. The consecutive chapter then summarizes the main insights from the two readings and the findings are related to each other and used to answer the research questions.

Terminological Clarifications

In this chapter Knowledge Management and Knowledge Integration are described as conceptual terms and their origin is as much as possible lid up. First the term of Knowledge Integration is described, and then Knowledge Management is defined.

Knowledge Integration

Starting almost in parallel to the surge in the literature in Knowledge Management the field of Knowledge Integration emerged during the early nineties of the last century. During this time it had a very applied and business orientation in the sense that academia and corporate bodies found out that in the wake of the increasing globalisation in particular north-western nations would have work harder in order to maintain their welfare.

With this starting point in the field of Product development first endeavours were made to ameliorate for this situation. In the late the concept of Integrated Product Development was developed (Andreasen, 1997). These endeavours were then increasingly spread and by the middle of the nineties Integrated Product Development became one of the most important approaches for the field of innovation development (cp. Madhavan & Grover, 1996; Kuhrana & Rosenthal, 1998; Gerwin & Barrowman, 2002; Petruska, 2004).

Meanwhile, it became apparent too that communication in these integrated product development teams suffered similar obstacles as that in standard project teams, which made a search necessary as to why these frictions occurred. A first step to understand these frictions were developed by Clark (1996) and his concept of the *common ground*. Based on this idea Bromme (2000) added the concept of the *epistemic style* to understand the cultural and behavioural problems occurring in these integrated product teams.

In (1999) then Ganz and Hermann defined in a research paper the agenda for what has become for the author the starting of his

understanding of Knowledge Integration. According to them this activity should be understood as forming [...] *a common basis for communication, meta-knowledge must be established which helps in uniting different technical disciplines and ways of thinking and acting* (Ganz & Hermann, 1999, p. 35).

Operationalising this understanding the author (Krone, 2007) argued that Knowledge Integration should be understood as *Knowledge Integration (KI) as an activity [...] is a process in which individuals from different domains communicate information and knowledge in a way that the respective recipient, and the domain/project, can act based on the information/ knowledge obtained. It is an activity of knowledge generation. In the process of Knowledge Integration, the participants become aware of cultural differences that are result of their belonging to a dedicated domain* (Krone, 2007, p. 117).

Knowledge Management

In the field of business administration as a discipline Nonaka and Takeuchi are held as ancestors that really established this *discipline* of Knowledge Management. In their interpretation the authors referred to Knowledge Management as being a process of knowledge explication on an epistemological level and the scope of its application in an ontological level (Nonaka & Takeuchi, 1995, p. 58-59). From this starting point they suggest that knowledge appropriation on the side of an organisational as such cannot happen, because *[a]n organization cannot create knowledge without individuals* (ibid.).

Bearing this in mind, the wider discipline of Knowledge Management since this key statement – but also the field of the

resource based view of the corporation (e.g. Leonhard-Barton, 1995) have consistently taken the organisation as source and object that has knowledge. In particular this view has become predominant in the moment that organisations began to collect and attempted to structure their *knowledge* in order to allow for its quicker dissemination.

For Wilson (2002) the appropriation of Knowledge Management happened against a background of not clear distinctions between information and knowledge, and a clear cut definition of what knowledge would be. From his analysis he comes to the conclusion that since the late nineties Knowledge Management was understood as to entail on the one hand the distribution of information of information in any kind of organisations (see the focus on information sharing!) and on the other hand the way in which humans are involved in the process of dealing with either knowledge or information (see emphasis on the topic of management while according to Nonaka and Takeuchi organisation have much more borrowed knowledge that relies on individual employees).

After examining in more detail then also the academic field of knowledge management and its contributions, as what the author labels as being Knowledge Management phase one, Wilson comes to the conclusion that

[...] knowledge management [...] is, in large part, a management fad, promulgated mainly by certain consultancy companies, and the probability is that it will fade away like previous fads. It rests on two foundations: the management of information [...], and the effective management of work practices. However, these latter practices are predicated upon a Utopian idea of organizational culture in which the benefits of information

exchange are shared by all, where individuals are given autonomy in the development of their expertise, and where 'communities' within the organization can determine how that expertise will be used (Wilson, 2002).

It is against this background reading of Knowledge Management that the author is describing in the consecutive chapter the meaning and locus of knowledge in the work of Penrose and Nelson and Winter.

Revisiting the parents – A hermeneutical reading of Penrose and Nelson and Winter

In the consecutive two sections some of the theoretical assumptions as they are held within Penrose and Nelson and Winter are unveiled. With this step it is intended to check whether these authors really have set the groundwork for Knowledge Management. A "hermeneutical reading" of both of both is adopted.

The term hermeneutical reading, in the context of this article, refers to an interpretation of the source, which judges the content against the premise, and objective that the author has given for himself. The value and insights of a given piece of literature are measured against the premise and the objectives set, not against a theory that is inspiring the readers' approach to the volume¹. It is suggested that the work of either author(s) have

¹In a strict sense it is attempted to escape the problem described by Gadamer (1990) that all to often exegetic work of a given piece of literature happen from the point of view with the knowledge that the reader has. Thereby the reader is neglecting the fact that the author cannot have had the same knowledge as the reader, because of the progress of science (Gadamer, 1990).

to be read against their own premises, to understand whether, and how, this parent label can be assigned to either set of author(s).

In particular doubts are raised on the notion of "parenthood", because of the core assumptions that Penrose and Nelson and Winter hold in respect to the character of the term knowledge, the firm and the level of argumentation on which they expect to see knowledge being used. Key aspects which structure the reading of Penrose and Nelson and Winter will be a) the employed understanding of the firm, b) the understanding of knowledge, and its level of presence, c) the way in which knowledge is being presented as being of importance for the firm, and d) the ways in which both author(s) suggest that new knowledge is generated and where it is possessed.

Penrose's core argumentation in respect to information and knowledge

Penrose's firm

Penrose's view of the firm is juxtaposed with the theoretical concept of the firm as it used in (macro-)economics. The understanding of firms within macroeconomics is best described within the limits of the theory of value, which in turn examines how firms behave in the determination of [...] *prices and quantities produced of particular products in the individual firm* (Penrose, 1959, p. 11). According to Penrose, in the economic model of the firm, prices and outputs are used to establish [...] *the equilibrium output for a given product (or given group of products) from the viewpoint of the firm* (ibid.). This means that in the traditional theory of the firm in- and output are defined with the intention to find the optimal price structure under a given set of costs. *Growth of a firm is nothing more than an increase in the output of given products* (ibid.).

She suggests to understand firm as the [...] *flesh and blood organizations that businessmen call firms* (ibid. p. 13). This requires declining the validity of the economical model of the firm. Instead the term in its laymen understanding should be embraced. As result of this extended understanding of the firm, [...] *more attributes than are possessed by the firm in the theory of the firm, and the significance of these attributes is not conveniently represented by cost and revenue curves* (ibid. p. 14). For this purpose the firm is understood as an organisational form, in which economic activities happen in accordance with plans. These plans, so Penrose, define the utilisation of resources as contributions to the provisioning of services and goods to the economy in general. Behaviour of, and within, the firm, is pre-defined by plans (ibid. p. 15). Plans, as reflections of intended utilisation and contribution of resources and services from and to the market, are devised by a [...] *autonomous administrative planning unit* (ibid.). Due to the autonomous character, Penrose argues that this unit is just part of the overall *administrative framework* (ibid. p. 16) of the firm. The administrative framework is in her understanding the summary of the bureaucracy of the corporation, which entails policies, decisions rights, work distribution, and [...] *managerial and supervisory functions* (ibid. p. 17).

While she argues that this framework need not to be exhaustive, she stresses that this overall arrangement is required in order to prevent chaos when certain decisions are made. Based on this rudimentary description of administrative framework, it is possible to argue that this is sufficient close to the author's understanding of organisational structure. Therefore in the continued description of Penrose's administrative framework is

said to be synonymous with organisational structure.

This aspect is insofar important, as the argument provided by Penrose suggests that this structure is part of the resources and services available to the firm (ibid. p. 16). In her understanding the administrative planning unit is equal to *central management* (ibid.), which was referred to, based on Holmstrom and Tirole, as *neutral arbitration instance* (Holmstrom & Tirole, 1989, p. 123-4) whose decisions and rules should be obeyed to, and implemented in the firm. Apart from the organisational structure, the firm is described by the existence of [...] *productive resources the disposal of which between different uses and over time is determined by administrative decision* (Penrose, p. 24).

The resource in its character is described by its capacity to render services to the production process, which might be store able. Furthermore, and being the differentiating factor between resources and services, Penrose argues that:

[...] *resources consists of a bundle of potential services and can [...] be defined independently of their use, while services cannot be so defined, the very word service implying a function, an activity* (ibid. p. 25).

She points out that services that are inherent in a resource are brought to the fore pending on the utilisation of them. This means that the way in which a resource is used, defines the value to the firm (ibid.). This is related to the other characteristics of resources. Resources are, Penrose suggests, either tangible or human (ibid. p. 24).

Tangible resources can be quickly and completely used in the production process.

They can be the basis for further intermittent products (with service characteristics), or they wield same services over a long period of time. They could be, based on this characteristics, bought in the market, produced in the firm, sold to the market, or be produced and only of use to the firm (ibid.). Humans, irrespective of their level of proficiency and level of integration into the firm, are also potential resources. For Penrose potential obsolescence of human resources at a given point in time is irrelevant, as she considers resources in their overall capacity to deliver services (ibid. p. 24-5).

Below the aspects of knowledge and what it means in the work of Penrose, as well as the description of its importance are discussed jointly. For the author this seems useful, since Penrose discusses knowledge capabilities more as an extension to the managerial unit, than as a topic on its own right. Furthermore, and potentially even more important, Penrose is not concerned with the concept of knowledge per se. Rather, she is interested to understand how the application of resources and services rendered from these were dependent on each other. In the development of this notion also a description of the term of information, and its importance for management, is included. Such a step seems appropriate, as Penrose operationalised information and knowledge in two very different ways. Information she relates to uncertainty minimisation, while knowledge is contextualised with resources and services.

Penrose and knowledge

Penrose differentiates two kinds of knowledge. One kind is acquired during

formal education, while a second is result of individual learning processes. Former is in her description *objective knowledge*. Objective knowledge is on the one hand characterised by a level of specificity that is not too narrow, and on the other hand a sufficient large group exists that shares this objective knowledge (ibid. p. 53). While she agrees that people have different degrees of knowledge about this objective knowledge, she refused to accept that differences, which are result of communication processes, are accounted as giving rise to dedicated different sets of knowledge. The knowledge acquired by the individual learning processes, which Penrose labels as experience, is different for two reasons: first it is bound to individual's,

[...] it produces a change – frequently a subtle change – in individuals and [second, it] cannot be separated from them (ibid.).

She argues that experiences are results of actions taken. Due to this action-orientation experiences lead to an enhanced understanding of where and how objective knowledge can be employed.

Penrose suggests speaking of experiences in individuals, if they have acquired new knowledge, and if they are in a position to employ objective knowledge in different ways. These differences are in her account quite small, because all too often the making of experiences, and thus the generation of individual knowledge is dependent on the existence of objective knowledge in the field in which experiences are made.

Based on Penrose's point of view firms' administrative planning units are often subject to uncertainty about actions to be taken. Some coping strategies used to overcome these uncertainties are of rather low profile (e.g. purposeful underestimation of potential

market chances), other relate back to the rendering of services (ibid. p. 56). She defines uncertainty as a subjective feeling, which is result of two fundamental different sources.

One source is of innate nature and is reflected in the temperament. The other source is result of lack of information about a certain field of actions. Penrose argues that subjective uncertainty is a [...] *feeling that one has too little information [that] leads to a lack of confidence in the soundness of the judgments that lie behind any given plan of action* (ibid. p. 59). In this understanding information are collected as means to obtain a better view on the potential sequences of activities to be taken during the implementation of a given plan. Information are in this understanding devices hinting to factors affecting potentially the implementation of a given plan.

In this line of argumentation Penrose asserts that the acquisition of information

[...] requires an input of resources, and to evaluate information requires the services of existing management. Therefore one of the important effects of subjective uncertainty is to induce a firm to devote resources to what might be termed 'managerial research (ibid.).

The amount of information gathered varies on an individual firm basis, but Penrose argues that even after a comprehensive search firm are taking risks: but on a much more informed basis and thereby being less uncertain.

Over time the firm becomes used to this type of information gathering. In turn specified amounts, and types, of information are selected by agreed upon [...] *defined procedures* (ibid. p. 60). These procedures are satisfying the managerial groups' need for information gathering, and are used in the

decision-making. The fulfilment of the procedure in itself ensures the validity of the information (ibid.). As these gathering procedures are standardized across a given industry they give way to the emergence of consultants. To the extent that managerial research is taken over by either other resources, or the managerial unit has obtained enough experience in them, the firm can open up new paths of growth.

Therefore Penrose suggests that the growth of the firm is running in a cycle which consists of 1) the hiring and training of new managerial staff, 2) the development of expansion plans, 3) the collection of information to cope with increased uncertainty in respect to the projected growth path, 4) managerial research and 5) enactment and supervision of growth (ibid. p. 61).

Penrose suggests that *diversification* of the firm into new areas of business is not an inherent obstacle to take such an approach. Rather the management unit will spend more time with this cycle, but it will not halt growth. The growth path of an organisation can only be interrupted if no more managerial capacity is able to perform either activity from those described above (ibid.).

Where knowledge is stored

Penrose argues that experiences made by the individual, and also on the side of the managerial group, give rise to changes in the administrative organisation in order to allow for further growth of the firm. This means to her that individuals take actions to disband [...] *managerial diseconomies* (ibid. p. 55). In this perspective experiences are used allowing for new courses of actions. These can lead

to subdivision of work or decentralisation of decision-making. Penrose insists that the making of experiences of managerial dis-economies precedes the implementation of corrective measures (ibid.). As experiences are result of actions taken previously, she argues that the making, or attainment (?), of knowledge can happen already when the firm is performing its regular operations (ibid. p. 56). In this understanding [...] *the productive opportunity of a firm will change even in the absence of any change in the external circumstances or in the fundamental technological knowledge* (ibid.).

Thus, the execution of a given plan, as devised by the administrative planning unit, and its guiding managerial team, give rise to the development of further options for expansion due to won experiences by implementing a given plan. It seems not implausible to argue that Penrose suggests that the execution of a planned activity give rise to new knowledge elements. She then elaborates further on the idea of firms as planning bodies and supposes that these planning exercises are dependent on the [...] *co-operation of many individuals who have confidence in each other, and this, in general requires knowledge of each other* (ibid.). In consequence firms can not exceed a natural pace of growth when attempting avoiding inefficiencies in the firm and in the utilisation of resources and services. The experience of cooperation among current management with new staff cannot be compensated by organisational structure, even if optimal designed. Penrose describes the cooperation of new hired staff with the existent managerial group [...] *as a process creating new productive services available to the firm* (ibid. p. 48).

Due to the focus of Penrose onto growth, as being a collective planning exercise in an administrative organisation, and the dependency of managerial decision making and planning on confidence and knowledge, she argues that managerial activities are a generic service that is required in each firm. Therefore, it does not wonder that Penrose describes the managerial service as having potential to grow.

The growth that she ascribes to managerial services is tied to intermediate steps included in the managerial organisation (ibid. p. 51). In her account, much of the growth of the managerial service is entailed in delegation of authority and accompanying decentralisations measures in the corporation. These steps are taken to ensure further expansion. This means to Penrose that the growth of the managerial service is dependent on the continued development of the administrative organisation, and managerial staff that is trained in interaction with senior staff (ibid.).

In line with general decision-making models Penrose argues that the authorities of lower levels are always bound to context, and as consequence the overall decision-making authority, on a nominal level, is always centralised at the top of the firm. But even then managerial staff is facing decision-making situations in which nothing could replace the experience of making decisions as a team, which are also coherent across the organisation, and thus allow for efficient and confident execution of growth plans (ibid. p. 51-52). In due process of the integration of new staff into the organisation, and by placing them in respective decision-making positions, they learn to adapt to the firm, thereby a mutual experience-making situation is generated. Penrose suggests that the learning

process described above allows the individual, as well as the management group, to become more valuable to the firm. [...] *The services they can render are enhanced by their knowledge of their fellow workers, of the methods of the firm, and of the best way of working* (ibid. p. 52). She argues that during the phase of integration into the corporation the executives are also integrating themselves into the organisation. This allows over time that same activities are performed with less effort, and thus options for new services are rendered (ibid.). Experiences gained during the process of immersion also includes [...] *knowledge of the possibilities for action and the ways in which action can be taken by the group itself, that is by the firm* (ibid.).

Nelson and Winter's and concepts in respect to information and knowledge

The firm for Nelson and Winter

The model of the firm that is informing Nelson and Winter is [...] *motivated by profit and engaged in search for ways to improve their profits, but their actions will be assumed to be profit maximization over well-defined and exogenously given choice sets* (Nelson & Winter, 1984, p. 4). The profit maximization is taking place by weeding out firms that are not working profitable in a given market, and the profits themselves are result of the utilization of [...] *certain capabilities and decision rules* (ibid.) which any firm possesses, and that have accumulated over time. For Nelson and Winter these capabilities and decision rules, are the means with which firms are attempting to keep abreast in a given market, and markets define which of these capabilities and decision rules are economic viable (ibid.).

Nelson and Winter, just as much as Penrose, decline the unrestricted validity of economics model of the firm. Furthermore, they suggest that production techniques and decision rules can be regarded as being sufficient similar to consider these as being routines. They perceive routine as an expression of [...] *all regular and predictable behavioral patterns of firms* (ibid., p. 14). In their words routines are best conceived as being the same as [...] *a persistent feature of the organism and determine its possible behavior [...]; they are heritable [...], and they are selectable in the sense that organisms with certain routines may do better than others [...]* (ibid.).

Firms deviate from each other because of stochastic deviations in their routines (ibid., p. 15). As a consequence the thread to explain these deviations becomes of interest to the field of Knowledge Management. According to Nelson and Winter the stochastic deviations are result of organisational quarrels and attempts to forge compromises, or of attempts to cope with certain courses of events within organisations under the condition of crisis (ibid.).

Knowledge and Nelson and Winter

For Nelson and Winter the premise of their analysis of knowledge is not to understand knowledge in its own right, but the assumptions held within orthodox economics about determinants of *firm's production set* (ibid., p. 60). Nelson and Winter cite the answers given by orthodox economics were that these production sets are determined by the firms knowledge to be able to change the state of certain [...] *commodities into products* (ibid.). According to Nelson and Winter the

concept of knowledge is less defined in the field of economics. They argue that if knowledge is seemingly the cornerstone of the firm, this issue is under-researched, and quit open for discussion. The understanding of knowledge that Nelson and Winter identify in economics is one in which knowledge is referred to as [...] *a way of doing something or technological knowledge* (ibid.). Ultimately, so Nelson and Winter, knowledge seems to be something that is contained in *blueprints*, or knowledge that is held by [...] *engineers and scientists* (ibid.). They argue that knowledge is associated with a notion of being shareable, because of the characteristic to be *articulable and [being] articulated* (ibid.).

In stretching the economics account of the knowledge basis of the production basis further, they question the assumption that the production basis is stable, or the costs of engaging in such processes are indefinitely high and thus unreasonable. By suggesting these kinds of answers, orthodox economics is becoming incapable to explain firm variations on the one hand, and have to take the blueprints for granted on the other (ibid., p. 61). From this starting point Nelson and Winter, become interested to learn about three basic questions, 1) where technological knowledge resides in firms, 2) what defines the boundaries of firms ability to manufacture (irrespective of service or good), and 3) how societal and firm knowledge are dependent on each other, if so at all (ibid., p. 62).

Nelson and Winter argued that corporate knowledge can not be contained in blueprints and minds of *knowledge specialist* (ibid.). Reason is that either source

[...] do not contain an exhaustive account of the methods involved in the actual exercise of a

productive capability. As a matter of fact, blueprints often are quite gross descriptions of what to do, and seldom define a detailed job breakdown, much less provide how to do it instructions at the job level (ibid.).

Based on this view Nelson and Winter suggest an account of blueprints as being indicative of jobs to be performed, while the knowledge of the transfer activities is stored somewhere else. Reason for this for split is the logical economic background that

[...] cost considerations clearly limit the extent to which organizations maintain records of their methods and activities, and the records actually maintained are much less complete than they logically might be (ibid.).

The notion that knowledge is contained in the minds of *chief engineers* is equally harsh refuted. The main reason that Nelson and Winter bring forward rest in the human incapacity to know, as an individual, all the tasks that are required to keep a manufacturing site running. In particular this is true with respect to the coordinative and relational aspects of the different elements that have to be combined in order to produce any good (ibid., p. 62-63). As a consequence Nelson and Winter suggest that

[...] the possession of technical 'knowledge' is an attribute of the firm as a whole, as an organized entity, or even to any simple aggregation of the various competencies and capabilities of all of the various individuals, equipment, and installations of the firm (ibid., p. 63).

Here they echo the system theoretical commonplace, that the whole is more than the sum of the single parts together. But there is something different in their description. It

is the fact that they are distinguishing between competencies and capabilities, which have to be activated. In this understanding, and using the analogy to Penrose, they seem to suggest that any firm has resources, but the knowledge to render services from them is setting them apart.

Where knowledge is kept

I. Skills

Nelson and Winter argue that

[...] the behavior of an organization is [...] reducible to the behaviour of the individuals who are members of that organization. Regularities of individual behaviour must therefore be expected to have consequences, if not counterparts, at the organizational level (ibid., p. 72).

In more detail they suggest that routines are equivalent to individual skills. Therefore they propose understanding organisational behaviour by observing individuals behaviour (ibid., p. 73).

In turn a skill is defined as

[...] a capability for a smooth sequence of coordinated behavior that is ordinarily effective relative to its objective, given the context in which it normally occurs (ibid.).

This means for them that human skills can be used in different occasions, and then allow for actions options. The element of choice (the action option) is for them crucial as it is suggested that behaviour is not determined. The utilisation of a skill is differentiated into different tasks that make up a dedicated skill. In short they argue that skills are rather sequences of activities that individuals follow automatically once a decision has

been made to use it (ibid.). The utilisation of a skill, and its enactment in a situation should be understood to be driven by "tacit knowledge" (cp. here Polanyi, 1966, p. 61; Schön, 1982). The element of choice in the enactment of a skill is of importance to the extent that these choices take place unconscious. Nelson and Winter argue that the

[...] the exercise of a skill typically involves no deliberation and it is constituent of the capability the skill represents (Nelson & Winter, p. 82).

Therefore the utilisation of a skill always means more the execution of the underlying behaviour components, than the skill itself. In spite of this alleged automatic character of choice, Nelson and Winter shed light to the phenomenon that often real choices are available.

These dependent on the *[...] frequency with which the unit of behavior occurs (ibid.)*. They propose that modes of behaviour are selected actively when they occur less often. Describing in more detail the problem of skills, and the related element of choice in orthodox economics Nelson and Winter argue that *[...] skillful acts of selection from the available options are constituents of the main skills itself: they are choices embedded in a capability (ibid., p. 84)*. It is actually very intriguing that this description of skill is quit close to the notions held within self-efficacy theory, and the process of actualisation of skills by using the underlying knowledge structures that are making up a particular skill (Bandura, 1997, p. 34).

Nelson and Winter close the description of individual skills suggesting that the utilisation of a skill always represent a

[...] tradeoff between capability and deliberate choice [...]. The advantages of skills are attained

by suppressing deliberate choice, confining behavior to well-defined channels, and reducing option selection to just another part of the programme (ibid., p. 85).

In respect to the utilisation of skills, and the underlying work structure of these, they ask keeping in mind that these are often characterised by a complexity difference between the knowledge of a skills on the individual's side, and the realisation of these activities. Therefore they argue that it is important to distinguish

*[...] the scope of the capabilities possessed by an individual – namely, the distinction between 'knowing how to do X' and **knowing how to get X accomplished*** (ibid., p. 86).

Based on this distinction they propose that the planning of an achievement can be considered as being a skill in its own right. It encompasses the knowledge about the regular boundary conditions under which a given skill regularly is be actualised, and by whom (ibid.). Nelson and Winter refer to this element of skill utilisation as *planning vocabulary*. With this assertion they point to the social embeddedness of skills. This means: They suggest that the activation of skills by others is a dependency of an individual's knowledge which skills, or activities, are required to perform an activity on their behalf (ibid., p. 87). Therefore it can be said that the utilisation of skills, either individually, or on a collective level, is a dependency of the knowledge that skills are 1) socially spread, and 2) that skills, in order to be activated from others, had to be referred to by their name (ibid.).

2. Organisational routines

From the authors perspective it is important to recognise for which set of

organisations Nelson and Winter describe organisational capabilities. Reason is, that they indicate that capabilities are bound to the fact that

[...] organizations that are involved in the production or management of economic change as their principal function [...] do not fit neatly into the routine operation mold (ibid., p. 97).

Furthermore, it has to be recognised that Nelson and Winter apply their concept of routines to *organizations that are engaged in the provision of goods and services that are visibly the same over extended periods [...] and [...] routines structure a large part of organizational functioning at any particular time* (ibid.).

Therefore, in an approximation they suggest that the routines of an organisation shape its behaviour, just as much skills shape individual behaviour (ibid., p. 96). This idea leads them to propose understanding routines as storage for organisations operational knowledge. The knowledge stored within routines is actualised by the implementation of routine. *[O]rganizations remember by doing- although there are some important qualifications and elaborations* (ibid., p. 99). Nelson and Winter suggest 1) that organisations rarely describe all their steps of routine actualisation and 2)

[...] cost considerations make 'doing' the dominant mode of information storage even in many cases where formal records could in principle be kept (ibid.).

In this respect it is not wrong if one summarises routines as organisational memory.

Given the social character of organisations, and thus also of execution of routines, Nelson and Winter ask readers' understanding that for the purpose of routine activation

it is sufficient if individuals working in a particular job know how to perform their particular part of the overall job, and continued to do so over time (ibid., p. 100).

This knowing one's job includes the [...] *ability to receive and interpret a stream of incoming messages from other members and from the environment* (ibid.). Based on these information individuals' select appropriate routines from their own job description. Thus, it can be argued that the performance of organisational routines is guided by specific routines in the contributing elements. The messages that Nelson and Winter suggest as trigger for activation of sub-routines refers back to the social constructedness of work (cp. Crabtree, 2001, pp. 11-2). In this sense, to take up an additional aspect of Nelson and Winter which can be questioned, it seems as if they interpretate the notion of *tacit* knowledge along the lines of Tsoukas (1996, 2003) and Cook and Brown (1999).

Co-workers' reactions towards triggers, are on the one hand side job-specific, and on the other

[...] abilities that usually characterize an organization member quite apart from his role in the organization – that is, they are sorts of things a new member typically brings to the organization (ibid., p. 101).

Accordingly it can be said that Nelson and Winter point out the distinction between necessary and ample capabilities. Based on this premise it does not wonder them arguing that employees in the organisation have to be able to interpretate the incoming message as a trigger for an activity (ibid. p. 102). This interpretation has to include for them an understanding of the overall societal language spoken as well as the capability to have [...]

command of the organizational dialect (ibid.; cp. Krone, 2009) Taking a wider perspective, the capability to take action based on incoming messages is the equivalent to the arousal of a cycle of information processing activities, which lead to the execution of a capability (or routine) as a coordinated activity (Nelson & Winter, p. 103). This coordinative character of routines can only be achieved if the contributors to a routine are knowledgeable about their role to play. Therefore Nelson and Winter suggest that if routines work as a coordinative activity, routines rest on the smooth interaction of [...] *skills, organization, and 'technology'* [...] (ibid., p. 104).

From this point they suggest that [...] *the knowledge an organization possesses is reducible to the knowledge of its individuals members* (ibid.). However, the information that humans have stored about processes and how to react towards information in a given set of activities

[...] is meaningful and effective only in some context, and for knowledge exercised in an organizational role that context is an organizational context (ibid., p. 105).

Employees' knowledge and skills, as far as they relate to the work sphere, are bound in their effectiveness to the interpretative capabilities of their peers' as to what their input is in the realisation of a given routine. Knowledge of an organisation, or as Nelson and Winter say, *organizational memory* is result of

[...] shared experiences in the past, experiences that have established the extremely detailed and specific communication system that underlies routine performance (ibid.).

The generation of knowledge

Given the author's understanding of the argumentation provided by Nelson and Winter, different forms of knowledge generation in the organisation exist. They all relate, and this needs to be stressed, to changes in the organisational routines. Therefore one could argue that knowledge generation is happening based on, and within, the exercise of routines.

1. Mutation

Acknowledging Nelson and Winter's argument that routines contain an element of control, which is performed by several actors in the organisation, e.g.

personnel department and by trainers, supervisors, and co-workers, or, for non-human inputs, by engineers or production workers (ibid., p. 109-115, here 115)

one still needs to consider those elements in the execution of routines that lead to the occurrence of deviations in the routine. These deviations can be triggered by the loss of key staff that might have been the sole storage of a particular set of information for the execution of a routine sub-task (ibid., p. 115). In due process to fill this gap in the routine, the different participants in the overall routine will re-assemble the routine based on their knowledge and information about the tasks at the empty place, by doing so the overall routine will "mutate" (ibid., p. 116). Another reason for changes in the routine can be result of purposeful redesign of the routine, based upon an agreed *change routine*. While these change routines can be an organisational *programme*, Nelson and Winter strongly argue that these can originate in individual steps taken by a single part. This,

on a whole, could result in overall ineffectiveness's. In turn, and extrapolated from the argumentation of routine change caused by key employee losses to the organisation, Nelson and Winter argue that often the control mechanism enshrined in the existent routine are so strong that [...] *organizations tend to resist mutations, even ones that present themselves as desirable innovations (ibid.)*.

2. Replication

It has to be kept in mind that Nelson and Winter bring forward a critique on the orthodoxies of economics, and the assumptions held within it as far as the processes in the individual firm are considered. In particular they argue that the notion of identical replication has it cracks empirically (ibid., p. 117-118). The transfer of a routine can be considered as device that helps organisations to perform similar routines in different spatial settings, because they have established the routine in question once (ibid., p.119) according to Nelson and Winter. Based on this premise they suggest that routines are used in the future as a template for new sites, if these routines are set-up for a) either manufacturing purposes, or b) the execution of services that are already in the organisational portfolio (ibid., p. 119-120). Based on the template characteristics of the existent routine, and its underlying control mechanism, in the process of transfer, mutated routines will be set-up. Reason being that the organisation will have to fill gaps in knowledge based on the decline of incumbent employees

[...] exercising complex skills with large tacit components, [...]. Others may have skills of lesser complexity and tacitness, but be very poor at teaching those skills to someone else – doing and teaching are, [...], different (ibid., p. 121).

Another set of reasons that they establish as causes for mutations is the unwillingness to share knowledge about the true character of work. Here again an aspect can be re-observed: It is the problem that Hinds and Pfeffer referred to when describing the problems of knowledge from professionals to new comers in any given field (Hinds & Pfeffer, 2003, pp. 4-26, in particular, pp. 4-10 and 17-21). Also Nelson and Winter consider the social embeddedness of routines as an explanation for the occurrence of mutations.

It should have become apparent by now, that for Nelson and Winter knowledge is contained in the routines of the organisation, and humans who are executing the routines. As the understanding of inputs is dependent on rather general available skills (speaking the same native language, understanding hand-signs etc.), it seems to be possible to distinguish between four knowledge sets.

The first knowledge set consists of the individual capacity to develop, train and execute skills and their contributing sub-skills. The knowledge to understand a native language and to know when which general behaviour is expected in society is a second distinctive set. Understanding the language of the organisation, and being able to activate individually skills that are fitting the input of the routine is the third and last individual knowledge set. Individual knowledge can thus be so specific that it is not useable in other contexts than that of the organisation in which they are employed. The capability to assemble all the individuals' contribution into the routine, and coordinate these so that they lead to a final product in a monitored (controlled) way is the knowledge that

Nelson and Winter ascribe to the organisation. One could argue that the existence of corporate routines is a symbiotic relationship between the individuals' skills and the organisational processes to achieve the production of a given product.

3. Searches

According to Nelson and Winter the generation of innovations is not far away from the execution of routines. In their opinion the generation of innovations is characterised by uncertainties (ibid., p. 128). Nelson and Winter suggest distinguishing two kinds of uncertainties. One of them refers to the outcome that can be achieved as results of the innovation process itself, and the other is describing the changes induced by implementing the innovation in the existing organisational routines (ibid., p. 129).

For Nelson and Winter innovations are active searched for in the process of routines. Innovations may well take their origin from routines employed in an organisation. This means:

Problem solving efforts that are initiated with the existing routines [it has to be remembered that they suggested a hierarchy of routines which control each other] as a target may lead to innovation instead (ibid., p. 130).

This argument suggests that the generation of innovations is part of a higher-level routine existing in an organisation. Its execution is triggered by anomalies in lower-level routines, but the function of the higher-level routine in itself follows routine characteristics (ibid., pp. 129-130, pp. 132-134). Based on this routine like character of the search for innovation, and the fact that the innovation

might contain elements of the current operational routine, they propose that existent routines can become part of innovations. This integration of existing routines into innovations happens as these are known in terms of their necessary input and their potential outcomes. Routines are process elements that are sufficient robust and functioning and can hence be re-employed. Furthermore Nelson and Winter suggest that the innovation in itself is described on its substance in more precise terms than *blueprints* or individual skills (ibid., p. 130).

Searches for innovations are limited in terms of scope (ibid., p. 247-248). In elaborating this argument, Nelson and Winter propose that the search is described by *topologies*. Topologies they define as fields of knowledge within which innovations are sought. This means that with the knowledge on some of the characteristics of a technology, research staff can define and delimit its search for alternatives. By knowing certain characteristics, staff can define areas in which a given new technology can be used within the organisation. Therefore the [...] *technological dimensions, such as size, chemical composition, or thermodynamic cycle employed* (ibid., p. 248) define boundaries within which the search for utilisation within the organisation happens. By pursuing these topographical confined searches, organisations' knowledge sets will change. These changes occur in the area of the technological dimensions of the technology at hand, and/or

[...] *there will be certain previously undiscovered or uninvited technologies that become known and certain previously undeveloped technologies that have been developed sufficiently to permit their implementation* (ibid., p. 249).

Summarising Nelson and Winter on knowledge

From the author's point view Nelson and Winter describe a process of knowledge generation that rests on the understanding of knowledge as the tripartite hierarchy of data-information-knowledge. Having said this, and considering the distinction of skills and routines, it does not become quite clear how this appropriation of Nelson and Winter for the purpose of Knowledge Management can have happened.

Of course it can be argued that the description of routines, as being expression of (organisational?) knowledge, allows for that appropriation. But the questions to be asked then are a) if corporate Knowledge Management is about the appropriation of external knowledge into the organisation, which role do individuals play, and 2) what is it that knowledge is about?

Answering latter question first, it seems useful to understand knowledge in the definition of Nelson and Winter as being the capability to perform certain actions based on given external, or internal, information to achieve a certain aim. The capabilities employed to achieve a given aim, are activated at least partially subconscious. Some of the capabilities are owned by individuals'. These routines are bound in their utilisation to social settings that provide a meaningful frame for the utilisation of these. Knowledge is also the possession of *objective knowledge* about nature or societal phenomena.

Conclusions - Knowledge Management and Knowledge Integration

To answer the question about individuals' role in the appropriation of external

knowledge into the organisation conveys, in the author's point of view, an oxymoron: Knowledge Management. It should have become apparent, based on the above description of the main ideas of Penrose and Nelson and Winter, as far as they related to Knowledge Management, that there is a contradiction in terms. Penrose, as well as Nelson and Winter show that knowledge in the first instance is available, and used, on an individual level. When taking a hermeneutical reading of both set(s) of authors, it becomes apparent that in either case knowledge is not a central object of their analysis. Furthermore, and even more important, both suggest that knowledge is a device for the realisation of other things. To bring Nelson and Winter under the heading of Penrose, it could be argued that both are concerned with the capability how knowledge can be employed to generate further services.

This line of argumentation rests on the insight, that Nelson and Winter, as well as Penrose very strongly approach knowledge based on an individual basis. This means, just as described in the definition of Knowledge Integration, that both conceive knowledge as being in the first instance a property of an individual. Furthermore, and this is the main aspect for the incongruity argument, Knowledge Management, as suggested by for example Nonaka and Takeuchi (Nonaka & Takeuchi, 1995), rests on the assumption that knowledge, once brought to the organisational level, is immediately accessible for taking actions. Meaning differences are considered as problematic only to the extent that they are to be solved by the utilisation of metaphors, myth etc.

In addition, it is thought that technical means are sufficient to allow, in the example of Nonaka and Takeuchi to provide options, for the generation of innovations. Pfeffer and Sutton (2000), in their account of the *knowing – doing* gap, take issue with the very consequence that often corporations have used Knowledge Management in the explicit/tacit understanding

[...] to build stock[s] of knowledge [and information], acquiring or developing intellectual property (note the use of the term property) under the presumption that knowledge, once possessed, will be used appropriately and efficiently (Pfeffer & Sutton, 2000, p. 16).

The hermeneutical reading of Penrose and Nelson and Winter suggests a very different picture. In the first instance it becomes apparent that the social embeddedness of knowledge is recognised, and that seldom two people share exactly the same sets of knowledge.

Looking in more detail into the argumentation that Penrose provides, a compelling argument can be made. She suggests that the service character of management of the organisation is dependent on the availability of shared knowledge about each, and what each other in the unit knows. When taking this aspect onto a more abstract level, the incongruence of the discussion of Knowledge Integration and Knowledge Management is becoming most apparent. Penrose suggests that not all partners in the managerial unit have the same knowledge, and this can be due to differences in understanding of a collectively available set of knowledge. Because of this, the managerial group has to become known to each other.

Knowledge Integration as a research fields suggests, as one of its core premises, that no people from different fields share the same understanding of information, nor even share knowledge sets. This is due to the character of knowledge in its tripartite understanding. When people engage in the process of product development, the knowledge possessed by one is information for somebody else. The argument that can now be provided is:

I. Knowledge Integration, as being the process of generation of discipline independent knowledge, changes the knowledge of a particular participant in the project, which is information for others into a shared set of knowledge. In due process of the integration process a new meaning to the knowledge elements is generated on a collective level. Setting this idea equal to the terminology of Penrose, it can be said that the activity of Knowledge Integration, by its collective character, is the rendering of a new service based upon *shared information*, due to the fact that a set of information is potentially only for one participant knowledge.

II. Knowledge Management, however, seems not to appreciate the fact that it employs a term of knowledge that is neither describing what knowledge is on a substance level, nor does it seem to be willing to recognise that differences in the available knowledge on an individual level exist.

It seems as if proponents of Knowledge Management work on the assumption from Penrose that there is a set of objective knowledge that is available to all. That this picture is wrong can be seen based on the fact that other means are looked for that allow for

knowledge sharing. Knowledge Sharing, in its own right is as well short in explanatory power up to now, as it has rarely taken into consideration the issue of knowledge differences based on socialisation. There are some exemptions to this general statement, but in broad terms much more has been written about the motivational difficulties attached to knowledge sharing.

Authors taking up this problem of information understanding, understood as conversion of information into knowledge, are usually arguing also, and interestingly, much more based on information. This holds in particular true for the works of Lichtenstein & Hunter (2005) and Markus (2001). In addition it seems as if authors that are arguing in the field of Knowledge Sharing employ the Data-Information-Knowledge hierarchy. Therefore, to conclude, it seems as if knowledge is better understood as having a process character. The discussion on the aggregate modes of knowledge (tacit vs. explicit according to Nonaka and Takeuchi, 1995), in the author's view, prevents to see the real substance that is at stake.

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Gakumon-Ryoku and Japanese style of management - does our management style matter?¹

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Abstract : This paper highlights a new style of development learning, the so-called “Gakumon-ryoku”, and its application to the Japanese style of management. “Gakumon-ryoku” is the capability and commitment or (free-will) to awaken and share freedom (lifestyles) by learning and asking about our thoughts and feelings through the Value-Conscious Matrix (VC Matrix or simply VCM for short). This enlightens and vitalizes our thoughts and feelings, and can transform us by creating a new identity for us as Development of Co-creative Alive Beings, or D-CAB. This eye-opening experience was examined with the Japanese style of management (JM in short) and has brought us to become aware of the essence of JM spirit of TO BE ONE. To the question, “does our management style matter”, this paper has answered “Yes”, not because this is not economically or rationally efficient, but because it has been confined to it and has not been examined in the light of the JOY criterion including efficiency. What really matters is not whether or not to follow the Japanese style, but the fact that the quality of life, or Joyful or not matters in our management style. We learn that the Japanese style of management has both unique and universal features, and we, as human beings, can share its universal value of JOY of service.

Keywords: development learning, gakumon ryoku, capability, commitment, Japanese style of management, and joy of service.

1. Introduction

I would like to share with all of you a new style of development learning, the so-called “Gakumon-ryoku”, which has been practiced for some years now in Japan, India and USA (I published a book in Japanese

on the subject in 2007). Let us explore it by focusing on the Japanese style of management. To experience and acquire “Gakumon-ryoku” results in creating the sustainable mind, which provides a clue to finding solutions for business and lifetime success in an era of economic and social crises. This short

paper highlights the challenge of “Gakumon-ryoku” and its application to the Japanese style of management under the following headings:

- What is “Gakumon-ryoku”?
- Why is it important in Japan and in global society?
- “Gakumon-ryoku” as the development of capability and commitment (free-will)
- The application of “Gakumon-ryoku” to the Japanese style of management.
- The outcomes and implications of Gakumon-ryoku.

2. Conceptual Background: What is “Gakumon-ryoku”?

“Gakumon-ryoku” is the capability and commitment (or free-will) to awaken and share freedom (lifestyles) by learning and asking about our thoughts and feelings through the Value-Conscious Matrix VC Matrix or VCM. This enlightens and vitalizes our thoughts and feelings, and can transform us by creating a new identity for us as Development of Co-creative Alive Beings, or D-CAB.

D-CAB is carried out with the VC Matrix, which is the synergy space where sharing ideas and values are shared with mutual respect, without any violence, providing us with a common platform to gain the free-will in order to learn from others and to ask questions of ourselves. This development learning makes us aware of the hidden meanings and dangers in our lifestyles, and allows us to discover the Value to be shared, which can bring all of us real joy in life. It offers the gifts of problem-finding or awareness

capability and vitality in life.

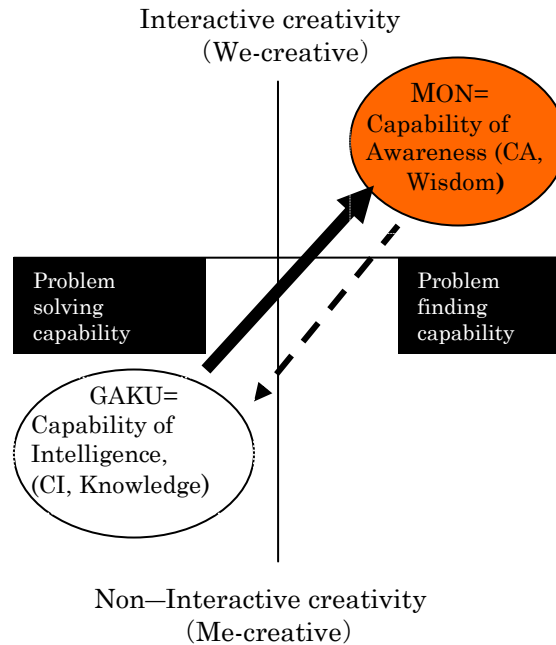
The Japanese term “Gakumon” is made up of two parts; ‘Gaku’ (or ‘Manabu’) means learning, and ‘mon’ (or ‘Tou’) means asking or inquiring. Higher educational institutions like universities have been established, in principle, to pursue “Gakumon”, the learning and inquiring that leads to Truth. But, as time has passed, they have virtually become “shell institutions” as described by A. Giddens (1999)². That is, the ‘mon’ part has been disappearing from places of learning. As a result, a system of Gaku-ryoku (a passive learning style, without the ‘mon’ part) in academic performance has become, by and large, overwhelmingly predominant in Japanese academic institutions. The conceptual difference between Gaku-ryoku (Capability of Intelligence, CI) and Mon-ryoku (Capability of Awareness, CA) in the VCM matrix is presented in **Figure 1**.

This VCM, or Gakumon matrix, is formulated using two criteria; one is the “problem” cognitive criterion, and the other is the “creativity” cognitive criterion. In the “problem” cognitive criterion, there are different perceptions and expected capabilities between Gaku-ryoku or Capability of Intelligence (CI for short) and Mon-ryoku or Capability of Awareness (CA for short). CI presumes that problems are a priori given by others, and these are felt to be bad and hateful things, like Japanese term “monдайji” or problem children, environmental problems, examination questions and so forth. CI is therefore expected to have a problem-solving capability in order to combat and solve such problems in an efficient and accurate fashion. On the other hand, CA is a problem-finding capability, where the assumption is that a problem is perceived not only as something bad or hateful, but also as something good or

loving. Therefore, CA is to awaken the 'problem' which is seen as the perceptual gap or

distance visualized in the Value-Conscious Matrix (VCM).

Figure1 Difference between Gaku-ryoku (Capability of Intelligence, CI) and Mon-ryoku (Capability of Awareness, CA) in the VC Matrix



Source: compiled from H.Oba (2007).

In the “creativity” cognitive criterion, CI is Me-creative, and expected to develop personal natural talents by oneself, whereas CA is We-creative, developing creativity through interacting and collaborating with others. CA is based on the idea that it is impossible for any individual person to live creatively without interacting with others. In an extreme case like, for instance, that of Robinson Crusoe, who drifted onto an uninhabited island, even he was not alone and could be creative in his living, because he could interact with the other, the God, Almighty.

Therefore, in this VC Matrix, CI is expected to have a problem-solving and Me-creative capability, whereas CA will have a problem-finding and We-creative capability. In other words, CI is a personal asset of mapping knowledge in one’s brain, whereas CA is common asset of wisdom by mapping values to be shared among participants. CA should be more focused on considering ways of life, or lifestyles, because it not only generates the motivation to live by polishing reasoning and sensitivity, but also makes it possible to take action in a matrix way or

with compound eyes of thinking like the eyes of a dragonfly, a fish like a salmon knowing a direction in life, and a bird's-eye view.

3. Why is it important in Japan and in global society?

The idea and method of Gakumon-ryoku has been developed and given form through my practical experience of teaching at universities and government sponsored institutions over nearly twenty years (since 1991). In the process, I have found that the university students in Japan have, by and large, lost their mind and/or passion for raising questions in the classroom. In a society with expanding choices of freedom, they suffer from the so-called the "paradox of freedom", for where there is more freedom to choose, the more the young generation in Japan has become un-free. Their mind and/or passion for raising questions are now chained. Broadly speaking, four factors that explain this are identified below.

The first factor is the lack of understanding of the importance of asking "what?" and "why?" (the issue of being unaware of lost meanings). In other words, there are little need or desire to pose questions unless they make sense. Unfortunately, most students (and also business people) have put so emphasis on ingesting knowledge that they are unaware of how important it is to ask questions. Four reasons behind such behavior can be traced as follows. Firstly, the habit of unconsciously processing the inflow of information as given without asking questions has been perpetuated in the Japanese educational system. So, most Japanese are captured by a stereotyped view when they are still young. The university students whom I

have asked have, by and large, an image of the university as an institution for the study of specialized knowledge, but none of them so far has defined it as a place for practicing GAKUMON (learning from others and questioning oneself). The second reason is that there has been a strong tendency to depend on authorized persons or institutions such as experts or the mass media without questioning oneself. Thanks to the information revolution of the internet, people have become so busy clicking in order to search for information on the computer, that they are quite reluctant to examine what they find. The third reason is that stimuli and hints that make one aware of the importance of asking questions are lacking, which makes it quite difficult to have the guts to do so. The fourth reason is that the biased view or attitude of "Nothing concerns me" or "I am indifferent" makes "asking questions" seem nonsense or entirely meaningless.

The second factor is the lack of freedom to ask questions in the learning environment (at school or home, or in the workplace), since a built-in system of asking questions is largely missing in places of learning. Three main reasons for this should be pointed out. One is the atmosphere which makes it quite difficult to have a dialogue. Take, for instance, the example of a university lecture. It seems that there is a tacit understanding of there being a one-way direction of specialized knowledge from lecturer to students. In such an atmosphere, having a dialogue is out of the question! A real and genuine dialogue should involve neither the lecturer favoring students, nor students arrogantly saying "I am a customer as a tuition fees' payer". Instead, both should respect the other as human beings and have ears to listen carefully.

It is a pity this sort of genuine dialogue is missing in the real world of learning and the work place. The second reason is the resistance or hesitancy to ask or accept questions, which springs from a strongly fixed idea of a value judgment that accepts that the knowledge provided by a lecturer is good, and that posing questions about it is bad. The lecturer might be pleased to have students supporting his or her assertion, but feel displeasure when they ask critical questions. As a result, there is a lot of pressure not to ask questions in such a learning environment. The third reason is that specialized knowledge, including jargon, goes so far over the heads of the students that it is almost impossible for them to ask questions.

The third factor is the low social recognition of 'Mon' or the awareness of sharing ideas in Japan. Why is it low? Firstly, it is because Japanese society has heavily focused on 'Gaku' or knowledge capability, rather than on 'Mon' or asking/inquiring capability. There is no doubt that the so-called 'Hensachi kyoiku' or education based on focusing on the deviation from average performance scores has been very effective for the acquisition of specialized knowledge. But there is another hard reality which we should not ignore, namely that too much focus on acquiring specialized knowledge in education might have undermined our humanity and become the root cause of people suffering mental sickness. Under these circumstances, Reitaku University, where I have been teaching, has played an important role in society by focusing on "Chitoku Ittai" or 'unifying knowledge with virtue' since its foundation in 1935. Secondly, the importance of the awareness capability of sharing with others has had little social recognition, the

product of a social tendency that hates the critical attitude of asking questions. In knowledge-focus education, those who "Ganbaru" or do their best to study and become an honorable student are highly appreciated, while those express opinions or make objections to people in authority are considered awkward. The reasons behind this include the stress in Japanese culture on "Wa" or harmony, the virtue of following the rules. However, nowadays the knowledge-focus education, the "swallowing down" style of learning is being questioned and is under attack as lowering the Gaku-ryoku or Capability of Intelligence, since a lack of motivation to study has become quite prevalent. Also, it may not be effective in creating a good quality of life in a world of diversifying lifestyles and competitive business where performance-based evaluation is creating a stressful working life.

The fourth factor is the lack of a system or methodology of inducing awareness of free-will, finding real problems by free choice, and choosing the right direction. Without such a system or methodology, people are bound to feel less need or desire to pose questions. Compare this with cooking. If one wants to create a delicious dish, a recipe is indispensable. Likewise, even if you think posing the question, "Why?" is important, it is quite difficult to find a problem and analyze (cook) it without a methodology (recipe).

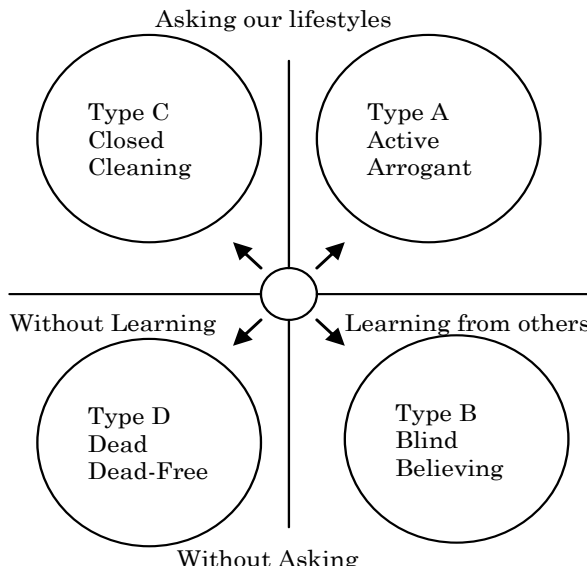
4. "Gakumon-ryoku" as development of capability and commitment (free-will)

What fruit is Gakumon-ryoku bearing? Or, what consequences are we bound to face unless we experience Gakumon. In other words, what is the difference between people who experience Gakumon-ryoku and

those who don't? Those who experience it not only realize the danger of freedom possessed at hand, but also enjoying the taste of

real freedom, which can provide a key to unlock the capacity to be joyful even in difficult and unpleasant situations.

Figure 2: Visualizing virtues and vices of lifestyles in the Value Conscious Matrix



Source: compiled from discussion based on VCM exercises.

By doing the exercises in the Gakumon matrix or Value-Conscious matrix (VCM), we come to realize the existence of fundamental questions; where we are from, who we are, and where we are heading. In other words, as indicated in Figure 2, we do need to be aware of the importance and danger of any type, since in real life, we can be anywhere, exposed to any type in this matrix world. Type A, that of "learning from others and asking yourself" would be an Active person, but there would be a risk of Arrogance. If so, this requires the virtue of modesty. On the contrary, Type D, the opposite of Type A, someone "without learning and without asking" would be the Dead, suffering indifference, burn-out, and so forth. But, this mind-set of

a broken mind and heart would turn out to be the Dead-free, allowing one to refresh and remake one's thoughts and emotions once they are dead. Type B, someone "learning from others but without asking oneself" turns out to be a Blind person ingesting knowledge, addicted, but would have a golden chance to gain belief or faith for the Truth, Almighty. On the other hand, Type C, the opposite of Type B, is someone "asking oneself but without learning from others", possessed of a mind-set of being Closed or making a Cliff between oneself and others. But such a one would have much scope for Cleaning or Cleansing one's thoughts and emotions.

Showing our ideas or opinions in the VC Matrix is important, like sharing light

with other participants who are altogether in the darkness. But what is of most and ultimate importance is to join this Matrix and move around within it (meaning that our thoughts and feelings are flexible). This action allows us to discover the values of being humble (A type), faithful (B type), cleansing (C type) and dead for selfishness (D type) by forsaking all vices by our free-will, such as being arrogant (A type), blind or addicted (B type), of a closed mind-set (C type) and dead for indifference (D type). Those eye-opening exercises, therefore, would be pointless unless we interact with others. So, Gakumon-ryoku can be never acquired by self examination in any of these exercises, because real innovation begins with dialogue with the other(s). The Gakumon matrix allows us to find a common platform on which we are capable of finding out the answer to the fundamental question of what we have lost in our lifestyles and why.

The rules of the VC Matrix (freedom and responsibility) are as follows:

Rule 1: Do play catch, NOT dodge ball, meaning respecting different ideas and feelings, NO VIOLENCE, please! (The FREE-WILL of each one of participants is respected and protected)

Rule 2: GIVE and show your ideas and feelings by using a magnet and GIVE UP or forsake them once they are in the VC Matrix.

Rule 3: Check the meaning of the ball for which we are playing catch, and FIND OUT the variety of its meaning.

Rule 4: Make sure the fruits one bears are common goods, not private ones, since they are the outcomes of teamwork. Not ME fruits, but OUR FRUITS.

5. The application of “Gakumon-ryoku” to Japanese style of management

The idea and method of Gakumon-ryoku and VCM have been applied so far to all kinds of ongoing and urgent issues in order to open our eyes to the sharing of values for enlightening our mind-set. Let us have this eye-opening experience with the Japanese style of management (JM in short) and become aware of the essence of JM spirit. To date I have carried out VCM practices on Japanese style of management in various learning organizations. From my experiences, I would like to highlight something practiced at the Association for Overseas Technical Scholarship, AOTS. AOTS was established in 1959 with the support of the present-day Japanese Ministry of Economy, Trade and Industry (METI)³. I have been teaching foreign trainees at AOTS Tokyo and Yokohama training centers for over ten years (since 1998) using the method of Gakumon or VC Matrix. Before the VCM exercise focusing on JM (at the beginning of every lecture):

In the case of the AOTS training program, the foreign trainees are obviously bound to focus on the bright side (strength) of JM since the training as such is meant to reveal this, and the individualistic approach is taken irrespective of what ideas other participants have in mind about JM. As a result, we face a one-sided transfer of knowledge from lecturer to trainees without views being shared among them. Moreover, it is difficult for all participants to get the total picture of JM without finding whether different elements to be considered to be good & bad, and felt as loving & hating in VCM.

But once the rules of VCM as presented above are made known and understandable to all of participants, they rush to express what

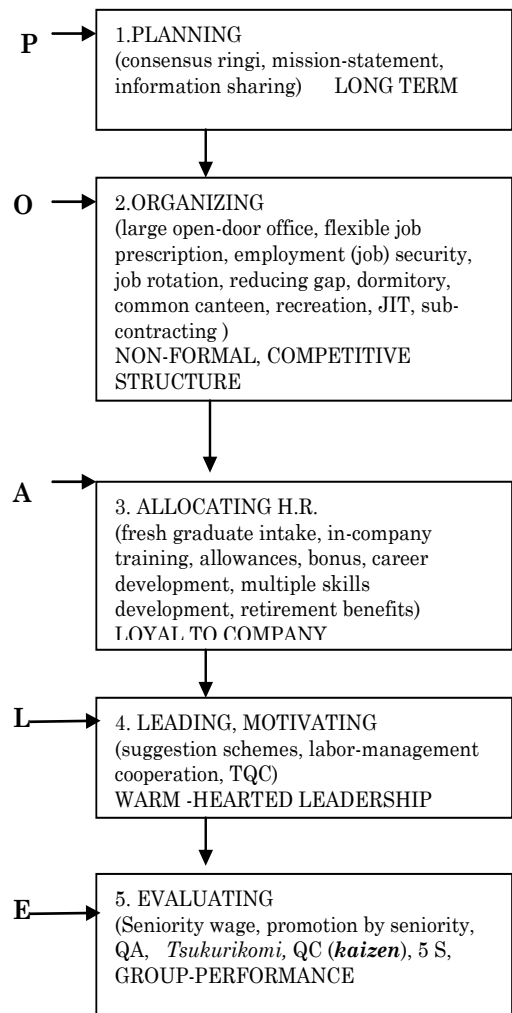
they really want to say freely and willingly. All participants have had different views on JM, which probably originated not only from different periods of work experience at JM, but also from their different cultural, social backgrounds. Also, we have found the problems in VCM took visible form when people became aware of the distance between the different views in VCM. Moreover, what we have gained by experiencing VCM is not only knowledge of the Japanese flavor in five elements of management, presented in Figure 3, but also an awareness and feeling of the universal nature and the essence of JM, namely, the spirit of TO BE ONE. This can provide us with the chance to choose a shared problem from alternative options. This enabled us to gain a feeling of 'TO BE ONE' in learning JM, though we have different views on it.

By exercising at VCM, we could not only learn and touch the core spirit of JM, but also ask ourselves about our stereotyped views on JM. The core spirit of JM is the sense of 'TO BE ONE', which is composed of three basic elements; egalitarianism, long-term orientation, and collectivism. This poses a further important question: Should be to test whether it is a universal value, like the salt of the earth for all mankind, by transplanting it to different cultural settings⁴ (Figure 3).

6. Conclusions and implications of Gakumon-ryoko

By recognizing the importance of Gakumon-ryoku and doing the exercises with the VC Matrix, this paper has provided us with an ample chance not only to be aware of hidden meanings and dangers, but also to

Figure 3: Japanese-style in five elements of management (POALE)



Sources: compiled from Oba(2010), AOTS(1993), Suzuki(1993), Saito (1990).

gain a hint about a sustainable mind-set. To the question, "does our management style matter", this paper has answered "Yes", not because this is not economically or rationally efficient, but because it has been confined to it and has not been examined in the light of the JOY criterion including efficiency. What really matters is not whether or not to follow the

Japanese style, but the fact that the quality of life, or Joyful or not matters in our management style. We learn that the Japanese style of management has both unique and universal features, and that we, as human beings, can share its universal value of JOY of service.

The discipline of Gakumon-ryoku, or D-CAB has been formed on the basis of

several disciplinary areas, such as behavioral economics, business ethics, human development, motivation theories, value theories, quality of life, life-style studies and so forth. Our task is therefore, to try to link theoretically the Gakumon-ryoku and those theories, which should be tackled as the matter of urgency in the near future⁵.

End Notes:

¹The latest attempt of this subject was presented as "Gakumon-ryoku That Has Changed the Business World" at the 22nd Annual Conference International Academy of Business Disciplines (IABD) Conference in Las Vegas, Nevada, U.S.A. on April 8th, 2010.

²They are institutions that have become inadequate to the tasks they are called upon to perform. See Giddens, Anthony (1999), p.19.

³AOTS's main purpose is to promote technical cooperation for the industrialization and development of developing countries and enhance mutual understanding and friendly relations between those countries and Japan. To date, AOTS has trained over 149,000 persons in Japan from 170 countries and regions. In addition, it has organized

various training programs outside Japan involving over 178,000 participants from developing countries. The activities of AOTS are financed by Japanese Government subsidy, company contributions, and other sources. See in detail, The AOTS Magazine, KENSHU and website; <http://www.aots.or.jp>

⁴For the concept and empirical testing of the mission sharing hypothesis of the Japanese style of management, see Oba (2009) and Oba (2010).

⁵For the theoretical and practical implications of Gakumon-ryoku, see Oba (2008), and forthcoming paper on "Is the so-called "Development Doctrine" Dead?—A paradigm shift towards Development of Co-creating Alive Beings".

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The affirmation and development directions of the knowledge - based society

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Abstract: We are facing the anticipation of substantial changes in the society which offer it other valences and a new configuration. The society we know surrenders its spot to the knowledge society based on creativity and innovation, processes that assure not only a knowledge explosion but also new directions of sustainable development. This paper, by firstly clarifying the creativity and innovation concepts, intends to detect these action directions in the context of the general objectives that exist on a European Union level.

Key words: creativity, innovation, sustainable development, knowledge-based society.

1. Introduction

The beginning of the XXI century is characterized by a real “explosion” of knowledge and according to some specialists it can actually be called a knowledge revolution, process that “designates the fundamental change from the economy mostly based on physical resources to the mostly knowledge based economy” [5].

The knowledge revolution intercepts the considerable transformations recorded by humanity in accordance with obtaining and assimilating new information, producing

and using new technologies, revolutionizing the informational and communicational technology, reconsidering the human capital, increasing their qualifications and the organizations of any type etc.

There are knowledge based transformations which tend to turn it in the main characteristic of numerous activities even more than the produced goods and services. In other words knowledge is becoming the essential element in economy, the main production factor, thus leaving behind the importance of the classic factors and giving another course and importance to the non-factors. Under

these conditions knowledge is becoming the main “wealth” of every national firm and economy, not only that of every individual in particular, and the achievement base of a high increase in the economy, progress and development.

Hence the knowledge revolution signifies the transition from an economy dominated by physical, tangible resources to an economy dominated by knowledge [6].

These are intellectual intangible resources that hugely intensify the traditional production factors. The knowledge becomes not only the main wealth in a modern society but also the most required merchandise which sits at the base of the innovative process that includes the entire economy. It is natural in this case to see the entire economy and society from a different angle, the society being in a transformation process and placing even more the knowledge as its basis, and also it is a knowledge-based society that is acquiring specific characteristics.

In this type of society knowledge, as a result of the knowledge processes, constitutes the main source of a competitive advantage on a national, organizational and individual level. The increase of the activity's complexity, the society's computerization and the accelerated rhythm of technical and technological changes requires new qualifications resulted in the knowledge accumulation which is obtained by society's members through a continuous learning process. Consequently in the knowledge-based society the human resources are permanently trained in learning processes on an institutional level (schools, high schools, colleges, universities, academies etc.) as well as on an organizational level (in private non-profit public organizations).

The knowledge-based society presumes a sustainable development in all the human activities spheres through improving on a superior level the knowledge capital as a main component of a nation's intellectual capital.

We are attending the anticipation of substantial changes in the society which offer it other valences and a new configuration. The “classical” economy surrenders its spot to the creative economy in which knowledge - as we highlighted - becomes the firm's main resource but also the main product. The majority of them produces knowledge, massively invest in research, with a predilection towards the applicable research, creating stimulants for their own employees to learn and produce knowledge. It is not by hazard that the new entrepreneurs manifest an orientation towards new domains that permit the fructification of knowledge and transforming it into an important advantage in survival and success.

Creativity and innovation are in these conditions key - coordinates of the new society. It is not only the case of producing information and assuring its circulation but also that of creating information and obviously methods of using them efficiently. In other words the knowledge has a very large sphere of coverage thus giving a person the possibility of achieving in perspective another type of production and on other coordinates than those already known at the present.

“The knowledge-based society - as Professor Peter F. Drucker shows - will inevitably become a lot more competitive than any other known human society because of the simple fact that once with the increase of the information's accessibility there will not be any excuses for the lack of performances. “Poor” countries will not exist anymore but

only ignorant ones. The same principle will also be applied to the companies, industries and organizations of any type. Actually it will be equally applied also in the case of people”.

Certain is that the new society is one based on creativity and innovation (see Global Scientific Forum carried out at Budapest in November 2009), supported by a large community of university researchers, reunited in a network composed of universities, research centers and innovative firms that together can offer products of high technology and services that use and reevaluate information. [14].

2. The society based on creativity and innovation

Creativity - a concept on which numerous specialists have put their interest - constitutes in our opinion a man's capacity of producing new ideas that can later on be used as solutions to solve different problems that have been encountered, as starting points in projecting and fabricating new products etc. It is basically about inspiration, inventiveness and new ways of thinking. It is doubtless that with its help the world can change and new things and even new methods of thinking are being invented.

The human society has always relied and developed on creativity. What is new at the present?

What essential processes intervene at this beginning of the century? Nothing other than the simple fact that we are taking part in the increase of knowledge amount in all our activities and actions. The deposited routine and experience are dislocated. The fact that the amount of new knowledge is increasing and becoming dominant determines

a rearrangement of the entire economic system. There is no need to change the capitalist system with another one or to abolish the private property rule or the market mechanisms but their natural evolution in the new conditions generated by the knowledge revolution.

Within this context it is natural to see the tight connection between creativity and innovation. The production of new ideas and new knowledge is not sufficient for they require to be fructified. The innovation is exactly the process through which the new ideas should be applied in a context given by the other existing factors in society. It has a fundamental role in the organizations' competitiveness' increase and implicitly in the economical, social and cultural development of any nation. The new tendencies lead the way not only in rethinking the idea of innovation but more importantly in bringing changes in the innovation policy of the organizations and of course of the society's.

The developed countries in the European Union adopted stimulation strategies and politics for the innovation that can assure the transition to new economical, social and institutional structures specific to the knowledge-based society.

An eloquent proof of the European Union' preoccupations manifested in the sphere of creativity and innovation can be the designation of the year 2009 as the "European year of creativity and innovation" by the European Commission.

The campaign initiated by the European Commission and that took place with the motto "Imagine. Create. Innovate" had as a main objective the promotion of creative and innovative intercessions in different sectors of the human activity as well as the awareness regarding the importance of creativity

and innovation for the personal, social and economical development. A key-factor for the future economic growth is the complete development of the innovation and creativity potential of the European citizens which rely on the European scientific culture and excellence [10].

Therefore along the year 2009 conferences, manifestations and expositions took place that highlighted the important role that creativity and innovation have in the personal, social and economical development. Also a series of projects took place that were meant to inform the public opinion regarding the need to find creative solutions to the challenges that the contemporary society is facing.

To this extent the European Union launched a long term strategy that visions the promotion of knowledge-society based on learning throughout the entire life time period in order to assure the durable prosperity and welfare of the European citizens.

The regional politics commissioner, Danuta Hübner, affirmed that "on the background of an always harsher competition and the important global challenges the innovative practices and creative solutions represent a jumping board for the economical growth and the welfare of our regions and countries. Abilities, ideas, processes: all of them combine to help us win a competitive advantage. Europe does not need to react to the actual crisis by reducing investments in aptitudes and innovation. We must have faith and to rely on the quality of our ideas and our adaptation capacity." Also it must be highlighted that the creativity and innovation cannot lead to durable economies without respecting the cultural diversities which is itself a source of creativity and innovation [12].

The creativity and innovation transform the economy under our eyes. It is the case of profound changes in the production system of goods and services, of commercializing them, restructuring firms and their management, reproaching priorities etc. Therefore a series of characteristics of the knowledge-based society can emerge [6]:

- The increase of the knowledge's role in all the society's life domains;
- Transforming knowledge in a main factor of production;
- Orienting the economical activities with predilection towards the production and commercialization of knowledge;
- Organizing and sustaining the economical activities with knowledge as its base (intangible resources) and after that the other resources;
- Increasing the production of symbolic products (computer programs, cards, e-commerce etc.);
- Intellectualizing the production processes and other more;
- The powerful development of the small and middle enterprises sector. Their orientation towards activities that incorporate and produce knowledge;
- Expanding the "service" activities especially in high technology domains;
- Internationalizing and globalizing economy as a natural consequence of the proliferation of informational technology and of electronic communication. The trans-boundary becomes accessible not only to large firms but it transforms into a good of the greater majority of the economic agents.

3. Towards a new enterprise - the sustainable enterprise

As we have noticed the creativity and innovation will change the coordinates in which the activity of the small, larger and very large firms will take place in, they will change the technologies that are being used, the organization system, the processes and firms' management, the methods of distribution and sale of products, communication with clients and stakeholders etc. They tend to make the enterprise a new-type organization, a sustainable enterprise into a sustainable society. If we regard the sustainability as it is defined in rapport with "Our common future", also known as the Brundtland Rapport [13] it is natural to follow the satisfaction of the present needs without compromising the possibilities of the future generations to satisfy their own needs. This is exactly what the knowledge-based society can achieve by having its main resource – knowledge- as a practically inexhaustible resource. In this context the sustainable enterprise will rationally combine on a long term the economical, social and ecological objectives, aiming at fulfilling the knowledge that it owns and creates by enhancing its value for its own benefit as well as the clients', society's and all the stakeholders'. It is about a new approach of the mission of enterprising in a society in which the economical efficiency will work hand-in-hand with the ecological and social efficiency.

Transforming the firms in sustainable firms based on knowledge is a complex process that requires time and that will be achieved differently from one branch to another and from one country to another. Not only on a firm level but also on the whole

economy ensemble the money "handlers" will give away their place to the knowledge "handlers". Certain is that the main role in the firm will be owned by the knowledge specialists. It is an optical change regarding the firm specialists' profile as well as on an economy and society level.

The knowledge-based society can thus assure through its technological and functional vectors a human development under the conditions of creating and maintaining equilibrium between the economical, social and ecological dimensions. These vectors represent instruments that transform the information intro knowledge and the informational society into a knowledge-based society in which creativity and innovation affirm themselves without boundaries.

4. Directions of action

The new type of society and economy at the base of which preponderant stand creativity and innovation assume substance transformations in the context of mostly all the human activities, while a series of directions to follow in the present and in the future are already being prefigured. Some of them do not even require to be mentioned again because their impact is felt all over the world. It is the case, for example, of computerizing economy and society, extending the internet and using everything we define as computerized technology in all of society's structures. Others begin to manifest by opening unprecedented perspectives for the future and here it is especially the case of:

► Reorienting the consumers towards individualized products, thus obviously surprising the tendency to change from a mass production to an individual production. We

mention that this process must not be seen as mechanical for it is very elastic thus generating the spectacular increase of a business's opportunities in society;

► Developing highly advanced technologies that also have high reductions on consuming prime mater and materials. First of all this is the case of nanotechnologies that by novelty and importance create a large field of action for the entrepreneurs that center on the latest science achievements. But we cannot stop at nanotechnologies because we also have to mention the technologies that aim at obtaining different synthetic materials with special properties, advanced semiconductors and super-conductors, artificial intelligence etc.; To these we inevitably add biotechnologies whose development presents a special interest not only for the scientific world but also to the business world;

► Innovation in management a process carried out in conceiving new managerial procedures, extensive organizational structures, permanently adapted to the firm's objectives to the orientation and placing the enterprise in the client's service, to transforming him into a partner;

► Internationalizing the economical activities, a process that started a long time ago, but that opens a new perspective not only to the large firms but also to the small and middle ones. It is not by hazard that there are specialists that affirm that the 21st century will be that of small and middle independent firms, integrated in networks, unlike the 20th century that was that of high firms that mainly focused on reducing costs. This generates a reassessment and a replacement of the markets, discovering the niche markets, redesigning products and the accelerated assimilation of new products, a continuous adaptation to the consumer's exigency etc.

► Sustaining and developing small and middle enterprise and of the "small giant" of the contemporary economy.

The small and middle enterprises must be sustained through adequate strategies and politics whereas they represent a key-sector of the sustainable economical development, an important factor of absorption of the available or redundant labour force and at the same time a flexible vector in adapting the goods and services production at the volume and structure of the requirement manifested on the market.

Also these organizations have a high innovative potential on a technical, technological and managerial level. Anchored and integrated in the social environment the small and middle enterprises permanently create and innovate a diversity of products and services, are much closer to the market and permit a better adjustment through quantity but especially by the qualitative differentiation of these quantities.

Paul Almeida [1], Professor at Georgetown University, considers that "the IMM play a unique, active and critical role in the process of innovation through their ability of inventing in the new technological space and improving the networks of high technology information". This affirmation has as its basis the empirical research in the avant-garde industries and the time period required for the analysis being of 10 years (1994-2004). The specialist appreciate that the social, formal and informal networks are vital to the process of innovation in the small and middle enterprises. The creativity of the small firms constitutes the fuel of the entrepreneurial spirit and of the sustainable economy.

The development of human resources whose creative-innovative potential is inexhaustible. The human resources produce, accumulate, transfer and disseminate knowledge which is the main source of competitive advantage in the contemporary society. The communitarian states adopted the Operational Programs that settle the priority axes and the major intervention domains in the human resources domain in the objective of implementing the financial assistance of the European Union through the agency of the Social European Fond, during the Convergence Objective for the programming period of 2007-2013.

We mention that it is imposed for a substantiation and operation of new programs in the human resources domain that will mainly regard the favour of the access to quality education and professional training, promoting entrepreneurial culture, stimulating participation at continuous training programs, supporting organizations and employees for the increase of adaptability to the new challenges specific to knowledge-based society etc.;

Developing entrepreneurial dimensions of the university and post-university education in the sense of forming qualifications centered on the entrepreneurial spirit and on the individual's capacity to identify and re-evaluate possible opportunities of business. Highlighting the entrepreneurial dimensions of the licentiate's and master degree programs is imperiously necessary if we take in consideration the fact that on a medium scale over two thirds of the busy population is developing its activity in small and middle firms.

Extending the grants and research-development projects competitions that constitute one of the most efficient ways of showing

the value of the creative-innovative potential of a nation. Therefore the results obtained in the research activity that took place during the grants and the national and international projects contributes to the development of the knowledge-based society through: the increase of the technological competence and the promotion of the knowledge and technology transfer; the creation of clean products, processes and technologies; scientific substantiation and technologies development for the conservation, reconstruction and consolidation of the biological and ecological diversity; the development of medical therapies and creating an efficient public health system; promoting sustainable agriculture and increasing the food security; developing biotechnologies with an impact on the quality of life; developing new materials, products and processes with a high added value; solving the main social problems; diminishing the social inequalities and the regional disparities.

The development of entrepreneurial-managerial programs that are centered on creativity and innovation. Participating to these programs the entrepreneurs and managers will be aware of that fact that the organizations which they lead can become more competitive through an added creativity and innovation. In the context of the new knowledge-based society, they have to act in a few main directions such as: creating an organizational climate favourable to creativity and innovation; encouraging the creative employees to apply in practice their own ideas; sustaining the human resources to follow training programs and participate to conferences, profile markets and thematic expositions; promoting the workers whose knowledge and qualifications constitute sources of competitive advantage for the

organization; using new methods and techniques of stimulating the creative-innovative processes in the organization.

5. Conclusions

As we have noticed in the new type of society the knowledge constitutes the main source of competitive advantage on a national, organizational and individual level and having as a base the creativity and innovation which are supported on a large community of specialists reunited in a large network composed of universities, centers and institutes of research and innovative firms.

The year 2009 was claimed by the European Commission as the "European year of creativity and innovation". The campaign that took place under the motto "Imagine, Create, Innovate" had as a main objective the promotion of creative and innovative intercessions in different sectors of the human activity as well as the notifying the importance of the creativity and innovation for the personal, social and economical development. A key-factor for the future economical growth is represented by the fully development of the innovation and creativity potential of the European citizens which rely on the culture and excellence of the European science.

The results of the European Commission's Campaign in the year 2009 were synthesized in the "Manifest for creativity and innovation in Europe" that includes seven priority directions of action and constitutes a support for the substantiation of the communitarian strategy in the creativity and innovation domain for the period 2010-2020. The European Union sustains through active politics the creative-innovative processes, this fact also being illustrated by the

Program of the cohesion politics for the period 2007-2013 in which creativity and innovation are appreciated as being sources for the sustainable development.

The knowledge-based society can assure through its technological and functional vectors a human development under the conditions of creation and maintenances of equilibrium between the economical, social and ecological dimensions. The most representative directions of development of the knowledge-based society are - as we have shown - the internet, the expert systems of artificial intelligence, the intelligent ambient environment, nano-electronics and nanotechnology. Among other directions we remind: the knowledge management for the economical, non-profit and public organizations; the biological, genomics knowledge; the system of health care on a social and individual level; the protection of the ambient environment through a knowledge specific management; improving the knowledge of existence; the production of technological knowledge through innovation; the creation of a culture of knowledge and innovation; the development of a learning system based on the methods of the informational society.

On a community and national level it is a priority to take in consideration the substantiation and implementation of efficient strategies and politics of sustaining the small and middle enterprises; the operation of politics and programs of developing human resources; organizing more national and international competitions of grants and projects of research-development; creating and developing partnerships between universities, research institutes and private companies; carrying out programs of entrepreneurial-managerial development that are centered on creativity and innovation.

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Considerations regarding financing sources for energy actions in Romania

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Abstract: This paper represents a part of the authors' ideas for the development phase of a project developed under the auspices of URBACT II, "Urban Strategies for Energy Efficiency". It is a first approach of identifying financing sources for energy efficiency actions in the public sector (especially in public administration and academic sector) in Romania in the attempt of solving multiple dysfunctions via existing EU sources.

Key words: energy, efficiency, EU funds, energy programs, energy projects.

1. Introduction

Urban areas are estimated to account for around 70 % of final EU energy consumption. Energy use in residential and commercial buildings alone is estimated to be responsible for about 40% of the energy consumed.

There is an urgent need for action in urban areas to address this, especially if the

ambitious 20/20/20 targets for emissions reduction set out in the EU's climate and energy package are to be achieved.

There are many things needed to happen at the local level and local authorities have a crucial role in designing, organising and delivering the energy actions. In the same time it is widely recognised the need for academic specialists to work together in

devising practical demonstrations of technical measures for energy efficiency and renewable energies and measuring their impacts.

2. Literature review

The European Commission's proposals in **An Energy Policy for Europe** published in 2007 are the basis for current actions, being adopted as the European Council's **Integrated Climate Change and Energy Policy** in March 2007.

In January 2008 the Commission published the climate and energy package designed to reduce EU CO₂ emissions by 20% (compared with 1990 levels) by 2020 (*20 20 by 2020 - Europe's climate change opportunity COM* (2008) 30).

Current policy for climate change and energy is contained within the agreed *climate and energy package adopted in December 2008*. This aims 'to set Europe on the right track - towards a sustainable future with a low-carbon, energy-efficient economy - by cutting greenhouse gases by 20% (30% if international agreement is reached), reducing energy consumption by 20% through increased energy efficiency and meeting 20% of our energy needs from renewable sources.'

The new *Directive on the Promotion of the Use of Energy from Renewable Sources* is now in place. It establishes mandatory national targets to be achieved by the Member States on the use of renewable energy in the electricity, heating and cooling, and transport sectors. The targets are designed to ensure that by 2020 renewable energy makes up at least 20% of the EU's total energy consumption and at least 10% of total fuel consumption in all forms of transport. Member States are required to implement this Directive by

December 2010. The Commission issued a template for National Renewable Energy Action Plans (NREAPs) in June 2009, and all Member States must present their Plans by 30 June 2010.

The EU already has a well-established strategy for energy efficiency, including a Directive adopted in 2006 which has required all Member States to publish National Energy Efficiency Action Plans. These should be essential context for energy efficiency planning at local level. The EU *Action Plan for Energy Efficiency*, originally adopted in 2006, is being revised to meet the ambitious 20-20-20 targets. A summary of existing provisions and the proposed changes is in the Commission's background document published in mid 2009. Although the 2006 Action Plan refers to the importance of action in urban areas, especially on transport, local authorities seem to have been little involved in the debates about revisions to this plan.

The European institutions are currently working on the follow-up to the UN Climate Change Conference held in Copenhagen in December 2009. The Commissioner-designate for energy policy has identified energy efficiency and the promotion of renewables as priorities for his term of office.

An important part of the context for local authority action in the field of energy is policy for the environment at EU level which especially includes a substantial body of EU law.

EU environmental Directives have implications for all the areas of action which cities need to consider in developing their sustainable energy action plans. As examples:

- Directives on air quality require many urban local authorities to produce integrated strategies to demonstrate

how they will achieve compliance, and these necessarily include measures to reduce emissions from transport.

- The Waste Framework Directive is relevant for work on waste-to-heat plants.
- The Directive on Strategic Environmental Assessment (SEA) is relevant for land use planning.

This EU regulatory framework establishes to a certain extent common standards and requirements for all EU municipalities, though national governments and has considerable flexibility to decide the domestic arrangements for implementing EU rules.

The most relevant item of EU legislation for the achievement of energy-efficient buildings in urban areas is probably the *Directive on the Energy Performance of Buildings (EPBD)* 2002/91/EC whose main objective is 'to promote improvement of the energy performance of buildings within the Community, taking into account outdoor climatic and other local conditions, as well as indoor climate requirements and cost-effectiveness.' Recent agreement establish to 're-cast' this Directive so as to clarify, strengthen and extend its scope (more buildings will now need certificates) and to reduce the large differences between Member States as regards practices in the building sector.

Because transposition of the EPBD poses significant challenges for Member States, the European Commission has taken some initiatives to support implementation. For example, information is available via a new web portal called *Build Up*.

The web-based *ManagEnergy* network is a more general resource for those working on energy efficiency and renewable energies at the local and regional level. Guidance on

this website includes an 'information kit' on different aspects of sustainable energy: energy efficient transport, energy use in buildings and even EU funding for sustainable energy.

4. Paper Content

EU funding programs for sustainable energy planning and actions in Romania

This chapter aims to identify the main EU funding programs relevant for the preparation of local energy plans and implementation of energy actions in cities. Projects within these programs may be sources of good practice cases. The programs themselves constitute eventual funding opportunities to be considered for future energy projects in Romania.

CoM *Covenant of Mayors* is an initiative of the European Commission launched in January 2008. Local authorities signing the Covenant make a formal commitment to go beyond the EU objectives on the reduction of CO₂ emissions, i.e. they will commit to reduce their CO₂ emissions by more than 20% by 2020. To achieve this they will establish Sustainable Energy Action Plans (SEAPs) within one year of signing the Covenant. There are 16 signatory local authorities in Romania from 1652 European covenant cities.

ELENA – European Local Energy Assistance

Specific support for the Covenant of Mayors and local energy action in urban areas more generally is provided by the new **ELENA – European Local Energy Assistance** facility which the European Commission has developed with the European Investment

Bank (EIB). ELENA support covers a share of the cost for technical support that is necessary to prepare, implement and finance the investment programme, such as feasibility and market studies, structuring of programmes, business plans, energy audits, preparation for tendering procedures - in short, everything necessary to make cities' and regions' sustainable energy projects ready for EIB funding. Local and regional authorities can apply to the EIB. Funds are being channelled to ELENA from Intelligent Energy Europe.

Intelligent Energy Europe (IEE) is the main EU funding programme for the support of local and regional energy agencies and energy-related actions of local authorities. It is one of three operational programmes within the **Competitiveness and Innovation Framework Programme (CIP)** for the period 2007-2013. There are 38 ongoing projects with Romanian partners financed under the auspices of IEE related with energy efficiency transport, alternative fuels, buildings, energy education etc.

Besides Intelligent Energy, the part of the CIP of most interest is **Eco-Innovation** within the Entrepreneurship and Innovation program. This should be considered by local authorities – and universities - wishing to see the development of local enterprises specializing in innovative technology, for example in the field of renewables. In the last call, in 2009, only 2 Romanian partners were considered.

Intelligent Energy Europe and the Eco-Innovation Programme are managed on behalf of the European Commission Directorate General for Transport and Energy (TREN) by the **Executive Agency for Competitiveness and Innovation (EACI)**. This agency is

also responsible for the Enterprise Europe Network a network of contact points providing information on EU legislation and funding opportunities mainly to businesses (especially SMEs), but also to universities and research centres. The network – set up in 2008 - amalgamates the previous Innovation Relay Centres and European Information Centres.

CONCERTO and CIVITAS

The other key programs overseen by DG TREN and very relevant are CONCERTO and CIVITAS. These programs fund concrete demonstrations – including investments in infrastructure - in cities. The projects are monitored and outcomes assessed, which often is a main task of university partners involved in the project consortia. **CONCERTO** supports energy-efficient demonstration projects in local communities.

For transport, there has been substantial funding for demonstration actions on sustainable mobility through the **CIVITAS** program for clean urban transport. Bucharest, Ploiesti, Iasi and Suceava are CIVITAS cities. Cities previously involved in this program continue to cooperate through the **CIVITAS Forum Network**, which non-CIVITAS cities wishing to learn from the experiences of some of the most innovative localities can also join. Over 160 cities are currently members. Through workshops and training events, cities have the opportunities to exchange know-how, ideas and experience so as to facilitate change in the field of transport.

LIFE+ Environment policy and governance is one of the most relevant strand of this program for energy work in cities. Priority areas of action under the principal

objective 'climate change' are the reduction of greenhouse gas emissions in line with current EU commitments, implementation of market-based instruments for cost-efficient emissions reduction, and measures for adaptation to the adverse impacts of climate change. This is a demanding funding stream to work with in that it supports only innovative and demonstration projects with EU relevance. All applications need to show proposed actions going beyond the best European practice. DG Environment's LIFE Unit maintains a list of over 43 Romanian urban environment projects funded since 1995.

PROMOSCENE

The project **PROMOSCENE**, funded by Intelligent Energy Europe, is about promoting the use of Structural and Cohesion Funds for investments in energy efficiency and renewable energy. It is focusing on ways to finance more sustainable energy projects in New Member States using Structural and Cohesion Funds. It supports Managing Authorities in 5 target countries, including Romania, to better promote and manage the energy-related priorities of their Operational Programmes, so as to improve the take-up of these funds.

The **PROMOSCENE** database includes examples of more than 70 energy projects funded through Structural Funds, 12 are from Romania. It also provides detailed country-specific information about the operational programmes in the target countries and guidelines about the financing of energy investments.

Programs within the **Territorial Cooperation** objective of Structural Funds

also represent a significant resource for cities working on the development and implementation of sustainable energy action plans.

The ERDF programs for networking and exchange of experience (INTERREG, URBACT, ESPON and INTERACT) have been mainstreamed and, like the rest of the Structural Funds, are expected to deliver strategic projects in line with the Lisbon and Gothenburg (sustainable development) agendas.

The inter-regional cooperation programme **INTERREG IVC** is probably the most relevant for the development of innovative energy strategies. The overall objective of the programme is to improve the effectiveness of regional development policies and policy instruments.

For instance, priority 2 Environment & Risk covers energy and sustainable transport and natural and technological risks, including climate change. Examples of cooperation activities cited in the operation program include 'moving to a low carbon economy, including information to industrial customers, service providers and citizens on issues such as 'how to reduce energy consumption' and 'exchange and transfer of knowledge concerning long-term targeted energy efficiency campaigns, including efficiency in buildings, notably public buildings'.

There are 21 Romanian partners involved in INTERREG IVC projects, out of which 2 are involved in energy efficiency actions:

- **CAPRICE** (CAPital Regions Integrating Collective transport for increased energy Efficiency) The City of Bucharest is a partner.
- **MORE4NRG**, working on strengthening the delivery of regional strategies

for renewable energy sources and energy efficiency by exchanging best practices on sustainable energy policies and jointly developing an integrated monitoring tool for measuring policy outcomes. Maramures County Council and Prahova County Council are partners in this project.

URBACT program is a European exchange and learning programme promoting sustainable urban development. Five URBACT projects have recently engaged to examine the low carbon environment area attempting to extend the knowledge base, build strategies and concrete interventions as part of the drive towards the energy neutral city. The focus of the projects reflects the interesting cross-fertilisation in this domain - between comprehensive overarching operations or pilot projects and localised, area-based initiatives which have progressively been combined into coordinated and cohesive city programmes. Urban Strategies for Energy Efficiency led by Technical University of Civil Engineering is one of them.

Research resources for the energy actions

There is noted the extensive work on urban sustainability which has taken place within the EU Framework Programmes (FP) for Research and Technological Development. Technical research on energy has a dedicated Energy theme in FP7 program.

Within FP7 there are specialised **European Technology Platforms** on several types of renewable energy, such as wind and biofuels.

Complementary to the main calls for proposals there are on-going networking activities funded by the research budget. Examples include:

The **COST program** (European Cooperation in the field of Scientific and Technical Research) is fostering international collaboration and scientific excellence in nine key domains. The Transport and Urban Development domain covers transport and civil engineering as well as urban issues within the general framework of sustainable development. COST is a financial resource for academic research.

Structural funds for energy efficiency actions in Romania

The EU has identified climate change as a key priority to be addressed by the **Structural Funds** programmes for 2007 – 2013. Significant resources are available for energy infrastructure:

Sectoral Operational Program Increase of Economic Competitiveness 2007- 2013 through Priority 4: Increasing Energy Efficiency and security of supply, in the context of combating climate change is one of the important financing energy actions resources in Romania.

The objective is to reduce primary energy intensity by 40% compared to 33% share of electricity produced from renewable energy sources in the gross electricity national consumption by 2010 and to reduce emissions in the energy sector. Indicative operations include:

- supporting investment in installations and equipment for industrial operators, in order to improve energy efficiency leading to energy savings

- supporting investment in expanding and upgrading electricity, natural gas and oil transportation grids and electricity and natural gas distribution grids in order to reduce losses and secure the continuity and safety of transport and distribution services
- investments in flue gas de-sulphurization installations, burners with reduced NOx and filters on upgraded groups of large combustion plants.

As far as renewable sources (RES) for producing green energy are concerned, the indicative operations include investments in upgrading and building new power and heating production capacities by valorisation of biomass, micro hydro, solar, wind, geothermal, bio fuels, etc.

Measure 4.3: The improvement of energy efficiency at the end user (Co-financing from ERDF: 95% + local budget 2-5%)

The actions supported are:

- efficient and sustainable energy (improving energy efficiency and environmental sustainability of the energy system); and
- valorization of renewable energy resources for producing green energy.

Sectoral Operational Programme Environment for 2007-2013 through Axis 3: Reducing pollution and diminishing climate change effects through restructuring and rehabilitation of urban heating systems to reach energy efficiency goals in the most polluted settlements.

Priority 2: Development of integrated waste management systems (Co-financing from ERDF: 95% +local budget 2-5%)

Actions supported include:

- acquisition of waste transport vehicles;
- recovery of gas from landfills;
- local authorities.

Priority 3: Restructuring and renovating urban heating systems towards energy efficiency

Actions supported include:

- introduction of BAT (Best Available Techniques) for SO₂, NO_x and dust reduction;
- rehabilitation of boilers and turbines;
- introduction of improved metering; and
- rehabilitation of heat distribution networks (including redesign of networks where this is justified on energy and cost efficiency grounds).

Regional Operational Programme for 2007-2013 through:

Priority 1: Support to sustainable development of urban growth poles

Measure: Rehabilitation of the urban infrastructure and improvement of urban services

Co-financing from ERDF: 95% +local budget 2-5%

Actions supported include:

- development and construction of special lanes for public buses;
- development and construction of dedicated cycle lanes ;
- acquiring ecological means of transport;
- redesigning or constructing new bus stops;
- development of public lighting;

- improvement of water, electricity, sewerage, natural gas and heat distribution networks;
- development of integrated waste management systems; and
- local authorities.

Priority 2: Improvement of regional and local transport infrastructure

Co-financing from ERDF: 95% +local budget 2-5%

Actions supported include:

- rehabilitation and modernisation of the county road network;
- rehabilitation and modernisation of the urban street network;
- construction/ rehabilitation/ modernisation of ring roads (with county road status) in order to eliminate bottlenecks.

A subsidy scheme for renewable heating technology in Romania is the **Green House program** launched in 2008. This is a 'programme to change or fill the classical heating systems in buildings with new heating technologies: solar thermal, photovoltaics, geothermal, wind energy or other renewable energy sources'. Its broad objective is to improve the quality of air, water and soil.

5. Conclusions and implications

The paper is revealing some of the possible financing sources of energy actions in Romania. There are question about cities' access to technical expertise in energy matters in situations where the municipal staff members do not have all the necessary competences, or have difficulty in keeping up to date in a rapidly-changing field. Is it possible for universities to fill some of the gaps, capitalizing on their technical expertise and training/educational skills.

Academic partners may also have useful roles to play in, for example, identifying appropriate measurement systems for setting CO2 baselines and existing tools for undertaking carbon impact assessments of proposed actions, developing communications between cities and local citizens and firms, and ensuring that the 'social' dimensions of energy planning (such as comfort and behavior change) are considered.

Next step of this research would be exploring collaboration pathways for an efficient partnership city-university in energy projects in Romania.

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Strategies and techniques of communication and public relations applied to non-profit sector

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Abstract: *The aim of this paper is to summarize the strategies and techniques of communication and public relations applied to non-profit sector.*

The approach of the paper is to identify the most appropriate strategies and techniques that non-profit sector can use to accomplish its objectives, to highlight specific differences between the strategies and techniques of the profit and non-profit sectors and to identify potential communication and public relations actions in order to increase visibility among target audience, create brand awareness and to change into positive brand sentiment the target perception about the non-profit sector.

Keywords: Communication, public relations, social media, key influencers, social responsibility.

Introduction

The third part sector represented by non-profit institutions should be seen as a particular area whose centre of interest is "human being which purpose is to improve its physical and psychosocial comfort", different from commercial sector whose interest is to achieve maximum profit for the organization. Therefore, the specific elements of the non-profit sector are reflected in the product-client relationship. The aim of this sector is a cured patient, a child who learns a young

man or a young woman changed into an adult with personal dignity.

The study of the non-profit sector has to be in direct connection with its specific goals. Thus the public relations strategies and techniques are also typical. Many of the classic communication and public relation actions applied in the private sector are useless in the tertiary sector.

In Romania, the non-profit sector has not reached the maximum development both in terms of its organizational capacity development, and, especially, in the general public

perception. There is a duality in the perception of NGOs. On one hand they are seen as some idealistic characters bearing an altruistic battle in a pragmatic world in which each seeks its own interest, on the other hand, mass-media has created a pattern not at all flattering for these organizations. Many still suffer from the reputation of the '90s when there were examples of organizations that have received money and did nothing concrete, leaving the public with the preconceived idea that NGOs launders money or just mime the work. One of the reasons why the public does not understand NGO's activities, and thus the role of this sector is the lack of information and insufficient promotions. Insufficient resources also make projects to not last long enough in order to become known, both as name and as impact. The result represents a lack of vision to the general public and even to the beneficiaries of the tertiary sector.

Beside this, NGOs have always depended on the created image because it affects their ability to attract funds or donations. Therefore, to be active on the market the organization's visibility, confidence in the professionalism and responsibility are essential and here the key role is communication.

Communication creates understanding; ensure transparency in the activities carried out, generating a positive sentiment, confidence and pride for the organization and commitment in future similar projects.

Given the backdrop in which non-profit institutions pursue their activities, the implementation of adequate and sustained communication and public relations strategies is a necessity designed to improve public perception and to get close the beneficiaries to services provided by these institutions.

Considering this, the approach of the paper is to identify the most appropriate strategies and techniques that non-profit sector can use to accomplish its objectives, to highlight specific differences between the strategies and techniques of the profit and non-profit sector and to identify potential communication and public relations actions in order to increase visibility among target audience, create brand awareness and to change into positive brand sentiment the target perception about the non-profit sector.

Literature review

To understand the characteristics of communication and public relations in the non-profit sector, we have, first, to underline the characteristics of the sector and the target audience.

The non-profit organization's field belongs to social sector, the "third sector", represented by the organizations that produce goods and public service, even if they are private in shape (established itself as association members) they are public by the content as Mihaela Vlăsceanu stated in her work.

NGOs are corporations with public purposes, for general interest. They are also corporate-type organizations, developing the idea of free association, the association of common interests and shared resources. The difference is the point where the non-profit corporations are pooling also the profit for interest groups, the third parties, other than associations / corporations CEOs.

Thus, the NGO gains importance, taking attributes of representation and recognition of certain social programs. Non-profit sector represents civic and community background relied on the mutual consent of its

members, of mutual recognition, a context of a consensual non-representative space in which all of individuals can participate.

The non-profit sector is a sector characterized by social innovation; it introduces changes in social as it draws the attention at the new social issues. The non-profit sector has a much greater degree of transparency than private organizations because accountability is more pronounced, direct control of the recipient is possible.

Therefore, the non-profit sector characteristics may be substituted by the four major defining elements, as they are found in the Mihaela Vlăsceanu paper:

- they are private in shape and public in their purposefulness by providing the consumer "collective goods" or public utility products (protective, cultural, educational services);
- can generate a profit, but they are a subject to the fundamental restriction of the non-distributive profit to the owners or CEOs;
- they are independent institutions and have autonomous management mechanisms similar to profit organizations;
- it implies the participation of members in the voluntary form.

Classification and characteristics of the target audience

Another important aspect to analyze this sector is the definition of target groups. This analysis builds on work by Philip Kotler on marketing research in the field of non-profit and John Bryson on strategic planning in the nonprofit sector. Target audience characteristics are important because according to these types organizations will develop different public relations/marketing strategies.

A first delineation of target groups is the aware of needs:

Groups that express a visible need - this allocation of needs is realized by:

► *recognizing the needs by each group.*

This feature is matched to the organizations that are focusing on services (professional associations, education and culture institutions). In terms of strategy these organizations operate with corporate model and are focused on customer. In terms of communication strategy this type of NGOs are using informational and advertising strategies or marketing/PR techniques.

► *issues repartition depending on the needs.* Organizations that are linked to social policy: quality of life, social exclusion, non-participation in education, cultural and ethnic exclusion. The aim of these NGOs is to support a cause, Charity programs, missionary actions and public awareness of civic programs (anti-SIDA organizations). As a strategy they use social marketing type actions. On the communication level – these organizations focus on launching public campaigns to raise awareness, change civic behavior or building mass campaigns for public awareness.

► *Unallocated / unidentified needs* needs that are not yet public, because they have been claimed or recognized. In this situation social need is not public; it is needed to develop an intervention that will create a public opinion (e.g. domestic violence). These non-public organizations have public character in order of recognizing issues of fundamental civil liberties (right to expression, right to work).

The second delineation of target groups has the attributes:

► Heterogeneous – represents variety of personal interest, a variety regarding the expectations and aspirations of persons belonging to these groups

► Informal groups that are composed, recomposed, depending on the immediate interests, depending on how the issues are solved and adopted on the public level

► Are marked by an extreme fragility, are highly specific groups

► It is difficult for them to create similar modes of operation because they are highly mobile and fragile

► Groups are marked by a high degree of creativity, a deeper critical spirit; these groups have a greater ownership of services that are required

The methods of operation for this category are specialized niche actions. The types of interventions are situational, forms of research are research-action type (research carried out in collaboration with beneficiary, with the community studied, or the group), and the group is helped to identify its problem.

In terms of communication techniques the practitioners used tools like: appeal to oral, visual and interpersonal type of communication (e.g. online forum to communicate with such audiences). As a form of persuasion – the messages are built based on the relationship of trust, security, without risks. Also there are messages of warnings and responsibility shared between the beneficiary and the organization, for example: anti-smoking campaign. They run on the base of shared responsibility, respect, solidarity due to fragility of the audience.

Paper Content

3.1. Public Relations planning in the Non-Profit Sector

Public relations planning in the non – profit field is comprised of characteristics of the context in which these organizations run their business. Planning involves both a number of advantages and a number of disadvantages mainly due to the context, but also to the target groups to which they are addressing.

Advantages:

- Sector extremely versatile, mobility is the advantage of planning;
- Innovative sector, it is a laboratory of social ideas, discovers side, reveals the hidden themes, generating public debates, change the value of the system through awareness campaigns - producing innovations in the social sector;
- Working with volunteers – direct participation, hierarchical levels are eliminated fostering creativity, personal initiative for the public wellness;
- Transparency – controlled by the beneficiaries.

Disadvantages:

- There is a resistance, an attitude of mistrust in relation to the sector's institutional capacity to produce sustained Public Relations activities. The mistrust is generated by the apparent lack of professionalism in organizations, financial instability of these organizations, managerial / institutional disability and the theory of desertion. In this kind of theory organizations are forced to stop work immediately whenever it is eliminated the need for their activity.

Public relations activities planning

To make it easier to point out the defining aspects of planning, it was chosen the four steps planning. This analysis will focus on delineation its specificity.

Research - is more sensitive in this area – it has not the expertise and sufficient funding for complex research. The most common method of research is the research-action type.

Planning has to define the social problem for which it is addressed, the mission and then the proper planning objectives. Often the priorities are defined in the status and then they are changed into the programs. But the ideal situation is when the planning is seen as a strategic step in building communications programs.

Communication can be systematic - for organizations that enterprise a planning effort and research and non-systematic - when the planning effort is minimized or doesn't exists (they are adopted by the predefined model problem arising from donations, projects, crisis - ordered actions).

Assessment is linked to the accuracy of planning; assessment goal is to measure the degree of fulfillment of the objectives. In assessing there are used informal models of evaluation (testimonies, interviews, content analysis of media, annual reports). In case of international organizations we assist at the formal assessment - which can produce qualitative data to demonstrate impact in terms of trend, the degree of participation.

Types of approaches take by the Public Relations practitioners to change behavior of the audience:

- direct behavioral change, immediate
- indirect behavioral change, progressive

Change is made directly by the type of local grassroots campaigns, using local opinion leaders and communication strategy in two steps. This change in behavior can be achieved when desirable behavior can be controlled by the beneficiary or when new behavior obtained by the beneficiary is a gratifying, is a reward or brings a certain satisfaction. In this long campaign practitioners use local media which has a real impact on the local audience. Proximity is proving to be a powerful source of interest.

Programs aimed to change behavior indirectly assume that the need is not under the beneficiary control, the decision needs a longer duration. Programs of modified progression are associated with a high personal risk (e.g. drug campaigns, campaigns against smoking). Techniques that can be used :

- Small step technique - assumes that behavior modification is achieved only after the beneficiary agreed to make a concession. There are campaigns in two steps, with awareness messages at first, and the second step aimed at behavior change.
- Engineering giant step - is based on the idea of refusal. It is a two-step planning where the first approach is denial, it projects desirable behavior, and the second step is an incipient acceptable change of behavior.

Using any of the two strategies requires caution by the practitioners because in the non-profit sector the Public Relations campaigns are context sensitive, directed by the target audience characteristics and, especially, by the needs that audience is aware or not.

Communication and Public Relations strategies applied in the non-profit field

NGO sector addresses more often resort to public communication than to the media.

Most of the programs are addressed to specific community: demographic or social and cannot work with anonymous groups, as it involves specific problems. Communication model used is bilateral - symmetrical, it is used when an agreement, a partnership or even mutual involvement is needed. Public communication is used in:

- TV Program – Talk show (seen as a public environment, encourage a debate);
- Articles placed in newspapers - create critical opinions (editorial, reportage);
- Specialized Magazines - creating a place of debate, the public is informed, alert to the nature of the arguments.

Philip Kotler speaks of 2 models of public relations used in the non-profit sector:

- 1) The classic, traditional model centered on institutional image, maintaining a certain equilibrium in relationship between the public and institutions e.g. NGO has the primary goal to promote its policy which leads to a particular sector;
- 2) Awareness (public advocacy), closer to contemporary Public Relations, serve to initiate social action.

In Public Relations practice, the NGOs actions, experts make use of techniques such as:

Public Advocacy seen as advice, guidance and institution support that the organization develops. Advocacy promotes themes, ideas, values, and supports the dialogue on social and political issues. In other words, advocacy seeks effective solutions, not legislative initiatives. Thus, when non-profit organizations are involved in advocacy actions, they call into question various aspects of society, such as individual's behavior, warning the employers in terms of internal

rules or government about the laws. Lobby refers to those actions of advocacy that seek to influence legislation. The difference between lobby and advocacy is important, because primarily for those laws that limit the lobbying does not apply to all the actions of advocacy.

Some advocacy activities that can be applied within the non-profit sector:

- Media appearances: shows, talk shows, newspapers, etc;
- Writing editorials that media will be interested to comment about;
- Organization of meetings for debates (round tables);
- Contacting government officials who have the power of decision;
- Raising the issue at every opportunity: discussion groups, websites, newsletters, blogs, forums, social networks etc.

Lobby represents technique to influence policy and legislative environment. Non-profit lobby is converted into mass lobby and should be very close to the real needs (e.g. gathering signatures, adhesives, affirmative position in relation to certain social practices). Through the mass lobby there is a direct pressure on the central institutions, but indirectly it has a high degree of transparency. There are two types of lobbying:

- Grassroots lobbying - when public opinion calls for taking action in front of legislators on a particular topic;
- Direct lobbying - direct contact with government officials or employees, in order to change the legislature.

Lobby is the process of building and maintaining relations with legislators and administration in order to influence laws and policies already formulated or implemented. If a particular issue will be decided by vote or

referendum, appeal to the public opinion is a part of direct lobbying, since in this case, the public is the court which acts as a legislative body. This information is useful in the non-profit organizations, because there are certain regulations on this regard. For example, NGOs may allocate only 25% of the funds for grassroots lobbying.

Specialized publications are used to attract attention in a credible way about a problem.

The use of education environment – the purpose is to change behavior, social values of those types of behavior that are to be educated starting with early ages (e.g. drug, sex, civic, antiviolence education)

Using the cultural and entertainment medium - NGO is using this channel because it is more generous, is not involving any risks is neutral and it's not creating hostility or guilt (e.g. painting exhibition)

Implementation of the social campaigns - a successful technique used to generate public interest in relation with raising social capital. These are public education campaigns aiming to promote a particular social behavior. Often the planning of these campaigns includes both public relations, and Social Marketing. In this case, the audiences are characterized by a social need, by a social dysfunction or a state of vulnerability.

The purpose of social marketing planning is to define the problem on the social level, as social problem in general (e.g. "You care too" - the Public Relations and social marketing campaign). Preliminary analysis effort is more pronounced in the case of social marketing in order to collect all relevant data and to observe all phenomena and social indicators to which the program addresses. The offer is changed depending on

the beneficiary, because it refers to a process that belongs to him and cannot be defined by the organization. If social marketing case, the planning starts in reverse mode – begins with an assessment of expected behavior and ends with the research. Planning effort is an effort to transform the content of a problem in favor of beneficiary; in commercial marketing - consumer is the one that turns the content of the problem in his personal terms.

Kotler and Andreasen define social marketing as "differing from other areas of marketing only with respect to the objectives of the marketer and his or her organization. Social marketing seeks to influence social behaviors not to benefit the marketer, but to benefit the target audience and the general society." Like commercial marketing, the primary focus is on the consumer--on learning what people want and need rather than trying to persuade them to buy what we happen to be producing. Marketing talks to the consumer, not about the product. The planning process takes this consumer focus into account by addressing the elements of the "marketing mix." This refers to decisions about 1) the conception of a Product, 2) Price, 3) Distribution (Place), and 4) Promotion. These are often called the "Four Ps" of marketing. Social marketing also adds a few more "P's".

Product. The social marketing "product" is not necessarily a physical offering. A continuum of products exists, ranging from tangible, physical products to services, practices and finally, more intangible ideas (e.g., environmental protection). In order to have a viable product, people must first perceive that they have a genuine problem, and that the product offering is a good solution for that problem. The role of research here is to

discover the consumers' perceptions of the problem and the product, and to determine how important they feel it is to take action against the problem.

Price. The term of the price is different from the commercial marketing. In the non-profit sector, price refers to what the consumer must do in order to obtain the social marketing product. This cost may be monetary, or it may instead require the consumer to give up intangibles, such as time or effort, or to risk embarrassment and disapproval. If the costs outweigh the benefits for an individual, the perceived value of the offering will be low and it will be unlikely to be adopted. However, if the benefits are perceived as greater than their costs, chances of trial and adoption of the product is much greater. These perceptions of costs and benefits can be determined through research, and used in positioning the product.

Place. Distribution describes the way that the product reaches the consumer. For a tangible product, this refers to the distribution system—including the warehouse, trucks, sales force, retail outlets where it is sold, or places where it is given out for free. For an intangible product, place is less clear-cut, but refers to decisions about the channels through which consumers are reached with information or training. Another element of place is deciding how to ensure accessibility of the offering and quality of the service delivery. By determining the activities and habits of the target audience, as well as their experience and satisfaction with the existing delivery system, researchers can pinpoint the most ideal means of distribution for the offering.

Promotion. Promotion consists of the integrated use of advertising, public relations,

promotions, media advocacy, personal selling and entertainment vehicles. The focus is on creating and sustaining demand for the product. Public service announcements or paid ads are one way, but there are other methods such as coupons, media events, editorials. Research is crucial to determine the most effective and efficient vehicles to reach the target audience and increase demand.

Additional Social Marketing "P's" includes: Publics, Partnership, Policy, Purse Strings.

Publics - Social marketers often have many different audiences that their program has to address in order to be successful. "Publics" refers to both the external and internal groups involved in the program. External publics include the target audience, secondary audiences, policymakers, and gatekeepers, while the internal publics are those who are involved in some way with either approval or implementation of the program.

Partnership - Social and health issues are often so complex that one agency can't make a dent by itself. You need to team up with other organizations in the community to really be effective. You need to figure out which organizations have similar goals to yours, not necessarily the same goals, and identify ways you can work together.

Policy - Social marketing programs can do well in motivating individual behavior change, but that is difficult to sustain unless the environment they're in supports that change for the long run. Often, policy change is needed, and media advocacy programs can be an effective complement to a social marketing program.

Purse Strings - Most organizations that develop social marketing programs operate

through funds provided by sources such as foundations, governmental grants or donations.

NGOs and Social Media - Challenges and Opportunities

Along with the classic strategies and techniques of communication, public relations and social marketing used by NGOs, a new practice tends to be broad and to be used increasingly more. This practice includes all actions taken by the organization using social media and web-based applications.

Social media is a great tool that civil society organizations can use to communicate with their audience, market their services, connect with their networks or improve the way they work and promote their social development agenda. The key features of social media are participation and interaction, connecting people and providing the tools necessary to have a conversation - all important components of NGOs' day-to-day work. Strategic use of social media is actually helping civil society organizations to measurably reach new people. It also brings added value to mission driven work. Social media is propelling non-profit goals to build a movement around a core advocacy issue, improve customer service or programmers, reach new donors, or raise awareness of a non-profit brand around the world.

The activities of social media present a very high potential of communication with target groups and have the advantage of lower costs to create greater awareness. A study of the social impact of Weber Shandwick in partnership with KRC Research among 200 chief and communication executives and of several non-profit organizations and foundations revealed that most of non-profit

organizations (88 %) experiment the social media platforms in order to access a wide and relevant audience. Another large majority of the persons questioned (79%) said that they could not demonstrate the impact of social networks for their organizations. The study revealed that the majority of professionals working in non-profit organizations and foundations believe that online presence helps to raise awareness among the public audience (92%), keeps external public involved (86%) and reduce costs promo and Public Relations actions costs (77%). In addition, social media helps non-profit organizations to reach audiences outside the target (67%). A percentage of 62% say that benefits outperform risks. For these reasons, majority of them (85%) intend to make greater use of social networks in the next two years, while 78% will need a broader and deeper expertise in this area.

Despite predominantly positive perceptions on social media among non-profit organizations, the survey points several challenges. Two thirds of the directors of non-profit organizations participating in the survey (67%) believe that traditional media is more effective in supporting efforts to raise funds than social networks (67% vs. 22%). Equally, managers in the world of non-profit organizations are more skeptical about the ability of social media to help them connect with key audience, such as donors (45%), media (39%) and the policy makers (31%).

The results mentioned above revealed that communication and public relations practitioners should acquire new skills in order to use all the social media benefits.

These skills were categorized aptly by the:

- Online constituent intelligence. Given the many-to-many nature of the Internet,

however, it becomes vital for public relations practitioners to also be the eyes and ears of the organization online, monitoring constituent content, extracting value from that content, and providing intelligence based on that content, which the organization can use to make strategic business decisions.

- **Online communication management.**

The organizations we represent need to have a clear, common online voice. This voice must be reflected in the company's various Web presences, its e-mail responses to queries, its participation in discussions, its engagement of constituents, and the content it contributes to other online resources (for example, interviews in online publications). To complicate matters, this voice cannot be inconsistent with the image that is projected offline. This voice cannot happen by accident—we need to carefully plan and craft the approach the organization takes online, serving as architects of the company's online communication efforts.

- **Community building and participation.** It should be clear by now that no communicator can control online dialogues, but we certainly can—and should—foster such communication and develop it. Communicators must learn to participate in discussions on behalf of their clients and companies, and to create communities targeting constituent audiences that support the institution's objectives.

- **Technology skills.** There is no way out of it—we must learn enough of the technology to know which tools to employ and to manage the vendors and suppliers who will create the online resources for us to assure the desired outcomes are achieved. This does not mean we must know how to write code or configure servers—but then again, few

public relations professionals know how to produce class-A four-color separations for print.

The most important technologies to understand include those used for: the creation and maintenance of online communities; the review and analysis of information residing on the Internet, including the use of search utilities; custom communication development, including understanding of how databases work.

But that does not mean communicators should forget the skills they have acquired over the years of performing traditional communication. The importance of other channels has not diminished, even as the importance of the Internet has increased.

Some experts have suggested that public relations can never be practiced the old way again. That means that the practice of public relations must now integrate these new skills and processes.

Practitioners need to continue to practice good, solid public relations management and tactics. But they also need to learn the new skills required to incorporate the Internet strategically.

The development of social media network

Since 2003, online social networking sites have experienced explosive growth, becoming a major phenomenon in the new millennium. Online social networking allows people to connect and share information and ideas with others via the Internet. These online communities were created as a means for members to socialize and are often seen as a fun diversion from work.

In the era of Web 2.0, non-profits must take their online messages to a new level.

Using social media tools like blogs, podcasts, videos and collaborative wikis they can initiate more interaction, make their work more interactive, and can positively distribute their message. We have seen that there is occasionally mistrusts among people regarding certain non-profits, which are not always transparent about their activities. When communicating with interactive social media, stakeholders and supporters can have each have better understandings of each other and ascertain whether everything is working properly.

The importance of Web 2.0 for non-profits organization

Using interactive applications, two-way online communications and user-generated content the established core constituency of a non-profit can be expanded wider, possibly transforming it to a global powerhouse. The dotted list below reveals some advantages:

- Blogging communicates with the target audience more frequently and more cost-effectively than newsletters and appeal letters.
- Really Simple Syndication (RSS) feeds of blogs, videos, etc., allow supporters to receive, read, and act upon the communications at their own pace.
- Providing various strategic tools for engagement.
- Creating a means for building relationships with stakeholders and communities.
- Promoting networking and fundraising.
- Facilitating campaigning to a large, and sometimes even targeted, audience.

- Allowing for more space to spread the word at a cheaper cost.
- Reaching younger generations and having higher chances of getting them involved.
- Transparently telling a story through sound and visuals.

Regardless of the type, scope of work, mission or objectives of any given NGO, there is a social media tool, channel or site that can facilitate and further enhance and perfect the process of spreading the word about the NGO's project. All tools and channels have the power to capacity a more specialized exposure and an easier means of content sharing across the world. For the new practitioners in social media, I've synthesized several steps which must take into account that the message conveyed by NGO's be visible in social media:

- Add the organizational objectives, mission and vision, whenever possible, on whichever site or channel you decide to join;
- Add a cause-related picture as your avatar. For example, if the organization is promoting animal protection, add a picture of a pet or your logo;
- Spend time monitoring relevant issues and topics of discussion on different blogs and other social media venues;
- Communicate with other NGOs utilizing social media and try to build strong connections with them;
- Try to engage with the organizational audience by assigning someone to represent the institution and its cause across social media sites.

Therefore, in the new socio-economic context, NGO's needs more than ever to build credibility and increase its reputation in the market. The more a company strives

to provide as complete information about products and services offered, the more involved in field work and provide relevant information in its area of expertise, the more it becomes more credible in the eyes of consumers, which certainly will influence purchasing decisions.

Communication and Public relations practitioners should be able to reach the public with relevant information needed in the same moment when the need exists among the public necessities. Today are much more direct channels through which information flows to consumers. In the 5 - 10 years ago its great public relations purpose was to obtain space for publication in the press and information through press releases sent directly by the company, but the information were available only to a small group of journalists who depended on the article in the publication page they are working. Today, because of the online environment, Public relations can create content that it distributes directly to the target audience. Online Social Networks (Facebook, Twitter, Digg, Hi5, LinkedIn, My Space, NetLog etc.), blogs, specialized online communities, forums, online publications are environments that disseminate public relations information.

Even if the information transmitted by the company did not reach the front page of publications devoted by the media information comes under the eyes of a numerous public, even spread worldwide, and the feedback is more relevant and more quickly. Following reactions so NGO's can draw conclusions about what they offer on the market (products or services), and the effective communication strategy. A key feature of social media is the integration of different platforms as well as the ability to direct different kinds

of content and formats to particular spaces.

A well-crafted public relations strategies and implementation will be reflected in increasing brand awareness, will enhance credibility and, why not, will transform the organization into an opinion leader in the professional area in which it operates.

Conclusions and implications

Therefore, in the new socio-economic context, NGO's need more than ever to build credibility and increase the reputation in the market. The more a company strives to provide complete information about products and services offered, the more involved in field work and provide relevant information in its area of expertise, the more it becomes more credible in the eyes of consumers, it certainly will influence purchasing decisions. In their activities, NGO's can use the classic - traditional model centered on institutional image, maintaining certain equilibrium in relationship between the public and institutions or strategies to obtain a high awareness through public advocacy and social media, or, even, to influence policy and legislative environment through lobby activities. Using any of these two strategies requires caution by the practitioners because in the non-profit sector the Public Relations campaigns are context sensitive, directed by the target audience characteristics and, especially, by the needs that audience is aware or not. Practitioners need to continue to practice good and solid public relations management and tactics. But they also need to learn the new skills required to incorporate the Internet strategically. Because of the methods of operation for this category the practitioners need to be specialized in the niche actions. The types

of interventions are situational, forms of research are research-action type (research carried out in collaboration with beneficiary, with the community studied, or the group), and the group is helped sometimes to identify its problem. For that reason, NGO's specialists should make the best choices in terms of choice of strategy, channels of dissemination of the message and the proper identification of target audience needs.

It should also mention that the aim of this work was to realize a monograph of

communication and public relations strategies applied in the non-profit sector. Readers and experts in the non-profit sector should not look at this work as a recipe for success, but as a sum of specific techniques and strategies they can consider in their activities to perform on the market, to increase visibility among target audience, create brand awareness and to change into positive brand sentiment the target perception about the non-profit sector.

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World financial industry after the crisis

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Abstract: *The world financial system, which needs to be a driver for economies worldwide, has suffered a profound shock following the worldwide economic crisis. This paper shall examine the most probable course in the development of the world financial system during the next five to ten years, with a particular focus on the changed role of the banks worldwide, the evolution of the US dollar and the moments when the world economy hangs into balance.*

Introduction

An old saying is that “The more things change, the more they stay the same”! This profoundly perceptive observation has long proven its validity in all areas of human activity, including in the case of the financial system. Nonetheless, following the current credit crisis long term investors ought to expect fundamental changes in the finance industry and in the wider industrial framework.

While the world economy is gradually settling down after the crisis on the credit

market, many profound changes are becoming increasingly visible. The financial flows are no longer dominated by the economies which are being transferred from Asia to the USA in order to finance the interest of the consumer loans and financial deficit. On the other hand, the American consumers have made significant savings, the budget deficit has decreased, and emerging markets seem to become leaders of global economic growth and the dominant magnet for the investment flows.

It is from this new perspective that we have focused in this material on the aspects

that are nowadays provided by a permanently changing world, that is the key elements of the past economic crisis (the chosen models are the United States crisis, the Mexico crisis, the China economic crisis), on the role and importance of banks, as well as on the new challenges on which they will need to focus (we refer to the banks in the United States, Switzerland, Mexico), on some successful models implemented by the world great powers (we refer to the success of Switzerland in the banking and tourism areas), on comparisons between powerful economies (such as the United States, Switzerland or China), on aspects regarding the surprising evolution of some emerging economies (such as Mexico, for instance), while in the end of the material we have focused on the winners and losers perspectives following the world economic crisis.

1. A Changing World: Difficult Moments in the World Economy

Whereas the economy of the United States has undergone 28 crises during the past 150 years, the contraction of the economic cycle has been inevitable, although the shock which generated the downturn definitely was less typical than the one we had been used to. Indeed, the banking crisis and the general fear in 2008 are much more different than the collapses at the end of the 19th century and the beginning of the 20th century.

In the same time, the economic cycle of the past 15 years has been unusual in respect of its size and growth rate – it has been a time of large prosperity, not only in the developed world, but also in the emerging economies.

The 2001 recession was nothing but a short pause in a remarkable economic growth

period. That period, named the “Great Moderation”, was characterized by a strong and balanced economic growth against the low inflation and the boost of globalization. For a while, this situation, almost ideal for business, referred to the script of the golden age.

We are widely aware of the secrets behind the “Great Moderation”, which caused its own great excesses and unbalances and to a great extent its success led to a dangerous compensation from the large bankers, political decision makers and politicians and to a drastic decrease in the expectations on risk elimination.

The continuous nature of the expansion has determined many financial market practitioners and economists to incorporate their highly optimistic opinions on turning to subsequent behavior models and on risk.

In this respect, the markets and many economists were unprepared for the shock when it hit.

It is a more complex and interesting matter, referring to the way how people create and allow themselves to be open to activating price bubbles.

To such end, we refer to the book of Charles McKay *Extraordinary Popular Delusions and the Madness of Crowds*, which provides an analysis of the price bubble by returning to the crusades. When he wrote the book back in 1841, McKay correctly imagined that his book would alert people on the danger of bubbles and that such would no longer reappear. But from the bubbles in 1947 up to the bubbles in 2000 on the dot.com, they have constantly appeared on the financial markets.

What is interesting about these bubbles is the fact that we often see them appearing again and again. Usually, a change in the

expectations or a new technology can cause an increase of the prices. Such explosion then becomes a bubble where cheap money and easy loans become a reality. Then the investors get rid of the fundamental analysis forms to replace them with less reasonable ones, this general fervor and the will of taking chances is a little too much for the aptitudes of regular people.

When the bubble is in a total debt, it generates a lot of hidden effects – such as the revisal of the economics logic, as well as many false wealth effects. One of the greatest bubbles was created in France in 1720 by the Scottish John Law. While the Mississippi bubble scheme is “owned” by England, the successful initial plan of Law of changing the governmental debts for corporate equity has led to a flourishing derivatives market, an overestimated money offer, inflation and in the end, severe economic downturn. Although it can be considered that Law developed an economic category of theory and innovation, he was essentially an “alchemist”.

His tradition was proudly continued by bankers, mortgage loan brokers, financiers and a few political decision makers over the past ten years, and reached its peak at the same time as the loans crunch. The so called innovation destroyed the transparency of many financial products and significantly increased the complexity of the interdependence of financial markets, while at the same time it failed in respect with liquidities and risk. Poor regulations and distorted simulation structures lead to the idea that bankers and mortgagers are interested in building mountains of low quality debts, implicitly disfavoring their own debt.

In the Anglo-Saxon countries such as Great Britain, the United States and Australia,

as well as in Ireland and Spain, these directions have been accentuated. In Ireland and Spain the problems were further enhanced by the accession to the Euro zone. As a consequence, the interest rate was inappropriately low, thus reducing the importance of loans in those economies. The level of the house loans and the price of dwellings in those countries reached extreme limits in these years.

Until the present moment, reactions regarding the regulation following the credit crunch are not as severe as some financiers might have thought, nor as bold as others hoped.

2. Banks – between the Economic Crisis and the New Regulations

Banks in the United States and Europe, and not those in Asia and Latin America faced unprecedented losses during the downturn. In order to fill their deficit, those banks received capital from governments and private investors. Furthermore, important losses still exist in the flows of the said banks, which will take over an important part of the profit for the next ten years. Besides this, the great structural issue is that of knowing whether American or European banks are launching in a new major round of mobilization and risk taking in order to recover economic growth in their own economies and abroad, or if they will take a seat in the back of the room, similar to the local banks on an emergent market, while direct investments inflows on the capital markets would take over the control.

2.1. Banks in the United States and Europe, Asia and Latin America – new confrontations

Throughout the past decades, many of the American and European banks have

generally recovered quite rapidly after a sudden decrease of loans and reinitiated the loan expansion. Will things be different this time?

At the present moment, the political debate in America and Europe is focused on measures for impeding risk taking. Governments can implement such policy by three main modalities.

- The first one, reasonable, by explicit instructions to the banks in which they have invested – nonetheless, most governments are reluctant in going too far with this method and anyway they are aiming at selling their stake sooner or later.
- The second way refers to requesting banks to divide themselves into smaller and potentially specialized units, however this is a controversial modality and it might be damaging to the affected banks unless implemented by all countries.
- The third way can be fulfilled by means of the legal provisions. For instance, banks could be forced to create additional capital stocks in the years when they obtain a profit (“the good years”) in order to use such in the year with less profit (“the bad years”) (thus using the “ant-cyclical reserves”).

It would also be convenient/ feasible for certain limits to be imposed in respect with liquidity or for a certain rapport to be inflicted between capital and loans. This means a slight amendment of the current rules, imposing the existence of smaller capital prerequisites for less risky loans. Legal amendments such as this one are probably the main method in which governments will try to influence banks, although it is unlikely that they would be uniformly adopted

worldwide. As a consequence, the regulation framework will differ significantly from one country to another.

The impact of all these methods is highly probable to differ from one bank to another and from one country to another. Some of the largest American and European banks which have previously expanded their banking investments operations seem to mainly focus on clients on the internal market; others remain focused on the international market, however adopting a significantly more conservative attitude towards risk; while others in the context of somehow stricter regulations seem to impose limits to risk. On a short run, this means reduced competition for those who remain active on the banking investments market.

However, new competitors are coming into view. Some of the Asian banks, also powerful and focused players on the internal markets, are willing to play an important role in liaising the worldwide capital flows. Thus, if we take a look five at how things were five years ago, the total number of the large banks operating worldwide is similar to the one before the crisis, however these banks are rather distributed in the whole world, than rather dominating the United States and Europe any more. Moreover, they are accompanied by a number of banks in the emerging countries in the world, in liaising the flows on their rapidly growing origin markets.

2.2. Banks in Switzerland, the Country with the Most Powerful Economy in the World

One of the things that make the Switzerland economy a strong one is the fact that cantons compete against each other and make all efforts in order to improve their

position. This competition for investments, jobs and residents has become severe and was so even during the recession, including due to increased mobility and reduced administrative barriers.

Starting with 2004, Credit Suisse has calculated and published a yearly report on quality indicators, based on five factors in the fields of taxation, education and accessibility. Credit Suisse has been a member of the World Economic Forum for some decays now and is one of the strategic partners.

Economics specialists have noticed, by analyzing the economy of Switzerland that many cantons have managed to improve their taxation system due to the financial equalization reform and the task allocation between the cantons, as well as to the large excess of income saved by the cantons over the years. For this reason, the following aspects can be noticed:

- According to statistical data, cantons Zug and Zurich rank first in the top of 2010, as well as they did in 2009.
- In the traditional cantons, with low taxation levels, in central Switzerland and in the areas neighboring Zurich lake, for instance, residents pay high prices for real estates in return to low taxation levels. Properties in such regions are already over evaluated in relation with the increase of income.
- Zug takes pride in its ideal combination between the low level of taxes, highly educated population and rapid access to the other large cities in Switzerland.
- Metropolitan cantons such as Basel - Stadt and Geneva benefit of excellent local transportation networks and of

their role as hubs in the usual hourly timeline of the Swiss Railway System.

- Half way to the lowest positions in the top rank cantons such as Thurgau and St. Gallen, where the tax reduction has led to improved positions.
- The mountain Graubunden canton has continuously improved the quality of the location since 2004, despite negative topography.
- And the Basel-Stadt canton registered the highest growth rate in these five years.

The loan manual for the Swiss cantons has been reedited in a shortened version in October 2007. At that time, the document stipulated that most cantons had generally improved their financial figures following the economic boom. This is visible in the rankings, although such also consider future data. The taxation records for 2009 and especially those for 2010 reflect the crisis. Nonetheless, after a while they seem to drop, while the unemployment rate starts growing. Actually, the deficits are on cards.

Moreover, low performances on the financial markets will result in increased contributions to the pensions fund with approximately billion 25. Swiss francs seem to have reunited all cantons. Most cantons expect financial reports to drop by 100%. This means they would be able to start issuing more securities, which in their turn would be favored by the lowest demand and interest rates in the history, as the specialists at the Swiss Institute for Financial Research at Credit (Appenzell Innerrhoden and Ticino) which have gotten above others and other five have a negative image. Zurich is one of the cantons the aspect of which has changed for the better.

2.3. Outbound Services from Swiss Banks – the Secret of “Pearl Hunting”

The Outbound Services Department of the Swiss bank Credit Suisse was awarded with the approval seal in the form of direct marketing ISO certification, and thus Credit Suisse was the first bank ever to win this special accreditation which ascertains the high quality of the 50,000 yearly clients contacts. The outbound sales may represent a commitment, providing that all requested documents are provided and the test is passed. Credit Suisse received the certification without any condition being imposed to it. No areas needed improvement, and that is why Credit Suisse is the only bank in Switzerland ever to obtain this outcome from the accreditation process.

The outbound sales provide consultancy and purposefully adapted products in order to fulfill the potential of the customers. These recommendations refer first of all to payments and savings. In the case of investments and financing requests, an appointment is set up in order to get to an in depth understanding of the client's situation. Approximately 40 employees contact 50,000 clients each year for the four regions: Mittelland, French Switzerland, Ticino and Zurich/Eastern Switzerland.

Every call is individually planned in order to ensure that each customer receive the best possible services. This involves high quality training. Quality assurance measures such as service excellence, employee coaching, technical verification and periodical satisfaction surveys are therefore highly important.

The outbound sales are not considered a conventional call center by themselves.

Nonetheless, Credit Suisse intends to position the bank as a quality supplier and to differentiate from other call centers.

The banking specialists consider that it is important for outbound sales to undergo quality control by a world recognized independent organism which is not active in the financial services area. ISO certification proves that high ethical standards are complied with and ensure client confidentiality. The direct marketing approval seal and ISO certification contribute to the establishment of call centers. A code of honor in direct marketing needs to be complied with and this is made by verifications, so that to ensure conformity with the basic principles of truth and transparency, data and privacy protection, the manner of talking by phone, the confirmation regarding agreement signing, human resources selection and training, remuneration and appraisal. Furthermore, audiences are organized in the form of interviews with the employees on all hierarchical levels, including with the managers in all four locations. And the specialists in the quality management department consider that the key to fulfilling the ISO certification prerequisites call for serious commitment from managers.

There is no doubt that finding high potential customers, usually known as pearls, contributes to the employee motivation level. Every day, the circumstances change for customers following inheritance, marriage, new labor conditions or real estate acquisitions. New opportunities arise, waiting to be discovered every day. Whereas this pearl hunting is one of the main attributes, the logo of outbound sales is represented by a pearl in a shell.

With the ISO certification and a useful team of experts, those involved in outbound

sales can be motivated to face this task in the future. Moreover, this accreditation is actually a challenge for Credit Suisse to improve the way how it answers its clients' needs.

3. Switzerland in Top Even After Crisis: a Comparative Approach

According to the World Economic Forum, Switzerland is the most attractive country in terms of tourism and it also has the most competitive economy.

The world economic crisis has strongly influenced Switzerland as well. Between January and July 2009, exports dropped by 15.6%, while imports froze at 7%.

This drop is unacceptable and calls for action. Nonetheless, in the most recent two researches made by the World Economic Forum, Switzerland gets out of the top, therefore other countries are doing worse.

The Travel and Tourism Report in March 2009 placed Switzerland once again in front of Austria and Germany and other 130 countries in respect of the 60 considered criteria. Such refer to health and security, infrastructure, price level, legal framework, environment and culture.

More important is the Global Competitiveness Report 2009-2010 released by WEF in September 2009. After Singapore, Switzerland was one of the main winners of this report. Due to the weakened financial market and reduced macro-economical stability of the United States, Switzerland overcame the United States. They both have the same power of leading the next best ranked countries. "The framework in Switzerland is highly innovative". Companies facilitate this research and development. Companies are using developed corporate practices,

the infrastructure is standing, the technology is of the highest level and above all labor markets are very flexible compared to the European neighbors of Switzerland.

The countries ranking under Switzerland and the United States are Singapore, Sweden, Denmark, Finland, Germany, Japan, Canada and Norway.

4. The American dollar – Challenges for the Future

At the present, the dollar plays the main role in the world financial system, which can be explained in more key-modes, such as follows:

- it is the main invoicing and international trading currency;
- it is by far the most owned foreign exchange currency by the majority of the sovereign states;
- it is the unit to which many countries associate their own currency in an explicit way or in practice;
- its capital market still is the most developed and liquid in the world;
- it is the currency which most of the international investors use when monitoring their own investments portfolios

However, many investors have begun to question this role, given the fact that the financial crisis was located in American financial markets, considering the United States' debtor statute. The main role of the dollar was identified shortly after the Second World War, through the economic arrangements, in accordance with the Bretton Woods agreement. In 1970 a great deal of these arrangements were ended, when the dollar's relation with gold was eliminated and many currencies changed from a fixed rate to variable

ones. For a moment the dollar's role was put under questioning but due to sufficient motives it kept its position in the end: the United States were still a credit state; the geopolitical position of the US was increasing, while in the meantime that of the Soviet Union was heading for a collapse and no other alternative currency existed.

Now, the circumstances are different. The United States is the biggest debtor and while this thing assures an abounding dollar supply, the investors are worried that it might threaten its credibility. As regards geopolitics, the United States is, by far, the biggest power but on a medium term China, India and other nations' ascension represents a clear indicator of the multi-polar world of the following decades. A monetary alternative that satisfies some of the dollar's functions is now represented by euro. The reserves destined to the foreign exchanges in euro are increasing, although they are still insignificant and modest in comparison with those in dollars. Euro is at the present the biggest monetary target for a number of countries. For now, China's currency has the potential of taking a resembling role in one or two decades, provided that its rapid economic growth continues and that the monetary reform maintains its stability. It is far from being a credible alternative to be taken in consideration at this moment whereas China's currency is not yet convertible in a free mode and the monetary internal markets are still under-developed.

None of these arguments seem to be sufficient for under-estimating the dollar's financial role on the global market in the following period of time. But if we consider it after a period of ten years or more, it is possible for the dollar to lose its present emphasizing, the world becoming increasingly multi-polar in

the economic as well as in the political domain. A possibility is that the dollar, euro and China currency can form some sort of a tripartite system, each with its own sphere of countries in regard to the commerce dividing and the payments, each of them having a major role in the foreign exchange reserves. A variant of these versions could consist of the currencies' main role updated as to also include China's currency within the emerging markets.

5. Mexico and the United States – Key Economical Elements

The Mexican dictator Porfirio Diaz (1830-1915) once said: "Poor Mexico, so far from God, so close to the United States". Its geographical proximity to the US not only did shape Mexico's history but has also played an important role in defining the future economical development of the country.

5.1. The Economical Partnership between Mexico and the United States

The tight interrelations with the US are probably the key element of the Mexican economy. From the moment Mexico integrated in the "North American Free Trade Agreement" in 1994, Mexico's exports to the United States have risen four times at more than US\$ 200 billion a year.

Here are some of the elements that have brought Mexico and the US closer, from an economical point of view:

► Many American firms, such as multinational companies like: Ford, General Motors, the ex-Daimler Chrysler, Siemens, Philips and Toshiba, have extended parts of the production to the Mexican border cities such as: Ciudad Juarez, Tijuana and Mexicali. Exactly near the border with the United

States these known firms and under the name of “maquiladoras” - assemble individual or semi-fabricated components in order to obtain three quarters-finished goods or finite products which are exclusively destined to export in the US. Today, approximately 80% of Mexico's exports are destined to the US market, representing 20% of Mexico's gross domestic product. Besides the oil exports, electronics and automobile components are the most important categories.

► There are also other relations between these two states, as for example, 50% of the foreign direct investments in Mexico come from the United States. These capital flows are in a close relation with the American companies' increased profits.

For a long period of time, Mexico has constantly benefited from the US companies' growth in consumer spending and incomes.

Therefore it is not surprising the fact that the biggest recession in the last decades in the United States has greatly affected the Mexican economy. The automobile industry crisis and the consumer environment in the US have led to a decrease in Mexico's exports. Considering the American firm's reduced earnings and the development programs' decline, the direct foreign investments seem to have been reduced to half in 2009 in comparison with the previous year.

5.2. Mexico and the Impact of the World Economic Crisis

The money transfers made by the Mexicans living in the United States to help their families back home have also been affected by the recession. Estimated at US\$ 25 billion, these payments have represented the most important source of currency income after the oil exports. Between October 2008

and January 2009, the monthly payments have decreased by 40%. Because of all these reasons, the severe recession in Mexico was inevitable. In the first year trimester, the gross domestic product has declined with 8%. For the Mexicans, the fact that this time they hadn't caused this crisis was just a minor consolation.

The Mexican tourism industry, though, was the most seriously affected. Tourism incomes constituted the third biggest source of currency incomes in 2008, at more than US\$ 1.8 billion (approximately 1.5% of the GDP). As a result to the swine flu and the concerned tourists, a great many tourism firms eliminated Mexico from their itineraries – in some cases, until the end of the year 2009. The great cruise ships avoided Mexican harbors such as: Acapulco, Cancun and Puerto Vallarta. According to the conference of the Chambers of Commerce, Services and Tourism in Mexico, the rate of hotels occupancy dropped to approximately 10% in middle May and the beginning of June 2009. The Cancun airport registered a decrease of 63% in the number of passengers in May 2009. Even fewer were those who visited the Mexican city on the Mayan coast in June (less than 25%).

The situation has somewhat improved since then, but a normal recovery is far from becoming reality. The Mexican Secretariat for Tourism is expecting a decrease in tourism incomes at more than 40% for the year 2009. As a result to the losses caused by the United States' recession, the economic situation aggravated in the second trimester. The gross domestic product dropped with 10.3% per year. The Central Bank of Mexico announced that on 29th of July 2009 it was expected for the GDP to contract with 6.5%-7.5% in 2009. In April a decrease of 4.8% was

expected. Thus, this adjustment seems more severe than during the 1995 recession when the GDP dropped with only 6.2% compared to the previous year.

5.3. „Tequila crisis” versus the Present Economic Crisis in Mexico

The so called “tequila crisis” started in December 1994 when the Mexican government was no longer able to maintain an unchanged exchange rate between the peso and the American dollar. This thing led to a trust crisis and finally to a massive withdrawal of foreign capital, which in just a few days led to currency devaluation by 50 percent. The capital withdrawal, the sudden rise of the loan expenses, as well as the inflation growth by more than 50%, the global crisis has turned into a general economical crisis. Mexican banks have accumulated high debts on the free markets in the United States. The peso’s devaluation has caused a dramatic profit increase. Accepting the case of bankruptcy many Mexican banks were eventually taken over by foreign banks in the majority of cases. Because of the crisis, Mexican firms were forced to receive loans from foreign creditors, while the government’s finances were greatly affected by bonds, now in foreign property.

After the “tequila crisis”, the macro economical situation of Mexico significantly improved. The net debt, as a percent of the GDP, was reduced from almost 50% in 1995 to only 8% in 2008. Firstly, the governmental debt was reduced. Secondly, the loans in American dollars were replaced with peso loans. Thus, in the last five years, the quantity of governmental loans in dollars dropped from 95% to 63% at the end of 2008. During the last few years, Mexico has built monetary reserves of

over US\$ 70 billion. Moreover, 30 billion represent the money for trade agreements with the Federal Reserves of the United States and the 47 billion dollars representing the flexible credit line with the Currency International Fond, have assured a greater stability of the currency and reduced the risk of a bigger depreciation on pesos. The credit line granted by IMF (Fondul Monetar International – International Monetary Fund) sends a positive signal to the investors about the countries’ economical situation. John Lipsky, the first executive deputy director of the IMF, declared in April 2009 that the Mexican authorities had paid very much in the past on the account of political implications and that it was an excellent candidate for being granted a new flexible line of credit. The Mexican firms have also reduced their debts in dollars, replacing them with local loans. This meant that Mexico was a lot less dependent on external capital flows. Consequently, the peso’s temporary depreciation has not generated negative consequences and the inflation has remained under control. Indeed, the inflation continues to be moderate. It has dropped from 6.5% in December, to 5.4% in July 2009 and it seems that it will continue to drop in the following months. The moderate inflation makes the actual crisis to be a lot easier and endurable, especially compared to the year 1995 and the previous currency crisis.

The recently gained economical stability and the hope for the world’s economy recovery – and thus Mexico’s exports- suggest the fact that Mexico can get out of the crisis relatively without problems. For the year 2010 we are again expecting an increase in the GDP by 4%. In spite of all these, the recovery seems to be built on tottering ground.

The amendment of the public financial situation was mostly achieved on the account of the oil exports growth. Mexico's financial resources will largely continue to remain dependent of the oil exports in the future. Mexico is the sixth greater oil producer in the world. Oil exports contribute with only 5% in the GDP – at first sight a moderate number compared with other oil exporting countries. Nonetheless, the high taxes introduced to the oil state company Pemex, amount for collections from oil of almost 50% from the governmental total incomes.

The great problem is that the number of discovered oil reserves is decreasing. Cantarell, one of the largest domains of oil ever discovered in the world, will probably be exhausted in a few years. Mexico's oil production is dropping at the present with 10% each year, and in 2008 it reached the lowest level. During last years, the oil state company Pemex has not had financial resources to invest strong enough in new exploration projects. Foreign oil companies continue to be banned from access to Mexico's oil reserves. Mexico does not own considerable potential reserves. The Chicontepec domain and the deep reserves in the Mexico Bay have the largest potential. Nevertheless, the exploration is problematic/raises some problems from a financial and technical point of view. The long awaited energetic reform started at the beginning of the year 2008 offers the possibility of a more flexible mode of attributing contracts and a greater flexibility in the case of the incomes surplus investment at Pernex. The risk associated with exploiting and developing new domains, as well as associated cost will still be supported by Pemex, although the private sector continues to be banned from the possibility of investing

in the oil sector. The scale of private investments remains limited and it is not known if Mexico can stop the extension of the oil production in the following few years.

The income taxes, outside the oil sector, amount to only 9% in Mexico's gross domestic product. This is the smallest value compared to all member countries of the OCDE and also significantly lower than the 15% average value in Latin-American countries. The efforts of President Felipe Calderon of carrying out a consistent fiscal reform have failed in front of the political resistance. It is not known if the political desire for reformation will improve in the near future. Calderon's ruling party – National Action Party (PAN) – was one of the greatest losers in the parliamentary elections at the beginning of July. The greatest opposing party, the Institutional Revolutionary Party, was the winner of the elections. Thinking of the next presidential elections, which are programmed for the year 2012, it is less likely they will adopt unpopular measures which would be necessary for a broad tax reform. Ironically, the rise of the oil price might distract attention from the problem in order to delay the reforms in the oil and energy domain, which are so necessary.

6. Industry's "Winners" and "Losers"

The emergence of winners and losers at the level of countries is susceptible to cause tension which could install protectionism and could change the process of globalization. For a long time, from the investors' point of view, the credit crunch will affect not only the financial industry but the entire industrial framework. A few companies will be weakened but a small number of important companies will probably be much stronger from a structural point of view.

In the banks' situation, we have already seen some dramatic changes. A much larger part of the banking sector's settlements are an immediate consequence of the credit crunch. This could lead to the increase in liquidity demand, seeing the introduction of limits, the potential separation of the bank's subdivisions and of some industrial branches such as financial structures, might be drastically reduced. One after another new business models are expected to appear in the developed countries, as well as in the emerging ones. The credit crunch has led to many accidents in the last 12 to 24 months. We consider this will have a long-term impact on industrial structures, on the long run, as soon as problems are solved. For example, many weaker players will be weakened by the impossibility of reaching resources in order to self-blame for their position on the market – that is if it still exists. Others will be capable to obtain advantages from the weakened competitors in order to consolidate the leader market position and for a possible price improvement. The costs structure also has to be superior due to their abilities to invest and purchase.

Here are some of the industry sectors which are worthy of ample analyses:

► The auto sector stands out as one the capacity of which is still in excess and as one in which the returns of investments have not covered the cost of capital. It is possible for a future consolidation to be observed.

► The IT sector can also be further consolidated, by the fact that the IT sector is generally well positioned on the market even during the credit crunch period, given the life-time period of the assets and the capacity of generating profit in a deflationary environment.

► We consider that the retail industry might be facing significant pressures in order to consolidate, because the consumer tendencies are changing in countries starting with Japan and ending with Great Britain.

Mexico is about to survive the worst recession from the last decades without being too affected, because of the economical stability it has gained. The great challenge now is that of reducing the measure in which the public finances depend on oil and elaborating more methods for stimulating investments in the oil sector. If the so much necessary structural reforms are successfully implemented, the country's potential could be improved and especially the internal market would be consolidated. This aspect could also reduce the high level of Mexico's dependence towards the United States economy.

Conclusions

The effects of the crisis on the credit market have led to the existence of a multipolar world, and this is clearly reflected over many aspects of the financial system.

The dominant role of the United States dollar is directed in such a manner as to make room for a world where the United States are still important, however in which other countries, their currencies, their capital markets and their banks play an increasing role. As in the case of all large changes, this structural modification will provide the investors with both threats and opportunities.

It will take a while until the numerous unbalances caused by the crisis are settled. Then we will be able to think about returning to the normal economic cycles. Important changes are necessary in the way how politics is made, in order to ensure that such financial cycles are not abnormal. They are the

creation of the new institutions in order to adjust national fiscal policy and regulations arising from the regional, multinational monetary policy, aspects much more explicit regarding the price of assets and the potential

price bubble of the central banks, much more intelligent and in depth of the financial regulations of important institutions, and represent a final point in the widely used and non-discriminatory separation of risk taking and facing.

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A drastic reorganization of industry in the world. What is the driving force for the reorganization?

~ Visiting professor **Shinji Naruo** (Faculty of Business and Administration)

Abstract: The purpose of this paper is to show the method and model to analyze the driving force to reorganize the industry. Due to the global economy, many large scale M&A and affiliations are happening in the world. The business alliance and integration are happening in the advanced countries, the transition countries, and the developing countries. There are some factors to impact the reorganization of industry. One is government policy. Another is the market economy. The government has the industrial policy. It guides and leads the industrial structure of the country. Advanced countries had experienced the advancement of industrial structure. On the process of industrial structure advancement, the country improved national income (GNP). Through the process, the enterprise in the industry had experienced integration and separation in the industry. The theory of industrial structure supports the framework of this approach.

On the other hand, the market economy also had influenced to the reorganization of industry. Business cycle, competition, and innovation had influenced the reorganization of industry. In capitalism, the shareholder of the company pushes the company to maximize the profit. The shareholder's pressure could influence the decision of M&A.

The theory of industrial organization supports the framework of this approach.

The enterprise is in the business environment. Top management of the company is responsible to make a decision to merge or acquire the company. However, the decision is affected by other factors out of business environment. The shareholder influenced the individual enterprise decision. The government policy influenced the industrial structure. This could impose the enterprise to accept the amalgamation in the industry. Both of two influence the reorganization of industry.

Key words: Industrial policy, M&A, Privatization, global economy, Industrial structure advancement.

1. Introduction

1.1 The definition of the reorganization of industry. The global economy

changes the world. It changes the economic structure, social institution, industrial structure and the life of national people. It has the aspects of both of positive and negative in the society.

The enterprise is one of the major players in global economy. In order to survive, the enterprise must compete with competitor. However, in some situation, the enterprise decides not to compete with competitor. It is the reorganization of industry.

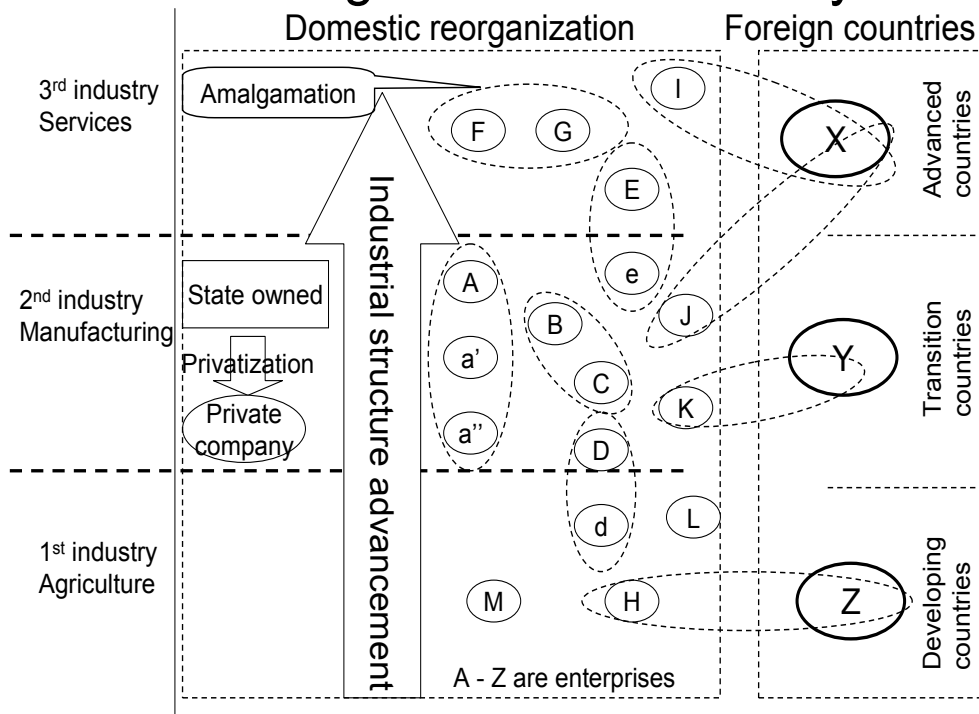
There are 2 kinds of reorganization. One is the horizontal amalgamation in the same business field; another is the vertical amalgamation on the production line.

There are some kinds of relations on the amalgamation. If both of enterprises A and B agreed on equal base relation, it is the amalgamation on an equal base. If the larger enterprise absorbs the other enterprise, it is M&A. In case of M&A, it could cause some conflict between A and B enterprise. If opposite enterprise disagree the amalgamation, it could be hostile takeover.

The reorganization of industry includes all kinds of integration that has the impact to the market. M&A is one of the reorganization of industry. The privatization is also one of them. The industrial policy of the government also causes the reorganization of industry.

The government encourages the enterprises to become more profitable. It should contribute national economy. From the viewpoints of global competition, the government tries to strengthen the industry in the country. In order to strengthen the industry, the government leads the integration of industry. If the market is undue competition, the government guides some enterprises to merge in one group in order to compete with competitor in the world.

The reorganization of industry



1.2 The theory of industrial structure and industrial organization

As above, there are 2 approaches to analyze the reorganization of industry.

One is the theory of industrial organization. J.S Bain's study had contributed in this field. It analyzes the market structure, market conducts and market performances. This study focuses on the enterprise.

Another is the theory of industrial structure. It analyzes industry. There are three groups of industry, 1st group is agriculture, 2nd group is manufacture, and 3rd group is service industry. W.Petty, C.Clark, S.Kuznets, and K.Akamatsu had contributed the study. It analyzes the industry form

the viewpoint of macro economy. It shows the relation between the industry and national economy.

Those two study fields are the theoretical framework of this paper.

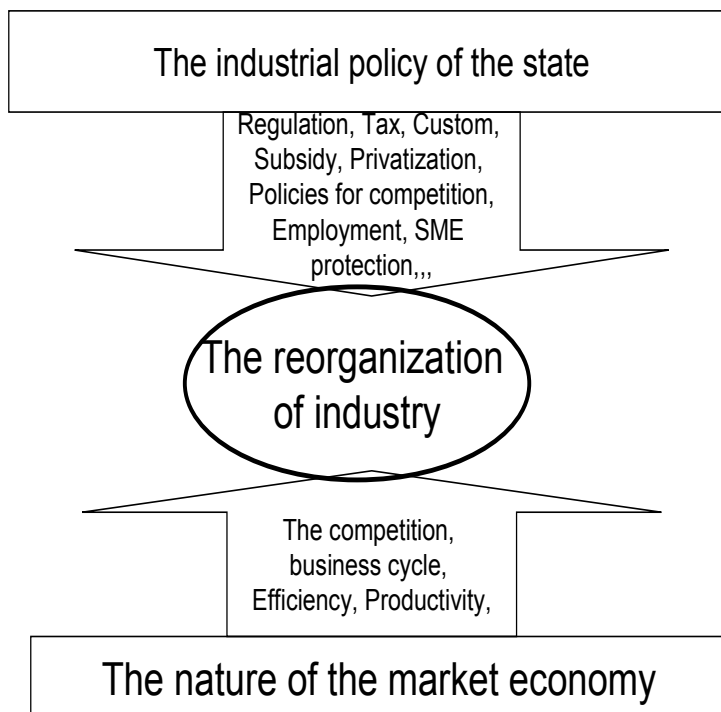
1.3 Method for analyzing the reorganization of industry

The purpose of this paper is to show the method and approach to analyze the reorganization of industry.

In other words, the purpose of this paper is to find the driving force to reorganize the industry.

In this paper, I take the analysis model as below.

What is the driving force to reorganize the industry ?



This shows 2 factors to influence the reorganization of industry.

One is the industrial policy of the government. This is the policy for industrial structure. The theory of industrial structure inspires this approach.

Another is the nature of the market economy. This is the competition in the market. The enterprise competes with competitor in the market. They must survive and maximize the profit of the company. Stock company is owned by shareholder in capitalism. The company must satisfy the entire stakeholder. Business cycle is also the nature of the market. In some situation, the depression

pushes the enterprises to integrate.

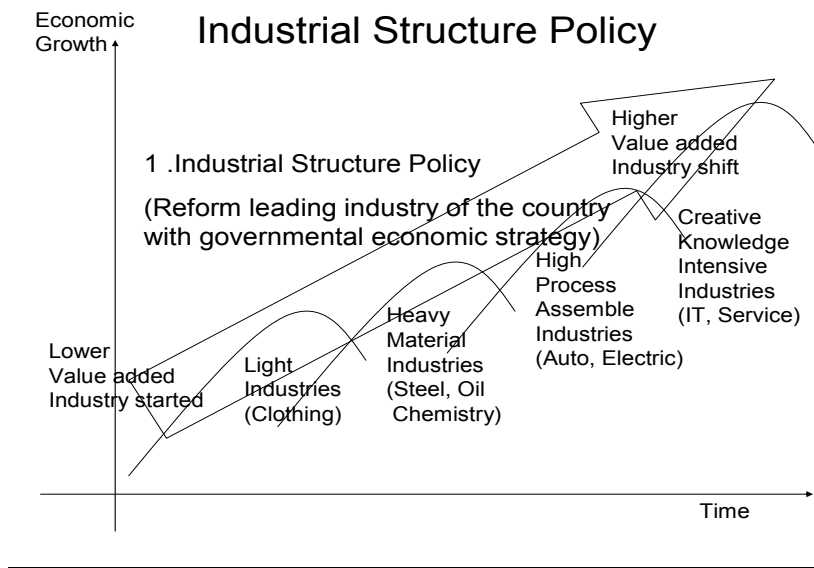
Both of industrial policy by government and the nature of the market economy influence the reorganization of industry.

2. Basic components of the model and method

In order to develop the model and method for analyzing the reorganization of industry, there are some key components.

2.1 1st key component.

It is industrial structure policy. The government has policy to guide the industry.



In order to improve the national economy, the government leads to shift the national core industry from 1st category (Agriculture) to 2nd category (Manufacture) and 3rd category (Service).

Clark, C., Hoffmann, G., and Kuznets, S., had studied those field of industrial structure advancement in the past.

This had also big impact to reorganize

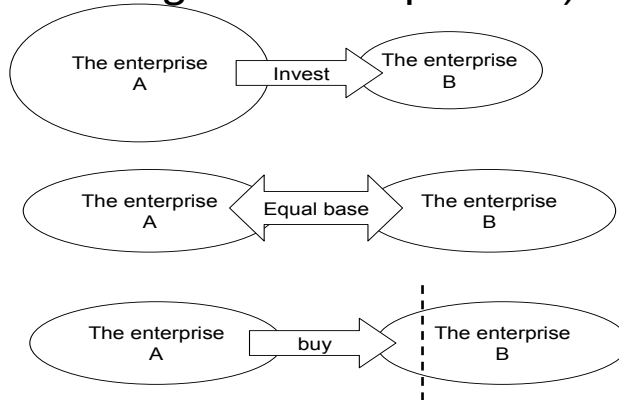
the industry.

Many developing countries started from 1st industries, and then the government tries to shift to 2nd and 3rd industry.

2.2 2nd key component.

It is M&A (Merger and Acquisition). This is the field of the theory of industrial organization.

M & A (Merger and Acquisition)



As a nature of capital, the enterprise pursues much higher profit. In order to get higher profit, the enterprise competes with other enterprise in the market. In some cases, they realize better way to get much higher profit. The enterprise may prefer alliance to competition. If the enterprise finds the opportunity to merge the competitor, the enterprise may offer to merge the competitor.

The M&A between the enterprise A and B depend on the relation. If enterprise A is definitely stronger than B, then A merges B. However, If enterprise A and B are same level of the business, then the M&A will be equal base.

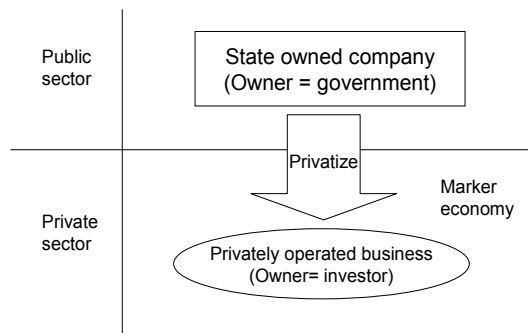
If they could not achieve the mutual agreement, the M&A could be hostile takeover.

Due to the economic recession, the enterprise restructured some division of the enterprise. In the case, enterprise A buys the part of B.

2.3 3rd key component.

It is the privatization. The state owned public sector like railway, electricity supply, water supply, Gas supply, and telecommunication. In the socialism, those are owned by the state. In case of capitalism, those public sectors were operated by the governmental organization.

Privatization



In the transition countries after the revolution, they had challenged many privatizations in order to rebuild business infrastructure. Some are succeeded, others are failed. However, it was necessary for the transition countries.

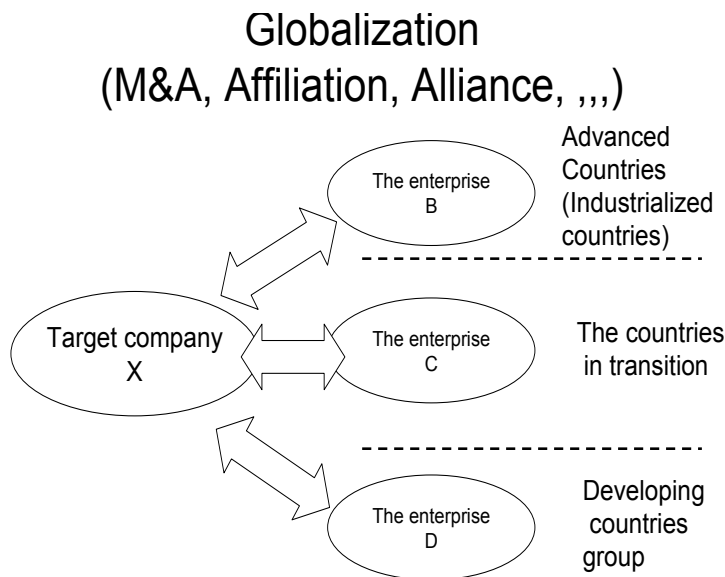
This also has big impact to the reorganization of industry. Those state owned company were large scale business. So, the impact of the privatization was big enough to reorganize the industry.

The government must be careful for the timing, process, and other conditions.

In some cases, the privatization impacts the industry positively. However, if the privatization changes the market condition, the privatization could impact the market negatively. This totally depends on the situation of the market.

2.4 4th key component.

It is globalization. Due to the global economy, the enterprise diversifies affiliation. They chose the best affiliation from business tie-up, technological tie-up, sales tie-up, and capital tie-up.



The enterprise optimizes their management resource for the maximization of profit. M&A were in advanced countries in the past. However, it has widespread in the world.

Advanced countries invest developing countries in order to keep the rights and interests for natural resource. This was traditional relation between advanced countries and developing countries. Now, developing countries are realizing the strategic value of natural resource. Then, they try to protect it.

Advanced countries offer joint development with the enterprise of developing countries.

Another pattern is happening in social infrastructure. Developing country starts to develop social infrastructure like transport, energy and water. Many advanced countries target such a business opportunity.

In the case, they organize new business schema with advanced countries and / or developing countries.

The countries in transition also act

actively in the reorganization of industry. China invests a lot in African countries for natural resource and other political interests. Chinese government and governmental company merge or acquire the enterprise in the world. This is the new trends that happening in the world.

These new international order stimulates the reorganization of industry in the world.

3. Case study: the reorganization of industry in the world

There are some aspects of the new trend. We assume global trend has common principle in the world. However, there are some common factors and some unique factors.

Comparison for the reorganization of industry

		Cases	Driving force
1	Japan	Panasonic⇒Sanyo, 3 major bank group, Nippon oil ⇔mitsubishi Oil	Business cycle push the company to restructure or tie-up with competitor. In other words, economic depression push the company to make a decision.⇒"Depression"
2	USA	IBM PC ⇒Lenovo, Ford⇒Volvo,	Shareholder of the company strongly request to restructure the lower profit business. ⇒"Shareholder"
3	EU	Air France⇔KLM Arcelor Mittal,	EU structure removes the border, and then it drive industrial integration. ⇒EU structure"
4	Asian countries (Korea, China)	Korea (big deal, 1998), China Investment Corp (CIC) invest	Korean government order 55 companies to merge into 5 major business group. CIC is Chinese governmental fund to invest ⇒"Government "

3.1 In Japan.

There are some reorganizations of industry recently. Japan is capitalism, so the company in Japan must compete with competitor, and maximize the profit.

Recently, Panasonic merged Sanyo because of the financial problem. Mega—banks were merged in 3 major bank group. Nippon oil merged Mitsubishi Oil Company. All of these M&A were caused by depression. In order to survive in the market, they must accept the affiliation with competitor. In this

context, business cycle was the driving force to reorganize the industry in Japan.

3.2 In USA.

IBM sold PC division to Lenove, Chinese company. Ford also sold Volvo division to Chinese company.

The shareholder strongly requests the top management of the company to maximize the profit. This is very severe pressure to the top management of the company.

3.3 In EU countries.

There are global reorganizations of industry. Air France and KLM were merged. EU mechanism removed state border among EU countries. This was the engine to reorganize the industry. Arcelor Mittal is also challenging the reorganization of steel industry in the world.

Those challenges are driven by EU borderless mechanism. EU mechanism has some force to drive the reorganization of industry.

3.4 In Asian countries.

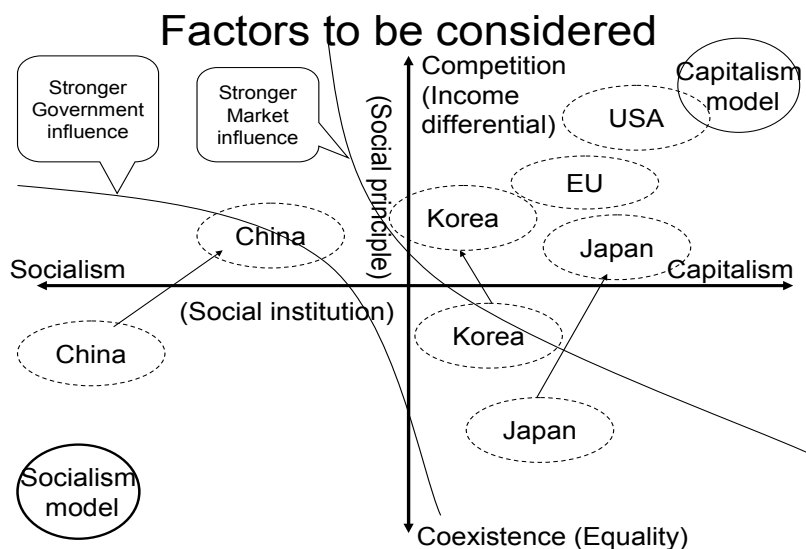
Korea and China also aggressively roll out the reorganization of industry. However,

those countries deeply depend on the governmental decision. In case of Korea, after Asian financial crisis, the government forced 55 companies to merge into 5 major business groups. It was in 1998, named big deal.

China also have strong governmental fund. CIC (Chinese Investment Corp) invest for foreign enterprise. China has also many state owned companies. Those companies are also a part of reorganization of industry. In China, government plays the major role in the reorganization of industry.

As above, we can find some different driving force.

In order to analyze the factors of driving force for the reorganization of industry, I apply the matrix analysis approach.



Horizontal line means social institution, capitalism and socialism. Vertical line means social principle, the competition vs. the coexistence. The competition generate winner and loser, this could cause income differential. The coexistence prefers equality to differential. If the country stands the principle of coexistence, the middle income layer

grows in the country. In Japan, more than 80% of national people had recognized that they were in the middle layer. This represents the equality of the society.

In this map, China is socialism politically; however China implemented competition mechanism in the business field. Then, equality principle of socialism disappears in China.

Korea used to be small and stable economy. However, the government led the business to the global market. In order to compete with competitor, they strengthen their domestic operation. The government forced the enterprise to reorganize. Due to the competition, Korean society is facing to the income differential.

Japan also had shifted the gear to the principle of competition. Due to the change of social principle, Japanese society and business environment had been changed. Middle layer in Japan had been shrunk. This caused the income differential in Japan.

We studied some unique driving forces in the case studies. The chart shows us 2 aspects. One is stronger government influence, another is stronger market influence. China and Korea relatively influenced by governmental policy.

On the other hand, USA and EU countries are influenced by market mechanism.

This is the relative analysis, not absolute analysis. It is necessary to study the relation between the policy and effect. It will be analyzed in next paper.

In this paper, I point out this approach for analyzing the reorganization of industry.

This is the purpose of the paper.

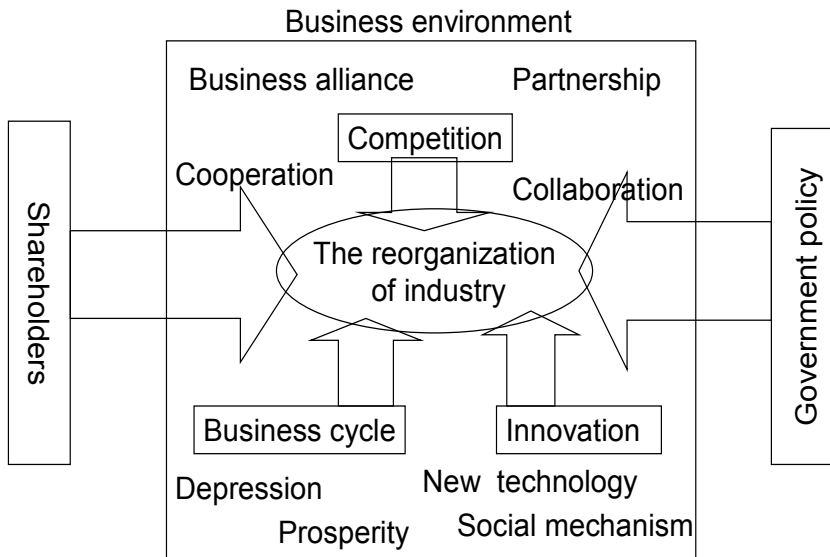
4. Model and method for the analysis

There are 2 key factors to be considered in the model. One is the industrial policy of the state, and another is the nature of the market economy.

Both of two factors influence the reorganization of the industry.

The model can be drilled down in detail as follows.

Driving force for the reorganization of industry



The market mechanism of capitalism encourages the shareholder to monitor and push the enterprise performance. If the performance is not good enough, the shareholder push the management. This could be driving force to reorganize the industry.

On the other hand, Government has industrial structure policy. If the industry of the country is not strong enough to compete with competitor in the world, the government push the enterprises of the industry. This could be driving force to reorganize the industry.

In addition to that, there is another fundamental factor. It is the business environment. The enterprise is in the business environment. There are 3 key factors in the business environment. One is the competition, 2nd is the business cycle, and 3rd is the innovation. Those 3 factors influence the reorganization of industry in the world.

The reorganization of industry is very critical economic effects in the country. In order to survive in the industry, the country must guide the enterprise. In order to survive, the enterprise must challenge the market. The enterprise must recognize the business environment, and then they can make the right decision.

The decision must be strategic decision; it must be long term view decision.

If the decision was done by the pressure

from short term viewpoint like shareholder or business cycle, it could be wrong decision.

So, the government and the top management must carefully analyze the business environment and their management resource.

5. Conclusion

The reorganization of industry happens in the real business environment. The competition, business cycle, and Innovation definitely influence the process of the reorganization. These are the fundamental factors to be considered.

However, there are 2 critical driving forces out of business environment.

One is shareholders. It pushes the top management of the individual enterprise. This is in the field of the theory of industrial organization.

Another is government policy, it is industrial policy. The government leads and strengthens the industry. The policy intends to improve the industrial performance, not individual enterprise. This is in the field of the theory of industrial structure.

Both of two study fields provide the infrastructure for the framework of the reorganization of industry.

For the further study, accumulating the case study is necessary. The accumulation of the case strengthens the model and method.

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Beyond Marketing: The Brand Story

Don't forget that everything you deal with is only one thing and nothing else. And don't forget the language of omens. And, above all, don't forget to follow your Personal Legend through to its conclusion. But before I go, I want to tell you a little story...

Paulo Coelho - The Alchemist

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Key words: branding, story, communication strategy, brand identity, type of brands, brand attributes, brand coverage, multi-sensorial branding, marketing.

Coelho is not a great writer. However, his most important book speaks about his Personal Story. The book has been more than a best seller. The Alchemist has almost become a brand. Coelho is a contemporary author with an extremely powerful personal brand too. Yet, this is not what I was driving at. It is the story right in the middle of the book that I am drawn by. The story within the story, the one which describes the way to achieving the Personal Legend or, better said, to finding the Secret of Happiness.

And I cannot help telling it: *A certain shopkeeper set his son to learn about the Secret of*

Happiness from the wisest man in the world. The lad wandered through the desert for forty days, and finally came upon a beautiful castle, high atop a mountain. It was there that the Wise Man lived.

Rather than finding a saintly man, though, our hero on entering the main room of the castle, saw a hive of activity: tradesmen came and went, people were conversing in the corners, a small orchestra was playing soft music, and there was a table covered with platters of the most delicious food in that part of the world. The wise man conversed with every one, and the boy had to wait for two hours before it was his turn to be given the man's attention.

The Wise Man listened attentively to the boy's explanation of why he had come, but told him that he didn't have time just then to explain the Secret of Happiness. He suggested that the boy look around the palace and return in two hours.

'Meanwhile, I want to ask you to do something' said the Wise Man, handing the boy a teaspoon that held two drops of oil. 'As you wander around, carry this spoon with you without allowing the oil to spill.'

The boy began climbing and descending the many stairways of the palace, keeping his eyes fixed on the spoon. After two hours, he returned to the room where the Wise Man was.

'Well', asked the Wise Man, 'did you see the Persian tapestries that are hanging in my dining hall? Did you see the garden that it took the master gardener ten years to create? Did you notice the beautiful parchments in my library?'

The boy was embarrassed and confessed that he had observed nothing. His only concern had been not to spill the oil that the Wise Man had entrusted to him.

'Then go back and observe the marvels of my world', said the Wise Man. 'You cannot trust a man if you don't know his house.'

Relieved, the boy picked up the spoon and returned to his exploration of the palace, this time observing all of the works of art on the ceilings and the walls. He saw the gardens, the mountains all around him, the beauty of the flowers, and the taste with which everything had been selected. Upon returning to the Wise Man, he related in detail everything he had seen.

'But where are the drops of oil I entrusted to you?' asked the Wise Man.

Looking down at the spoon he held, the boy saw that the oil was gone.

'Well, there is only one piece of advice I can give to you,' said the Wisest of Wise Men. 'The

Secret of Happiness is to see all the marvels of the world and never to forget the drops of oil on the spoon'.

I must admit that I wanted to begin this chapter with the following definition given by John Murphy, the founder of Interbrand: branding is *the process of developing and maintaining a set of attributes and coherent, pertinent, distinctive and protectable values in accordance with consumers' desires. Therefore, a brand represents a synthesis of physical aesthetic, sensible and structural elements.*

However, I realised that Coelho's definition is much better. What does "a set of attributes and coherent, pertinent, distinctive and protectable values" mean? The drops on a teaspoon. What does "in accordance with consumers' desires" mean? It means to look into the world around, see its trends, its opportunities that is exactly: the gardens, mountains, all the beauties of the palace.

What does it mean to concentrate only on keeping the two oil drops on the teaspoon? Marketing myopia – as Kotler would say. What does it mean to look only around? The loss of the brand's essence under the pressure of hyperconsumption; loss of focus – as Al Ries would call it.

As a result, I believe that this anecdote of Coelho's is one of the most beautiful stories on brand. A story which, had it been known for instance by those from Polaroid, would have prevented them from adjudging themselves bankrupt in 2001, despite the fact that they benefited from a well-known name which became synonymous with its category.

What has really happened?

In 1948, Edwin Land, a graduate from Harvard University, invented a camera which allowed colours to be transferred from negative celluloid to film inside a tight casket

i.e. the first system of taking instant photographs. Under the name of Polaroid, these cameras were in vogue in the '70s, having been used both by sophisticated consumers and by celebrities and artists like Andy Warhol.

Nevertheless, Polaroid has not understood its essence, its brand driver very well. Its trump was given by the fact that, when film cameras were in vogue, you could not know what image you had captured until you took the photo to an image development studio. This was a winning card for which all consumers were willing to pay more. And yet, under the pressure of the market, Polaroid made a first mistake when, in the 1980s, the first photo labs which developed photos in an hour emerged and the prices of traditional cameras were significantly reduced.

What looked like a real menace in reality, Polaroid considered to be an opportunity. Instead of sticking to its "personal legend", instead of insisting on the fact that it was the only brand to still offer instant photographs, Polaroid appropriated the story of its rival. The company entered the market of traditional cameras in contradiction with its brand essence.

In other words, by paying too much attention to what was going on around it, to the evolution of the market, it let the drops from the teaspoon pour. After this moment the popularity of the brand had constantly degraded up to the year 2001 when Polaroid declared its bankruptcy.

Where did the mistake come from?

Here is what John Hegarty, President of the agency which worked for Edwin Land's brand, said: *Polaroid continued to consider its product to be a camera (...) Yet, the process of the brand evolution taught us that Polaroid is not a camera but a social lubricant.* (my translation)

It is for this reason that the company has probably not noticed that *its personal story* offered it the possibility to enter a different category. A category which evolved right from its brand driver.

However, it is strange that, by paying so much attention to the landscape which surrounded it, the brand had not grasped another opportunity.

An opportunity which would have allowed the identity, *its personal story* to have been preserved by starting exactly from the competitive advantage which had established it: *No trump was more powerful than its instantaneous nature. Nowadays, Polaroid could have been a power in digital photography if somebody had tried to understand at the time the place the brand would have fitted in. Yet, nobody cared about it.*

I find Peter Post's statement, manager of one of the biggest Canadian marketing company, very important. And this is because it indicates the way in which an accurate identification of the brand driver may strategically support the company.

This evokes an idea Kotler formulated by quoting Peter Drucker: *Nonetheless, we affirm that the marketing must direct the strategy of each element of the business. It has to be the starting point in the development of the business plan. Peter Drucker defined it more than 30 years ago: 'A company has only two basic functions: the innovation and the marketing.'*

And Kotler also added something else. He said: *Most of the present marketing relies only on one of the 4Ps; in other words, marketing deals only with promotion, with other departments heavily determining the product, the price, the sale. I remember about a very important European airline company whose marketing vice-president avowed to me that he raised neither the price of tickets nor the in-flight services*

*conditions (the meal, the staff, the setting) and he did not want to change the flights schedule. How can marketing be efficient if the 4Ps are not unitarily controlled?*¹

We believe that it is for this reason that branding was invented, because it offers a strategic responsibility originating in the centre of the company which is thus forced to regulate all the other components function of the brand. That is why, in the example I provided in the previous chapter about the Singapore Airlines, the concept of the Singapore Girl campaign was not basically related to promotion or marketing, but to the strategic essence of the brand and, as a matter of consequence, directly to the management of the company.

In fact, what we would like to suggest is that in a market in which consumers become “pro-sumers”, determining thus the form and content of the product they are to consume, conditionings related to brands are becoming more and more important.

So it is for this reason that we can speak of multisensorial brands, of Holistic Selling Proposition, of redefining the notion of brand which must signify more than a labelling.

This is the reason why we are trying to put forward another classification of brands made by the Research International Agency. The model which we continue to consider Let us start with a first typology, the one of the so-called **Master brands**, such as Nike, McDonald’s, Nokia, Visa, Coca-Cola, or Sony, brands which define their category, the latter being impossible to be conceived without them. Let us start with a first typology, the one of the so-called **Master brands**, such as Nike, McDonald’s, Nokia, Visa, Coca-Cola, or Sony, brands which define their category,

the latter being impossible to be conceived without them.

As global brands, they rely on universal well-defined themes: Nike means *just do it*, Nokia means connecting.

They manage to get these values across so well than they often turn into a sort of gadgets used to communicate the identity and aspirations of their users.

Thus, in Japan for instance, the limited editions of Nike are extremely looked for by those kids who want to state their individuality. Moreover, through NikeID we already have an inverted conditioning of the consumption in which the mega-brand turns its consumers into some “pro-sumers” who are given the possibility to produce the design of their own sports shoes by themselves.

Often positioned, in an aspirational manner, outside Europe and the United States, these brands, whose country of origin is in general easy to identify, manage to transcend their national origins.

In this way, Coca-Cola, which is considered to be an American beverage par excellence, does not yet possess Americanism as its central value. Although, as Donald Keough its managing director stated on July 11, 1985 when he announced the coming back to the Cola-Cola’s classic taste:

The simple fact is that all the time and money and skill poured into consumer research on the new Coca-Cola could not measure or reveal the deep and abiding emotional attachment to original Coca-Cola by so many people. The passion for original Coca-Cola – and that is the word for it ‘passion’ – was something that caught us by surprise. It is a wonderful American mystery, a lovely American enigma, and you cannot measure it any more than you can measure love, pride or patriotism.

¹Ibidem, p. 33;

But the question researchers ask regards the source of the persistency of these global mega-brands.

The survey conducted by Research International shows that the persistency of these brands is mainly due to innovations which, at the level of consumers, allows them to be perceived as young and relevant brands capable of suspending the products' life cycle in a sort of an eternal immortality.

Hence, the affinity with these brands relies on:

- a combination of authority – which equally implies confidence and innovation;
- the consumers' agreement – which depends on a certain degree of acceptability all the elements of branding should observe; and, most of the times
- the identification of the target public – which involves both a stable relationship tot it as well as a sort of a nostalgia which determines them to always go back to the brand.

Apart from these components the survey adds another remark.

Master-brands confer power on their users, functioning as if they were contemporary

⁷This quote is reproduced in the Matt Haig's volume – "Mari eșecuri ale unor branduri de renume", p. 27; talismans capable of granting people access to a world of their own idealized images.

But the problem is that the power of these so-called "talismans" often grows stronger and then, the consumer feels he is losing control as if, instead of the brand to communicate his personality, he himself turns into a prop for the brand's personality.

This opens a new trap for the power of the Mega-brands which, instead of conferring

power, they compel recognition by their own force and then they may lose significant market shares.

Another category the people from the Research International group speak of is that of the so-called Prestige brands or brands of prestige. This is the category of those "premium" brands which embody the cultural myths of quality.

Chanel, Mercedes, Armani or BMW are examples of such brands which are mainly purchased due to their aspirational value.

They equally refer to the accumulation of a history which speaks for the quality of the brand by offering guarantees on its persistency and the capacity to innovate by installing itself at the top of the category, playing the part of "trend setters".

Just as in the case of Mega-brands, they maintain their immortality without prolonging the optimum age of their life cycle, by rather rhythmically reinventing their products inside the definition of the same brand.

Thus, we may say that unlike the comfortable inertia of Mega-brands to which the change of some products' attributes may lead to serious temblors in the architecture of the brand, prestige brands must renew themselves permanently, reinventing themselves through collections (Chanel, Armani) or by launching new models (Mercedes or BMW).

And, as we have been talking about the inertia of Mega-brands, let us consider the disaster brought about by the change in the Coca-Cola formula following the launch of the Coca-Cola Classic, or the impact of the change in the flavour alteration of the McDofries. Consequently, I may say that the power of Mega-brands comes also from standardization whereas that of Prestige brands arises precisely from de-standardization.

It is for this reason that I would have an objection. The example given by Research International about the way in which limited editions of Nike sports shoes were treated on the Japan market make us think about the fact that Nike behaves on this market more like a Prestige brand than Mega brand.

But let us continue with the rest of the classification.

The third category is called GloCal² brands and corresponds to those brands which, despite the fact that they have global coverage, are rather perceived as local brands due to the way in which they relate to the cultural environment where they develop.

In general, they belong to those categories of products which do not involve a strong usage exposition and that is why they have a few aspirational associated elements.

These are brands belonging to the food or maintenance products category, triggering a low involvement rate on behalf of the consumer.

The affinity to the brand relies – as the authors of the study pinpoint – once more on a certain authority which implies both confidence in the product and brand as well as the identification of the values of the brand.

I would like to add that this identification is not of statute but emotional and it relies on the care the brand manifests towards which any taking back in the use of the pro-

duct would imply a sort of a nostalgic reiteration of the golden age.

And it is from this point of view that I feel compelled to make several observations. I believe that beyond these characteristics which the survey conducted by Research International enumerates, there is a danger for the three categories to meet. As previously shown, Nike may just as well be a Master-brand, as it can be, on several segments of market, a Prestige brand. Similarly, global brands such as Danone, Dove or Nescafé, given as examples for the category of Glocal brands, are still felt in Romania as Master-brands rather than glocal brands.

Under these circumstances, I feel the urge to add another differentiating element within this classification, an element which exists latently but has not been identified as such.

This would function as *genus proximus* to help us better define the category.

And I would say: the Master-brand de-localizes, the Prestige brand de-socializes, whereas the Glocal brand de-temporalizes. What does this really mean?

When I say that the Master-brand de-localizes I refer to the way in which these brands are consumed. When you eat “French fries” at McDo, this is delocalized consumption; no matter where you are in the world, the taste of the fries is identical.

Let us take another example. You probably remember the famous spot showing a baby who smiles when seeing the McDo logo and when the logo disappears due to the sway of his cradle, he bursts into tears.

This is the “classic” version, whereas the campaign centred on a kid who goes along with his parents to see a house and decides that is the house to choose because he can

²The word, glocal a compound of the antonyms global+local, has been in use for some years now in the vocabulary of multinational companies; it sum up a certain slogan of international marketing: “Think global, act local”, which seems to have become again “think local, act local”, according to Douglas Daft, CEO at Coca-Cola, quotes made by Peter Cheverton in “How Come Your Brand Isn’t Working Hard Enough?”, Kogan, 2002, p.131;

spot the McDo restaurant on one of its windows may be considered to be another rendition of the same concept. What do we have here? Isn't this another example of "localization"? Wherever you may be, irrespective of the city, country or continent, what matters is to have a McDonald's in the neighbourhood. This is how the paradox of de-localization of Master brands works. They extract the consumer from his current geography to relocate him within their own geography.

But what happens to brands of prestige? I have already said they de-socialize, in fact hinting at maintaining the contrary. Like all aspirational brands, they are purchased to up-grade their identity. What does this 'up-grade' imply? Nothing else but a displacement toward that aspirational image a consumer makes of himself. For whose sake does this displacement occur if not for the sake of belonging to a certain social group?

Therefore, this abstract de-socialization does nothing but socially anchor the consumer. And thus, the effect of social dislocation practically aims at re-socialization as part of a circular process.

The same scheme we have been taking about so far applies for glocal brands too but on a temporal level. To gather local connotations, global brands have to assimilate the memory of that particular space.

And this memory refers to a certain capacity to relate not only to cultural stereotypes but to time as well. A brand becomes glocal when it assimilates too a past that has never been his without letting anyone feel this thing.

So here is how the very "de-temporalization" of these brands implies an interesting temporal relation based on the capacity to descend on the rope of time. And in order

to descend on the rope of time you certainly need a carefully circumscribed space. This is how glocalization takes place.

Let us consider for instance the brand *Bunătați de la bunica* (Goodies from the Granny) launched in 2000 by Orkla Foods. Although it actually belongs to a Norwegian company which operates in 14 states: Norway, Sweden, Denmark, Finland, Island, Estonia, Lithuania, Latvia, Poland, Austria, the Czech Republic, Portugal, Romania and Russia, the brand *Bunătați de la bunica* (Goodies from the Granny) has been rapidly assimilated by the Romanian market growing into a market leader in the mustard category.

Well, you may say that it is very unlikely for an indigenous sturdy granny to give her nephews mustard jars or bottles of sunflower oil (products commercialized under the same brand), instead of pound cake. Nevertheless, here is how the name of the brand, as comfortable as a log fire, managed to sell even what it does not very well correspond to its content. Why? Because it covers that genus proximus of glocalization we have been talking about before.

The name of the brand *Bunătați de la bunica* (Goodies from the Granny) has the capacity to descend in time, down to a personal history which each of us deposits and which grows into a sort of local patrimony. Even if the grannies from the TV ad look more like some grannies who had emigrated to Germany than the women pensioners in Romania, the brand locates itself by descending, as we have already said, on the rope of time.

But the other two categories of brands the researchers from Research International speak of do not exhibit the same qualities. It is the case of those Tribal Brands and Super Brands.

Tribal Brands have something in common with prestige brands, several tribal brands being able to change in time into prestige brands. Tribal brands are brands purchased ostentatiously as an alternative to Master brands. They will be thus preferred by young sophisticated consumers influenced by the trends of fashion. Consequently, the relation to tribal brands is extremely powerful because they express and nurture at the same time their individuality. In this way we reach a level where the consumer does not only borrow the story of the brand but, as in the case of prestige brands, ends by writing it.

This is the peculiarity of tribal brands whose consumption does not imply the assimilation of a brand's story, but the writing of it. Apple is the prototype of tribal brands, mainly because this brand represents more than the developing of certain values.

Apple,³ like other tribal brands, makes up a community. A well-defined community of users shut to the products of its rivals, ritualised and benefiting from its own codes. This is a community which takes the duty of writing the story of the brand upon itself, which is responsible for its evolution as it knows the brand probably better than the employees of the marketing department.

I remember that the re-branding of one of the most important mobile phone operator on the Romanian market, Orange Romania, has been "affected" by the coming to London not of some marketing managers but of the so-called "ambassadors" of the brand. Their role was to communicate and support the values of the brand in those countries where local mobile phone companies were to be re-branded as Orange.

The idea that a brand should have ambassadors comes from a tribal culture. These

ambassadors were representing the brand to the same extent as they took part in the making of it story, by sharing codes and trying to build up rituals of communication. But this did not turn Orange into a tribal brand. Although, I may say that at a certain point in time, Dialog customers (the mobile network brand which afterwards has been re-branded as Orange) had a certain "tribal" behaviour

³Considered to be the most loved brand in 2004, Apple covers only 1,8 % of the PC world market, in fact losing significant rates in the year 1993 when it held 9,4% of the market share, practically the same portion as in the year 1984 when the first Mac was launched. However, we should keep in mind that Apple has refused to offer licenses for the technology employed for its system, positioning itself as an alternative to Microsoft, Intel, IBM or Dell systems and that the prices of its products have remained high in relation to its rivals'. Nevertheless, the value of the brand in 2004 reached 6.871 bn dollars, an increase compared with 2003 when the brand equity summed 5.554 bn USD which allowed the brand to move upward from the position 50 to 45 in the top of the most prestigious brands in the world, hitting a record increase of 24%. Yet, this spectacular growth was mainly due to its iPods, products which allowed Apple to gain a 25% market share of the music players world market in 2003, considering that its market share in 2001 for this category was 0. However, we must add that this outstanding evolution has been assisted by Steve Jobs, Managing Director for Apple Computer Inc., the person of whom Jimmy Iovine, President of Interscope Geffen A&M Records, a division of Universal Music Group, said: "Jobs is a true visionary, the kind of man who changes an entire industry." (my translation) - an extract from the article "Apple iese la rampă", Biz Magazine, no. 80, February-March 2004, p. 47, an article taken over from Business Week Magazine.

in the sense that they had an extremely active relation to the brand.

By becoming a market leader, Orange has changed in Romania in a Master brand whose power is well-known and yet, one to which customers are no longer willing to make sacrifices – the way they were willing to do years ago, in the case of its former tribal equivalent.

In fact, it is very hard to maintain the tribal aspect of a brand once it has become a market leader. To this respect, one should have a very good marketing director capable of generating and controlling an extremely powerful personal story of the brand, written afterwards by each consumer. But this was not utterly impossible. I remember a story about a meeting of Macromedia held in San Francisco which Steve Jobs attended. To mark the fact that a PDA launched by Apple around the mid-1990s went out of use, Jobs dumped it in the bin. His gesture pulled out tears from the users of the brand (some even called themselves Macnuts i.e. “mad” after Mac) confessing that they were capable of purchasing a product even if they didn’t need it, to support the company.

Grounded on an extremely powerful “personal legend” and supported by a charismatic leader able to give consistency to this legend – Jobs himself had an extremely “passionate” relation to his company, quitting it, then coming back to it to raise the bid for one-dollar salary. In short, Apple has proved that a tribal brand may reach up to the level of a Master brand.

But let us go back to the taxonomy proposed by Research International, noticing that the last category is that of Super brands. They possess important market shares without acting as myths of the category. Super brands involve a significant notoriety, a

positive emotional relation with the consumer, but they do not succeed in achieving either the force of Master brands or the intensity tribal brands are lived at, the prestige and capacity to be thought of locally, as in the case of the other two categories.

The difference between Master brands and Super brands is the difference between Samsung and Nokia, the Research International seems to suggest.

Nokia evokes an entire mythology of communication which was to re-define its meaning under the form of “connecting people”, generating a personal story of the brand which can be easily assimilated to the story of the mobile user. Conversely, Samsung looked like a dull brand. A few years ago, it was hard enough to say something of Samsung, despite the fact that it was a brand known to have existed a long time before. Yet, it did not represent an object either of desire or of the identity projections. Nonetheless, a strong enough personal story having global pertinence may seemingly propel it as one of the most powerful Master brands, more quickly than we would imagine. And here is what statistics say.

Nowadays occupying the fifth position in the world, as far as the value of the brand is concerned, between 2003- 2004 Nokia managed to lose 18% of its brand capital, this amount being tantamount to a downfall from 29.440bn USD to 24.041bn USD. The reason: it was the harmless Super brand Samsung itself, whose value was, during the same period of time, rising by 16% due to the fact that it succeeded in formulating what we called its *personal story*.

Here is how Interbrand summarized the reason of Samsung’s ascension: *By surpassing its image as cheap brand, which struck blows at the policy of prices of the Japan brand,*

*Samsung has become a chic brand overnight.*⁴ (my translation) And this happened while the legendary Nokia was losing significant percentages of its market share, coming under 30% of the world market for the first time after 2001.

The reason: its inability to go on with its story.

Nokia, seen not long ago as a cool brand, which placed technology in the service of those who want to be connected, having a trendy and playful look, seems to have suddenly failed to understand its consumers. It proved to be utterly uninterested in the segment of sliding lid mobile phones which, having been first invented by Motorola were lately popularized by Samsung and LG Electronics. The latter saw a surprising increase in the consumers' preferences, their market being estimated at about 40% (of the total amount of sales in 2004: 20% in Europe, 40% in the USA and 60% in Asia), considering that they first of all aimed at the upper part of the market. Moreover, Nokia has delayed the launching of new technologies such as built-in mobile phone cameras, colour displays or enhanced volume features of data transfer. By moving at a slow pace and contrary to the story it continued to tell in advertising, Nokia entered free fall losing, as in video games, some of its 'lives'.

Nevertheless, it looks like in the last few years Nokia has found its 'tone' again. After the 2003-2004 downfall, it succeeded in steadily going up ever since 2007, coming back to the position it had occupied in the first years of the decade in the years 2000-2001, becoming again the fifth global brand from the point of view of the value of the brand. Let us go back to the Research International study to make a final

observation. Namely that Master brands and Super brands experience an interesting relation to space, whereas for prestige brands spatial references are inexistent.

Even if we have been talking about the de-localization of Master brands and Super brands implicitly, the study still characterizes them through the existence of a tension between the need to maintain a global statute and the desire to adapt to local cultures.

This is a paradox generated by the way in which consumers relate to these brands which they equally want to grow global – because this thing is given by a certain type of aspirational consumption – but also keep them individualized in order not to be part of an undifferentiated homogeneous target public. These tensions are yet surpassed by the category of tribal brands, of which Research International say are part of the third wave of branding.

But let us explain this a little further. The first wave defines the brands of the nineteenth century.

This is the first stage at which brands seem to act as endorsers of the physical qualities of products. This is a stage where brands are more like trade names i.e. a kind of labels tagged on products, labels which allow the building-up of a simple association to the manufacturer, the country of origin and, intrinsically, to the quality of the products.

Well, this first stage of branding which still persists in the less-developed countries and which was also experienced by brands of "the golden age" in Romania, is surpassed by the second wave of branding, when the brand does not say only something about the product but about the user as well.

Thus, brands of the second wave are brands which aim at building-up affinities

⁴Biz Magazine, no.91, p.42;

between the product and its target public and, implicitly, the creation of several models of identification by means of which the brand may be assimilated to a consumption characterized by social significance.

The brands of prestige and Master brands are part of this wave, both categories aiming at communicating through consumption several features of their users.

Well, it looks like the more and more sophisticated profile of the modern consumer makes even this second wave of branding to be outrun. The homogeneity in addressing of the brands of the second wave and their inability to differentiate consumers have generated a third model of branding whose prototype are, as specified before, tribal brands.

Why? It is mainly due to their capacity to interact with consumers.

I remember that in his book, *Lector in fabula*, Umberto Eco was talking about the importance of blank spaces in the construction of texts, these blank spaces playing the part of inviting the reader to fill in the Swiss cheese-like gaps of the text with his own fictions. Well, this is the main characteristic of brands of the third wave. These are brands which consumers build up by themselves having the feeling of belonging.

But, they may be created due to the fact that they have not reached the redundancy of the Master brands or of the Super brands which had been talking so much about their values so that they turned tautological.

As a brand, to manage to preserve your blank spaces is probably the most difficult mission to accomplish.

All the more so as most of the brand managers consider that nothing should be left unsaid. And it is here that the big mistake

resides. One cannot love a brand if you know everything about it, the very same way as you cannot fall in love with a woman if she has no trace of mystery.

It is for this reason that, in general, tribal brands are most of the times brands in the first phase of their life cycle, brands taken in by experimentors who consider them trendy and with which they identify up to the moment when these brands minimize themselves. Or it may be – which happens more rarely – that brands exceeding the moment of their ripeness experience a mysterious re-launching as with the Hush Puppies shoes from the *Tipping Point*, which had the charm of a seductive widow.

Anyway, the Swiss cheese-like wholes must work to let consumers come in and out of the story as they please in order not to feel captive inside a fictional world, one which they may suddenly find it is no longer theirs.

But the problem comes from what you leave unsaid and from the way you deal with the gregarious volume which consumers will generate, to prevent it from turning against the brand.

There is an interesting story about Dunkin Donuts' which around 1999 remarked that a site presenting critical opinions on the brand appeared more frequently on search engines than the company's site. The response of Dunkin Donuts' was extremely normal. They tried to reply to complaints by sending direct e-mail messages to dissatisfied consumers offering those discounts and gratuities. From a critical site, this has turned into a client feedback service, eventually being even purchased by the company.

Nevertheless, in this way the brand closes its story. At this moment, it is more important to know how to keep the story open. What

Martin Lindstrom considered being a HSP type of brand (Holistic Selling Proposition) may represent a modality of this kind: *a true HSP brand cannot be logo-centric. Its power is embedded in every aspect of the brand. Its message, sound, smell, and touch let you know what it is.*

Established in this way, the brand offers more ways of access as well as more freedom

to his consumers. Since it is multisensorial and capable of being explored, it becomes exploitable in more directions. In this way, it allows the building-up of alliances, the developing of ranges or of sub-branding, starting from the same story yet stimulating various centres of branding.

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Diplomacy and diplomatic functions

~ PhD Associate Professor **Oana Iucu** (Faculty of Bussines and Administration)

Abstract: *Through the main lines of this study we try to introduce specific approaches of diplomacy, diplomatic mission, diplomatic visits and diplomatic functions. Functions of diplomacy: representation, negotiation, information, diplomatic protection, international cooperation, consular function have been developed and analyzed more in depth.*

Key words: Diplomacy, diplomatic functions, diplomatic mission, diplomatic visits

1. Characterization of official, work and other types of State visits

Due to development of contemporary means of communication, chiefs of State and of Governments, as well as international affairs ministries added to their contacts and began involving in activities that were once linked to diplomats' skills exclusively; at the same time, these practices rob Governments and chiefs of State of the precious cover constituted by diplomats who work in secret, with greater spirit liberty and who can be oriented and disavowed when conclusions do not meet everyone's views.

Diplomacy in the 20th century introduces new principles and methods. Diplomatic activity widened its range considerably and it grew in the political field, especially through the introduction of new components. Aside from intense bilateral negotiations, multilateral negotiations become highly important in international conferences and organizations. Community diplomacy will also gain a significant place .

Diplomacy ceased to be clerical or belong to international organizations only. Diplomacy with a top secret, confidential character, with verbal notes and artful writing, with excessive importance shown to

protocol ceased to exist. The new type of diplomacy required true understanding of economic and financial data, besides a clear vision on political issues. This new diplomacy estranged from the old one owing to the idea of equality and to faith in diplomacy through conferences and experts.

After World War II, new conditions and new diplomatic practices came into sight, while the role of chiefs of State and Governments increased. Fading sovereign subjectivity and diminishing secrecy brought diplomacy closer to real problems of peoples, but didn't deplete it of its specific features. Along with public debate of treaties, discrete and small negotiations still take place, thus defending secrecy of discussions and of highly important information.

Various problems that emerge in the sphere of international relations cannot be totally solved by the chief of State or by international affairs ministries, since they can't approach nor directly treat international political, economical or juridical matters between States. Meetings at congresses or bilateral contacts between chiefs of State assure the approach of a limited number of problems and under no circumstances can they replace constant activity, claimed by maintaining and developing relations between States. In addition, the element of continuity in relations between States must be assured, required by the fact that establishing and intensifying collaboration and friendship relations are the result of an ongoing activity.

Hereby, the necessity to institute and maintain State representations abroad, whose task is to negotiate and act in the name of their State and help solve numerous and intricate mundane problems. At first, these

trustees were generically called diplomatic agents and later diplomatic representations or missions.

Accordingly, the diplomatic mission is a State organ, belonging to the sending State. One of the most significant contributions of the Vienna Convention as regards diplomatic relations is the importance given to the diplomatic mission institution, considering it an independent entity. Enjoying immunities and distinctive privileges, the mission offers cohesion and organic unity in the actions of its members.

The diplomatic mission constitutes the main instrument in founding and maintaining diplomatic relations and as such it contributes overtly and directly to collaboration between States. Wishing to establish relations with other countries, all States independently of their size, economic power or political regime institute a greater or a smaller number of diplomatic missions¹.

The diplomatic mission performs functions corresponding to its goals, contributing to mutual understanding and close relations between two States, as well as to promoting friendly multilateral cooperation between them. The sending State must give its diplomatic mission instructions that do not exceed its functions, otherwise diplomats risk to be declared as undesirable. Also, the sending State must show due respect to diplomatic representatives' activities, related to their functions².

¹Alexandru Burian, "Introduction in Diplomatic Practice and International Procedure", Cartier juridic Publishing House, Chisinau, 2000, p. 14.

²Gheorghe Iacob, "Introduction in Diplomacy, Foundation Axis Publishing House, Iasi, 1997, p. 344.

According to article 3 of the 1961 Vienna Convention³, the functions of a diplomatic mission are as follows:

- 1) Representing the sending State in the receiving State;
- 2) Protecting in the receiving State the interests of the sending State and of its nationals, within the limits permitted by international law;
- 3) Negotiating with the Government of the receiving State;
- 4) Ascertaining by all lawful means conditions and developments in the receiving State, and reporting thereon to the Government of the sending State;
- 5) Promoting friendly relations between the sending State and the receiving State, and developing their economic, cultural and scientific relations.

The second paragraph of article 3 in the Vienna Convention also shows the right of a diplomatic mission to perform consular functions⁴.

Showing States' practices and dominant opinions in their doctrines, the depiction of the diplomatic mission's functions crystallizes, in the field of positive law, the process of progressive development of diplomatic institutions nowadays. Consequently, an essential function of any diplomatic mission is promoting friendly relations and collaboration between the two States at economical, cultural and scientific levels.

³The Vienna Convention on diplomatic relations, adopted on April, 18th 1961 and ratified by Romania according to Decree no. 556 from July, 4th 1968, published in the Official Bulletin, part I, no. 89/1968.

⁴Idem, part I, no. 89.

Functions of diplomacy are organically interlinked and segregation could lead to a distorted image of the diplomatic institution⁵.

1) Representation – it is the function which permanent missions performed more visibly since their establishment as organs of external relations of States. The representation function means that diplomatic agents participate to events in public life, standing for the sending State, i.e. the approval attitude which it assumes with respect to significant moments in the public life of the country of residence. The diplomatic mission doesn't represent the chief of State nor the Government, but the sending State as subject of international law. This is why it is necessary to make a clear distinction between the function of representation of a diplomatic mission and the juridical act of representation in international law. International representation of States is a juridical rapport on whose ground a State grants another State the right to fulfill juridical actions towards a third State. Subsequently, in the case of international representation we can identify three subjects of international law. It is not the case of diplomatic mission, which is not a subject of international law, but an organ that helps maintaining and developing relations between two States as subjects of the diplomatic rapport.

2) Negotiation – similar to representation, it is one of the functions that permanent diplomatic missions performed since their establishment. Negotiation means examining a problem of common interest in order to solve it.

⁵Gheorghe Iacob, "Introduction in Diplomacy", Foundation Axis Publishing House, Iasi, 1997, p. 344.

From this point of view, negotiation cannot be limited to discussions in the process of sealing international accords. Currently, they represent an important field in the activity of a diplomatic mission, performing the negotiation function when conducting discussions with competent organs of the receiving State on problems of mutual concern: defending the interests of the sending State's citizens on the territory of the receiving State, solving litigations, obtaining advantages and preventing any political and economical measures that would handicap one State or the other etc.⁶

Negotiations can be official (initiated formally in the name of two States) or officious (probe contacts that do not commit the States in any way). Official negotiations are direct (between the chief of the diplomatic mission and the chief of State) or indirect (between the chief of the diplomatic mission and the international affairs ministry or the subordinates of the latter).

Negotiation is often considered a mixture of scientific and artistic methods, since the diplomat must have knowledge, experience and talent to be a good negotiator. Study of history, in general, and history of diplomatic relations, in particular, are very useful in developing the mastery of negotiation.⁷

3) Information. Promoting friendly relations, neighborliness and cooperation between States depends on mutual understanding of States' economical, social and political realities.

Hereby the information and observation function. By performing this function, the diplomatic mission provides the sending State data obtained by lawful means, regarding domestic life and international politics in the country of residence. The diplomatic mission must perform its functions using official and officious contacts, mass media and local journals, literary and scientific publications. Concerning this aspect, under section (d) from article 3, the 1961 Vienna Convention stresses the lawful character that any information source used by the diplomatic mission must have.

4) Diplomatic protection. There is a close connection between representation, negotiation and protection functions. By performing the latter, the diplomatic mission achieves protection of interests that the sending State and the personnel under its authority might have in the country of residence. Actually, when the diplomatic mission represents its State and negotiates with authorities in the receiving State, then it acts in the name of specific interests, in order to accredit and promote these interests.

The defense function as recognized by international law allows the diplomatic mission to offer diplomatic protection to citizens of the sending State, who are or live in the receiving State. Interventions at a diplomatic level can eliminate prejudicial pursuit, repair prejudice suffered by these citizens and try by lawful means to defend them against unlawfulness they could be subjected to⁸.

⁶Dumitru Mazilu, "Treaty Regarding Negotiation Theory and Practice", Lumina Lex Publishing House, Bucharest, 2002, p. 460.

⁷Idem, p. 460.

⁸Gheorghe Iacob, "Introduction in Diplomacy", Foundation Axis Publishing House, Iasi, 1997, p. 345.

5) International cooperation. The aim of the diplomatic mission is expressed by a central function that polarizes the attitude of all other functions in the direction of the other goal: promoting friendly relations and cooperation between the sending State and the receiving State. Hence, diplomatic missions fulfill an essential role when investing in the bilateral relation virtues that transform it in the primary positive element in the process of placing international relations on moral, fairness and lawful principles.

If we imagine international relations as an immense network, the bilateral relation constitutes the basic rapport of this structure, while the dominating climate of this bilateral rapport, cultivated according to requests of neighborliness, friendship, cooperation, mutual understanding and respect between peoples, can be disseminated in the whole structure of international relations causing their positive development. In the economic field, the diplomatic mission can negotiate

cooperation agreements in various domains, can take measures to perform them or intensify by various means material and spiritual changes between the respective peoples.

6) Consular functions. Performing consular attributions by the diplomatic mission is a recent date practice. It developed as the role of consular institution became more important, thanks to growth in commercial relations and tourism. The Vienna Convention stipulates in the second paragraph of article 3 the following: "Nothing in the present Convention shall be construed as preventing the performance of consular functions by a diplomatic mission". In doctrine, this stipulation can mean that the sending State may establish an embassy, a consular division, without permission of the receiving State. This conclusion is drawn from the principle of States' sovereignty and mutual consent – fundamental principle of diplomatic and consular relations .

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Employment policies from the perspective of Europe 2020

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Abstract: The European Council launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

Keywords: employment policies, economic policies, strategy, social including, workforce

Europe faces a moment of transformation. The crisis has wiped out years of economic and social progress and exposed structural weaknesses in Europe's economy. In the meantime, the world is moving fast and long-term challenges – globalisation, pressure on resources, ageing – intensify. The European Council agreed to set EU headline targets to launch the new strategy, which constitute shared objectives guiding action of the Member states and of the Union.

These targets are interrelated and critical to our overall success. To ensure that each Member State tailors the Europe 2020 strategy

to its particular situation, the Commission proposes that EU goals are translated into national targets and trajectories.

The targets are representative of the three priorities of smart, sustainable and inclusive growth but they are not exhaustive: a wide range of actions at national, EU and international levels will be necessary to underpin them.

The objectives of this strategy are to increase and improve the resources efficiency, to improve the business consumer environment, to increase the labour market participation and to reduce structural unemployment,

to develop skilled workforce and to promote social inclusion to combat poverty.

To reach these objectives, The Member states have to set out the framework for the Europe 2020. To ensure coherence and clarity, the guidelines are limited in number and reflect the European Council conclusions. The guidelines are integrated to ensure that national and EU-level policies contribute fully to achieving the objectives of the Europe 2020 strategy. Following them in a synchronized manner will help Member States reap the positive spill-over effects of coordinated structural reforms, particularly within the euro area.

On this basis, Member States will draw up National Reform Programmes setting out in detail the actions they will take under the new strategy, with a particular emphasis on efforts to meet the national targets and on measures to remove the bottlenecks that constrain sustainable growth at national level. Building on monitoring by the Commission and work done in the Council, the European Council will assess every year the overall progress achieved both at EU and at national level in implementing the strategy. Macroeconomic, structural, and competitiveness developments and overall financial stability will be examined simultaneously.

The first objective that should be reached is to ensure the quality and the sustainability of public finances. For this matter, Member States have to implement budgetary consolidation strategies under the Stability and Growth Pact and in particular recommendations addressed to Member States under the excessive deficit procedure, and/or in memoranda of understanding, in the case of balance-of payments support.

To reach the budgetary consolidation strategies, Member states have to favor taxes that do not harm growth and employment and priorities growth-enhancing expenditure items such as education, skills and employability, research and development and investment in networks, for example high-speed internet, energy and transport interconnections.

Furthermore, to reach another objective, improving resource efficiency, the Member States, have to decouple economic growth from resource use, turning environmental challenges into growth opportunities and making efficient use of their natural resources. For this matter the Member States need to implement the necessary structural reforms to be successful under increasing global carbon and resource constraints.

In what concerns the improving of the business and consumer environment the Member States can ensure that markets work for citizens and consumers. They can improve the business environment by ensuring well-functioning, open and competitive goods and services markets, particularly through fostering the single market integration and effective implementation and enforcement of single market and competition rules and developing the necessary physical infrastructure.

Regarding the problem of increasing labour market participation and reducing structural unemployment Member States can integrate the flexicurity principles endorsed by the European Council into their labour market policies and apply them, making full use of European Social Fund support with a view to increasing labour market participation and combating segmentation and inactivity, gender inequality, whilst reducing

structural unemployment. A measure that Member States can take to increase labor market is to introduce a combination of flexible and reliable employment contracts, active labour market policies, effective lifelong learning, policies to promote labour mobility, and adequate social security systems to secure professional transitions accompanied by clear rights and responsibilities for the unemployed to actively seek work.

But the principal aim of the Member States in this matter of employment policies should be to increase the performance of education and training systems.

To have access to a skilled and performant workforce, Member States have to invest in education and training system to raise the skill level and also to prepare the workforce of the EU to the rapidly changes of the modern labor markets. This action has to begin from early childhood to higher education as well as adult training.

Another critical problem that has to be resolved is to reduce poverty. The efforts of Member States are aimed at promoting full participation in society and in promoting employment opportunities. The Member States have to do efforts to reduce discrimination and inequality between people and to ensure equal opportunities on the labor market and also including through access to affordable, sustainable and high quality services and public services.

Also, Member States have to promote for people social protection lifelong learning and active inclusions policies.

The financial crisis has had a major impact on the capacity of European businesses and governments to finance investment and innovation projects. To accomplish these

objectives for Europe 2020, a regulatory environment that renders financial markets both effective and secure is key. Europe must also do all it can to leverage its financial means, pursue new avenues in using a combination of private and public finance, and in creating innovative instruments to finance the needed investments, including public-private partnerships (PPPs). The European Investment Bank and the European Investment Fund can contribute to backing a “virtuous circle” where innovation and entrepreneurship can be funded profitably from early stage investments to listing on stock markets, in partnership with the many public initiatives and schemes already operating at national level.

The Europe 2020 strategy is not only relevant inside the EU, it can also offer considerable potential to candidate countries and our neighbourhood and better help anchor their own reform efforts. Expanding the area where EU rules are applied, will create new opportunities for both the EU and its neighbours.

In addition, one of the critical objectives in the next few years will be to build strategic relationships with emerging economies to discuss issues of common concern, promote regulatory and other co-operation and resolve bilateral issues. The structures underpinning these relationships will need to be flexible and be politically rather than technically driven.

To achieve transformational change, the Europe 2020 strategy will need more focus, clear goals and transparent benchmarks for assessing progress. This will require a strong governance framework that harnesses the instruments at its disposal to ensure timely and effective implementation.

The success of this new strategy will therefore depend critically on the European

Union's institutions, Member States and regions explaining clearly why reforms are necessary - and inevitable to maintain the quality of life and secure the social models -, where Europe and its Member States want to be by 2020, and what contribution they are looking

for from citizens, businesses and their representative organisations. Recognising the need to take account of national circumstances and traditions, the Commission will propose a common communication tool box to this effect.

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Free trade – a priority issue of G-20 summits after the world economy went into recession

~ Ph. D. **Alina-Petronela Haller** (ICES „Gh. Zane” – Iasi Branch of the Romanian Academy)

Abstract: *The world economy has been greatly affected by the current recession. All countries have suffered regardless of their level of development. Given that global problems require global solutions, world powers have met at summits of the G-20 forum, in order to determine the causes of the recession and adopt the most relevant measures to overcome the crisis and to correct other imbalances (e.g. environmental issues, hunger) existing in the world.*

Keywords: world economy, recession, economic growth, development, international trade.

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Introduction

Before the world economy plunged into the current recession, nothing seemed to disrupt the smooth functioning of business activities. Industrialised countries were firmly

set on the road to social and economic development, while emerging nations seemed to be increasingly reducing the gaps separating them from developed ones. Together, they sought to focus their attention and pool their material, financial and human resources in order to solve the problems facing the poorest nations and the other challenges still facing the world.

After the **Great Depression** of 1929-1933 there was a long period of **great stability**, which seemed without end. The theories of economic cyclicity became partially valid. Isolated crises were easily manageable

and their effects almost negligible. Optimism was the predominant state of mind for most, with a few exceptions. Among them was **Nouriel Roubini**¹ who warned that the world economy faced a crisis of major proportions. Almost nobody believed him yet shortly afterwards his forecasts were confirmed and became the reality of the current world economy. The hopes that the world would go through a minor recession were shattered. Bleak predictions were verified much too confident. Under the circumstances, each country sought to implement measures aimed at mitigating the severe effects of the recession. However, in the globalised economy, such measures are not sufficient. During meetings such as the Pittsburg summit (in the US), the great world powers, aware that they must cooperate and take multilateral initiatives, attempted to identify and establish common methods to overcome economic challenges. In the expanded format of the G-20, the major global actors have called for the defence of free trade, a factor development and economic growth and the main pillar of globalisation. They intend to adopt policies that will restore sustainable economic growth and to consolidate the international financial system to guarantee the benefits of a free and global economy.

¹A Professor at New York University; he worked for the IMF, the Federal Reserve, World Bank, and Bank of Israel; he foresaw the current crisis and predicted a recovery by the end of 2009, followed by a new dip in 2010. Nouriel Roubini (nicknamed Dr. Doom because of his bleak forecasts) believes that the price of shares and commodities traded on the international markets will collapse in the near future due to the rapid and massive expansion of markets. He argues that the current crisis will be U-shaped and not V-shaped, as is generally expected.

To achieve this objective, policies and strategies will be different in each country based on the local social and economic conditions.

In general, actions will focus on:

- implementing responsible short-term and long-term fiscal policies;
- supporting open trade and investment while also eliminating protectionist measures;
- increasing the role of monetary policies to ensure price stability and maintaining market-friendly exchange rate policies;
- expanding structural reforms in order to increase exchange rates;
- promoting sustainable economic development to ensure to narrow the gaps between countries and reduce poverty.

The first steps towards achieving these objectives will be made by G-20 member states through two groups of economic policies:

- policies to support private savings, ensure fiscal consolidation in parallel with keeping the markets open and strengthening exports;
- policies aimed at stimulating investment, reducing financial distortions on the market, increase service sector productivity, stimulate demand and strengthen social security.

Literature review

Ever since the emergence of the earliest economic ideas, all countries have been focusing on growth and development.

Over time, countries have employed various methods to achieve these objectives,

ranging from autarchy to the present-day promotion and support of the notion of liberalisation as the foundation of growth and economic development. Currently we are undergoing an intensive globalisation process. Since its earliest manifestations, the process has been theorised intensely (Bairoch P., Balassa B., Bauman Z., Beck U., Bhagwati J., Dunning J., Giddens A., Gilpin R., Held D., Hirst P., Thompson G., Krugman P., Rodrik D., Rugman A., Stiglitz J. etc.) and its advantages and disadvantages have been extensively highlighted.

Globalisation and free trade are unquestionably interdependent and mutually affecting processes and everything worldwide, be it good or bad, leads to them. The new economic and social challenges, specifically the most severe recession since the Great Depression of 1929-1933, are examined through the prism of economic liberalisation. At high-level meetings, world powers (which now form a group of twenty not seven as before) make efforts to preserve the benefits and maintain the trends of this process. Humankind is in a situation where progress, for every state, developed or less developed, can be secured only through trade and economic liberalisation measures and resisting protectionist tendencies, which usually escalate during recession periods.

Paper Content

The global economic context which facilitated the slide into the crisis

For several decades, the world economy has been undergoing a process of globalisation, a challenge that poses both advantages and disadvantages. The first advantage is economic growth, yet also one cannot minimise

the fact that in their buying decision process, businesses are now able to choose from a wide range of products, that prices are decreasing while quality is increasing as an effect of ever-increasing competition, that productivity is rising and that standards of living have improved and millions of people have been lifted out of poverty. These are just some of the benefits of globalisation. As any economic phenomenon or process involves positive and negative effects, we may notice that the speed at which beneficial features of globalisation have spread matches that of its negative impacts. Globalisation has brought along new challenges such as global warming, the growing gaps in development due to uneven economic growth (although the reduction of such gaps is among the objectives of globalisation, the reality is to the contrary), irrational consumption of resources leading to depletion of global stocks and the large-scale exposure to various crises, including the current financial crisis.

The global financial integration has facilitated the expansion of financial flows to an extremely high level. Companies in need of capital can access capital on foreign markets, while investors are free to invest almost anywhere in the world where they can find favourable niche markets. Investment and consumption have increased and so have the incomes of the population. Both companies and consumers need higher revenues to meet demands that are ever more complex. The outcome is the accumulation of huge current account deficits financed by foreign borrowing. The expansion of certain countries, especially Asian ones, has been fuelled by savings rather than investments and by an export-based growth and development strategy that has generated financial surpluses, placed

on foreign markets. The integration into the global economic system of China, India and other emerging nations has determined the increase of the global labour force, the intensification of trade and the broadening of the range of inexpensive goods and services. In this context, the traditional financing methods proved to be outdated and financial institutions had to resort to innovations, which actually contributed to an increase in lending. Not only did the volume of loans increase, but also the vulnerability of lending institutions because in the quest for profits they underestimated long-term risks. The failure to assess the risks associated with financial innovation and liquidity has caused the escalation of inter-bank transactions and created a highly fragile over-indebted and interdependent system.

The world economy was soaring at the point when, without warning, the subprime crisis hit. To a certain extent the crisis was expected, yet no one was able to tell when it would erupt and how severe it would be (its intensity is much higher than initially thought). In mid-2008, the economies of developed nations slid into recession, while emerging economies, due to trade dynamics and higher prices, appeared to be more resilient. The year 2009 started with a marked decline in economic activity around the world and a sharp increase in unemployment, and reality demonstrated that the world was facing a global economic crisis. Ever since talk of a recession began, comparisons (with the Great Depression of 1929-33) and forecasts have been made. The latter are constantly reviewed due to the complexity and growing intensity of the current recession.

While initially some countries were not affected by the downturn in the financial

markets, they were subsequently hit hard by the decline in international trade, which impacted both production and consumption. Global output declined more sharply than it did in the 1930s, and employment fell substantially, compared with the situation during the Great Depression.

The risks associated with the current crisis have been increasing, as evidenced by the exchange rates for key currencies, i.e. the Euro and the US dollar, and by the fluctuations of the Dow Jones indicator. Moreover, FMI forecasts are the most pessimistic since the Second World War.

The date of 15 of September 2008 might be seen as the starting date of the recession. It was the day when the investment bank Lehman Brothers filed for bankruptcy. Since the onset of the crisis, there have been 3 G-20 summits: Washington (USA – November 2008 during the George W. Bush administration), London (UK – April 2009), and Pittsburgh (USA – September 2009). Whereas the first two summits dealt with the adoption of measures aimed at pulling the world out of the recession, the Pittsburgh summit focused on decisions that would prevent a future crisis.

The G-20 and the global economic and financial crisis

The G-20 (The Group of Twenty) was established in 1999 to bring together, on a regular basis, the finance ministers and central bank governors of the most important industrialised and emerging countries in order to propose solutions for the key issues facing the global economy.

G-20 was created as a response to the financial crises of the late 1990s and aimed to include emerging nations in global economic

governance, where they had been inadequately represented previously.

The idea of involving non-G-7 countries in discussions on global aspects of financial crises which affect emerging nations was proposed at G-7 meetings in Washington in 1998 and subsequently in 1999 the G-20 was established.

The G-20 is made up of the finance ministers and central bank governors of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, the United Kingdom and the United States of America. The EU is the 20th member, represented by the president of the European Central Bank. The Managing Director of the International Monetary Fund (IMF) and the President of the World Bank participate in G-20 meetings on an ex-officio basis.

The inaugural meeting of the G-20 took place in Berlin, on 15-16 December 1999, hosted by German and Canadian finance ministers.

The main objective of the G-20 is to ensure global economic stability by supporting and stimulating economic growth and development. Additional objectives include: strengthening the international finance architecture, providing consultancy on streamlining national economic policies, furthering international cooperation and consolidating international institutions.

G-20 member states together account for approximately 90% of world GDP, 80% of world trade (including intra-EU trade) and 2/3 of the world population[5].

Before the establishment of the G-20, the key global economic issues were discussed in the G-7 and subsequently in the G-8 and G-9 fora.

The foundations of the G-7 were laid in 1976 by Canada, France, Germany, Italy, Japan, the United Kingdom and the United States of America. The attention of the G-7 was mainly focused on its own members' interests, as opposed to the G-20, which is broader in scope and includes the concerns of emerging countries. Before G-20 was institutionalised, there were successively the G-8 and the G-9, as China and Russia were included in this forum.

Since the world economy plunged into the current crisis, the representatives of the G-20 countries met three times at summits held in Washington (November 2008), Londra (April 2009), and Pittsburgh (September 2009).

The current economic context has required concerted efforts and cooperation at a broader level, leading to the emergence of the G-20 as a prime global forum to discuss and determine the most effective measures to reduce risks and uncertainty worldwide and in each individual country in order to restore economic growth, narrow gaps in development between countries and regions, protect the environment, ensure efficient resource use and improve standards of living.

Recovery measures agreed upon during G-20 summits and the role of free trade

At the latest G-20 summits (Washington, USA - November 2008, London, UK - April 2009, and Pittsburgh, USA - September 2009) world leaders agreed to refrain from raising new trade barriers in response to the crisis, yet on their return to their respective countries, they passed mainly protectionist measures.

A study of the Centre for Economic Policy Research (London) has concluded that

every three days a G-20 member breaks the no-protectionism pledge [4], defying open trade and decisions taken at global level.

The Washington Summit (November 2008)

During the Washington meeting, the first after the onset of the recession, the leaders of the key actors on the world economic stage determined the chief causes of the recession and attempted to outline ways of restoring economic growth and minimising the negative effects of the crisis for all states, regardless of their development level.

The first cause of the recession was deemed to be the underestimation of risks, especially financial ones. The development of complex and non-transparent financial instruments, the banks' drive for ever-increasing profits, the growing interdependence among institutions to provide liquidity and meet the ever-increasing credit demand, the lack of coordination of economic policies, and the inadequate structural reforms all led to unsustainable macroeconomic results and market imbalances.

The G-20 representatives agreed on the following actions:

- to adopt measures necessary to stabilise the financial system;
- to support the monetary support policies of each individual state as deemed appropriate to domestic economic conditions;
- to implement fiscal policy measures in order to stimulate domestic demand;
- to reaffirm the importance of the development assistance commitments;
- to help developing countries gain access to finance. The summit stressed the IMF's primary role in crisis response, along with the contribution of the World Bank and

of the Multilateral Development Banks which introduced new facilities in the areas of infrastructure, trade and the financial system;

- to reinforce international cooperation aimed at restoring economic growth;
- to implement preventive actions so as to avoid future crises. The proposed measures respect market principles to advance open trade, foster investment and financial dynamism, stimulate innovation and entrepreneurship required to create jobs and restore growth.

The measures were aimed at providing liquidity, strengthening the capital of financial institutions, protecting savings and deposits, unfreeze credit, restart investments and trade, and create jobs, all these with the support of the key financial institutions.

To achieve the reform of financial markets, world leaders agreed on:

- Strengthening transparency and accountability;
- Enhancing sound regulation;
- Promoting integrity in financial markets;
- Reinforcing international cooperation;

The summit also reaffirmed the support for trade liberalisation, based on:

- The commitment to free market principles, respect for trade legislation and private property, the encouragement of investment and competitiveness with support from financial institutions. It stressed that the creation of jobs and the stimulation of production, export and domestic demand lead to the resumption of growth of the economy and standards of living.
- The rejection of all forms of protectionism. The summit participants pledged to refrain from raising new barriers to investment or to trade, imposing new export

restrictions or implementing any other measures inconsistent with WTO rules.

- The acceleration and conclusion of the Doha Development Round.
- The special consideration of emerging and low-income countries and the need to meet the Millennium Development Goals of development and poverty eradication.

The Washington Summit provided the outline for a global economic recovery plan, stressing the key role of the financial system and of free trade in the return to economic growth.

The next two summits brought G-20 representatives to the negotiation table, with talks focusing on the concrete reality of the spread of the recession around the world, therefore economic recovery recommendations were consistent with that reality.

The London Summit (April 2009)

The second major summit after the start of the recession was held in the United Kingdom. The meeting took place as the global economy was at the height of the most severe crisis since the Second World War.

The G-20 meeting in London was intended as a follow-up to the Washington summit. The aim was for leaders of the largest economies and key financial institutions to undertake to redress the world economy, restore economic growth and stimulate job creation.

The leaders of the 20 world powers meeting in London committed to a set of concrete measures to strengthen the financial system and create jobs, allocating USD 1.1 trillion.

It was agreed that a global crisis requires a global solution. Summit participants

affirmed that prosperity is indivisible and that growth, to be sustained, has to be shared by all the states of the world. Consequently, the priority of the agreed plan for recovery was job creation, not just in developed countries but also in emerging markets and the poorest countries of the world. The actions to be taken would not be limited to helping the population affected by the recession, but would provide a sure foundation for sustainable globalisation and rising prosperity for all is an open world economy based on market principles, effective regulation, and strong global institutions.

The London summit participants pledged to :

- restore confidence, growth, and jobs;
- repair the financial system to restore lending;
- reform the international financial system to overcome the crisis and prevent future ones;
- promote global trade and investment and reject protectionism;
- build a green and sustainable recovery.

To meet these objectives, the IMF allocated USD 750 billion to be used to support the countries and the financial systems affected by the crisis.

To promote job creation, expansionary fiscal policy measures were proposed in order to allow the citizens to keep a larger proportion of their income, by reducing taxes and charges. Such measures stimulate domestic demand, production and investment and secure the resumption of growth. The proposed policy is modelled on the Keynesian theories based on which the 1929-1933 recession was overcome and which, especially in the case of industrialised countries, will facilitate the resumption of economic growth.

Central banks also took actions to cut interest rates aggressively and pledged to maintain expansionary policies for as long as needed and to use the full range of monetary policy instruments to stabilize prices and control inflation.

The summit emphasised that actions to restore growth would not be effective unless domestic lending and international capital flows were restored. The IMF and World Bank were given the key role in helping the world economy on its way to recovery, by providing liquidity and recapitalising financial institutions.

As a conclusion to the summit, the leaders of major economic powers agreed on the need for systematic cooperation between countries and the establishment of a framework of internationally agreed high standards for regulation. Regulation and supervision must promote propriety, integrity and transparency, protect consumers and investors, support market discipline and avoid adverse impacts on other countries, support competition and dynamism, and keep pace with innovation in the marketplace.

To meet these bold goals, the Summit participants decided to establish a new Financial Stability Board (FSB) with a strengthened mandate, as a successor to the Financial Stability Forum (FSF), including all G20 countries, FSF members, Spain, and the European Commission [6]. The FSB should collaborate with the IMF to provide early warning of macroeconomic and financial risks and to take actions needed to limit them.

The London summit acknowledged that the crisis affected heavily the emerging markets and developing countries, which prior to the recession had been the engine of recent

world growth. It was agreed to make available an additional \$850 billion of resources through the global financial institutions to support growth in emerging markets and developing countries by helping bank recapitalisation, infrastructure, trade finance, balance of payments support, debt rollover, and social support.

The Summit declaration also points out that world trade is falling for the first time in 25 years. Therefore reinvigorating world trade and investment is essential for restoring global growth. Participants undertook not to repeat the historic mistakes of protectionism of previous eras and reaffirmed the commitment made in Washington: to refrain from raising new barriers to investment or to trade in goods and services, from imposing new export restrictions, or implementing World Trade Organisation (WTO) inconsistent measures to stimulate exports; and to notify promptly the WTO of any such measures and to monitor and report publicly any actions contrary to economic growth objectives. At USD 250 billion were allocated, until 2011, to support trade finance through our export credit and investment agencies and through the Multilateral Development Banks.

It was also emphasised that the conclusion of the Doha Development Round could boost the global economy by at least USD150 billion per annum

G-20 members undertook to rectify promptly any prohibitive measures and seek to minimise any negative impact on trade and investment of domestic policy actions including fiscal policy and action in support of the financial sector.

The summit recognised that the current crisis has had a disproportionate impact on the vulnerable in the poorest countries and

emphasised the members' collective responsibility to mitigate the social impact of the crisis to minimise long-lasting damage to global potential.

Participants also reaffirmed their historic commitment to meeting the Millennium Development Goals and pledged to support social protection, boost trade and safeguard development in low-income countries. Commitments were made to build a fair and family-friendly labour market for both women and men, the key role in this respect being played by ILO (the International Labor Organization).

The London Summit affirmed that the growth promoted by the G-20 would be a resilient, sustainable, and green recovery, marking a transition towards an innovative and resource efficient economy.

The Pittsburgh Summit (September 2009)

World leaders focused on the US proposal to reassert the need for global economic growth based on trade liberalisation, because any contrary steps, even taken during a recession, can have damaging effects on progress made in terms of growth, development and globalisation. The summit also reflected the ever-increasing global role of Brazil, China and India and of emerging countries in general.

It was decided that the G-20 would replace the G-8 as a permanent council for international economic cooperation, highlighting the increasingly important role of emerging nations on the global stage and providing them a platform to defend their interests and meet their development goals. The decision does not mark the end of the G-8, which will continue to meet on major national security

issues affecting the most developed nations. Decisions related to repairing the global economy, reforming the international financial system and improving standards of living will be taken by G-20.

The G-20 will become the main global governing council to facilitate economic co-operation and restore the development of the world economy.

The measures adopted during the Pittsburgh Summit are aimed at reducing the excessive risks highlighted by the current recession and preventing a future crisis of similar proportions to the current one. Massive unemployment and uncertainty about the recovery, especially in developing countries, have caused the G-20 leaders to take bold actions to avoid a repeat of the crisis in the future, yet there are disagreements on the governance of the global economic system.

The London G-20 Summit committed to assist the big companies on the brink of collapse (e.g. the auto industry) and increased the role of the IMF through a massive capital infusion, turning it into a sort of life buoy for countries affected by the recession, as it was tasked with promoting global financial stability and economic growth. In Pittsburgh, the main objective of G-20 leaders was to design and regulate global financial policy. Based on the ideas of the economist Joseph Stiglitz, proposals were made for a Global Monetary Authority intended to manage a single currency, oversee the actions of national authorities more strictly than the FMI and monitor the implementation of global regulations, acting as a Bankruptcy Court for global companies. The Monetary Global Authority will be managed by finance experts from the US, UK, EU, Japan, China, Saudi Arabia and Brazil and will be funded by deposits constituted by its members.

As regards financial matters, the Pittsburgh summit took actions aimed at strengthening the regulation of world financial markets: imposing tighter bank rules, requiring banks to submit reports to regulatory bodies, conditioning executive compensation on the long-term performance of financial institutions and establishing the *Tobin tax*² aimed at preventing speculative bubbles.

Against the backdrop of the global recession, the reduction of the manufacturers' reliance on American consumers was also tackled. It is a well-known fact that the US market is prone to high consumption. Previously much of the world exports were sold on the US market, where everything was seen as merchandise and it was believed that it was easier to buy than to manufacture. The economic crisis and the recovery plan supposing considerable expenditure by the state, have caused a transformation in the US manufacturing and consumption patterns. Buy American, a slogan of the recovery plans of the world's chief economic power, is an encouragement to Americans to opt, in their

their buying decision, preferably domestic products. Facing the most severe recession since 1929-33, Americans focused on savings and consumption, yet this time on reducing consumption, even as before the plunge of the world economy into the crisis the US was a market of choice for manufacturers worldwide. At Pittsburgh, it was suggested to the trade partners of the United States to change in turn their production and consumption patterns in order to reduce their reliance on the US market until foreign products could again find a place on the market. The suggestions to stimulate domestic demand were aimed at China in particular, yet the recommendation is almost unfeasible due to low salaries and incomes. The US committed to review its reliance on foreign borrowing, while the UE undertook to stimulate investment.

Boosting world trade and investment is essential for the resumption of economic growth worldwide. A key factor in this respect is the fight against protectionism. For this purpose, USD 250 billion were allocated, provided that markets remained free and open and states respected the commitments made in Washington and London to refrain from raising barriers to trade or investments, imposing new export restrictions or implementing any other measures inconsistent with WTO rules and to pledge to rectify promptly any such measures. This was intended to minimise any negative impact on trade and investment of domestic policy actions including fiscal policy and action in support of the financial sector. These objectives can be achieved by channelling capital flows to the countries that were most affected, especially the developing ones.

Despite all the problems caused by the recession, if trade liberalisation is maintained,

²A 0.05% tax on all financial transactions – called after the proponent, James Tobin (1918-2002), an American economist, advisor to President John F. Kennedy and a recipient of the Nobel Prize in Economics in 1981. He advocated the economic policies of Keynes, defending state intervention aimed at stabilising production and avoiding recessions. He made notable theoretical contributions in the fields of investments, financial and monetary policies and financial markets. The „Tobin tax“ was intended to reduce foreign exchange speculation, which Tobin considered to be non-productive. James Tobin suggested that the collected money should be used to finance projects for the benefit of Third World countries and the United Nations

the IMF forecasts a solid economic growth in 2010, which will rebound to 4.2%, considering that a sharp downturn will be followed by an indirectly proportional recovery³. The Asian Development Bank, under the same free trade conditions, expects a growth rate of 8.2% in 2009 and 9% in 2010. These forecasts are also dependent on the intensity and effects of the economic crisis, because a weak economic recovery will lead to high unemployment, which will entail protectionist measures in order to protect jobs on the domestic market, which could trigger foreign reprisals and generate serious problems in the world trade system. World leaders undertook to conclude the trade negotiations within the Doha Development Round by 2010, seeking to support liberalisation, avoid protectionism and restore economic growth.

Another issue discussed during the Pittsburgh Summit focused on environmental protection measures and the reduction of greenhouse gas emissions. The Summit established guidelines for the subsequent Copenhagen Climate Change Conference⁴. Discussions on environmental issues will continue as the outcome of the December 2009 Copenhagen Summit is unclear.

At Pittsburgh, proposals were made for helping poor countries to implement technologies to produce renewable energy and reduce the effects of global warming. While there is an agreement on the real danger posed by global warming, the G-20 countries could not conclude an arrangement on individual country contributions for environmental protection and clean energy measures. The financial contribution of each country will remain a hotly debated issue given the current economic crisis. Poor countries, particularly hit by the crisis, will not be able to allocate substantial funds for

environmental protection, which means that this goal of the summit will not be met and will remain a contentious issue.

The Pittsburgh Summit conclusions emphasised that G-20 leaders would ensure that fiscal, monetary, currency, trade and structural policies would be coherent, with more sustainable and balanced demand, offer, reserves, debt, credit and balance of payment trajectories. Leaders agreed on a shift of at least 5% in IMF quota share and the World Bank, with an increase of at least 5% in voting rights at the IMF and 3% at the World Bank. The winners would be China, Korea and Turkey.

³Mussa Michael, former IMF chief economist.

⁴From 7 to 18 December 2009, representatives of 191 states negotiated a new global Accord for reduction of greenhouse gas emissions. The accord currently in force is the Kyoto Protocol, due to expire in December 2010, when it will be theoretically replaced by the Copenhagen starting in 2013. Developed countries will have to commit to provide the capital required for poorer nations to adopt low-carbon energy sources and to adjust to already existing climate changes whose effects have occurred faster and are more serious than expected. The greatest danger is posed by water scarcity, the retreat of glaciers and sea level rise. The Copenhagen treaty was expected to limit global warming to 2 degrees Celsius. To meet this level, the EU has pledged to reduce greenhouse gas emissions by at least 20% below 1990 levels by 2020 and even by 30% if an international agreement is reached committing major polluters such as the US or China to comparable emission reductions. Although the EU will have a central role, the US will itself commit to a 17% reduction of greenhouse gas emissions below 2005 levels by 2020 and an 83% reduction by 2050. Although the objectives have been clearly set, no definite agreement was reached in Copenhagen on environmental issues and actions.

The G-20 intends to set up an adequate framework to ensure future sustainable and balanced recovery that will secure jobs, foster private demand, reduce development gaps and restrict practices, which generate macroeconomic and microeconomic risks. Global architecture will be reformed to meet the needs of the population and economies in the 21st century, by increasing cooperation, access of poor nations to food, fuel and finance in order to narrow development gaps. At present over 4 billion people remain undereducated, ill-equipped with technology and insufficiently integrated into the global economy. The World Bank must assume a leading role to ensure food security and the access to energy resources for poor countries. To this end, summit participants undertook to encourage the transparency, oversight and overall stability of energy markets.

To achieve the stated objectives, the G-20 countries committed USD 500 billions to the FMI's New Arrangement to Borrow (NAB), supplementing the allocations for developing countries by over USD 100 billion, thus strengthening the Fund's role and capacity to provide support to its members. The FMI's funds are constituted based on members' quotas, which reflect the weight and relative influence of each member state in the world economy, yet this weight has considerably changed lately due to the increasing economic dynamics.

As regards the creation of jobs, the International Labour Organisation (ILO) plays the key role; G-20 recovery actions will have saved or created at least 7 – 11 million jobs by the end 2009. Nevertheless, unemployment will continue to rise, especially in vulnerable developing countries, except for those which have already succeeded in

stabilising their economies. Job creation must remain a chief objective after the restoration of economic growth. To avert the negative effects of the crisis on the labour market, the ILO intends to provide social support for the unemployed and effective education and training programmes.

The ILO adopted the Resolution on Recovering from the Crisis: A Global Jobs Pact committing nations to adopt key elements of its general framework to advance the social dimension of globalisation. The international institutions should consider ILO standards and the goals of the Jobs Pact in their crisis and post-crisis analysis and policy-making activities. World leaders also called on Employment and Labor Ministers to meet as a group in early 2010 consulting with labor and business and building on the upcoming OECD Labour and Employment Ministerial meeting on the jobs crisis.

G-20 participants agreed to hold Summit in Canada in June 2010, and in Korea in November 2010. They expect to meet annually thereafter and will meet in France in 2011.

Conclusions of the Pittsburgh Summit:

- Emerging countries, China and India in particular, will play an increasingly important role in defining the policies that govern the global economic system. The summit placed great emphasis on the changes in the global financial architecture to account for the growing importance of China, India and other major emerging economies. The US proposed the transfer of 5% of voting rights within the IMF from industrialised to emerging nations; it appears that the proposed measures will also reduce the influence of the EU on the global stage.

- The G-20 will become the primary global economic coordination forum and will continue its activity beyond the recovery from the crisis and the restoration of economic growth. The dissolution of the G-8 has not been ruled out, however the issue was not discussed at Pittsburgh. In 2008, the G-20 was transformed from a “forum of ministers” into “a group of world leaders”.

- Large exporting countries are determined to focus more on domestic demand to support the economies most severely hit by the crisis to find new export markets. This US proposal will be hard to put into practice, as the change in China’s consumption and even manufacturing patterns will be difficult to accomplish and requires a long period of time.

- It was proposed that the IMF managing director should be selected based on qualifications not nationality, an important decision given the tradition of appointing an European IMF leader and a US World Bank president.

- Summit participants agreed on implementing new rules enforceable in the banking system by the end of 2010, aimed at improving quality and quantity of bank capital. These rules, designed to prevent a future financial crisis, will be phased in, as economic growth is restored and financial conditions improve. Reforms in the banking system also included provisions on compensation, demanding that compensation schemes in large banks and financial institutions should focus on reducing risk exposure.

Conclusions and implications

At present, the chief objectives of the G-20 are: to reduce the negative impacts of

the recession, mitigate risks, decrease global poverty levels, protect the environment and ensure food security. To meet the objectives, international cooperation is of utmost importance in addition to the greater involvement of emerging nations in the decision-making process and helping them to provide social support to citizens, who are now vulnerable to the effects of the crisis.

Food security will be achieved by enhancing agricultural productivity and access to technology and food; financial support will be provided to the private sector and the infrastructure, and further investment will be made to deploy clean energy resources to protect the environment. By 2020, the G-20 has committed to phase out fossil fuel subsidies and to reduce greenhouse gas emissions by 10% by the year 2050.


The present crisis has highlighted the importance of responsible business practices and has confirmed that prosperity is directly linked to economic growth, therefore no region or country can face social and economic challenges by itself. To overcome the current crisis and ensure stability, the world needs coordinated economic, social and environmental strategies, robust financial systems and international cooperation.

The G-20 has committed to design and implement macroeconomic policies focusing on long-term objectives, aimed at avoiding global imbalances, rejecting protectionism in all its forms, maintaining open markets, supporting loyal and transparent competition, fostering innovation and entrepreneurship and creating an adequate economic framework to meet consumer demands, boost investments and create conditions for environmentally-friendly business activities.

Emphasis will be placed on investment in people, by providing the conditions for: improved access to education, job training, decent work conditions, access to health care, support through the social assistance system, all of this with the express goal of reducing poverty and all forms of discrimination.

The slide into an economic crisis of major proportions provided the opportunity to recognise that all countries, developed or less developed, must become partners in the restoration of the global economic balance, on the road to progress, in order to meet the objectives established at international level.

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The dynamics in the international commercial changes in globalization terms - Comparison situation

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Abstract: The biggest weight of commercial changing of the country analysis have the manufactured products like: automobiles and industrial utilities, informatic products, ways of transportation, chemical products, textile and footwear, this have 80% from total exports and 76% from total import. This fact is the consequence of recession of the working division, of speciality in industrial product, on branch and sub branch, on the type of products and subassembly of an morale abrasion for the product majority. The products of base have a low ponder in the exports and imports of this countries, they present a commercial balance and passive for the raw metals and fuel, as the export of alimentary products, this country plays a role very important. So if it's affected by the period of crisis, the international trade it has an important role in the sustain of economic growth of them. The sustain of this project are convinced that the introduction of the new coin will have positive feedback for the worldwide economy, confronted now with one of the most sedate crisis. And the European economy it will have, only to win from the project and the investors can drop the unsure marketing from other continents for the investment in a stable region. With all of this the growth of the European economy can be late, however, makes it doubt the success of the „euro” project. The International Monetary Fund have seen that the eleven European countries that adopted euro at the 1st of January 2006, a growth of the Internal Brute Product (IBP) of 2,4% (same as for European Union), 2,6% in spring with 0,4% less than 2005, the growth that classifies as „solid and continuous”.

Key words: changes, firm, international trade, globalization, economy

Introduction

One of the most important and old reasons that stood at the base of relations between world states, of globalization and integrity of business is trading that obtained

a different image, it became global, and it created relations very tight of interdependence between the world states.

Trading has been in progress on a large scale under some bilateral relations, but after the World War Two it starts to gain a

very pronounced multilateral character. A commission of the United Nations, formed from 23 states, changed since 1945 in the elaboration of a Book of the future World Wide Organization of Trading.

The commission has come to a conclusion, that, in parallel with the activities of the elaboration of the Book until its ratification, to initiate the first negotiation regarding the cut of clearance and other restrictions from the way of international trading. This trading took place, in April, until October 1947 and the results were incorporated into a multilateral concord named The General Accord for Tariff and Trading (GATT).

The General Accord for Tariff and Trading represents the most favorable setting of an international commercial liberalization, concomitant with the undiscriminate between partners. GATT was therewith one of the few operative forums regarding the disputed commercial regulation on an amiable way.

The role of GATT is to make a system that reduces the clearance and to discard other restrictions. The worldwide economy has suffered numerous transformations on the way, in the last centuries, many had had a radical character. In essence, the geographic barriers and the cultural ones have reduced with the appearance of the telephone and computer network of communications on satellite etc. This decrease has permitted the firms to extend considerably on markets and catering sources.

In this sense, the new motto of management is: „If you are an international firm, become international;

Literature review

The liberalization of changes is very important, in all the world making unique marketing.

„The internationalization of marketing and competition it is accelerated under a cumulative effect of evolutions from the frame of worldwide economy, for the liberalization of the change in the international goods, for the increase of the overseas, for the increase of the number of transnational societies because of the growth of telecommunications, the image circulations, the worldwide taste, the circulations of the international products, of the universal messages, regarding the advantage offered to these products (the technologic costs, the amortisation and the little investments, international factories, the internationalization of the equipments and components, the internationalization of subcontracted and caterer), of the international distribution system (quick international transport, the transmission of networks, telecommunication equipments, the service internationalization)“.

The worldwide tide that are accelerated or broken by: the geopolitical situations, the worldwide economy situation, the growth of the saturation of international transport, to get in the different technology, the political crisis and wars. The demographic growth, the growth of international changes, the liberalization of economy in some countries, the changes of technology and the division of labor are the favorable factors of the worldwide growth of economy.

The international trade, in the postbelic period it is characterized in the highest pace of growth, outmatching the pace of growth only in PNB (PIB), and the industrial product and agrarian at the worldwide level.

Thus, in 2009, the nominal value of the worldwide trade, showed in dollars was reaching the sum of 3,53 thousand millions, that denotes a decrease, the previously mark,

Chart nr. 1 - The pace of worldwide trading growth (the annual variation, in %)

POINTING	1999	2004	2009
Volume – worldwide trade	2,4	4,2	4,0
Export	2,4	4,8	4,3
Import	2,4	3,5	3,9
Value – worldwide trade	-0,4	10,0	13,0
Export	-0,7	10,1	13,1
Import	0,1	9,8	12,9

After: FMI World Economic Outlook, (oct. 2009) .

and a substantial growth, relative to the 2 thousand millions registered in 1980.

The pace of growth of the international trade showed exclusively as modifications of volume it is showed at 4 % in 2009, that denotes, that the depreciation of dollar it's attributed approximately 2-3 % from the growth of commercial world and not the actual growth of volume.

However, the preliminary conclusion shows the fact that in the investigated period, the pace of the growth of the worldwide trade, had outmatched the pace of the growth of production, at 0,1 – in 1998, 3,2 - in 2004, 3,0 - in 2008.

The important factors that determine the changes of commercial paces presented are exogenous.

The protective tendencies of commercial politics favored of states, in the economic recession, have registered a subtle veriment on the way of introducing some barriers untariffed, evidently discriminatory. Concomitant as a consequence of polarization of world in commercial blocks have proliferated the tendencies of „orderly commercialization“ on the bilateral alignment or regional, many times obviously the contrary principals of economic liberalism, so benefic to the world in the hole postbelic period.

One of the consequences of the most obvious changes of political invoice the

involvement at the end of the last decade it consisted in the collapse of trade some countries with planned economy and the dramatic stint of them with the trade of this industrialised countries, the stint due to the contraction of production in this countries, and the disparity of the recession of competitiveness of products and commercialized services. Meanwhile the economy trade developed has reached a pace of approximately 5,5 % regard the last year, Central Europe and East and ex Soviet Union have registered a commercial decline of 12 % in the same year, header of a fall that will come at the end of this decade at over 60 % comparative with the middle of the last decade. This tendency of growth of the decrease of volume commerce was insignificant compensated with the tendency of the growth of the export value, due to the alignment of prices, practised of this economy at a level of worldwide, in crises conditions.

Practically, on the way of UNCTAD, the developed countries detainee over more than 2/3 from the worldwide export, the tendency being relative constant of growth. With the exception of South-East Asia and China, this tendency is backwards, practically on the hole world, with the polarized consequences.

The developed economy absorb more than 2/3 from the worldwide export, only in United States, by far the most important,

representing with over more 500 thousand million imported, approximately 14 % from worldwide marketing.

If at the begining of the decade in developing course they could represent the destination for approximately 30% from exports, the inversion of ways in the evolution tendencies of prices of prime materials, the energetic products, on all of the decade, have determined at the end of this decade, the proportions to be approximately fifth.

The general tendency of the slow pace of increasing the economy was followed of a tendency that looks at the offspring of exterior trade of the most developed countries.

United States, first of all, has continued to make things worse in chaging termns (the balance deficiency of 110 thousand million dollars), at the oposite pole beeing Germany and Japan. But even in the situation of those two giants of worldwide trade the pace is slow, in the matter of Japan, for the overevaluation of yen, of acumulating the surpluses of comercial balance, practicly, on the hole decade, with certain influences over the classic model of evolution of the economic report, of japanese economy and to the proliferation and to the implementation of the japanese companies out of border, in principal United States.

The contribution of the countries in course of growth, at the worldwide trade, it has been halved on the scan of last decade. From 112,6 thousand million dollars – in 1993, at 61,4 thousand million dollars- in 2009, the chart is strong influenced by the fact that in the interior of this grup, in fact, two groups differenced: the countries that export gas and the other countries.

The first category represents approximately 2/3 from the trade of the countries

that develop, the prices that are showed on the raw metals in general, of hydrocarbon in special, generate the regress of income of this category of export.

„In general, the countries that are in course of developing, were affected by the incapacity of developing structures of export, caracterised by a elasticity bigger then the demand of included products“. The fact that the most part of them are strongly obliged contribute to a liner manner of dissipation of the income effect from export over the restructuration of production. Showing what the economic theory knows as Paradox of Leontieff, the countries in course of develop have registered paces of growth of industrial sector of net export devastating to the industrialised countries.

So if on the aisle of 1998-2008, the proportion of the industrialised goods, in the structure of the export of developed countries, has increased, from 54%, to 70%, the same increase registered for the countries in course of develop, from 19%, at 52%, so, close to triple.

One of the problems that are delicate and affect many from the countries that are in course of develop, was the crises and the wars in Golf. The commercial structures of some countries include Irak and/or Kuwait as main caterer of hydrocarbon, in barter system, fact that determined the implicit recession of the corespondent sectors. The most affected countries from this category were: Jordan, with 20 % from the marketing export oriented to Irak/Kuwait; Turkey with 9 % and Romania with 4%. The impact of kuweitien crisis was made by countries in course of develop and some other aspects by comercial ones: the tourism in the mediteranean zone that registered the embargo against Irak

(only in Romania had unrecovered claims estimated at over 2 thousand miliard dollars).

„The element with the most semnificative impact over the comercial fluxes of

countries in course of development is made by radical changes of products in the interior of planificated economy, by the end of decade in the comercial way” .

Chart nr. 2 - The international trade, after the direction of export - %

ORIGIN DESTINATION	Years	Total world (mld. \$)	Deve loped Coun try.	Eastern Europe and CSI	Countr yes in course of deve lop.	Latin Ame rica	Africa	West Asia	Sout h- West Asia	China
	1999	2000,9	67,6	7,2	24,4	6,3	4,2	4,8	7,5	1,1
	2004	1933,4	66,4	7,8	24,6	4,8	3,3	4,6	8,6	2,2
	2009	3076,3	69,8	6,3	22,2	3,9	2,3	3	10,3	2
	1999	1267,9	71,2	3,6	24,4	6	5,2	5,3	6,6	1,1
	2004	1266,9	74	2,7	22,2	4,5	3,8	4,5	7	2
	2009	2134,1	76,6	2,2	19,6	3,9	2,3	2,7	8,9	1,2
	1999	155,1	31,1	50,7	17,6	3,3	2,8	3,8	2	2,7
	2004	172,2	24	53,2	21,4	4	2,5	3	2,2	3,7
	2009	212,9	24,2	53,2	16,8	4	1,7	2,3	2,1	4,2
	1999	577,9	69,3	3,3	26,2	7,7	2,5	4	11,2	0,7
	2004	494,3	61,3	5,3	31,8	5,7	2,7	5,5	14,7	2,4
	2009	679,3	62,5	4,2	32,1	4	2,5	4	17,4	3,8
	1999	107,8	64,8	6,5	27,1	21,3	2,2	1,5	1,3	0,7
	2004	109,2	69	8	20,8	11,9	2,5	1,9	2,8	1,5
	2009	116	70,9	6,7	20,6	12,1	1,3	1,6	4	1,4
	1999	94,9	83,8	2,6	12,8	6,2	3,1	1,9	1,2	0,4
	2004	59,3	80,4	4,1	14,3	3,9	5	2	1,7	0,3
	2009	57,4	76,6	4,3	17,4	1,9	7,4	2,7	3,5	1
	1999	211	72	1,6	24,9	5,6	1,7	5,3	12,2	0,1
	2004	104,8	50,2	2,5	46,3	8,8	2,9	13,6	20	0,1
	2009	88,5	58,1	3,8	36,6	6,7	3,3	11,3	14,1	0,2
	1999	141,6	62,3	2,5	34,2	2,6	3	5,3	21,1	1,9
	2004	178,5	62,7	2	34	2,7	2	4,1	20,6	5,2
	2009	346,2	63,1	1,2	34,7	1,5	1,7	2,8	21,9	6,5

After: United Nations, World Economic Survey, Current Trend and Policies in the World Economy, 2009, p. 16.

The unique European marketing, is handling and receipt 41% from exports, and the import of the rest of the world, proportioned corresponding to 19%, respective 17% for North America, 14% respective 16%, for the generic zone named Pacific-Asia (Japan and other industrialised countries in south-east Asia), the rest of the world-26% for both fluxes. So, in fact, the polarization of the worldwide trade, in the interior of the

country zone that we can qualify easily, as developed countries, it is made in proportions of $\frac{3}{4}$ from total. If, so, we see the fact that the generic group „the rest of the world” comes in and some developed states, we have the image of a world and commercialized polarised. The perspectives of the economic integrity regional shows, first of all, the tendency of growth of interregional trading in dawn of interregional flux.

Chart nr. 3 - The matrix of export inter and intra - commercial blocks % , in 2009

	Europe	North America	Asia-Pacific	Rest of world
Europe	25	3	2	11
North America	3	7	5	4
Asia-Pacific	3	3	4	4
Rest of world	10	4	5	7

After: Michael P. Todaro, Economic Development, Longman, New York, 2010.

*Chart nr. 4 - The evolution of worldwide trade in the 2003-2009 period,
modified in % to the precedent period - % -*

	2003	2004	2006	2009
The volume of worldwide trade, from:	3,2	8,9	8,2	7,8
- inter trade OCDE	-0,6	8,9	7,1	6,4
- the OCDE export to nonmember countries	8,7	9	9,9	9,7
- the OCDE import to nonmember countries	7,4	8,8	9,2	8,7
The export volume, from:				
1. Total OCDE – 25 countries, from:	1,9	9	8,9	7,4
- United States	4,6	9	11,9	10,4
-Japan	-1,9	1,7	3,3	5
- OCDE Countries from Europe	0,8	10,1	7,6	6,8
2. Unmember OCDE countries :	7,4	8,8	9,3	9,3
3. Recent countries industrialized in SE Asia (Coreea, Taiwan, Hong-Kong, Singapore, Malaezia, Thailand)	10,4	11,1	11,6	11,4
The import volume, from:				
1. Total OCDE, from:	1	8,9	7,4	6,9
- United States	11,7	13,2	8,2	6,1
- Japan	3,7	12,2	7,8	8,1
- OCDE countries from Europe	-3,8	6,4	6,6	6,7
2. Unmember countries OCDE	8,6	8,9	9,8	10,1
3. Recent Industrialised countries in SE Asia	11,1	12	12	12,3

After: FMI, World Economic Outlook

At the level of 2009, the worldwide trade has registered an increase from 6,3%, in comparison with 9,5% in 2006.

The worldwide exports of goods have increased, in volume with only 4% to 2005 – half of the level touched the last year, the worldwide productivity had a tendency, of decrease (from 3%- in 2006, at 2,5 – in 2009).

Same as the valoric evolution, the growth of worldwide export was of 20% for the exports of goods and 14% for the export of services in 2006, going in 2009, at 4%- export of goods, respective 5% those of services. On regions, the growth of value and volume of exports and imports of products it was presented as in the charters above.

The exceptional expansion of countries from Latin America it is thankful to Mexico, that has registered, at the second year, a growth of exports for over 20%.

Regarding the trade with products, at the level of year 2008, the most important countries of export were, in order: United States of America, Japan, England, France, Italy, Hong-Kong.

Regarding the trade with services, at the level of year 2008, the most important countries in export were, in order: United States, France, Germany, England, Italy, Japan, Holland and the most important countries in import, in order: Germany, United States, Japan, France, Italy, England, Holland.

Regarding the international trade structure in postbelic period is obvious in the growth of nomenclature of products that are commercialised on worldwide marketing and the changing of the continuous structure of this nomenclature of the apparition of new products and the disappearance of other at interval of time, very short.

Chart nr. 5- The evolution of import and export (in %)

<i>Countries</i>	Import	Export
Developed Countries	6,1	5,5
Countries in course of develop	8,7	8,6
Countries in transaction	6,7	4,3

After: "Problems Economiques", janvier 2009.

Conclusions and implications

From a comparison analysis of informations regarding the conjunctural situation from the 4 countries that are exposed to analysis we can conclude that Germany, France, Italy and Great Britain dispose of a economy potential with vaste marketing.

The demographic facts show the low rate of the growth of population that tend to zero, in all of this countries. This fact lead to a sem-nificative increase of enviroment of age, of

population in the respective countries and in consequence of modifying the behaviour of the charge in the customer.

Following the structure of charge on head of citizen, we can observe that, 20,4 % from the total of charge come to the grocery and drinks, 16,8% represent charges with maintenance and energy, 7,9% are charges of clothes, 7% charges of health and 9,1% charges on free time. It is evidenced in this mode the fact that in this countries, the charges for necessities are reduced, that permit the customer to charge more for his necessities. The

prosperity of the citizens of this countries and consequence of the low number of members of menage, that variate between 2,1 and 3 members.

The high level of livelihood of citizens of this countries it is showed by high value of PNB/citizen and VN/citizen. Using as criteria of clasification PNB/citizen, international statistics include Germany, France, in groups of rich countries, and Italy and Great Britain in the group of the middle countries. Comparison with the value of PNB/citizen and VN/citizen in USA and Japan, the countries that represent European Union have reduced values of this factors. In Germany PNB/ citizen represent 126% from PNB/ citizen of European Union, in comparison with 130% from the communitary media of USA, and Japan with 182% that is situated on a net and superior position.

Affected by economic crisis from 1994-1997 and the so-called „conjunctural breakdown“ from 1994, the european countries have known, started with the second half of year 2005 of a light revival of pace of the growth of economy and the uprgading of climate of business. It is estimated that on ensmeble of European Union, the pace of economic growth it was 2006 of 2,8%, the biggest value registered in France, of 3% and in Germany of 2,8 %.

In the last two years the industrial products was imprimed of the benefic evolution over the conjuncture of ensemble of economy in the analised countries. In the last year, Germany has registered according to the estimate specialists of pace of growth of 5,5%, in comparison with 3% in France and 2,5% in Italy.

In the frame of this countries, the biggest rate of growth were registered in domain such as: plastic tables, machines-utilities,

textile, paper and printing products. In the sector of goods of big consume high performance they registered in industries: electronic, automobile constructor, objects for homes and furnish, also in the domain of interior design.

The growth of industry didn't go to the decrease of unemployment. The anual rate of unemployment was situated in the last years in these countries in the value of 11%, in comparison with 5,6% in USA and 3% in Japan.

Regarding the inflation, it is satisfactory in the majority of this countries, the moderated growth of the salaries and the good results that look at the productivity to contribue at the maintence of rate of inflation at the low level.

In domain of the international changing of merchandise, it is remarked by the fact that the majority of them, over 50% it is realised between the neighbor countries, same vaste zones of the free changing, in special, the tendency of regionalised of the comercial changing.

The export volume and the import ones had an growth evolution in this decade, three from the fourth countries analise an surplus of commercial balance, Germany, France, Italy, exception made by Great Britain who presents an import commercial deficit, perpetuated from the begining of century, when this country was the first commercial power of world.

If the changing volume of merchandise can variate from one to another, the export specialized and import is more stable. So, more then a century Great Britain is an import of nutrition, France of carbon, and Germany is the biggest european exportator of automobiles and utilities for industries.

The biggest weight of commercial changing of the country analysis have the

manufactured products like: automobiles and industrial utilities, informatic products, ways of transportation, chemical products, textile and footwear, this have 80% from total exports and 76% from total import. This fact is the consequence of recession of the working division, of speciality in industrial product, on branch and sub branch, on the type of products and subassembly of an morale abrasion for the product majority.

The products of base have a low ponder in the exports and imports of this countries, they present a commercial balance and passive for the raw metals and fuel, as the export of alimentary products, this country plays a role very important.

So if it's affected by the period of crisis, the international trade it has an important role in the sustain of economic growth of them. The sustain of this project are convinced that the introduction of the new coin will have positive feedback for the worldwide economy, confronted now with one of the most severe crisis. And the European economy it will have, only to win from the project and the investors can drop the unsure marketing from other continents for the investment in a stable region. With all of this the growth of the European economy can be late, however, makes it doubt the success of the „euro” project. The International Monetary Fund have seen that the eleven European countries that adopted euro at the 1st of January 2006, a growth of the Internal Brute Product (IBP) of 2,4% (same as for European Union), 2,6% in spring with 0,4% less than 2005, the growth that classifies as „solid and continuous”.


With all of this it is considered that in the middle of a world in which the slow process will be violent, when it won't be registered even a going back, the founders of the unique European coin will make an isle of growth. The anticipated results will be escorted by a total control of inflations and a reduced continuous public deficit. Regarding the growth of prices, of the index came in year 2005 at a minimum level from the history point of view (1% in euro zone from October 2004 until October 2005), the European Commission has seen that in year 2006 a slow number of 1,5%. And at the deficit public chapter, the Pact of Stability signed in June 1997, at Amsterdam, asks the members of European Union to continue to reduce them. This chart is tenebrous by the unemployment of scourge in year 2006 knows the decrease in main countries of euro, when there will be no increase.

With certain, it is estimated by the European Commission in year 2008, of the 27 there will be less places to work, in comparison with the last years, because of crisis.

The prognosis showed, under the impact conjugated of all the factors that influence the existence and the future, will be confirmed into a manner more or less. The knowing and the thoroughgoing of these prognostics now consist, indifferent of the future scenario, a absolute base to see the understanding, to removal of the phenomenon and a decision of actions at the opportune moment.

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Changes in the dow effects in the romanian foreign exchange market

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Abstract: This paper explores the changes in the daily seasonality of the Romanian foreign market from January 2005 to February 2010. Our investigation employs data from the prices in the Romanian national currency, of the two main currencies used in the financial transactions: euro and US dollar. For the euro we find evidence of a Monday effect between January 2005 and June 2007, no DOW effect between July 2007 and September 2008, a Tuesday effect between October 2008 and April 2009 and a Thursday effect between May 2009 and February 2010. For the US dollar we identify only a Tuesday effect between October 2008 and April 2009. We relate these changes with the consequences of the Romania's adhesion to the European Union and with the effects of the global crisis.

Keywords: Day-of-the-week effect, Foreign Exchange Rates, Romanian Financial Market, Global Crisis, Seasonality

1. Introduction

Many financial markets are characterized by significant seasonalities which have to be taken into consideration in the investment decisions. One of the most important types of such seasonality is the day-of-the-week (DOW) effect which consists in a systematic pattern exhibited for some days of the week

by the evolution of a financial asset price. The DOW effect is common mainly on the stock markets, being related to the speculators behavior. It was also observed in some foreign exchange markets where speculative operations are significant. Identifying the DOW effect for the foreign exchange rates is important not only for the investment but also for some international business operations.

In the last decades there were revealed changes in the DOW effects that occurred for some foreign exchange markets. These were related to the influence of some external factors such as the crisis or transformation of the economic systems.

In this paper we study the DOW effect on the Romanian foreign exchange market for a period of time between January 2005 and February 2009. To our knowledge no other attempts were made to investigate this subject. It was a complex period affected by some important processes. Since 2005, the National Bank of Romania (NBR) adopted the "inflation targeting" as a monetary strategy which implied its intervention on the foreign market became less consistent. Since the same year the barriers against the foreign portfolio investment were step by step removed.

In 2007 Romania's adhesion to the European Union stimulated the presence of the foreign investors on the stock market. From the last quarter of 2008 the Romanian financial markets were affected by the global crisis. These processes had significant consequences on the exchange rates evolution (Figure 1). We investigate if the changes in the DOW effects occurred in that period of time. We use daily values of the exchange rates which express the price, in the Romanian national currency (RON) of two important foreign currencies: euro and US dollar. We separate our data in four sub-samples corresponding to the consequences of some major processes affecting the exchange rates. We employ two models in which the eventual DOW effects are captured through the dummy variables corresponding to the working days of a week.

The rest of this paper is organized as follows. The second part approaches the

relevant literature. The third part describes the data and methodology. The empirical results of our investigation are presented in the fourth part and the fifth part concludes.

2. Literature review

The subject of the day-of-the-day effect on the financial markets is well documented in the literature. Fama (1965), Cross (1973) and French (1980) revealed significant differences between the stock prices of the last day of a week and of the first day of the next week. The so-called "weekend effect" was confirmed by several empirical researches: Gibbons and Hess (1981), Keim and Stambaugh (1984), Rogalski (1984), Harris (1986), Flannary and Protopapadakis (1988), Dubois and Louvet (1996) etc.

Numerous explanations were offered for the weekend effect. Penman (1987) considered the high incidence of important news arriving in the weekend as responsible for the differences between the Monday stocks prices and from the other days of the week. Miller (1988) explained the DOW effect by the lack of broker's advice over the weekend. Bell and Levin (1998) added the investors' reluctance to keep liquidity during the non – trading periods and the difficulties in obtaining funds during the weekends. Chen and Singal (2003) revealed that many speculators tended to close with risky positions on Friday and to reestablish new short positions on Monday.

Other researchers identified systematic patterns of the financial assets returns for other days of the week. Jaffe and Westerfield (1985) found that Tuesday returns tended to be at low levels on the Japanese stock market. Similar results were obtained by Brooks and

Persarand (2001) in a study about the seasonality on the South – East Asian financial markets. Lin and Lin (2001) explained this situation by the links between USA and Asia – Pacific stock markets and by the presence of the one-day out of phase.

Some studies revealed changes in some circumstances in the Dow effect. Mehdi and Perry (2001) found that after 1987 the weekend effect was not visible on the US stock market. Kohers et al (2009) studied the behavior of the world's largest equity markets and they concluded that in most of them the DOW effect disappeared.

Like other stock prices seasonal behavior, the DOW effect could be considered as being in contradiction with the classical theory of the efficient market theory which denied the possibility the investors could apply strategies to benefit from the return regularities. However, some recent approaches of this theory incorporated the seasonal behavior of the assets price (for example Brooks, 2008).

From the stock prices the study of seasonal effects was extended to other financial assets, among them being the exchange rates. Frenkel (1981) argued that, like other financial assets, the exchange rates reflected on short term the market expectations. Hsieh (1988) found the mean and the variance exhibited significant differences across days of the week. Bossaert and Hillon (1991) approached some particularities of the DOW effects for the exchange markets since the central bank intervention often occurred at the end of the week. Yamori and Kurihara (2004) studied the behavior of twenty – nine foreign exchange rates and they concluded that for most of them DOW effects were obvious in the 1980s but they disappeared in the 1990s.

3. Data and Methodology

We employ daily values of RON/EUR and RON/USD provided by NBR. Our sample of data covers a period of time from January 2005 to February 2010. In order to capture the consequences of some processes which could determine changes in DOW effect we divided this sample in four sub-samples:

- first sub-sample (S1), from 3rd January 2005 to 30th June 2007;
- second sub-sample (S2), from 1st July, 2007 to 30th September 2008;
- third sub-sample (S3), from 1st October 2008 to 30th April 2009;
- fourth sub-sample (S4), from 3rd May 2009 to 28th February 2010.

For both series of time we calculate the daily returns as it follows:

$$R_t = 100 * [\ln(S_t) - \ln(S_{t-1})]$$

where S_t and S_{t-1} are the average exchange rates in the days t and $t-1$, respectively.

We use two variables to express the returns of the two time series:

- RUSD as the returns for RON / USD daily exchange rates;
- REUR as the returns for RON / EUR daily exchange rates.

In the Table 1 there are presented the descriptive statistics of the two variables for the four sub – samples. There are reflected significant differences suggesting substantial changes. The means of returns are negative for the first and the fourth sub – samples and they are positive for the second and the third ones. The highest values of the standard deviation occurred for the third sub-sample

when the most acute consequences of the global crisis came into effect.

In order to avoid spurious regressions we test the stationarity of the time series by employing the Augmented Dickey-Fuller Test. In the Table 2 there are presented the results of this test for REUR indicating the rejection of non stationarity hypothesis for all four sub-samples.

The results of the Augmented Dickey-Fuller Test for RUSD are presented in the Table 3. Again they indicate the rejection of the non stationary hypothesis.

In order to capture eventually DOW effects we use two models: a simple one and an autoregressive one.

The simple model has the form:

$$R_t = \sum_{i=1}^5 a_i * d_{it} + u_t$$

where d_{it} is a daily dummy variable taking the value one for the day i and zero otherwise.

An a_i coefficient could be interpreted as the average returns in the day i .

The autoregressive model has the equation:

$$R_t = \sum_{i=1}^5 b_i * d_{it} + \sum_{j=1}^p c_j * R_{t-j} + u_t$$

where p is the number of lagged values, chosen mainly by Akaike criterion.

For both models we determine the coefficients using OLS regressions.

4. Empirical Results

In the Table 4 there are presented the coefficients of the simple model for REUR from 3rd January 2005 to 30th June 2007 indicating a Monday effect. However, the value of the F-test indicates that the model is not very well fitted with the data.

The coefficients of the autoregressive model for REUR from 3rd January 2005 to 30th June 2007 are presented in the Table 5. It is indicated a Monday effect and the value of F test suggests a better fit with the data than the simple model.

In the Table 6 there are presented the coefficients of the simple model for RUSD from 3rd January 2005 to 30th June 2007. It results there are no DOW effect and, anyway, the F-test value suggests the model is not well fitted.

The absence of the DOW effect for RUSD from 3rd January 2005 to 30th June 2007 was confirmed by the coefficients of the autoregressive model, presented in the Table 7. The value of F test indicates that this model is not very well fitted with data.

In the Table 8 there are presented the results of the simple model for REUR from 1st July 2007 to 30th September 2008. The values of t-ratio for coefficients and of the F-test could not confirm the hypothesis of a DOW effect.

The coefficients of the autoregressive model for REUR from 1st July 2007 to 30th September 2008 are presented in the Table 9. Again it couldn't confirm the hypothesis of a DOW effect.

In the Table 10 there are presented the coefficients of the simple model for RUSD from 1st July 2007 to 30th September 2008. These values couldn't confirm the hypothesis of a DOW effect.

The results of the autoregressive model for RUSD from 1st July 2007 to 30th September 2008 are presented in Table 11. They fail to confirm the hypothesis of a DOW effect.

In the Table 12 there are presented the coefficients of the simple model for REUR from 1st October 2008 to 30th April 2009. It indicates a Tuesday effect but the values of F-test and of Adjusted R-squared suggest a not very well fitting with the data.

The coefficients of the autoregressive model for REUR from 1st October 2008 to 30th April 2009 are presented in the Table 13. They suggest a Tuesday effect.

In the Table 14 there are presented the coefficients of the simple model effects for RUSD from 1st October 2008 to 30th April 2009. They indicate a Tuesday effect but the value of F-test suggests a not very well fitted model.

The coefficients of the autoregressive model for RUSD from 1st October 2008 to 30th April 2009 are presented in the Table 15. They indicate again a Tuesday effect.

In the Table 16 there are presented the coefficients of the simple model for REUR from 1st May 2009 to 28th February 2010. These results couldn't confirm the hypothesis of a DOW effect.

The coefficients of the autoregressive model for REUR from 1st May 2009 to 28th February 2010 are presented in the Table 17. They could be considered as evidence of a Thursday effect.

In the Table 18 there are presented the coefficients of the simple model for RUSD from 1st May 2009 to 28th February 2010. They could not confirm the hypothesis of a DOW effect.

The coefficients of the autoregressive model for RUSD from 1st May 2009 to 28th

February 2010 are presented in the Table 19. This model fails to confirm the hypothesis of a DOW effect.

5. Conclusions and implications

In this paper we investigated the DOW effects presence on the Romanian Foreign exchange market during a period of time from January 2005 to February 2010. We split our data into four sub-samples and we analyzed the DOW effects for RON / EUR and RON / USD using a simple model and an autoregressive one. For all the four sub-samples the autoregressive model proved to be better fitted than the simple one. This fact suggests a significant dependence of the exchange rates on the past evolution.

For the first sub-sample, from January 2005 until June 2007, we found evidences of a Monday effect for RON / EUR but not for RON / USD. In this period of time the Romanian stock markets became very attractive for the foreign investors. Euro replaced the US dollar as the main financial transactions currency since the Romania's orientation to the European Union. The Monday effect could be considered as a result of the important role played by the speculative operations on the Romanian foreign exchange market.

For the second sub-sample, from July 2007 until September 2008 we found no evidence of a DOW effect. It was a period of time when the stock prices raised almost constantly and we could consider this evolution annihilated the DOW effect.

For the third sub-sample, between October 2008 and April 2009 we identified a Tuesday effect both for RON / EUR and for RON / USD. In this period of time the

Romanian financial markets were highly affected by the global crisis. The Tuesday effect could be explained by the fact that in this period the Romanian stock market became very sensitive to the evolution of the New York Stock Exchange by which is out of phase.

For the fourth sub-sample we detected a Thursday effect for RON / EUR but no DOW effect for RON / USD. In this period of time

the stock prices begin to rise again after the decline from the previous months, but this recovery is still fragile since the global crisis didn't end. The Thursday effect could be explained by the highly risk perceptions of investors for the end of the week.

This research should be continued with investigations about the future effects of the actual global crisis. It should be also completed with investigations about the daily seasonality of the exchange rates volatility.

APPENDIX

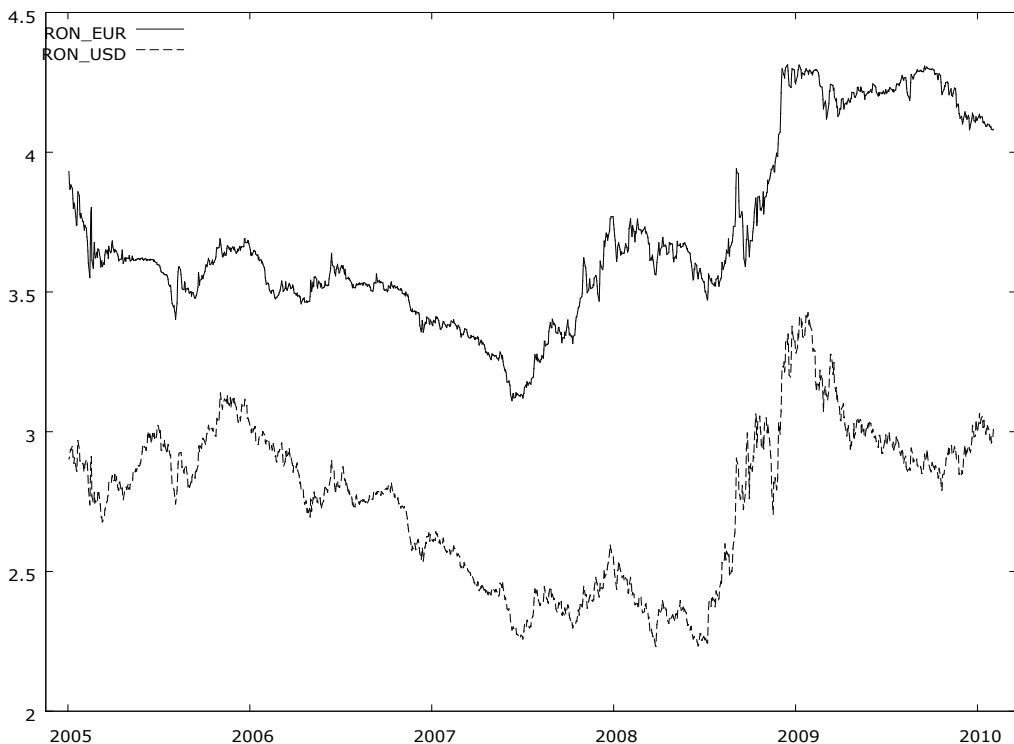


Figure 1 - The evolution of RON/EUR and RON/USD exchange rates from January 2005 to February 2010

Table 1 - Descriptive Statistics

Data Period	S1		S2		S3		S4	
Return	REUR	RUSD	REUR	RUSD	REUR	RUSD	REUR	RUSD
Mean	-0.036	-0.035	0.057	0.039	0.078	0.121	-0.010	-0.022
Median	-0.041	-0.036	0.025	-0.061	-0.009	-0.022	-0.022	-0.047
Minimum	-5.106	-4.968	-2.081	-2.950	-2.540	-4.815	1.217	-2.270
Maximum	3.386	3.290	2.298	3.301	2.927	4.435	1.217	1.931
Std. Dev.	0.485	0.688	0.572	0.810	0.779	1.621	0.293	0.751
Skewness	-0.530	-0.166	0.463	0.575	0.036	0.123	-0.225	0.165
Kurtosis	25.483	5.453	1.470	1.366	2.285	0.713	2.435	0.161
Jarque-Bera test	17184.7	788.33	40.11	42.4	31.58	3.44	53.63	1.18
p- value for Jarque-Bera test	0.001	0.001	0.001	0.001	0.001	0.179	0.001	0.554
Valid observations	634	634	319	319	145	145	210	210

Table 2 - Augmented Dickey-Fuller Test for REUR

Data Period	Deterministic terms	Lagged differences	Test statistics	Asymptotic p-value
S1	No constant and no trend	18	-4.53222	0.001
	Constant and no trend	18	-4.84547	0.001
S2	No constant and no trend	15	-15.1459	0.001
	Constant and no trend	15	-11.1468	0.001
S3	No constant and no trend	6	-3.09525	0.002
	Constant and no trend	6	-3.17149	0.022
S4	No constant and no trend	9	-4.6037	0.001
	Constant and no trend	9	-4.60818	0.001

Note: The number of the lagged differences was chosen based on the Akaike Information Criteria.

Table 3 - Augmented Dickey-Fuller Test for RUSD

Data Period	Deterministic terms	Lagged differences	Test statistics	Asymptotic p-value
S1	No constant and no trend	18	-4.67204	0.001
	Constant and no trend	18	-4.82196	0.001
S2	No constant and no trend	11	-5.10904	0.001
	Constant and no trend	11	-5.18749	0.001
S3	No constant and no trend	8	-3.91414	0.001
	Constant and no trend	8	-3.98359	0.002
S4	No constant and no trend	12	-4.25479	0.001
	Constant and no trend	12	-4.24114	0.001

Note: The number of the lagged differences was chosen based on Akaike Information Criteria.

Table 4 - The DOW effects for REUR from 3rd January 2005 to 30th June 2007 in a simple model

Variable	Coefficient	Std. Error	t-ratio	p-value
d ₁ (Monday)	-0.0977107	0.0376291	-2.5967	0.00963***
d ₂ (Tuesday)	-0.0353466	0.0459809	-0.7687	0.44235
d ₃ (Wednesday)	0.0160785	0.0386206	0.4163	0.67732
d ₄ (Thursday)	-0.00739651	0.0392533	-0.1884	0.85060
d ₅ (Friday)	-0.0580269	0.0573149	-1.0124	0.31173

Mean dependent var	-0.035739	S.D. dependent var	0.485167
Sum squared resid	148.0158	S.E. of regression	0.485097
R-squared	0.006604	Adjusted R-squared	0.000287

F(4, 629)	1.746965	P-value(F)	0.137998
Log-likelihood	-438.4576	Akaike criterion	886.9151
Schwarz criterion	909.1754	Hannan-Quinn	895.5591
rho	0.160502	Durbin-Watson	1.667577

*Table 5 - The DOW effects for REUR from 3rd January 2005
to 30th June 2007 in an autoregressive model*

Variable	Coefficient	Std. Error	t-ratio	p-value
d ₁ (Monday)	-0.0866104	0.0376715	-2.2991	0.02183**
d ₂ (Tuesday)	-0.0206342	0.0400425	-0.5153	0.60652
d ₃ (Wednesday)	-0.0019834	0.0296103	-0.0670	0.94662
d ₄ (Thursday)	-0.034604	0.0395473	-0.8750	0.38191
d ₅ (Friday)	-0.0532232	0.0479747	-1.1094	0.26769
REUR_1	0.167406	0.0694566	2.4102	0.01623**
REUR_2	-0.228013	0.0762369	-2.9909	0.00289***
REUR_3	-0.206283	0.0981234	-2.1023	0.03593**
REUR_4	0.102674	0.0516891	1.9864	0.04743**

Mean dependent var	-0.034016	S.D. dependent var	0.484300
Sum squared resid	124.5026	S.E. of regression	0.447758
R-squared	0.156085	Adjusted R-squared	0.145214
F(8, 621)	2.736703	P-value(F)	0.005671
Log-likelihood	-383.1924	Akaike criterion	784.3848
Schwarz criterion	824.3963	Hannan-Quinn	799.9263
rho	0.002456	Durbin-Watson	1.986236

*Table 6 - The DOW effects for RUSD from 3rd January 2005 to 30th June 2007
in a simple model*

Variable	Coefficient	Std. Error	t-ratio	p-value
d ₁ (Monday)	-0.0688077	0.0690348	-0.9967	0.31929
d ₂ (Tuesday)	0.00600559	0.0554384	0.1083	0.91377
d ₃ (Wednesday)	-0.0311533	0.0539133	-0.5778	0.56358
d ₄ (Thursday)	-0.0433534	0.0598508	-0.7244	0.46912
d ₅ (Friday)	-0.0388464	0.0702563	-0.5529	0.58051

Mean dependent var	-0.035030	S.D. dependent var	0.688410
Sum squared resid	299.6202	S.E. of regression	0.690177
R-squared	0.001214	Adjusted R-squared	-0.005138
F(4, 629)	0.481381	P-value(F)	0.749434
Log-likelihood	-662.0050	Akaike criterion	1334.010
Schwarz criterion	1356.270	Hannan-Quinn	1342.654
rho	0.065691	Durbin-Watson	1.864982

Table 7 - The DOW effects for RUSD from 3rd January 2005 to 30th June 2007 in an autoregressive model

Variable	Coefficient	Std. Error	t-ratio	p-value
d ₁ (Monday)	-0.0787232	0.070162	-1.1220	0.26229
d ₂ (Tuesday)	0.00507368	0.0542944	0.0934	0.92558
d ₃ (Wednesday)	-0.0390832	0.0514323	-0.7599	0.44760
d ₄ (Thursday)	-0.0538316	0.0622832	-0.8643	0.38775
d ₅ (Friday)	-0.0404726	0.0698572	-0.5794	0.56255
RUSD_1	0.0598515	0.0490902	1.2192	0.22322
RUSD_2	-0.0686511	0.0681886	-1.0068	0.31443
RUSD_3	-0.12301	0.0737312	-1.6684	0.09575*

Mean dependent var	-0.037053	S.D. dependent var	0.689302
Sum squared resid	291.5082	S.E. of regression	0.684040
R-squared	0.026153	Adjusted R-squared	0.015210
F(7, 623)	0.801961	P-value(F)	0.585835
Log-likelihood	-651.7092	Akaike criterion	1319.418
Schwarz criterion	1354.997	Hannan-Quinn	1333.237
rho	0.007278	Durbin-Watson	1.981419

Table 8 - The DOW effects for REUR from 1st July 2007 to 30th September 2008 in a simple model

Variable	Coefficient	Std. Error	t-ratio	p-value
d ₁ (Monday)	-0.0409824	0.0773817	-0.5296	0.59675
d ₂ (Tuesday)	0.0778089	0.05812	1.3388	0.18162
d ₃ (Wednesday)	0.0603914	0.0613697	0.9841	0.32584
d ₄ (Thursday)	0.0743559	0.0652688	1.1392	0.25548
d ₅ (Friday)	0.11426	0.0815452	1.4012	0.16215

Mean dependent var	0.057168	S.D. dependent var	0.571983
Sum squared resid	103.1661	S.E. of regression	0.573197
R-squared	0.008383	Adjusted R-squared	-0.004249
F(4, 314)	1.186918	P-value(F)	0.316461
Log-likelihood	-272.5897	Akaike criterion	555.1794
Schwarz criterion	574.0054	Hannan-Quinn	562.6978
rho	0.153003	Durbin-Watson	1.689310

*Table 9 - The DOW effects for REUR from 1st July 2007 to 30th September 2008
in an autoregressive model*

Variable	Coefficient	Std. Error	t-ratio	p-value
d ₁ (Monday)	-0.043175	0.0790545	-0.5461	0.58536
d ₂ (Tuesday)	0.0901069	0.0610444	1.4761	0.14094
d ₃ (Wednesday)	0.0513176	0.0598571	0.8573	0.39193
d ₄ (Thursday)	0.0680744	0.0650603	1.0463	0.29623
d ₅ (Friday)	0.109483	0.0798035	1.3719	0.17109
REUR_1	0.15641	0.0623328	2.5093	0.01261**
REUR_2	-0.0595444	0.0581644	-1.0237	0.30677
REUR_3	-0.0949477	0.050194	-1.8916	0.05948*

Mean dependent var	0.055208	S.D. dependent var	0.574089
Sum squared resid	99.11269	S.E. of regression	0.567269
R-squared	0.045315	Adjusted R-squared	0.023617
F(7, 308)	1.805989	P-value(F)	0.085572
Log-likelihood	-265.1860	Akaike criterion	546.3720
Schwarz criterion	576.4179	Hannan-Quinn	558.3752
rho	-0.001156	Durbin-Watson	1.994831

*Table 10 - The DOW effects for RUSD from 1st July 2007 to
30th September 2008 in a simple model*

Variable	Coefficient	Std. Error	t-ratio	p-value
d ₁ (Monday)	-0.126244	0.108644	-1.1620	0.24612
d ₂ (Tuesday)	0.0981983	0.0889396	1.1041	0.27039
d ₃ (Wednesday)	0.0442427	0.0916304	0.4828	0.62955
d ₄ (Thursday)	0.0291531	0.0906933	0.3214	0.74809
d ₅ (Friday)	0.149573	0.110737	1.3507	0.17776

Mean dependent var	0.039185	S.D. dependent var	0.810178
Sum squared resid	205.9657	S.E. of regression	0.809902
R-squared	0.013250	Adjusted R-squared	0.000680
F(4, 314)	1.009148	P-value(F)	0.402820
Log-likelihood	-382.8631	Akaike criterion	775.7262
Schwarz criterion	794.5522	Hannan-Quinn	783.2446
rho	0.145218	Durbin-Watson	1.708996

*Table 11 - The DOW effects for RUSD from 1st July 2007 to 30th September 2008
in an autoregressive model*

Variable	Coefficient	Std. Error	t-ratio	p-value
d ₁ (Monday)	-0.146228	0.104631	-1.3976	0.16325
d ₂ (Tuesday)	0.126289	0.0927053	1.3623	0.17410
d ₃ (Wednesday)	0.0155698	0.0913376	0.1705	0.86476
d ₄ (Thursday)	0.0315343	0.0882993	0.3571	0.72124
d ₅ (Friday)	0.147064	0.110016	1.3368	0.18228
RUSD_1	0.159191	0.059005	2.6979	0.00736***
RUSD_2	-0.095966	0.0438995	-2.1860	0.02956**

Mean dependent var	0.037962	S.D. dependent var	0.812582
Sum squared resid	199.7094	S.E. of regression	0.802636
R-squared	0.042857	Adjusted R-squared	0.024332
F(6, 310)	2.134407	P-value(F)	0.049312
Log-likelihood	-376.5704	Akaike criterion	767.1408
Schwarz criterion	793.4531	Hannan-Quinn	777.6513
rho	0.002325	Durbin-Watson	1.994893

Table 12 - The DOW effects for REUR from 1st October 2008 to 30th April 2009 in a simple model

Variable	Coefficient	Std. Error	t-ratio	p-value
d ₁ (Monday)	0.136935	0.12313	1.1121	0.26799
d ₂ (Tuesday)	0.257183	0.119904	2.1449	0.03369**
d ₃ (Wednesday)	0.0136331	0.112161	0.1215	0.90343
d ₄ (Thursday)	0.041331	0.139194	0.2969	0.76696
d ₅ (Friday)	-0.0545653	0.199766	-0.2731	0.78514

Mean dependent var	0.078244	S.D. dependent var	0.779436
Sum squared resid	85.78441	S.E. of regression	0.782781
R-squared	0.019415	Adjusted R-squared	-0.008602
F(4, 140)	1.040985	P-value(F)	0.388390
Log-likelihood	-167.6911	Akaike criterion	345.3822
Schwarz criterion	360.2659	Hannan-Quinn	351.4299
rho	0.321377	Durbin-Watson	1.351905

*Table 13 - The DOW effects for REUR from 1st October 2008 to 30th April 2009
in an autoregressive model*

Variable	Coefficient	Std. Error	t-ratio	p-value
d ₁ (Monday)	0.125375	0.103568	1.2106	0.22816
d ₂ (Tuesday)	0.252612	0.124087	2.0358	0.04371**
d ₃ (Wednesday)	-0.0664794	0.11611	-0.5726	0.56789
d ₄ (Thursday)	0.0559503	0.136479	0.4100	0.68248
d ₅ (Friday)	-0.165599	0.153289	-1.0803	0.28192
REUR_1	0.34967	0.107289	3.2591	0.00141***
REUR_2	-0.161071	0.0865371	-1.8613	0.06486*

Mean dependent var	0.054110	S.D. dependent var	0.745504
Sum squared resid	66.50946	S.E. of regression	0.699314
R-squared	0.157256	Adjusted R-squared	0.120076
F(6, 136)	5.344192	P-value(F)	0.000056
Log-likelihood	-148.1749	Akaike criterion	310.3499
Schwarz criterion	331.0898	Hannan-Quinn	318.7776
rho	-0.038489	Durbin-Watson	2.068876

*Table 14 - The DOW effects for RUSD from 1st October 2008 to 30th April 2009
in a simple model*

Variable	Coefficient	Std. Error	t-ratio	p-value
d ₁ (Monday)	0.243697	0.304472	0.8004	0.42484
d ₂ (Tuesday)	0.54353	0.258514	2.1025	0.03730**
d ₃ (Wednesday)	-0.171883	0.275585	-0.6237	0.53384
d ₄ (Thursday)	-0.288371	0.2903	-0.9934	0.32225
d ₅ (Friday)	0.296313	0.344559	0.8600	0.39127

Mean dependent var	0.120988	S.D. dependent var	1.620942
Sum squared resid	364.3480	S.E. of regression	1.613222
R-squared	0.037017	Adjusted R-squared	0.009503
F(4, 140)	1.445138	P-value(F)	0.222323
Log-likelihood	-272.5458	Akaike criterion	555.0916
Schwarz criterion	569.9753	Hannan-Quinn	561.1394
rho	0.175210	Durbin-Watson	1.629913

Table 15 - The DOW effects for RUSD from 1st October 2008 to 30th April 2009 in an autoregressive model

Variable	Coefficient	Std. Error	t-ratio	p-value
d ₁ (Monday)	0.177849	0.286482	0.6208	0.53575
d ₂ (Tuesday)	0.513864	0.255927	2.0079	0.04661**
d ₃ (Wednesday)	-0.267218	0.277482	-0.9630	0.33723
d ₄ (Thursday)	-0.349528	0.270893	-1.2903	0.19911
d ₅ (Friday)	0.343944	0.350664	0.9808	0.32839
RUSD_1	0.175399	0.0724031	2.4225	0.01671**

Mean dependent var	0.105443	S.D. dependent var	1.615718
Sum squared resid	345.9110	S.E. of regression	1.583225
R-squared	0.073389	Adjusted R-squared	0.039816
F(5, 138)	2.759959	P-value(F)	0.020775
Log-likelihood	-267.4257	Akaike criterion	546.8513
Schwarz criterion	564.6702	Hannan-Quinn	554.0919
rho	0.002981	Durbin's h	0.071241

Table 16 - The DOW effects for REUR from 1st May 2009 to 28th February 2010 in a simple model

Variable	Coefficient	Std. Error	t-ratio	p-value
d ₁ (Monday)	-0.0543386	0.0441561	-1.2306	0.21988
d ₂ (Tuesday)	-0.0379177	0.0354277	-1.0703	0.28575
d ₃ (Wednesday)	-0.0382561	0.0445505	-0.8587	0.39150
d ₄ (Thursday)	0.081496	0.054977	1.4824	0.13978
d ₅ (Friday)	-0.00320082	0.0381839	-0.0838	0.93328

Mean dependent var	-0.009720	S.D. dependent var	0.293052
Sum squared resid	17.44117	S.E. of regression	0.291683
R-squared	0.028281	Adjusted R-squared	0.009320
F(4, 205)	1.000739	P-value(F)	0.408225
Log-likelihood	-36.70834	Akaike criterion	83.41668
Schwarz criterion	100.1522	Hannan-Quinn	90.18224
rho	0.177957	Durbin-Watson	1.607548

Table 17 - The DOW effects for REUR from 1st May 2009 to 28th February 2010 in an autoregressive model

Variable	Coefficient	Std. Error	t-ratio	p-value
d ₁ (Monday)	-0.0451622	0.0415753	-1.0863	0.27867
d ₂ (Tuesday)	-0.0043846	0.0326042	-0.1345	0.89316
d ₃ (Wednesday)	-0.0427194	0.043792	-0.9755	0.33049
d ₄ (Thursday)	0.106549	0.0495081	2.1521	0.03259**
d ₅ (Friday)	-0.0291121	0.0382579	-0.7609	0.44759
REUR_1	0.22126	0.0812807	2.7222	0.00706***
REUR_2	-0.165922	0.0502074	-3.3047	0.00113***
REUR_3	-0.0555031	0.0703931	-0.7885	0.43136

Mean dependent var	-0.002440	S.D. dependent var	0.284304
Sum squared resid	14.78984	S.E. of regression	0.272618
R-squared	0.111759	Adjusted R-squared	0.080514
F(7, 199)	2.674664	P-value(F)	0.011458
Log-likelihood	-20.60674	Akaike criterion	57.21349
Schwarz criterion	83.87524	Hannan-Quinn	67.99527
rho	0.026056	Durbin-Watson	1.925552

Table 18 - The DOW effects for RUSD from 1st May 2009 to 28th February 2010 in a simple model

Variable	Coefficient	Std. Error	t-ratio	p-value
d ₁ (Monday)	-0.08494	0.131739	-0.6448	0.51980
d ₂ (Tuesday)	-0.0799861	0.111644	-0.7164	0.47454
d ₃ (Wednesday)	-0.122959	0.0994876	-1.2359	0.21790
d ₄ (Thursday)	0.171335	0.114122	1.5013	0.13481
d ₅ (Friday)	-0.00063236	0.115273	-0.0055	0.99563

Mean dependent var	-0.022397	S.D. dependent var	0.751135
Sum squared resid	115.5541	S.E. of regression	0.750785
R-squared	0.020051	Adjusted R-squared	0.000930
F(4, 205)	1.019029	P-value(F)	0.398516
Log-likelihood	-235.2534	Akaike criterion	480.5067
Schwarz criterion	497.2423	Hannan-Quinn	487.2723
rho	-0.045940	Durbin-Watson	2.055050

Table 19 - The DOW effects for RUSD from 1st May 2009 to 28th February 2010 in an autoregressive model

Variable	Coefficient	Std. Error	t-ratio	p-value
d ₁ (Monday)	-0.0923935	0.126604	-0.7298	0.46638
d ₂ (Tuesday)	-0.00898683	0.104692	-0.0858	0.93168
d ₃ (Wednesday)	-0.145585	0.103402	-1.4080	0.16070
d ₄ (Thursday)	0.175353	0.110961	1.5803	0.11563
d ₅ (Friday)	-0.0260537	0.109592	-0.2377	0.81233
RUSD_1	-0.0417938	0.0609581	-0.6856	0.49375
RUSD_2	-0.0856537	0.0559385	-1.5312	0.12730
RUSD_3	-0.197224	0.0571795	-3.4492	0.00069***

Mean dependent var	-0.013524	S.D. dependent var	0.744842
Sum squared resid	106.3874	S.E. of regression	0.731170
R-squared	0.069117	Adjusted R-squared	0.036372
F(7, 199)	2.914765	P-value(F)	0.006341
Log-likelihood	-224.8274	Akaike criterion	465.6549
Schwarz criterion	492.3166	Hannan-Quinn	476.4366
rho	-0.003714	Durbin's h	-0.110061

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Food crisis and population growth in Nigeria

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Abstract: Global food shortage and poverty scourge are challenges requiring urgent attention across the globe. Food insecurity of the lower income groups is mainly due to poverty and most food unsecured people live in the rural areas. The research focuses on the food crisis and population growth in Nigeria. The analysis provides information on food crops production and population growth. The result through multi-regression analysis shows a strong inverse relationship between the growth in population and each of the identified food crops. The correlation in each case with population growth indicated food output does not cope with population growth. Government must assist through necessary adequate assistance.

Policies must be evolved leading to sustainable agricultural growth in the countries where agricultural sector accounts for large share of the economy.

Key words: Food Crisis, Food production, Population growth and Regression Model.

Introduction

Prior to the 1970's there was no clear food consumption crises in Nigeria (Aromolaran and Aromolaran 1999). The food crisis became obvious when the contribution of Agriculture to the economy began to decline in the 1970's coupled with the

outbreak of civil war. The situation was getting worse more and more after discovery of petroleum and outbreak of the Sahelian droughts in 1972 – 1973.

In the early 19th Century, Abraham Maslow, an industrial psychologist, came up with the theory of Physiological Needs of Man and top on the list was the desire for

food as the first basic need. According to him, after a man has satisfied his need for food, he begins to crave for clothing, and then for shelter. Omoh Gabriel, Henry Umoru, Lukat Binniyat And Babatunde Jimoh(2008). Thus, in Maslow's theory, the three basic needs are food, clothing and shelter. This theory has been the motivation behind man's industry in his journey through life. But Thomas Malthus, in the same period, alerted the world of the danger of populating the world without check. In his classical economics thesis, he avowed that while population is growing at geometric rate, food supply was growing at arithmetic progression.

This, he said, would lead to hunger if mankind does not put measures in place to check population growth. This thought was, however, overtaken by technological progress which brought about commercial farming. But Malthus' theory, if not universally applicable, stare mankind in the face. Today, it is no longer just Maslow's theory of Physiological Needs or Malthus' theory of Population Explosion that is mankind's problem, but also the desire of man to protect the environment. The West in attempt to reduce its dependence on the continued rising price of products from hydrocarbon, has diverted lands originally used[for crops to feed mankind, to crops to feed automobiles - cars.

As a result, a new face of hunger is staring the world at large in the face. A perfect storm of food scarcity, global warming, rocketing oil prices and the world population explosion, is plunging humanity into the biggest crisis of the 21st Century by pushing up food prices and spreading hunger and poverty from rural areas into cities.

Rising populations, strong demand from developing countries, increased

cultivation of crops for bio-fuels and increasing floods and droughts, have sent food prices soaring across the globe.

Literature review

Poverty issues and global food crises are twin brothers scourging the world like AIDS. Food crises increases poverty world wide (World Bank: May 2008).Draught adverse climatic variation food insecurity are well known and capable of fueling the fire of poverty and its associating adverse effects. The sharp increase in food and energy prices globally has hurt the poorest and most food unsecured regions of the world.

Stated further that Africa is one of the hardest hit regions of the world with some 150m people at risk. The higher the price of the food the more the people are being pushed into poverty trap. Thus, the rising price of food is sending shivers down the spines of many world leaders who are aware that the skyrocketed prices lower the potential effect of causing a real economic and humanitarian Tsunami in developing countries (UN 2008). It stated further food to prices have increased by 83% in the last three years capable of real risk saturation on the estimated 100 million poor people unable to afford food. A greater bulk of the 100m falls within the African zone thus has manifested in riots, tension leading to food crises in Egypt, Ivory Coast, Senegal, Ethiopia, Burkinafasso etc. This has the capability of trumping the countries growth, peace and stability and security. Food crises / shortage is not limited to African countries alone. It has occurred in Indonesia, Haiti and led to the resignation of the prime minister. It is a weight; and no trivial issue affecting the whole world. (Ban

Ki-Moon 2008). It is capable of halting and reserving decades of economic growth with the 100m people nose – diving into the absolute poverty level. It is able to cause increase in hunger, malnutrition, infant and child mortality (UN:2008)

Young children whose early nutritional needs are critical to ensure long-term health and women are at the greatest risk. The current exorbitant prices of food items will remain so far the next 10 years. (F.A.O 2008). This is an indication that food prices might become more volatile due to drought and growing demand for bio – fuel. It is intended to beat down the rise in price of crude oil at the international market thus the conversion of grain into grain – based fuel. It went further, the current high food prices would hit the poor and hungry people hardest especially those in low income nations of which Nigeria is inclusive. A choice must be made between bio – fuel and food for human consumption to alleviate poverty in Africa. The bio-fuel issues is a conjure of the developed countries to bail them out incessant of price hike of petroleum product by OPEC. According to (F.A.O;2008) report, world fuel ethanol production triple between 2000 and 2007. It is expected to double again between now and 2017 to reach 127 billion liter/ year pre ordered production for export from 11 billion liters in year 2007 to around 24 billion liters by 2011. The demand for gains erupted from upsurge in demand for bio-fuel thus contributing to higher crop prices. It is unlikely, peasant farmers might not benefit from the price increase because many farmers in developing countries were not linked to market because of poor infrastructure and other logistics.

Our future might be jeopardized by current food crises, if we are not prepare to

change our export ignorant approach towards population growth, things might even get worse Adejobi A.O (2004). The solution to causes of poverty and food crises could be laid at the door of the British Economist Malthusian. He made a strong case in this regard. The non – congruency between the rate of growth of population and that of the food production is the main root cause of disparity between food production leaving behind varying poverty dimensions. Food production grows at arithmetic rate and population grows at the geometric rate. At a certain stage, the rate at which population is increasing are more than the rate at which food are produced into the economy. The current situation reverse well with this stage of Malthusian theory. Population growth increases demand for food agricultural and production sector cannot cope with the increase demand of the population we live and breed like rabbit Adejobi A.O (2004).). Shortage of food nutrient to keep the soul and body together is an antidote against poverty lack of adequate food nutrient opens doors for malnutrition and ill-health. Which is an index of poverty measurement there is direct linkage between poverty and food crises. A healthy population is an asset to any nation in terms of maintenance and up keep of the population of any nation. A country ability to feed itself very much depends on many factors accessible making availability of arable land, population pressure, adequate health facility in rural and urban areas etc. The problem in poor countries attempt to increase food production and consumption are countered by rapid population growth coupled with the rural and urban migration. Rural poverty, land degradation e.t.c. Today, the world population land at 5300 million. It

increase approximately 250,000 people daily. It is envisage that 1000 million people will be born during this decade according to United Nation Population Division (UNPAD1989) over the next 10 years the population of the industrialized world will grow by 5 million while the developing countries will export to over 900 million UNPOP. DIV 1989. It is a pity the biggest increase will occur in the poorest countries, least equipped to meet the needs of the new arrivals.

As a result of food difficulties, nearly 1,000 million people will not get enough to eat and over 400 million are chronically malnourished. Yearly, 11 million children under the age of five die from hunger and hunger related diseases F.O.A (2008). Climatic change has its own role to play in the food production and poverty reduction. Countries are struggling for fertile land to grow crops and rear animals.

Competition over sparse resources may lead to conflict and environmental restrictions. The combination of poor farming practices and deforestation will trigger off poverty and poor nutritional habit. Thus is implemented by climatic change and soil degradation and soil infertility leaving large areas unsuitable for farming.

The rate of at which population is increasing could trigger food crises globally, more so, countries are struggling for fertile land to grow crops, rear animal etc. Higher food prices are here to stay (Lester Brown 2008) as the world need for growing soars. America's mis-guided attempt to wean itself off soil is exacerbating the food crisis America intention as to bail itself out of the oil crises every now and then but now caught enmeshed in the network of the soil crises. Whereas rice, soya beans prices have soared

to historic height, doubling or tripling itself every now and then. (Lester Brown 2008). It went further, world grain consumption has exceeded production forcing a dawdling in stock leading to world grain consumption dropped down to 54 days of consumption, the lowest on record. The rise in grain prices is not due to temporary usage driven. The geometric growth of the world population is adding 70 million more consumers every year. This is an undue pressure on meager supply of food thus fueling the fire of poverty. This later leads to 860 million people in the world who are chronically hungry. (UNFP 2008). It went further, it breeds social unrest soaring food prices and life threaten.

Already 50 – 70% of their increment is spent on food. This is a clear situation of unmanageable burden of soaring food prices and spreading hunger.

Theory of population growth and food production

In order to appreciate the inevitable relationship among food production, population growth and poverty level there is the need to study the linkage existing among them by viewing population theories to poverty and global crises. The relationship between food crises and poverty level had been intense in terms of integrating the poverty level and making food available to the populace in Nigeria. Population theories gave magnitude and direction to proffer solutions or means of mitigating poverty problems. The moment population grows more than food production, it is a clear indication of poverty in existence in that community. In a simple terms it means the food available cannot cope with the population.

The early writers on population growth were concerned with the need to balance population with resources. The Chinese writer too were of the opinion that excessive population growth will depress the living standard of the people. The ancient Greek writers laid emphasis on optimum size of the city. The early Roman Christian writer favoured population growth to provide readily available bodied men to fight war for the Roman empire and aid military workers.

(Lucas 1980), arguing population were good to be growth of nations by then, more so, food was not a threat to the nations. The trends changed in 18th century when poverty was on the increase this was referred to as physiocratic doctrine. It was based on the premises that population depends on subsistence and agriculture.

Rev. Malthus and his famous theory of principle published in 1798 had positive contributions to make on poverty and food crises. The consequences of uncontrollable population growth is poverty emanating from food shortage it has four reacting effect on unemployment in a situation whereby population grow more than available/existing job vacancies. It gives room for crimes occurrences emanating from youth joblessness and late marriage. Land degradation and infertility due to uncontrollable population growth.

Nigeria is the most populous country in Africa but exactly how populous is a subject of speculation. The United Nations estimates that the population in 2009 was at 154,729,000, distributed as 51.7% rural and 48.3% urban, and with a population density of 167.5 people per square kilometer. National census results in the past few decades have been disputed. The results of the most recent census were

released in December 2006 and gave a population of 140,003,542. The only breakdown available was by gender: males numbered 71,709,859, females numbered 68,293,08.

According to the United Nations, Nigeria has been undergoing explosive population growth and one of the highest growth and fertility rates in the world. By their projections, Nigeria will be one of the countries in the world that will account for most of the world's total population increase by 2050 www.un.org/News/Press/docs (2005) pop 918.. Presently, Nigeria is the eighth most populous country in the world, and even conservative estimates conclude that more than 20% of the world's black population lives in Nigeria. 2006 estimates claim 42.3% of the population is between 0–14 years of age, while 54.6% is between 15–65; the birth rate is significantly higher than the death rate, at 40.4 and 16.9 per 1000 people respectively. U.S.L. C – F R. Division. C.P.(2006).

Methodology

The regression analysis was used to test the relationship between the two variables Food crops and Population growth.

Regression table x: Analyses showing the effect of population growth on production of selected agricultural food crops in rural area of the part of the country.

The regression model can be estimated as below:

$$Y = a + bx$$

Where:

Y-Dependent Variable (i.e the output of each crop)

X-Independent variable (i.e population)

a-Intercept of the regression line

b-Slope of the regression line

Dependent variable	Model	B	Std.error	T	Sig.T	R	R ²	F
Maize	Constant	-19169.0	227.954	-84.092	.008	1.00	1.000	15847.745
	population	0.00014	.000	125.888	.005			
Rice	Constant	-3246.951	156.328	-20.770	.031			
	population							
	Population	0.00004891	.000	44.587	.014	1.000	.999	1987.971
Beans	Constant	49.728	.000	34.558	.018	1.000	.999	1194.256
	population	0.0003007						
Plantain	Constant	-1399.757	171.985	-8139	.078	.998	.996	223.049
	population	0.00001802	0.000	14.935	.043			
Yam	Constant	-31973.6	1417.035	-22.564	.028			
	population	0.0004123	.000	41.414	.015	1.000	.999	1719.242
Cassava	Constant	-40603.1	8903.095	-4.561	.137	.993	.986	69.723
	population	0.0005217	.000	8.350	.076			
Groundnut	Constant	-6546.785	.000	33.064	.019	1.000	.999	1093.223
	population	0.0000694						

Source: Researcher surveys 2010.

Emperical analysis and interpretation of regression model results

The ordinary least square (regression) method was used to determine the effect between population growth and food production in Nigeria. The results are presented in Table X. The results showed on the production of each of the identified food crops is statistically significant at 0.05 level. This is represented by high t-value and low probability level for each of the major crops (Maize:

t = 125.88, p = 0.05, Rice t = 44.587; P = 0.14, Beans: t = 34.558; p = 0.18, plantain t = 14.935; p = 0.43, Yam: t = 41.464; p = 105, cassava: t = 8.350, t = 0.76, groundnut: t = 33.064, t = 19) except cassava.

There is strong positive relationship between the growth in population and each of the identified food crops as indicated by the values of the correlation co-efficient; R tendency towards 1. The proportion of total variation in food production explained by variation in population is relatively high

as indicated by the co-efficient of determination, R^2 tending towards 1 in each case. This implies that over 99% variation in food output is explained by variation in population.

Testing the overall explanation power of the regression equation, the F – statistics in each reveals that the variation in population growth explains e.g. significant proportion of the variation in the crop production. This contains the overall significance of the regression equation in terms of goodness of fit.

Conclusion

From the finding, it is revealed that the population growth shows a significant proportion of this variation in the crop production. The analysis indicated that to every increase change in population growth equivalently or even more should be reflected in rate of crop production which of course it is not so. There is a tremendous amount of sensitivity of information on how crop production should be improved through government encouragement and neighboring countries.

Recommendation

The rate by which population is rapidly growing today, there is need for rapid government intervention more than ever before

through production incentive such as the recent farmer's micro credit aid, fertilizer and improved seeds at subsidized rate should be provided starting from the grass root level especially in rural area where such provision will be more useful.

Farmers should be assisted to embark on dry season farming. This is to guarantee that the necessary food items are made available for the rural households at reasonable prices all year round. Government should encourage the real farmer in aspect of adequate provision of resources to be used to ensure that more food production are provided.

Rural households should be educated and trained on the need and importance to diversify their source of income from agriculture. This will ensure regular incomes for the households. Participation of poor rural households' in cooperative societies may be necessary for them to be able to acquire the necessary funds required. Besides, agencies of government such as the National Directorate of Employment should be made to go and give training to rural households on small scale enterprises.

Also, students in higher institution should be thought and mandatory to them the important of agricultural system in our present day country and not to always see it as poor man business.

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Perspective on the personal and professional needs of the project leader in construction industry in Libya: a case study

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Abstract: The quality of leadership is one of the most important factors in determining the success and survival of groups and organizations. The purpose of this paper is to examine the leadership needs of the project manager in the Libyan construction companies. The objective was identified the most important and crucial personal and professional needs of the project manager. This study attempted to identify the needs of the project managers in the construction industry in Libya. The finding has shown that all managers surveyed basically agreed that adherence to law/legality, specific, concise and rational, followed by intuitive and open minded are ranked as the most crucial personal needs that should be acquired to become an effective project manager in the construction industry. On the other hand, attention to details, project focus, adherence to construction industries/ professional codes, time conscious / constraints, problem solving were ranked as the crucial professional needs that required the respondents.

Keywords: Leadership needs, personal, professional, Project leader, Construction Industry, Libya.

1. Introduction

Every role, performed at excellence, requires talent, whether excellence is celebrated or anonymous; great managers know that excellence is impossible without talent (Buckingham & Coffman, 1999). Companies

everywhere are struggling to attract, develop and retain top applicants and employees. In addition, quality talent is always scarce and having the right talent in the right place at the right time is a make-or-break factor for entities of all types and sizes (Rueff & Stringer, 2006). Collins (2001) claimed that the right

people are an organization's primary assets. With the aging workforce, changing technologies and global demand, companies simply need to capitalize on all members of their skilled workforce. The quality of leadership is one of the most important factor in determining the success and survival of groups and organizations. Although technologies play an overriding part under some conditions, effective leadership has often compensated for lack of equipment and resources. It would be difficult to imagine a world without leader (Fiedler, 1987). There can be little doubt that the well being and success of any nation or organization is heavily dependent on good and effective leadership. History has shown that great nations and organizations are often the result of great leadership. Nations or civilizations have been known to fall or disappear completely due to leadership failure or the lack of a strong leader. The way in which people co-operate with each other, with the leadership and with the community, and the extent of their commitment to their organization, depend very much on the style of management. As such, one must be aware of interacting with others: in the workplace, with friends, at home; any interaction between two or more different project managers contains opportunities for growth and improved communication. It also may contain opportunities to understand differences in style of expression and action which may lead to destructive relationships. Evaluation of the ability of managers to understand others especially their counterparts who have different culture and tradition is very important so that it will help them build good interaction with their counterparts. Realizing the importance of understanding leadership

of others, this study is carried out in order to investigate the differences between effective manager and ineffective managers. Since the early pioneering study by Carlson (1989), researchers have used descriptive methods such as direct observation, diaries, and interviews to discover what managers do and how they spend their time. These researches on managerial activities only attempted to find answers to question such as how much time should managers spend alone or interacting with different people to accomplish group objectives. In the 80's, management researches became very interested in the emotional and symbolic aspects of management leadership influence. These processes help us to understand how leaders influence followers to make self-sacrifices and put the need of the mission or organization above their materialistic self-interests. There are managers in every organization. A good and perfect one is the manager who possesses good qualities. Barry (2000) proposes ten qualities that make a manager effective; these qualities include, inspiring a shared vision, good communicating skills, enthusiasm, team building skills, problem solving skills, empathy, and competence cool under pressure. Ability to delegate tasks among subordinates. It was further explained that these qualities ought to be practiced altogether before significant results can be seen. Gates (2004) also provided 10 top qualities that managers need to consider. Amongst these qualities are choosing a field thoughtfully, hiring carefully and having the will to fire lazy workers, creating a productive environment, defining success, liking people and being a good communicator, developing workers to do their jobs better, building moral, taking projects your

self not making the same decision twice and letting people know whom to please. Gates explanations though differ from Barry's are all qualities that are expected to be carried out by managers in order to be effective. Effective manager or leader must be able to lead as he is regarded as the leader of the project team. Without firm leadership, he would not be able to gain respect from the other consultants. Furthermore, without good leadership qualities, he would not be able to motivate his team to work towards the common goals of the project. Strong leadership is therefore a very important criterion for the manager. This paper, however is trying to identify several personal and professional factors that project leader should have to him/her as an effective one in the construction industry in Libya.

2. Leadership versus management

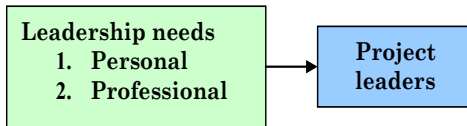
There has been a lot of discussion whether project managers must focus on leadership or management in their companies. Leadership in itself provides a picture of authoritative characteristics. This is because, project managers will see themselves as power holders who will not like to participate in other works. However a project manager who is as a management based will like to be participative, this is one of the reasons why Brugger, Gerrits and Pruitt (2000) identify some tools that will help differentiate between project managers who are leaders and those who are managers. One of the tools included intense site reconnaissance. By this project managers who wish to be effective must be more conscious on the current developments on the site. This is because

any inconvenience, problem or unexpected circumstances can be responded to accordingly. Another tool is to plan / execute. They explain that project managers must not only focus on planning issues in an organization but also they must focus on effective execution of the planning activities. This will differentiate them from being leaders or managers. The third tool, which is managing sub consultants, is one of the difficult ones amongst them. This is because, sub consultants can sometimes be stubborn and might delay some processes in project execution. Therefore effective project managers must know how to deal with them.

The last tool proposed by Brugger et al., (2000) is quality control. Controlling the quality of projects is one of the characteristics that a project manager should exhibit if he/she wants to be truly effective. Rimualdo (2003) proposes that knowledge ability to stimulate interest and delivery of quality results are factors used to distinguish between leadership and management. He explains further that a project manager must have the knowledge to show enthusiasm and convey to the staff important information and also be able to organize the methods that follow systematically. This will make him/her an effective leader. Further more, an effective leader is differentiated from management if he/she has the ability to bring out the interest of people and to deliver quality results. Unearthing the potential in worker would also make the project manager achieve his/her results. The delivery of quality results is also another area explained by Rimualdo. This takes into consideration the ability to plan and carry out a good job; they would trust him and give him credibility.

3. Theoretical framework

Figure 1: Conceptual Model of the relationships between leadership needs and the effective project leader.



Independent Variable

Dependent Variable

4. Research methodology

Data for this study was obtained through structured questionnaire. All the leadership needs factors were rated on a five-point Likert scale, 1 to 5 representing Not Very Important, Not Important, Moderately Important, Important, Very Important, respectively. These Likert scales are used in the questionnaire survey because it provides

Table 1. Presents the respondents' characteristics

Factor	Frequency
Designation in the company	
Director	38 (27.5%)
Manager	25 (18.1%)
Executive	39 (28.3%)
Non-executive	36 (26.1%)
Company legal status	
Sole proprietor	66 (47.8%)
Private limited	19 (13.8%)
Public limited	31 (22.5%)
Government link company	22 (15.9%)
Experiences	
1-5 years	66 (47.8%)
6-10 years	46 (33.3%)
11-15 years	16 (11.6%)
More than 20 years	10 (7.2%)
Quality or strategy management system	
ISO 9000	9 (6.5%)
TQM (total quality management)	10 (7.2%)
TPM (total project management)	22 (15.9%)
Conventional system	97 (70.3%)
Education	
Bachelor's	66 (47.8%)
Master's	22 (15.9%)
Doctor's	2 (1.4%)
Others	48 (34.8%)

a wider choice of alternatives for the respondents (Cooper and Schindler, 2005).

The questionnaire was carried out by getting feedback from various ranged construction projects and companies in Libya. The target respondents were Company Directors, Project Managers, Executives and Non-executives. Of 145 distributed questionnaires, a hundred and thirty eight (138) useable questionnaires (95% response rate) were received and analyzed. The feedback was obtained in a week time which started 12 January 2010 and ended on 26 January 2010. After all the raw data obtained, the data were then used as input and analyzed with the software Statistical Package for the Social Sciences (SPSS, version 17). The respondents characteristics involved in this study, can be shown in Table 1. Analysis was conducted to rank the Factors based on the average score. Finally, Relative Importance Index (RII) was used to determine the personal and professional leadership needs for the project leader. The most important factors influencing leadership needs was further analyzed using the 'relative importance index' as adopted by (Kometa et al., 1994). The 5-point Likert scale was converted to relative importance index for each factor, which made it possible to cross-compare the relative importance of each of the factors as perceived by the respondents. The relative importance index was formulated using the following statistical expression (Lim & Alum, 1995):

Relative importance index (RII):

$$RII = (4n_1 + 3n_2 + 2n_3 + 1n_4 + 0n_5) / 4N$$

(0 < RII < 1)

Where:

N=Total number of respondent

4=highest weighted score (0, 1, 2, 3, 4) on scale of agreement.

Whereas :

n1=number of respondents for Not Very important

n2=respondents for Not Important

n3=respondents for moderately important

n4=respondents for Important

n5=respondents for Very important.

5. Results & discussion

This section presents the findings of the study and is divided into two parts. The first one describes the personal needs for the project leader. The second part analyzes the findings of the professional needs.

5.1. Personal needs

Table 2 presents the results for personal needs of project leader. As can be seen, the majority of respondents ranked the factor Adherence to law/legality as number one factor (RII=0.877). Specific was chosen as the factor (RII=0.868). The next factor was concise and rational as one the personal factors needed by the project leader (RII=0.844) and it was ranked as third factor. The rest of the factors of the personal needs for the project leader are shown in **Table 2**.

Table 2: Ranking of the personal items of the Leadership needs

Personal Items	RII	Rank
Adherence to law/legality	0.877	1
Specific	0.868	2
Concise and rational	0.844	3
Intuitive	0.813	4
Open minded	0.810	5
Dyanmic	0.806	6
Adherence to eprsonal moral code	0.799	7
Diplomatic / discreet	0.770	8
Integrity	0.755	9
Maturity	0.721	10
Impartiality	0.717	11
Team player	0.692	12
Socail/ moral sensitivity	0.681	13
Creative	0.678	14
Courteous	0.498	15
Ethnocentrism	0.446	16
Parochialism	0.344	17

5.2. Professional needs

The results presented in Table 3 make it pretty clear that, the vast majority of the respondents specifically indicated that attention to details is the first professional need that the project leader should have (RII=0.955), followed by project focus ranked as the second need (RII=0.864). The next ranked factor was Adherence to construction industries/ professional codes, it was ranked as the third one. Time concise or constraints

has been ranked as the factor number four and The next factor that considered as important professional factor in construction projects in Libya was "Problem solving" and ranked as factor number fifth. Regardless of carefully a project is planned, it is impossible to foresee every problem that could arise. It is vital that the project team is responsive and capable of taking appropriate action when problems develop (Jiangand, 1996, Pinto, 1989).

Table 3: Ranking of the professional needs of the project leader

Items Personal	RII	Rank
Attention to details	0.955	1
Project focus	0.864	2
Adherence to construction industries/ professional codes	0.850	3
Time concious / constraints	0.828	4
Problem solving	0.817	5
Procedural	0.812	6
Self-regulation	0.810	7
Prioritize	0.810	7
Const concious	0.806	8
Client centredness	0.801	9
Firm	0.790	10
Safety awareness & quality	0.790	10
Receptive to alternative solutions / suggestions	0.783	11
Predictive	0.779	12
Broad base visualization	0.772	13
Elicit approval	0.763	14
Conversant	0.761	15
Motivation	0.752	16
Health concious	0.741	17

6. Conclusions

Leadership is one of the key interpersonal roles managers play in their organizations. This study confirmed that project leader with specific personal and professional needs, will lead to effective management; as such project leaders should put effort to acquire these needs to discharge their responsibilities and tasks effectively. The research finding has shown that all project leaders surveyed basically agreed that adherence to law/legality is one of the most crucial personal needs that should be acquired to become an effective project leader in the construction industry. On the other hand, attention to details was

found to be the most important professional needs for an effective project leader. These indicate that project leaders need to perform under a structural boundary as against to the unstructured, self-actualization kind of environment. Thus it is important that project leader in the construction industry tries to acquire the relevant personal and professional needs to face the challenges in the industry. The challenge is then for project leader to take a serious approach and some in-depth study on their organizational strength and weakness in the area of human resource and processes in order for their employees to flourish. The most effective approach is goal-setting, as it is based on the premise

that intentions shape actions. If work goals are specific, and even though it is difficult, if they are accompanied by feedback on how

well one is doing, project leader's performance is usually enhanced.

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Sustainable development and worldwide controversial issues regarding the auction of pollution right

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Abstract: *The present study investigates one of the most up-to-date scientific and pragmatic problems faced by the evolution of the human society, by the European Union and by the future of this planet: pollution as externality of the economic growth.*

The inclusion of the sustainable development objectives in the framework of the ambitious goals of the Lisbon Strategy is launching once again several controversies concerning the analysis of the global auction process of pollution right. Linked to the context, the study considers the economic fact through and with the help of the results of scientific economic research by using the design theory (award of the Swedish Academy for Economy, 2007).

We need to mention that the theoretical and practical nature of the study is based upon the recent conclusions of the Copenhagen Summit, underlining the normative-positive report that governs the economy.

Keywords: 1.Pollution – externality of economic growth; 2.Pollution right; 3.Unused pollution rights; 4.Design theory; 5.Tolerable carbon rate; 6."Green" economy

Despite all warnings received, most countries in the world are still focusing on consumption of high revenues generating raw materials by which, deliberately justify scientific research expenditures from various fields.

The chase for economic performances, especially for diminishing the effects of the

financial crisis makes difficult to assume the responsibility of the European countries and big economic powers (USA, Japan) in what is concerning the carbon emissions cut that will not lead to the overstep heating above 2 degrees Celsius. Sources and informations belonging to the European Commission specify the efforts of Met Office together with other

66 international institutions to build 5 restrictive climatic models for those greenhouse gas categories that, generated by the humans and plants, are accepted until the critical level of 2 degrees Celsius (*The maximum carbon dioxide concentration is actually of 400 parts/million, not allowing surpassing the level of 450 parts/million. The danger is that, in future years, without drastic measures imposed by the reducing emissions policies, the temperatures to increase up to 4 degrees Celsius, with major negative impact for population, animals and plants.*

(Assessment report on global warming – European Commission, 16 November 2009).

With all declarative measures on assuming the responsibility on cutting the CO₂ emissions, the European Union is overstepping with 5% the limits of 8% stipulated in the Kyoto Protocol (1997). (*Recent reports of European Environment Agency (EEA) prove the EU possibilities to cut emissions up to 13% until 2012. From 15 countries that signed the Kyoto Protocol (1997) except for Cyprus and Malta, which joined later, 12 have formulated, besides the EU common objectives in this area, economic measures by individual policies.* (Euractiv, 13 November 2009)

It is worth mentioning that the older EU countries have recorded shortens up to 6,2% under the limits of 1990, caused not by the cutting down efforts, but by the economic crisis that lead to closing down pollution causing companies. So, the financial crisis proved to have a positive impact after all!

Another sensitive point as effects and implications is concerning the “safeguarding” policy provided by the EU Emissions Trading System (EU ETS) and the objectives regarding the renewable energy strategies. **From this point of view, the opportunities provided by the Kyoto Protocol have led**

the way to the auctions of pollution rights (purchase of carbon credits).

The month of November 2009 was dedicated to the preparation of the Climate Change Copenhagen Summit (that took place in December 2009). Before that, the summit was prepared during the first Transatlantic Council USA-EU on energy that failed to accurately set up cutting down of carbon emissions by USA. The justification provided by USA is related to the non-existence of a national legislation on climate. Due to the fact that there are other countries that face difficulties in drafting and implementing a national legislation on reducing the carbon emissions, the United States of America cannot avoid to formulate some realistic measures.

Since today the financial crisis is interlocked with the necessity of addressing the climate change, the Transatlantic Council on Energy has brought into discussion the targets of the sustainable development. These are conditioned mainly by two objectives: cooperation on energy policies and technological research. This new approach of building a sustainable energetic system provides opportunities to foster innovation and renewable energy, but also to obtain new jobs.

Although that climate change is visibly worrying the worldwide public opinion, governments, decision makers, consumers and producers, this subject was not able to make a profound impression on the Transatlantic Council on Energy, the recorded progress being insufficient.

The main reason of this failure is represented by the controversial opinions on the obligativity of cutting down emissions imposed only to high developed countries; the USA position that is conditioning the reduction of carbon emissions to the reaction to this

objective of other countries (India and China particularly); the impossibility of continuing the Kyoto Protocol with a new change climate treaty; setting up of clear arrangements of both developed and developing countries.

Having no regard of the development level, the present financial crisis generates an anxious problem within developing countries, which are expecting more firm measures of economic support from the developed countries in what is concerning the purchase of carbon quotas. Alarming information regarding the pollution quotas that can be accepted without an increase of human and environment safe temperature have determined drafting up some predicting scenarios of a pollution peak in the next 10 years (2010 – 2020), with the possibility of a total reduction until 2100. The pollution phenomenon, collateral effect of the economic growth and development is becoming a constant menace for our present and future life.

1. The impact of sustainable development upon the economic reasoning

The obsession of economic growth from the '70s has been fed up by the tendency toward extensive and unlimited consumption of the resources, due to the free access of the highly economic developed countries to the raw materials grounds.

Vice versa, the passing from the extensive development to the intensive one, marked by the petroleum crisis from the '72-'75 has changed the paradigm of resource used by maintaining though the same goal: economic growth – development. Despite this, the global political-economic-social picture is in a continuous change, being animated by new tendencies that radically affect

the evolution and interpretation of economic facts.

The economic rationality has served in different ways the decisional process of systemic exploitation of resources, in view of economic development and growth, against the obsessive-intensive processes of the launching period of the sustainable development concept (SD).

The objective logic of development is influenced and even replaced by the subjective interpretation of the same rationality principle. Today, global economic reasonings are influenced by measures that generate human and material damages, due to the competition and profit chase. The situation is firing back against the humans and the society, inducing a new analysis of the development terms under the principle of sustainable development.

The spring of 2007 has represented for the European Union a firm start of the correlation process of the environment protection activities, pollution, global warming and addressing the energy problems from both point of views of producer and consumer.

On 8-9 March 2007, during the session of European Council, it has been adopted an unprecedented agreement regarding urgent measures for environment protection. The agreement has stipulated 3 ambitious objectives to be realised until 2020 : 20% from the EU energy mix to be "green", cutting down with 20% the CO₂ emissions, increasing the percentage of using biofuels in transport with up to 10% in total.

At the same level of political and strategic importance, this issue has been addressed within three main areas: European energy policy, cuts of greenhouse gas emissions in order to limit the global warming, continuous development of Lisbon Strategy.

Thus, ambitious quotas of using the green energy have been proposed: Europe must use in a 25% renewable energy and should cut greenhouse emissions by 30% as against 1990. Although these objectives have been objectively and well-argued backed up, the EU Member States have hardly agreed to approve a quota of only 20% renewable energy and an effort of 20% cut of greenhouse emissions. Finally, the environment ministers from the 27 member states agreed upon one binding unilateral reduction of 20%, valid only on EU territory.

For countries like Romania, this quota has represented an acceptable maximum from the point of view of national possibilities of applying the reduction schemes of emissions. Taking, responsible, the position of new EU Member State, Romania has the interest and obligation to defend and promote the national economic interests and traditions in what is concerning the energy production and consumption. *(For our country, energy is not an issue since România owns sources of renewable hydro-energy and the implementation of the 20% quota of renewable energy, set up at EU level, is considered as normal and acceptable.)*

Regarding the present debates from Copenhagen, our country has responsibly and unreserved supported the proposed programs and measures. *(At the recent summit in Copenhagen, in December 2009, Romania has sustained the cut of 30% of carbon emissions. The advantage of our country is represented by the opportunity of using structural funds for European environment programs, which represents a support for macroeconomic efforts of modernisation.)*

The 20% quota of the consumed energy by the Europeans must be "green energy" (obtained from renewable resources); despite

this, this target must be adapted to the energetic specific of each country, to the natural energetic possibilities and its quality, since not all countries own similar energy sources.

The problem of including the nuclear energy in the category of non-conventional energy has been another challenge for the representatives of EU states. Since it is not considered a renewable source, the nuclear energy can be taken into account, but also, it can be an option to the cut of greenhouse gas emissions. A big success has recorded the proposal that Europe to become a leader in fighting against global warming, although the employers organisations from the automotive industry have not been very enthusiastic. In this regard, there are expectations of a radical modification of the consumer behaviour from the automotive market that will choose alternative ways of transportation. *(The automotive manufacturers – European Automotive Manufacturer's Association (A.C.E.A) has proposed an increase of the minimum tax for fuel, for diesel commercial engines with almost 20% in the next 7 years, in two steps. Cutting down the CO2 emissions and its correlation with this tax have significantly influenced the demand and the offer, due to the fact that 11 EU countries have already proceeded to correlation measures of the two indicators. Consumers of this market wish, more and more, powerful cars, safe and big. These kind of automotives are also big consumers of fuel, that do not respect the compatibility with the new approach of environment and consumers protection. Introduction of a unique taxing system will determine the orientation of the demand towards less polluting cars, able from the fabric to cut up to 5% the quota of CO2 emission. Despite this, the 2005 proposal of A.C.E.A regarding the unique tax at European level for CO2 emissions*

up to 50% has been withdrawn, following the refuse of EU Member States to cooperate on this matter.)

2.Competition oversteps sustainable development

If the choice stimulates competition, then the opportunity cost of the choice will be marked by the conditions imposed by the competition. As a result, one can choose either policies to set up a unique tax (the pollution right is paid on the basis of the principle the polluter pays) or modified energy policies, oriented towards new sources. These policies are in constant need for substantial investment in research and innovation.

The first option is based upon the car producers interest that responds to the market demand; the second option responds to the protection criteria of the human being, society and future generations. Europe has now the decide between these two options that are pointing out, each of them, a major objective: economic profit, according to Lisbon Strategy and social and human benefits, according to the sustainable development concept.

In the light of these conclusions, the study interprets the economic fact through and with the help of the economic scientific research results (design theory) (*The design theory represents the result of methodical and continuous research of three americans - Leonid Hurwicz, Eric Maskin and Roger Myerson, whose research fields have scientifically crossed, by elaborating concepts and demonstrative mechanisms for one of the sensitive areas of the market, that of transactions within companies. The design theory has been awarded the prize of the Royal Swedish Academy for Sciences for Economy, 2007*) enlightening the normative-positive report that governs economy. The economic benefits can

be assimilated with the socio-human benefits if the economic competition can be reconciled with the social and environmental responsibility, the decision of the leaders to build a better and more powerful Europe, for the citizen' benefit. In essence, the economic objectives cannot be separated from the social objectives, since the consequences are reciprocally supported. Economic development and growth are triggering as collateral effects, negative externalities – pollution. The impact of this conditionality relation is on the air as public asset that becomes in the globalization context, a global asset.

As a result, "the pollution right" involves and determines to apply the principle "the polluter pays", the imperative of setting up of a "pollution price" that derives from the apparition of the air market phenomenon, with all the features of a market: competition, demand, offer and auction of the pollution right.

By its construction, the Lisbon Strategy aims mainly two objectives: economic growth and job creation. As a strategy, it envisages economic competitiveness, social inclusion, environment protection – all objectives belonging to the sustainable development. In return, a veritable race is launched between the "economic EU competitiveness" objective that generates negative externalities like pollution effect and globalization that points out most of the times, indifference towards a balanced development in report to the environment.

On the other hand, sustainable development has seven priorities, most of them related to the environment state and quality: climate change and clean energy, sustainable transport, sustainable production and consumption, preservation and management of

natural resources, public health, social inclusion, demography and migration, poverty, challenges of sustainable development at global level.

A flagrant shrinkage comes into sight since drafting numerous objectives is triggering conflicts felt by the market and population. Of course, these contradictory effect will be visible also on economic and social policies elaborated at European level. In order to tackle this matter, it is imperative to be taken into account the following two points of view:

- a) the report between sustainable development (with its priorities) and Lisbon Strategy that targets competitiveness through economic growth and job creation (that means economic development),
- b) the report between sustainable development and EU economic competitiveness facing globalization (competitiveness that flows from the economic growth with its negative externality effects).

These objectives put on two different agendas, one economic and another political states the concern towards increasing economic performances within EU. They are aiming to correlate the performances with the principles of sustainable development and in the same time, to benchmark EU economic performances against the rest of the world, submissive to the sustainable development need. There are two conclusions : first, the sustainable development strategy is shaded most of the times, even within the eco-social policy by the Lisbon Strategy objectives; second, there is the need to better coordinate the national efforts with the EU efforts. These results are though less visible and felt.

3. The global auction of pollution right.

The cuts of the gas emissions that are pollution the atmosphere is a top priority objective for all the countries. The problem is that different countries have different visions of this reality. The existent situation is emphasizing the difference between the economic interests, on increasing the profit and the social ones, regarding the future of the planet.

KYOTO (*Among the 127 countries that signed the protocol (period 2004 –2005, after its signing by Russia) it was not USA that causes over 36% from the emissions that pollutes the whole world. USA, in its official statement, making a direct connection between pollution and production of goods, has expressed its disagreement regarding the cuts of the pollution quotas. The reason is that this way, the American economy would lose jobs, this leading to the "economy ruination" (according to President G.W. Bush). Other states that refused to join and sign Kyoto Protocol are China and India, which are now passing an important period of economic development and growth and cannot afford to adopt restrictive objectives*). Protocol has set up judicial provisions for cutting down the emissions of six categories of polluting gas that have an impact on the decrease of the ozone mantle and effects on amplifying the solar radiations on life. In addition, the same protocol has forced the signing countries to completely and accurately inform and communicate among them. The role of information is vital for the obtaining the NASH balance and thus in eliminating the asymmetrical character on the competitive market.

Also, as it will be pointed out in the present study, the "design theory" explains the role of the information in the double

auktion of production and access to the public assets, theory that we have adapted to the use of the „air“ as public asset.

The protocol that has been periodically updated, based on the current realities is comprising different amendments, out of which two are important for the study.

I. First amendment is referring to the right that pollution generating countries (those countries whose development is linked to the economic growth based on high consumption of raw materials) in order not to affect the development to be able to purchase pollution quotas from other countries that are willing to commercialise this right following of a less intense or even non-existent development .

II. The second amendment is referring to the fact that, instead to apply the quotas of reducing the gas emissions (situation that embarrasses developed countries focused on increasing the economic competitiveness), there can be overtaken quotas (meaning the right of emission) of other countries that are either prepared to do it due to the use in their own economy of high tech methods or in need of money, are interested by this kind of commerce.

Despite this, the Copenhagen Summit has launched a vivid debate related to the costs that will be supported by the developed and developing countries. Apart from the problem of cutting down emissions there have been formulated two separate opinions concerning the obligations to support the pollution consequences based on:

a) wealth of each country;

b) how much pollution is generated by each country. The geopolitical location has become a controversial factor and in addition to the debate regarding location on

Nord – South, it was launched another one, between East-West. (*Austria, France, Japan, Norway, Great Britain and USA have announced an immediate support of 3.5 billion \$/3 years for “cancellation and if possible, reversal of deforestation from developing countries”. Japan alone has proposed 19.5 billion \$, out of which 15 billion are from public funds for a period of 3 years in order to help most vulnerable developing countries to cope with climate change problems.*(Copenhagen, December 2009).

The general atmosphere of the Copenhagen Summit was marked by the suspicion that poor countries are lobbying for a „new world order“. Thus, the final negotiations have been difficult and tensioned due to the initiative of emergent and developing countries to transform the summit in a settlement of global governance issues, where western industrialised countries to lose its dominant position. (Euractiv, 17 December 2009).

The air, as natural resource with a regime of free asset and unrestricted access, becomes in this global context an example of irrational use. Furthermore, its usage generates one of the most alarming negative externality - pollution - that affects the general welfare. Since no one is paying for the respective asset, the dreadful effects of the economic activity are not taken into account until they become embarrassing as implications in life, society and environment.

From a theoretical point of view, the costs related to the productive activities are reflected on the market, that does not point out the social costs felt by the society. In order to tackle this economic and monetary injustice, the state uses the fiscal policy that is taxing economic activities and services having negatives effects on the people and

society. *(The problem of externalities, as market failure has been introduced in the economic theory by A. MARSHALL; this theme has been then theoretically updated by A. C. PIGOU ("Pigouvian tax"), R. COASE (with its well-known theorem), Andrew SCHOTTER (the "lemons" paradox) and probably the investigations will continue due to the increased interest of economist to internalise the effects produced by the interdependency of companies activities. Especially, that in the context of new relations based on the globalisation of integrated activities of trans-national corporations, the costs and benefits are transferred in an international regime. As result, the effects of these activities (externalities) will be submitted to the negotiation regime through international auctions. The most convincing example is "the auctions double mechanism of a public asset" proposed by the "design theory").*

It is obvious that the environment protection will be undertaken from now with big and consistent financial efforts both from the companies and the consuming population that in the end, is supporting through the environment taxes, an important part from the costs of this pollution. The companies will increase its delivery price, due to the taxes imposed by the international organisations that have to obey the provisions of the protocol and the increased prices will be supported by the beneficiaries. **Paradoxically, the welfare of the XXI century will be diminished as there will be adopted measures to increase the welfare.**

The problem of trading the dioxide carbon emissions was outlined in 2005, when the European Union started to adopt projects on cutting down these highly polluting emissions. The fact that EU Member States do not have the right of nationally allocate pollution quotas for the indigenous producers

(indicating a protectionist economic policy) has determined a radical change. In this context, in Copenhagen, it was questioned the issue of unused pollution rights, due to the fact that some states have not reached yet its pollution limits. A new dilemma has emerged: cancellation or prolongation of these rights in post-Kyoto period?

New options have been outlined: **opening of auctions of pollution rights or, in certain cases for certain countries, free allocation, according to the EU legislation of a possible pollution quotas.** *(The power sector, considered as the biggest polluter, will be subject to the auction of pollution right starting with 2013 and the other sectors (aviation included), starting with 2020.)*

As staging, the process of purchase of pollution rights will officially start in 2013 (with 1/5 of certificates) and it will end in 2020 when all fields of activity, considered as pollutioners will have to comply to the same trading rules. The revenues from the auctions will go to the participant countries at the auctions and will be directed towards research.

On the other hand, an ethical issue appears in the economic policy: if developed countries, on the globalisation principles, are exporting productions and all polluting activities in countries where there is no environment protection legislation, EU will have to further issue free pollution certificates in order not to reduce activities at the expence of jobs and economic development.

The conclusion is : in a first stage, there occurs a decentralisation process of awarding pollution certificate at national level following that in the second stage, this process to be balanced by centralisation at European level. This ambitious project of cutting down emissions by 20% until 2020 as against 1990

raises though serious economic, legislative, moral and ethical issues.

From the point of view of the undertaking method, the auction of the pollution right is the mechanism officially recognised as being adapted to the market laws, where the profitability principle rules as top priority.

In order to rationalise the adaptability of the design theory to the economic reality of the global auction of pollution right, there is a need to know some aspects related to the theoretical content, role and functions of this theory as scientific tool to assess the conclusions found in the market decisions and economic policy makers.

Globalisation and the need to improve the market institutions have determined a reconsideration of the performances of the competitive market and outdated economic institutions by the modifications of the negotiation conditions between companies. From this point of view, the role of the complete and accurate information becomes a featuring element for the success or failure of a negotiation. As a result, the state has to interfere on the market in order to correct its limits.

From a theoretical point of view, the design theory is part of the attractive issue of externalities and supporting private and social costs by the direct consumer and society. Also, design theory is referring to the review of the fundamenting concept of economic policies with regard to production of public assets and access to this category of goods.

Starting from these premises, we can link the issue of the air, as public asset unrestrictedly consumed, the pollution effect as negative externality drawn by the economic policy of development and growth and the mechanism of auction of pollution right, that

we are explained through the theoretical input of the three researchers.

We have to mention from the start that if the transactions do not have an open character, meaning a free market, they will be marked by different interests of the companies (generators of pollution in our analysis). This will determine the need to conduct private negotiations between people and groups of interests on one hand and governments involved in trading the carbon quotas, on the other hand. The authors of the design theory have assessed the way through certain institutions can create proper conditions for undertaking the negotiations, that a maximisation of the profit can be reached (for both society and producer).

The public market, in our example, is a market that assesses ETS carbon emissions, fixes quotas and participation conditions to the auction of pollution right and finally sets the price ... of the pollution and therefore, of the air !!! The fact that air is an unreplaceable asset, its substitution being impossible makes difficult the conditions in which the carbon quotas market is working, due to the fact that the price and quantity will depend on some decisions that will determine different reactions among competitors, affecting the society and the environment.

In the case we are analysing, the transactions are carried out by multiple institutional arrangements, meant to defend both the policies of economic development and the level of the profit.

The design theory outlines the optimum mechanism of participation at the negotiations of the sellers (countries that are willing to sell its pollution quotas) and buyers (countries that do not give up to its economic development that generates pollution).

The design theory has focused especially on the optimum supply with public assets. No market can ensure an optimum and efficient allocation of the resources and furthermore, of the public assets like air. This is why the design theory helps to understand the rationale behind the necessity of governmental funding of the public assets through taxation system.

The principle „the polluter pays“ determines two different situations, for two categories of polluters that will have to support pollution taxes : at micro-economic level, the individual has to pay the auto buy tax and at macro-economic the producers will pay for the right to continue its economic activity.

The design theory allowed the economic researchers to analyse using a new interpretation of the game theory, the process of price setting during the double auctions. In these conditions the buyers and sellers are announcing the prices of the offer and demand to the auction. The auction of the pollution right facilitates the meeting of several countries (buyers) and several countries (sellers), thus taking place two types of auction that can be expanded at state level – institution. The aggregated demand will come from the countries that buy the pollution right and the aggregated offer comes from the countries that sell pollution quotas. The collected information (regarding the individual or collective willingness to pay for a public asset) will be reflected by the balanced prices.

Certainly, the decision mechanism will differently influence the behaviour of the entrepreneurs, since they will have to choose between the two objectives: profit or social welfare. To sum up, the decisions regarding the support of big or small pollution quotas will depend both from the level of economic

development and the support of one of the principles: **sustainable development or economic competitiveness.**

Depending on the political and economic choice, the countries that enter to the negotiation will favour big quotas if they are supporters of a clean economy with sustainable perspective in the future or, on the contrary, will support the cut of the quotas in order not to affect the economic growth and loss of jobs.

The decision is for the eco-social policy makers of the respective society to take, by assuming the responsibility towards the economic and social progress of that country. Here, it can be mentioned the opportunity cost of selecting the level of the pollution quotas.

The question is if there is the possibility to reach a behaviour balance of the two categories that express the demand and the offer. This process it is realised through negotiation since the distinct behaviour it is based upon the different objective functions. The globalisation will expand the rationale from micro to macro and even worldwide. Finally, the private cost will face the social cost, that will determine to a pack of decisions materialised in economic policies. The market design will interlock with the political decision.

In L.HURWICZ's conception, the balance in negotiation it can be reached if there is a compatibility between the incentives of the two categories of participants; this compatibility is reached on the *revelation principle*. The principle highlights the fact that any result materialised in equilibrium can be multiplied through an compatible incentive mechanism (profit expressed in money, for each part of the negotiators).

Developed by R. MYERSON, the revelation principle states also the success of

entrepreneurs that are accepting the moral risk of their actions, in our case, the free adoption of negative externalities that generate profit.

The design theory is based upon the principles of the games theory. This requires a previous foreseen of the participants behaviour (in our analyse, two categories of countries that follow each the advantage of big/small pollution quotas).

The assessment of the demand, offer and the determination of the pollution pressure upon the environment are providing the pre-requisites of selecting the negotiation mechanism according to the different goals of those involved in the negotiation. If, at these premises, there is added the use of „revelation principle” (taking into account the compatibility of the incentives for the two parts involved), the success of the negotiation is granted for both seller and buyer. The theoretical succes of the design theory, confirmed by the practice is influencing the economic policy and market institutions.

The allocation and re-allocation of the

emissions quotas is the differentiation mechanism of the objectives of those two categories of countries: developed and developing, that reflects the development programs of its economies. On the other hand, the proposal to use biofuels has its supporters and enemies, depending on the effects triggered by the pollution of the environment and decrease of food safety.

In worldwide language there is more room for new concepts and terms like : healthy green industry, clean economy, global market of carbon quotas, green technology, decarbonisation of industrial economies, alternative energy, etc., all meant to prove that the world is passing through a profound and irreversible change.

The strategy becomes a safe solution when there are not so many options, in terms of our analyse, the negotiation strategy becomes the only way to make compatible different objectives of the demand and offer in terms of the countries that sell and buy pollution right in the name of development, growth and global economic progress.

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The sustainable enterprise at the beginning of the 21st century

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Abstract: The sustainable development constitutes the fundamental objective of the contemporary society which governs all the fundamental and worldwide, regionally and nationally accepted strategies, politics and programs. Our scientific approach starts from the premise of the existence of a powerful sector of sustainable enterprises that represents a sine qua non condition for building a modern and competitive economy. In this context the paper presents the main variables which define the competitive potential of the sustainable organization, analyzes from a dynamic perspective the relation between stability and change and in the final proposes possible action directions recommended to the modern organizations in order to be registered on the sustainability trajectory.

Keywords: sustainable enterprise, knowledge, organizational culture, flexibility, stability, organizational change.

1. Introduction

The main microeconomic pawn of the new knowledge based economy, the sustainable enterprise, has materialized in the last decades in the developed countries. This new type of organization is characterized by high functionality and creativity, emphasizes in a relatively equal way the economical, social

and ecological aspects, owns the capacity of continuously perfecting itself, always produces new products and services, generates competitive information and knowledge, all of these assuring the development sustained on a long term which is in the benefit of the employers and employees.

One of the main problems discussed during the International Labour Conference

that took place in Geneva in the year 2007 was the promotion of sustainable enterprises. The tripartite delegations composed of representatives for the governments, patronages and unions, formulated a packet of conclusions and according to one of those the sustainable enterprise which normally is of small or middle dimension, represents the generator of the future development on which every country's level of social-economical accomplishment depends on.

Also the sustainable enterprise represented one of the major themes in the working Agenda of the 8th Regional European Reunion of the International Labour Organization that took place in Lisbon during 9 and 13th of February 2009. The participant delegations proposed a series of measures that aim at a stable and sustainable economical growth among which we remind: adopting stimulating packets that will diminish the recession's consequences; setting new international strict regulations regarding the financial and commercial market in order to prevent the emergence of systemic risks that were not foreseen and eliminated by the previous engagements; adopting measures regarding the access to financing in order to stimulate entrepreneurialism and the small and middle firms' capacity of keeping their employees and creating new working places; promoting a favourable environment for the sustainable enterprises as a main support for regression and economical growth; reestablishing a normal flow of human and investment capital on a medium and long term in order to avoid a severe deterioration of the productive base in some countries; assuring a functional financial system that will facilitate the growth and stimulation of the private

sector; some enterprises' development on the initiatives of social corporatist responsibility for the completion of sustainable strategies and the expected results.

Taking in consideration these conclusions it can be affirmed that the sustainable economical development is conditioned in a decisive mode by the existence of sustainable enterprises which need to benefit of a favourable context for their establishment and functioning from fiscal, commercial, financial, managerial, technological, administrative, educational, juridical, scientific, ecological, cultural and political point of view. This favourable context is created through the operation of strategies and politics that promote the entrepreneurialism and the establishment of sustainable enterprises. To this extent it is essential for the social partners to be aware of the sustainable enterprises' role in the consolidation of a dynamic and competitive micro economical sector which constitutes one of the main vectors for the development of the society and the knowledge-based economy.

2. Variables of the sustainable organization's potential

Professor Ovidiu Nicolescu considers that the sustainable organization is the one that after a balanced approach from an economical, ecological and social point of view reevaluates on a superior level the knowledge and the other owned resources or those that it attracts thus generating for long periods of time multidimensional efficiency and performances validated by the market and society.

In our opinion the sustainable organization represents an entity that generates a value integrated in the economical, social and ecological environment which constantly

creates competitive advantages compared to the other firms through a proactive, flexible and innovative management.

In order to become sustainable the organizations have to fulfill periodical evaluations of their competitive potential, doubled by elaborated analysis of the business environment with special reference to the competition during the activity branch in which it is evolving. In this sense we consider it to be necessary for a major mutation to take place in the managers' and enterprisers' mentality for their comprehension on the importance of these analysis and evaluations whose complexity varies in accordance with the amplitude and specific of the developed organization activities.

The competitive potential of a sustainable organization is mainly defined by the resources' complex and organizational culture. Among the resources the knowledge has a determining impact on the sustainable organizations' performances. The explicit knowledge is found in studies, certificates, projects, licenses, standards, informatics programs, while the implicit knowledge is placed in the minds of the organizations' members (know-how technical, know-how technological, know-how informatics, know-how managerial etc.).

The human resource in the sustainable organizations are trained in a continuous process of learning, accumulating knowledge and thus gaining new abilities that are necessary for transposing them into the practice of a new strategic orientation. In this actual period the knowledge represents an essential source of obtaining a competitive advantage, assuring the sustainable organization's strategic integration in a more complex and dynamic business environment.

Next to the resources the organizational culture influences in a significant mode the competitive potential of a sustainable organization. The cultural model, as the organization's philosophy regarding business behaviour, constitutes one of the key factors of the operational competitiveness and excellence.

The organizational culture has an essential role in the substantiation and elaboration stages of strategy, as its determinant, as well as in the implementation phase, as an instrument. In the strategies' substantiation phase it is necessary for the organizational culture's analysis to be made in order to identify the strong and vulnerable points. In the implementation phase the strong points of the cultural model must be mentioned and eventually amplified and the vulnerable points must be diminished or in the possible measure eliminated.

An adequate cultural model constitutes an important vector of an organization's sustainability. Thus the sustainable organizations have to adopt cultural models that promote the values' homogeneity, create perspectives that offer positive motivation and encourage the employees' involvement in the decisive processes. To this extent it is important for the managers and entrepreneurs to initiate actions coordinated in the plan of the human resources' motivation and to adopt policies that have as an inspiration source the excellence results of its own employees. Developing a sustainable cultural model implies the projecting of the managers and entrepreneurs of reasonable standards regarding objectives achievement, the respectful treatment towards the human resources and also to grant them complete freedom on creation and experimenting innovative projects.

3. The optimum „stability-change“ in the sustainable enterprise

The flexibility represents a definitive coordinate of the sustainable organization. An essential premise of the organizational flexibility is constituted by the products' and processes' flexibility. A products' flexibility is given by the number of ways in which this can be used while a process' flexibility is offered by the number of possible configurations for it to adapt to the environment conditions and by the required time and cost for the configuration to change.

The main organizational flexibility's variables are the fabrication's flexibility, commercial flexibility, informational flexibility, research and development flexibility, organizational flexibility, human resources' flexibility and geographical flexibility. The managers and entrepreneurs have the mission to create and maintain equilibrium between these seven types of functional flexibility.

Volberda considers that four types of flexibility exist: conservatory, operational, structural and strategic. The conservatory flexibility resides in static procedures of optimizing the organization's procedures given that the results are maintained constant in time, the operational flexibility which is most frequently present is constituted of an ensemble of almost entirely routine abilities through which it is mainly aimed at the activity's increase of volume, the structural flexibility regards background changes on an organizational and decision level in order to adapt to the ambient environment's evolutions, while the strategic flexibility generates modifications in the objectives and incorporated activities sphere, especially being

manifested when unprecedented changes take place in the business environment. The strategic flexibility presents a double dimension: qualitative and innovative.

A sustainable organization periodically initiates and develops strategic changes. The organizational change corresponds to a new, radical and fundamental orientation regarding the methods in which the firm will develop its activity with essential implications on all its members' behaviour. Releasing a change process implies the awareness of the change's necessity, manifesting the will to change, accumulating knowledge as well as forming the abilities necessary for the change's implementation.

The sustainable organization is one specialized in change that anticipates, initiates and implements change processes. This type of organization approaches the change process in a proactive way, meaning that it carries out the necessary steps to adapt to the evolutions recorded in the business environment. The pro-activity implies a continuous process of organizational learning.

In the sustainable organization new methods of thinking are developed and cultivated, the human resources are constantly being trained in processes of learning in order to obtain qualifications and every experience is considered to be an opportunity to learn. In our opinion investing in education and the continuous forming of human resources are essential in the society and knowledge based economy. The managers and entrepreneurs have to inspire to their employees a pro-change and pro-learning attitude thus creating an organizational climate that is stimulating, dynamic and proper for reaching operational excellence.

The sustainable organization is permanently oriented towards the future and the

managers' and entrepreneurs' strategic vision is reflected in the human resources' behaviour which has to manifest the same level of involvement in the current organizational problems as well as in the change projects.

Like any other system the sustainable organization tends towards equilibrium. A sustainable organization is that in which the management creates and maintains a balanced combination between stability and change. Otherwise said the organizational equilibrium must adapt to the changes that occur in the ambient environment, also maintaining the directory lines of the business strategies that they promote. As a result the managers and entrepreneurs have an essential role in creating and maintaining the organizational balance of an optimum "stability-change".

The sustainable organization manifests an achievement receptive to new but in the same time it cultivates the spirit of tradition. Thus the organizational sustainability presumes the coexistence of "new-tradition" and the optimum "stability-change".

In the sustainable organization the stability and change, the new and the tradition are not in an antagonistic relation but in a complementary one. It is important for the modern methods and practices to be promoted in the organization and in the same time maintaining the good practices used in the past.

4. The sustainable enterprise's management

The modern organization based on knowledge is by excellence a sustainable organization. In order for the organizations that lead them to become sustainable we consider

that the managers and entrepreneurs have to promote a flexible, innovative and proactive management, centered on the following main axis:

- substantiating, elaborating and implementing business strategies;
- creating flexible organizational structures;
- projecting and implementing adequate informational systems;
- initiating and developing strategic alliances with other organizations.

Regarding the successful substantiation and implementation of the business strategies the organizations can opt for a procedural model of strategic management structured in three stages: strategic planning, implementing the strategy and evaluating the strategy. The essential stage of the strategic management process, the strategic planning includes the diagnosis- analysis, the organizational change and the strategy projection. The succession of these planning phases must be seen from a correlative and interdependent vision, meaning that the strategy is gradually being shaped during the diagnosis-analysis process and that of the strategic organizational change. In the strategy's projection phase the trajectory on which the organization will be in the following period is being defined based on the information obtained in the first two stages of the strategic planning.

In order for it to become sustainable the organization's organizing structure has to be flexible, well defined from a dimensional and functional point of view and also it has to assure the accomplishment of strategic objectives established according to the mission under the conditions of a growing economical and social efficiency. It is necessary

for the managers and entrepreneurs to enterprise actions such as the extension of the formulized documents' and procedures' usage; introducing informatics equipments and products; increasing the level of involvement and responsibility of the executants as a result to the informatics' proliferation and to the development of cultural models oriented towards result and performance; developing the circulated informational flows and transmitting a powerful informational dimension to the organizational culture.

From an organizational point of view and in our opinion the key to success is constituted by the creation and maintenance of equilibrium between the formal and informal dimensions, of an optimum "formal-informal". This fact is important because as we have mentioned before, the sustainable organization is normally of small or middle dimension and thus it develops only one activity or a limited number of activities. Therefore, simplifying the organization on a structural level as well as the pronounced informal dimension of the inter-organizational environment contribute in a significant way to the acceleration of the circulation speed of the informational and decisive flows with beneficial effects in the sphere of economical and social achievements.

The organizations' competitiveness is influenced in a determinant way by the existence of adequate informational systems. The entrepreneurs and managers have to consider the projection and implementation of informational systems that respond to the intern and outer needs of the organizations which they lead. On an external plan an informational system has to assure the information that refer to the preferences

manifested by the requirement's owners, to the strategic actions carried out by the opposing firms, to the mutations recorded in the legislative environment, to the technological and managerial know-how, the appearance of new products and services on the market, to their quality etc. On an internal plan, an efficient informational system determines the growth of promptness in the substantiating and adopting managerial decisions, diminishing distortions, filters, redundancies and the overloading of informational channels as well as the improvement of the communication process in the organization.

Initiating and developing strategic alliances represent managerial actions through which an organization can become sustainable. The firms opt for strategic alliances when they do not dispose of a potential that assures them a competitive stable position on a certain market. Resorting to a strategic alliance represents a decision of maximum importance for an organization's management. By concluding a strategic alliance the firms can integrate in a business environment marked by the competitiveness' intensification. Also the strategic alliances create the possibility of carrying out expensive projects which could not be defined in other conditions. The most acquainted models of strategic alliance are the franchise, leasing, the commonly license release of products and technologies as well as the mixed societies (joint-venture).

5. Conclusions

One of the main problems discussed during the International Labour Conference that took place in Geneva in the year 2007 was

the promotion of sustainable enterprises. The tripartite delegations composed of representatives for the governments, patronages and unions, formulated a packet of conclusions and according to one of those the sustainable enterprise which normally is of small or middle dimension, represents the generator of the future development on which every country's level of social-economical accomplishment depends on.

Also the sustainable enterprise represented one of the major themes in the working Agenda of the 8th Regional European Reunion of the International Labour Organization that took place in Lisbon during 9 and 13th of February 2009. During this reunion measures were proposed that aim at creating and consolidating a strong sector of sustainable enterprises as vector of the economical development.

The sustainable organization represents a generating entity of value that integrates in the economical, social and ecological environment and which through a proactive, flexible and innovative management constantly creates competitive advantages in rapport with the opposing firms. The main variables that define the competitive potential of sustainable organizations are the resources complex and the organizational culture. Among the resources the knowledge represents an essential source of obtaining competitive advantage thus assuring the strategic integration of the sustainable organization in a more complex and dynamic business environment. Among the resources the cultural model, as the organization's philosophy regarding the business behaviour, constitutes one of the key-factors of the competitiveness and the operational excellence.

A sustainable organization is an organization specialized in change that periodically initiates and develops strategic changes. The organizational change corresponds to a new, fundamental and radical orientation regarding the methods in which the firm will develop its activity, having essential implications on the behaviour of all its members. In the sustainable organization new models of thinking are developed and cultivated and the human resources are permanently trained in processes of learning in order to accumulate knowledge and also to gain new abilities.

The sustainable organization's equilibrium implies an adequate proportionality between stability and change. The modern organizations must adapt to the changes which occur in the ambient environment, maintaining at the same time the directory lines of the business strategies that they promote. To this extent the managers and entrepreneurs have an essential role in creating and maintaining the organizational equilibrium, of an optimum *stability-change*.

Promoting a flexible, innovative and proactive management constitutes a fundamental premise of the organizational sustainability. The action directions recommended for the modern organizations in order to be on the sustainability's trajectory are, in our opinion, the practice on a large scale of strategic management, creating flexible, organizational structures, projecting and implementing adequate informational systems as well as the strategic alliance development.

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Bank consolidation/capitalization in the Nigerian Commercial Bank (1986-2006): causes, consequences and implication for the future

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Abstract: The CBN Governor noted that the vision or prospect of the CBN and the Federal Government of Nigeria is a banking system that is part of the global change, and which is strong and reliable. It is a banking system which must be efficient, depositors can trust and investors can rely upon. Using descriptive approach, this paper provides an in-depth analysis of the causes, consequences and implication of the policy thrust of the recent bank capitalization/consolidation of the Nigerian Commercial banks. The implications of this paper amongst others, is that reforms, remain a major tool for banking soundness, especially in the light of the recent global financial meltdown.

Keywords: Bank Capitalization and Bank Consolidation.

1. Introduction

The recapitalization policy is just one of about 13 issues announced in July 2004 by the Central Bank of Nigeria (CBN) in order to sanitize the banking industry. The CBN Governor noted that the vision or prospect of the CBN and the Federal Government of Nigeria is a banking system that is part of the global change, and which is strong and reliable especially with the prevailing

global financial meltdown. It is a banking system which must be efficient, depositors can trust and investors can rely upon. This is the Consolidation era (2004- till date). It is the era of "13-point Reform Agenda for Repositioning the CBN and the Financial System for the 21st Century", of which recapitalization was the policy trust. The policy required that the minimum capitalization for banks should be N25 billion with full compliance before the end of December 2005 (that

is, 18 months rather than 12 months normally given in many countries). Only banks that met with the requirement above were licensed to undertake banking business. Others that failed to meet up either merged or were liquidated. For the first time, the Nigerian banking industry witnessed merger between the small and big banks as shown in table 1 below.

The recent being the N25 billion recapitalization which took effect on 31st December 2005 reduced the number of banks from eighty-nine (89) to twenty-four (24) as a result of merger.

The issue of bank capitalization in most economies today has been how to resolve the problem of unsound bank, enhance efficient management of the banking system, provide better funding for banks lending activities,

reduce non-performing loans and advances, increase profitability, reduce risk, to ensure quality asset management and to put banks in a strong liquid position to meet customers obligation at all times, (Soludo, 2004). For instance, the distress that was pervasive in the Nigerian banking system in the mid-1990's and early 2000 was due to amongst others, illiquidity in the banking system which led to the loss of customers confidence in the banking industry. The move by the CBN to raise the minimum paid up capital of banks to N25 billion was aimed at strengthening the Nigerian banking industry. It is imperative for banks to meet up the required level of capital for sound and safe banking. Capital adequacy is important for banks to absorb risks till banks are able to generate profit.

Table 1 : the emerging banks in the nigerian banking industry as at december, 2005

N/S	GROUP	MEMBERS	SHARE-HOLDERS FUNDS N	TOTAL ASSETS N	TOTAL DEPOSITS N
1	First Bank	First Bank Plc and MBC International Bank Plc	58.9 bn	538.1bn	391.2b
2	Diamond Bank	Diamond Bank and Lion Bank	34.9bn	223bn	144bn.
3	Bank PHB Plc	Platinum Bank & Habib Bank	28bn	156bn	109bn
4	Zenith Bank Plc	Zenith Bank Plc	93bn	608.5bn	392.8bn
5	Oceanic Bank	Oceanic Bank, Stanbic & Int' Trust Bank	37.1bn	371.6bn	310.3bn
6	Intercontinental Bank	Intercontinental Bank, Equity Bank, Global Bank and Gate way Bank	53bn	360bn	252.2bn
7	Fidelity Bank	Fidelity Bank, FSB International Bank & Manny Bank	25.6bn	120bn	78bn
8	UBA	UBA & STB	47bn	851.2bn	757.4bn

9	FCMB	FCMB, Coop. Bank, Nigeria-America Merchant Bank	25.2bn	106bn	70.3bn
10	Access Bank	AB, Marina Int' Bank & Capital Bank	28.6bn	174bn	110bn
11	NIB	NIB alone	35.2bn	112.2bn	61bn
12	Sterling Bank	Trust Bank of Africa, Magnum Trust Bank, NBM Bank, NAL Bank & Indo-Nigeria Bank	35bn	111.2bn	75.0bn
13	Unity Bank	Intercity Bank, First Inter State Bank, Tropical Commercial Bank, Centre Point Bank, Bank of the North, Societte Bancaire, New Africa Bank & Pacific Bank, NNB Inter'	30bn	100bn	N/A
14	ETB	Equatorial Trust Bank & Devcom Bank	28.4bn	109.7bn	72.7bn
15	Ecobank	Ecobank alone	35.3bn	132.0bn	84.0bn
16	Union Bank	UBN, Universal Trust Bank, Hallmark Bank	95.6bn	517.5 bn	275.5bn
17	Spring Bank	Citizens Inter' bank, Guardian Express Bank, ACB Inter' bank, Omegabank,, Fountain Trust Bank & Trans Inter' bank.	Over 25b	131 bn	N/A
18	First Inland Bank	FTB, Inland Bank, IMB, & NUB Bank	29.4bn	130bn	80bn
19	Guaranty Trust	GTB alone	36.4bn	305.1bn	212.8bn
20	Standard Chartered	Standard Chartered alone	26bn	34.72	23.5bn
21	Afribank	Afribank Inter (Merchant Bankers)	27.1bn	129 bn	94bn
22	IBTC – Stanbic bank		Over 60bn	100bn	Over 63bn
23	Skye Bank	Prudent Bank, EIB Inter, Bond Bank, Reliance & Coop. Ban k	37.7bn	176bn	70bn
24	Wema	Lead bank, National Bank, Wema Bank	34.8 bn	127.7bn	78bn

Source: Compiled from Annual Financial Statement of Banks and CBN Banking Supervision Annual Report 2006/2007

However, banks that are able to exceed the capital requirement stand a better chance of luring customers and instilling confidence in the system. The Nigerian banking industry has been affected by inconsistent monetary policies, unstable macroeconomic variables such as exchange rate, interest rate and general inflation some of which have led to increase in prices of capital and consumer goods thus, lowering effective purchasing power of people and reduced aggregate

demand. Like other sectors, this sub-sector is also faced with poor infrastructural facilities and poor performance of regulatory authorities. Like other sectors, this sub-sector is also faced with poor infrastructural facilities and poor performance of regulatory authorities. According to Ajekigbe (2009), from the classical and historical perspective, *several factors led to the failure of banks between 1977 and earlier 2000. Some of the reasons advanced are poor asset quality, under capitalization, inexperienced*

personnel, illiquidity, inconsistent regulatory policies and supervision. In the Nigerian Banking Industry, bank capital requirement has been reviewed several times between 1952 and 2006: (See table two below). Capital constitutes an important part of any business. It serves as a measure of the degree of financial commitment of the owners in that business/project and also serves as a veritable loss absorber. Capital becomes imperative when reserves of the business are not sufficient to cushion or cover operational losses. The evolving competition in the banking industry as a result of globalization has made it difficult for Nigerian banks to play their major role of financing economic activities arising from inadequate capital. Inadequate bank capital has led to a crisis of confidence in the banks to the extent that the original functions which is to support the volume, type and

character of a bank's business, to provide for the possibilities of losses that may arise there from and to enable the bank to meet a reasonable credit need of the community have been eroded. Losses suffered by banks led to bank failure especially in the areas of lending. The soundness, safety and profitability of a bank affect the quality of its loan portfolio.

The last few years have both been traumatic and revolutionary for the Nigerian banking system. According to Eke (1999): *Since the introduction of structural adjustment programme (SAP) in 1986 and the deregulation of the nation's financial system, banking business has raised a variety of performance questions. Although insured banks had recorded an appreciable increase in the volume of assets and deposits, their overall financial condition had deteriorated tremendously.*

Table 2: trend in the capital structure of nigerian banking (1952 - 2006)

YEAR	FOREIGN (Commercial)	INDIGENOUS (Commercial)	MERCHANT
1952	£200,000	£25,000	--
1958	£400,000	£25,000	--
1969	£1,500,000	£600,000	--
1979	N1,500,000	N600,000	N2,000,000
FEB. 1988	--	N5,000,000	N3,000,000
OCT. 1988	--	N10,000,000	N6,000,000
OCT. 1989	--	N20,000,000	N12,000,000
FEB. 1991	--	N50,000,000	N40,000,000
1998	--	N500,000,000	N500,000,000
2001-Universal Banking	--	N1 billion (old banks) N2 (new bank)	N1 billion (old bank) N2 billion (new bank)
1 st January, 2006	--	N25,000,000,000	--

In the past, the Nigerian banking industry had been plagued with small size banks with low capital and high cost of operations. This weakness inhibits bank management in the performance of its development roles in the economy, thus hindering the achievement of government objectives such as price stability, macroeconomic stability, provision of employment and increased output. It also affects the ability to compete effectively in the international market. Since the banking sector is the hub around which all other economic activities revolves, the health and prosperity of the bank is a major source of concern to Nigerians especially the regulators. According to the Governor of Central Bank of Nigeria cited in Egene (2009), of the ten (10) banks audited so far as at August 2009, the banks' balance sheets of five banks (Union bank, Finbank, Oceanic bank, Afrique bank and Intercontinental bank) had shrunk, shareholders' funds impaired and they now have liquidity problems. Their huge exposure to non-performing loans (margin loans) has affected the banks. These banks had spent length of time at the expanded discount window (EDW) introduced in September, 2008 by the apex bank. These five banks accounted for 90% of transactions at the EDW. The remaining banks accounted for 10%. According to the apex banks, these banks took money from the inter-bank to repay their exposure to the discount window. It is an indication that their balance sheets had shrunk. The management teams had acted in a manner that was detrimental to the interest of their depositors and creditors. According to the apex bank, the temporary capital injection of N420 billion into the banks in the form of Convertible Tier 1 Debt, is expected to be repaid to the CBN once the banks are

recapitalized. Considering the fact that ownership of banks has moved from family to private, existing shareholders have not been informed how these funds would be converted when the bailout fund is fully repaid. The measure adopted by CBN to bail out the banks is adjudged as misuse of taxpayers' money and may eventually displace existing shareholders.

Therefore, the objective of this paper is to evaluate the causes, consequences and future implications of the capitalization/consolidation within the Nigerian commercial bank, and review the extant literature. The remainder of this paper is organized as follows: Section 2 discusses the related literature while Section 3 presents the country experiences, while section 4 dwells on causes, consequences and implications of capitalization/consolidation for the future. The final section summarizes and concludes.

Section 2: Literature review

Ojo (1992) and Oluyemi (1995), cited in Eke (1999) opined that the financial condition of banks can be assessed using some basic indicators and trend analysis such Capital Adequacy, Asset Quality, Earnings and Liquidity. Apart from quantitative factors, qualitative factors such as quality of management, the degree of compliance by banks with applicable banking laws and regulations (e.g Monetary and Credit policy Guidelines), as well as banking services to the local economy are relevant. The measures of ascertaining a bank's financial condition and Performance by the regulatory authority are encapsulated in the acronym CAMEL, which stands for: Capital Adequacy (Owners fund to total risk-weighted assets); Capital

Adequacy, a quantitative factor is one of the important indicators of the strength and performance of a bank. The best management cannot turn around an ailing bank if it does not have adequate capital. Assets Quality (Non-performing assets to total loan and advances portfolio); the incidence of large amounts of non-performing loans (bad debts) can put bank management under severe stress. Management (in terms of quality, competence and depth of experiences); the quality of management can make an important difference between sound and unsound banks. Poor management often manifests itself in the form of excessive operating expenses, inadequate administration of loan portfolio, overly aggressive policies to attract deposits. Earnings/Profitability (adequacy and sustainability of earnings over the long term); continued build-up of non-performing assets, would seriously affect banks in generating adequate income on their loan portfolio. The implementation of CBN Prudential Guidelines in 1991 for licensed banks has reduced the paper profit formerly reported by some banks. Liquidity (in terms of adequacy to meet maturing obligations and demand for new credits; inadequate liquidity damages banks' reputation while excess liquidity will retard their earnings).

Where a bank management fails to pay close watch to any of these indices, it could have adverse effect on bank performance. Where a bank is distress or healthy it would ultimately have recourse to new prospective investor, both local and foreign. Any attempt aimed at successfully recapitalizing any bank must focus on the bank's assets quality, management competence and experience, level of earnings, adequacy of liquidity and image/perception among other factors outside

the control of the banks themselves. Healthy banks that intend to attract potential investors should start getting their overall business strategies and focus right. The findings of Modigliani and Miller (1958), Berger, Herring and Szego, (1995) as reported in White and Morrison (2001) posited that in a world with perfect financial markets, capital structure and hence capital regulation are irrelevant. It was also reported in White and Morrison (2001) by Rochet (1992) that capital adequacy help to reduce risk- shifting by bankers whose assets are insured while Diamond and Dybvig (1983), Diamond and Rajan (2000) posited that capital adequacy help in preventing destructive bank runs. Ross (2002) used selected capital ratios to measure capital adequacy such as: total capital / total deposits, total capital /total assets.

Where risk assets include all bank assets, if a bank has excessive asset quality and earning problems, more capital will likely be necessary. The idea of minimum capital on all banks actually began in the United States in December 1981. Prior to that date subjective approach was used and it relied on peer group comparisons to decide if a bank had enough capital. The judgment method for assessing the adequacy of a bank's capital looks at the following: Management quality, Asset liquidity, Earnings history, Quality of ownership, Occupancy costs, Quality of operating procedures, Deposit volatility and local market conditions. It was reported by Nwude (2005) "that the amount of capital funds a bank needs should be related to the risks it assumes. The greater the risks, the more the capital funds. It can increase its capital as the risk it assumes increases, or invest in assets that are relatively free of risk. He opined that capital adequacy is the relationship between

the degree of risk a bank takes and the amount invested by its owners".

Ross (2002), Macdonald and Koch (2003) explained that banks are faced with several risks, such as credit risk, liquidity risk, interest rate risk, operating risk, exchange and crime risk all of which affect shareholders/ funds. Credit risk occurs when the customers fail to pay interest and principal payments on due date which eventually erode bank's capital. Liquidity risk is the danger of not being able to meet credit request of customers due to shortage of cash. Interest rate risk is the probability that fluctuating interest rates will result in significant appreciation or depreciation in banks assets. Operating risk results from fluctuations in economic conditions that could adversely affect the bank's performance. Exchange risk results from adverse movements in currency prices while the bank is trading for itself or for its customers. Crime risk is the danger that a bank will lose funds as a result of robbery. According to the CBN Bullion (2003), a bank's capital adequacy is based on what is known as the capital ratio, which involves the weighting of a bank's capital base against the portfolio of risk assets, carried. This is in line with the Basel Committee of the Bank for International Settlement of 1988 and 1992. Banks are to maintain, as capital funds, not less than 8 percent of their total risk-weighted assets with effect from January 1992. Also 50% of the bank's capital must comprise of primary or Tier 1 capital defined as paid-up capital and undisbursed reserves of statutory and general nature. In the literature, MacDonald and Koch (2003) reported that Financial Institutions Rating System encompasses six general categories of performance labeled CAMELS:

C = Capital Adequacy

A = Asset Quality

M= Management Quality

E =Earnings

L= Liquidity

S = Sensitivity to Market.

The Federal Deposit Insurance Corporation in America (FDIC) as reported in Macdonald and Koch (2003) numerically rates every bank on each factor, ranging from the highest quality (1) to the lowest quality (5). A composite ranking of 1 or 2 indicates a fundamentally sound bank, while a ranking of 3, 4 or 5 signifies a problem bank with some near term potential for failure.

A bank must adhere strictly to all capital adequacy guidelines issued by the CBN. According to CBN Bullion (2004), capital adequacy can be measured amongst others by the following:

*Equity/Total Asset Ratio, Equity/*Risk Asset Ratio, Equity/Fixed Asset Ratio, Equity/Total Deposit Ratio, Debt/Equity Ratio,*Equity = Unimpaired or Adjusted Bank Funds,*Risk Assets = Adjusted loans & Advances. Where these ratios of our banks are below the industry average and as recommended by Basel Accord 1 and 2, the need for recapitalization becomes imperative. In finance literature, some of the identified weaknesses that led to bank recapitalization in Nigeria and the world over are size of banks and degree of soundness, stunted growth in the real sector, high lending rate and shunning of real sector, over-dependence on public sector deposits, unprofessional and unethical conducts, illiquidity and insolvency (Soludo, 2004). Like the CBN, the Nigeria Deposit Insurance Corporation (NDIC) also oversees the activities of insured banks registered with it. One of the greatest risk facing

banks is the inability to meet depositors request for demand deposit at the appropriate time. This form of risk is usually due to bank failure. As a result, the NDIC was set by Decree No. 21 of 1988 to pay bank depositors on liquidation of any bank provided such bank has paid 1% of 15/16 of its deposit liabilities to NDIC.

Until recently, while commercial banks avoided merger; significant progress was achieved in the merger of various development finance institutions (DFIs), which had overlapping roles. The process, which commenced in the year 2000, was an attempt to give the institutions a better focus and to promote socio-economic development of the country. The Bank of Industry Limited came into being in October 2001, by the merger of the Nigerian Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI) and the National Economic Reconstruction Fund (NERFUND). Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB) were formed from the merger of Nigeria Agricultural and Cooperative Bank (NACB), Peoples Bank of Nigeria (PBN) and the Family Economic Advancement Programme (FEAP). The Nigerian National Mortgage Bank (NinamBank) originated from the merger of Federal Mortgage Bank of Nigeria (FMBN) and the Federal Mortgage Finance Limited (FMFL).

Lemo (2005) opined that consolidation of banks will stimulate overall investment climate and enhance growth and development. He expatiated that post consolidation would enable banking institutions to support public and private sector partnership in the financing of projects hitherto the exclusive reserve for the public sector, particularly

in the areas of infrastructure and social services. Consolidation would help in no small way in meeting the long-term vision of NEEDS and the New Partnership for African Development (NEPAD) and also to meet the target of the Millennium Development Goals intended at creating wealth and reducing poverty.

As stated in Ross (2002) the representative of the United States and representatives from 11 other leading industrialized countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and Luxembourg) agreed on new capital standards-often referred to as the Basel Agreement. Banks were required to consider the off-balance sheet commitments in determining their capital position. Nwagwu (2000) opined that adequacy of capital structure has remained a major concern in the administration of indigenous commercial banks in Nigeria. One of the reasons for the collapse of indigenous commercial banks in the 1930's, 1940's 1950's 1990's was due to inadequate capital structure. Hempel and Simonson (1999) carried out a study on the effect of bank size on the acceptable and permissible levels of financial leverage. The result showed that small banks usually have a higher return on assets and a higher percentage of equity to asset. The large banks usually have lower than average return on assets and a lower than average percentage of equity to assets, which produces a higher leverage multiplier (assets/equity), and a close to average return on equity because of the greater leverage. Nwude (2005) posited that recapitalization has both positive and negative implications:

The positive implications are strong, sound, competitive and reliable big banks, quality management and best practice in corporate

governance, improvement in profitability, improvement in credit availability and enlargement of areas of operations, improved professionalism and ethical practices, diluted ownership structure giving rise to professionalism, improved capacity to finance projects, improved depositors/investors confidence, healthy competition, reduction in regulatory abuses, reduced lending rate, higher economic growth rate, deepened level of the Nigerian capital market, attractive investors returns, attractive concessions and creation of new entrepreneurs. The large banks have greater management depth. The negative implications of recapitalization include amongst others are loss of identity, sanction on erring banks, downsizing the workforce, flight to safety by depositors, higher shareholders expectation, collusion to form monopoly, business failure, dilution of ownership control, merger and acquisitions, excessive pricing of assets and insufficient attention and follow-up efforts to post-merger implementation.

A vibrant banking sector and an equally vibrant real sector would enhance capacity utilization, which will in turn boost employment and growth in the economy. However, this would be possible if there is good corporate governance. Chukwudire (2004) posited, that in the immediate past two decades the financial services industry has experienced fluctuating fortunes leading to high profile cases of corporate failure and consequent near loss of public confidence. The industry's problems are consequences (directly or indirectly) of bad corporate governance. Good corporate governance leads to public confidence, market efficiency, integrity, financial stability and growth and a fair share of global capital flow to the economy. Unegbu (2004) opined that the crisis witnessed in the Nigerian financial system, especially in the nineties could essentially be linked to

non-compliance with the principles of sound management which therefore underscores the need to continually raise the awareness of the Nigerian private sector, especially the banking sector, in the area of good corporate governance.

According to CBN Banking Supervision and Annual Report (2002) reported by Oyewale (2004); it stated that the twin evil that is distress and eventual liquidation experienced in Nigerian banks in the last one-and-a-half decades can be traced to ineffective corporate governance when it declared as follows: "A unique feature of banking business is the overwhelming dominance of depositors' fund in comparison with the shareholders equity". Therefore to check excessive insider lending, among other abuses, which characterized banking business there is need for institutionalization of good corporate governance practices. The issue of corporate governance requires purposeful leadership/management in the financial services industry. According to Ogubunka (2004), *the leadership we desire is one that breeds positive influence...it is about transformation of value into actions, vision into realities, obstacles into innovations, separateness into solidarity, and risks into reward.*

Section 3: Country experiences

Banking business thrives on public confidence and such confidence is bed-rock on everything about a bank being seen to be going in the positive direction. Any negative development usually sends wrong signals to the banking public. That makes banking wide risk management imperative especially in this post-consolidation era in Nigeria. Failure to effectively manage risks in banks

can therefore lead to such adverse consequences such as: Capital losses, losses of business opportunities; runs on banks; loss of professional standing; loss of public confidence; loss of reputation; possible financial distress. Risk management requires that management should know the severity of the consequences and that management respond accordingly and promptly.

The issue of bank capitalization which often metamorphose into consolidation of banks around the globe has fuelled an active policy debate on the impact of consolidation on financial stability, Beck, Demirguc-Kunt and Levine (2003), Boyd and Graham (1991 and 1998). They concluded banks capitalization/consolidation exercise was designed to improve the banking system efficiency through the enhancement of the composite units. In the literature, concentration levels have been a major determinant of banking system performance by way of efficiency.

The just concluded banks consolidation exercise, mainly through mergers and acquisitions (M&A) in order to attain a minimum capital base of N25 billion (approx \$250 million), is an aspect of the first phase of the reforms. It resulted in the compression of 74 banks, which accounted for about 93 percent of the industry's total deposit liabilities, into 25 new banks (Komolafe and Ujah, 2006). The recent merger of IBTC and Stanbic banks in 2008 has reduced the number of banks in Nigeria to 24. The greater subsidy for large banks may in turn intensify risk-taking incentives beyond and diversification advantages enjoyed by them, thereby increasing the fragility of concentrated banking system. Berger, et al (1995) find evidence that the increase in the proportion of banking industry

assets controlled by the largest banking organizations in the 1990s, due to the liberalization of geographic restrictions on banking in the United States, may have been responsible for part of the credit crunch observed in 1989-1992.

Berger and Udell (1996) and Canonero (1997) find that large banks not only tend to have a smaller proportion of their loans made to small borrowers, but also tend to charge lower prices than other banks to small borrowers, indicating that large banks only issue business loans to higher-quality credits. It has also been argued that the higher the concentration in the local banking market, the higher the prices for financial services and that may lead to increase in the banks profit. This is because banks in less competitive environments charge higher interest rates to firms. If concentration is positively associated with banks having market power, then concentration will increase both expected rate of return on bank assets and the standard deviation of those returns (Beck, Demirguc-Kunt and Levine, 2004). One can infer that the policy implication is that higher market concentration is associated with lower socio-economic welfare and therefore is undesirable. As a consequence of the above, Holden and El-Bannany (2006) opined that in the United Kingdom the Monopolies and Mergers Commission (1996) became wary of a concentration ratio that is 25 percent or more of the banking market in terms of total assets or deposits.

According to Ebhodaghe (1994), reported in Oluitan (2004), "Capital inadequacy has affected the financial health of banks. He explained that an analysis of bank capitalization revealed that as at the end of 1992, almost all banks (120) operating in

Nigeria required additional capital totaling N0.6billion to support their volume of trading. This amount was the variance between the amount stipulated by the monetary authorities for prudential minimum capital and the aggregate capital outlay. By 1993, this variance further deteriorated to N9.1 billion". No one wish to see a bank collapse inspite of the leverage provided by Deposit Insurance Corporation to customers when it occurs. To instill confidence in bank customers and other stakeholders', safety, soundness and financial condition of banks are crucial. Sachs, et al (1995) reported in Oluitan (2004) in his study of 20 emerging banks, observed low reserves as one of the crisis plaguing banks. Oluitan concludes that these anomalies have led to erosion of public confidence in the banking sub-sector as a result of the growing number of distressed banks experienced in the past, which affected the liquidity position of banks. In recent years, a wave of bank consolidations has spread across the world. According to Amel et al (2002), "more than 8000 bank consolidations occurred between 1990 and 2001 and the total value of the deals reached about \$1,800 billion". It is notable that one of the major driving forces of the recent wave of bank consolidations has been government policy. For example, Since the Asian Financial Crisis in 1997, the financial authorities of Asian countries have been promoting bank consolidations and the Japanese government initiated a policy of promoting consolidations among regional financial institutions on the grounds that this policy would contribute to the stabilization of the banking system Berger et al. (1999); Shih (2003). The idea underlying the use of a consolidation promotion policy during a financial crisis is that bank consolidations would

assist in risk asset diversification, Shih (2003).

Mailafia (2004) and Ekaete (2004) have all pointed to the prospects for increase inter-regional businesses post-consolidation. In South East Asia, they found that the level of cross-border transactions rose following the consolidation of the 1990s and the beginning of this century. Weak banks cannot participate in the mega-dollar businesses. Apart from the benefits discussed above, Mailafia (2004) also pointed out that consolidation/bank capitalization involves geographic diversification as a bank can expand into new areas where it was not well represented. This increases its deposit base and enhances the profitability potentials. The result will be some synergy in terms of the composition/types of loans, maturity structure, risks, etc. The prospects of higher returns on the investors is also worthy of mention as we consider the benefits of banks consolidation. Traditionally, it is realized that returns are often directly correlated with the level of investment. Consolidated banks are expected ab initio, to have access to more capital and as they invest large sums, they would also receive higher returns. This is facilitated by the improvement in the pressure put on them by the expanded shareholders. Moreover, the reduction in inter-bank borrowing would cut cost and enhance profit margins. Also, the availability of more funds should reduce the level and magnitude of unethical practices with their attendant adverse impact on profitability.

Section 4: causes of financial capitalization/consolidation in Nigeria

According to Ige (2006), the reasons for the CBN decision to recapitalize the Nigerian

banking industry are not unconnected with the following, among others:

Bad management was rampant in many of them as they were unable to afford the desirable skills and technology, the uncompetitive and distress banks were better acquired or merged with successful banks, or else liquidate a spectre of gloom for depositors, the owners and the economy, the high interest rates for money borrowed, which were far beyond any internal rate of return in Nigeria, could suggest given the appalling management capacity, a good number of them derived a sizeable proportion of their profit from illegal practices, encouraging bunkering, foreign exchange mal-practices e.t.c and many of the banks at their previous levels could not compete globally with their foreign counterparts in the developed and emerging industrial countries of South East Asia and South America.

The recapitalization of Nigerian banks until recently in 2006 was very infinitesimal. Many of them lacked the resources, ingenuity and besides, they were unable to utilize business opportunities in Nigeria let alone those in other countries. Bribery, over-invoicing, illegal deals in foreign exchange and corruption were the modus operandi of Nigerian banks. Sharp banking practices such as high interest rate, exchange rate, inflation stunted the development of a credible macro-economic framework in Nigeria. Banking is bedrocked on risks, hence, the acceptance and management of risk remains an integral part of the business. Banking institutions should neither engage in any business in a manner that unnecessarily imposes risk upon it, nor absorb risks that can be transferred to other parties. It should rather accept those risks

that are uniquely part of the array of bank's services. Zero tolerance of risk is certainly not good banking business just as one hundred per cent tolerance is also not good banking. Risk management requires the involvement of all key stakeholders including the Board, Management and Staff. For effectiveness, the risk management process requires: commitment from the Chief Executive and Executive Management of the organization; assignment of responsibilities within the organization; allocation of appropriate resources for training and development of enhanced risk awareness by all stakeholders.

According to CBN Bullion (2005), the following should be considered along with capital ratios as conditions influencing capital adequacy: the quality of management influences outsider's perception of capital adequacy because, if management is good the bank will be profitably, and efficiently operated and there will be no need to rely unduly on capital to cushion disaster; a bank carrying good quality and adequate liquid assets will not be in danger of prolonged and damaging illiquidity. Consequently, the need for capital will be minimized; the history of earnings and retention thereof: good earnings and write-back policy will continually enhance the capital adequacy of a bank.

A bank that allows itself to be politized and which put ethnic consideration before business prudence can only contribute to the failure of the bank and increase its need for capital; the potential volatility of deposit structure will affect the liquidity of a bank which will in turn affect the profitability and need for capital; the quality of management will impact on the efficiency of operation and consequently the need for capital; the restrictions placed on the maintenance between

capital funds and loans and advances, the higher a bank's capacity to meet the potential credit needs of its environment. With Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC), technical and financial support traditionally given to banks in Nigeria, it is easy to tolerate temporary and relative inadequacy of bank capital in our banking system.

Section 5: consequences of bank capitalization/capitalization

The consequences of the recent capitalization in the Nigerian Banking Industry which culminated in consolidation of banks can be discussed under the following subheads:

Efficient payments system consequences of consolidation

Consolidation has led to fewer players (Commercial banks) in the banking industry. It has made possible agreed payments standard amongst banks. The operation of payments system exposes banks and participants to various forms of risks, including credit risk, liquidity risk, operational risk, and systemic risk. It is expected that operations of the payments system would be further modernized and standard for realization of desired efficiency.

Safety and Soundness effects

The assumption is that not many large institutions with substantial capital base will have bank run, rather they will experience some degree of soundness in the money market. On the other hand, if the risk of an institution is high, this could raise the probability that the institution will fail or become

illiquid before settling some of its payments obligations, thereby exposing other institutions directly to risks as payees or indirectly contributing to panic runs. The larger the institution, the higher the probability of having higher asset base which has the effect of boosting the image and confidence of the banking public.

Financial Safety consideration

For instance, the trend in the capital base of banks coupled with manifold expansion of the recent capitalization, could translate to lower rates of interest to the industrial sector if well managed. It may also result in an increase in the return to ordinary shareholders. The Nigerian Deposit Insurance Corporation (NDIC) would have to create a formal safety net which involves additional cost to the corporation though; the premium payable by individual institutions might need to be reviewed. The safety net may give additional protection to institutions considered "too big to fail", which may be created by the capitalization/consolidation.

Supervisory effects of consolidation

There is need for the supervisory body (CBN) to improve the level of transparency, good governance and the degree of supervision of risk management systems. Transparency has been a recurring problem in the financial industry in Nigeria, and unless, it is improved upon, it has the potential of making nonsense of the efforts of the supervisors in the present dispensation (New Capital Accord).

Service availability consequence of consolidation

With few players in the banking industry giving rise to additional market power

will lead to unavailability of services through shut down of unviable branch offices, as well as avoiding “not so profitable business loans. It is also possible to increase the supply of services to customers because better and dynamic banks are able to serve their customers more profitable. Although, this does not mean that large, complex financial institutions associated with M&As would reduce services to all small customers, but for those with strong financial statements and valuable collateral, they may receive essentially the same transactions based services as large customers.

Market power consequences of consolidation

It is argued in the literature that lending to small and medium enterprises may be adversely affected because banks with market power will tend to reduce lending volumes and increase loan interest rates. In the short run, it might be difficult for banks to make the require profit in the short-run but in the long run, as the bank wax strong profit will reach rise beyond the optimal. Studies have also shown that return on assets (ROA) or return on equity (ROE) tend to improve where M&A occur, and the Nigeria banking sector will not be an exception.

Efficiency consequences of consolidation

It could also be a means to change organizational focus or managerial behaviour towards improving efficiency through achieving risk-expected return trade off. Studies have shown that large organizations take the benefits of an improved risk-expected return trade off after consolidation. Such big organizations are able to diversify their

risks through increased efficiency which in turn help to lower incidence of insolvency.

Employment effects of consolidation

It is argued in the literature that safety of bank deposits rather than high retrenchment costs (job cuts) should be the concerned of policy makers. There is no doubt that the recent capitalization of the Nigerian Banking industry would bring about a change in the nature and quality of employment. Bankers with traditional banking skills cum information technology (IT) knowledge may not be seriously affected. The capitalized banks (mega banks) will require management and IT skills as well as other specializes knowledge.

Promotion of depositors' confidence in the system

There is no doubt that in the recent past the banking industry in Nigeria was characterized by failure and loss of depositors' fund, which led to lost of confidence. Thus, Soludo noted in his July 2004 address to the Bankers Committee that the capitalization/consolidation in Nigerian banking industry is expected to promote depositors confidence. Increase in capital base of the banks will make the banks stronger. Financial Commentators in the banking industry have noted that lower capital makes the bank to be weak. For instance, in December 2003, aggregate paid up capital of the banks had increased by 18% from 2002 to N120.3 billion. Similarly, at December 2003, the aggregate shareholders funds stood at N211 billion (CBN, 2004). These figures compare unfavourably with the scenario for banks in South East Asia and even South Africa. Similarly, the share capital requirement was a low N3

million (US\$140,000), in 1989, N2 billion in 2003 (US\$14.6 million) which are rather low by international standards. The raising of the shareholders funds unimpaired by losses to a minimum of N25 billion (US\$180m), is expected to put the banks in a better position to fund the economy.

Better Funding of the Economy

The above point as outlined by the CBN Governor is expected to hold a priori. However, studies elsewhere have found mixed results. For instance, Studart (2003) notes that the World Bank's forecast that consolidation in Latin American countries would increase access to credit did not materialize. Also in a similar vein, Peek and Rosengreen (1997) reported that there was no conclusive evidence that consolidated banks will discriminate against small business. Rather they found that the position shifts from sticking to their pre-consolidation portfolio to liberalization towards SMEs. Specifically, they note that first in roughly half of the commercial and savings bank mergers, the portfolio share of SMEs loans of the acquirer rise rather than fell after the merger. In slightly less than half of the cases, the acquirer had a larger portfolio share of SMEs loans than its target. Finally, it is only when the acquirer is large and less active in SMEs lending, that its loan portfolio share of the consolidated bank is much more likely to decline than to rise after the merger, (Peek and Rosengreen, 1997).

Another area where consolidation can be beneficial is cost reduction

While there is evidence on cost reduction potentials of consolidation, there is also opposing evidence. For instance, Linder and Crane (1992) investigated the cost profile of merged and non-merged banks in the USA

and concluded that there was no significant difference between the two groups in regard to results that bank mergers raise profits by reducing cost. The evidence from their study of Bank of America and Security Pacific, Chemical and Manufacturers Hanover, etc, showed that reduced operational costs rarely translated into higher profits because of increased loan losses, among other reasons. Later, Kwan and Wilcox (2001) studied a sample of 1,134 bank mergers between 1987 and 1995; employing a change in relative operating costs for the bank merger. They measured the variables of the ratio of total non-interest expenses to total assets, ratio of labour expenses to total assets and ratio of premise to total assets. The main finding was that "bank mergers reduced operating costs both labour cost and occupancy expense are found to decline significantly after the merger" (Kwan and Wilcox, 2001). Finally, the issue of cost-reduction in mergers/consolidation is a controversial and an empirical one.

On the flip side of the benefits of capitalization/consolidation are the costs. Since consolidation started, costs have been incurred and the trend is likely to continue. An aspect of the costs is the necessity of the process undertaken in the exercise. The merger entails legal expenses such as those on issuing houses, stock brokers, reporting accountants, etc. These are expenses that are avoidable in the absence of consolidation. Of course, this would include security and exchange commission (SEC) fees as well as consultants' fees. Ibrahim (2004) notes that the CBN had pledged to underwrite all these expense and provide a team of technical experts in this regard.

A cause for worry about in the recent bank capitalization/consolidation in the

Nigerian banking industry is the future fear of job losses. Already some bank staff have lost their jobs in the processes leading to the merger as the weak banks downsized in the bid to meet the conditions for absorption by the healthy banks. The consequent job loss would swell the unemployment market (Kwan and Wilcox, 2001). One of the cost saving areas is in job reduction.

Empirical work across the areas where capitalization/consolidation had taken place indicated that it resulted in concentration of banking and the consequent reduction in the number of banks in the post consolidation era.

There is the implication that the rural areas could be marginalized in the service delivery. Indeed, Shields, et al (2004) found that in rural Pennsylvania State, USA, "the results show that consolidation is dramatically reducing the number of banks in rural areas", they submit that "should the trend continue, then there would be no banks headquartered in rural Pennsylvania by 2005". In addition, consolidation has triggered off runs on some banks as customers move to prevent their funds being trapped in the banks, coupled with a lull in the interbank market. This arises from corporate customers making massive withdrawals as that of the Oyo State Government (pre recapitalization in 2005) from Trans International Bank Plc. Consequently, the bank was unable to pay its numerous customers and it was barred from the clearing system. While the appropriate authorities (CBN and NDIC) responded by extension of financial assistance to the banks, this will need to be intensified in order to calm down nerves and curb the anxiety that usually accompanied capitalization/consolidation. In spite of all the efforts of the CBN and NDIC, all unsound banks were unable to meet the requirements for

merger or acquisition (M&A). Those that failed impose losses on the depositors, on the one hand, and the shareholders, on the other. In addition, the recent CBN audit report of five banks in August 2009: (Union bank, Finbank, Oceanic bank, Afrique bank and Intercontinental bank) revealed that their shareholders' funds have been impaired and they now have liquidity problems. This may also trigger crisis of confidence in the banking system in spite of the bail-out measures adopted by CBN. We have found in the literature that in some of the countries that have undergone capitalization/consolidation of their banking sectors, not all banks succeeded. Some inevitably failed. It was therefore not surprising that the CBN allowed some to fail partly in order to sanitize the system and partly as lessons for those who had mismanaged their banks before the advent of the consolidation policy.

Implications for the Future

Bank capitalization/consolidation could help to facilitate cross-border consolidation by promoting trade, and reducing the currency conversion costs of institutions operating within the sub-region when economic integration is realized. Reforms present the best way to revitalize the lost confidence of depositors in the Nigerian banking industry. Bank assets should be valued realistically and avoid the temptation to overvalue assets; and bad loans should be reported accurately. There is also the need to increase banking transparency and entrench good governance. High standard of public disclosure by external auditors, internal auditors, banks inspectors are expected to be a kind of road map towards disseminating standards and good practice of accounting principles, as well as methods and payments systems.

The coordination of supervisory policies within and across borders should be well articulated and properly executed. The banking system is hub around which other sectors revolve. Therefore, if the gains of capitalization/consolidation are enhanced it will lead to the creation of larger banks having better access to markets for managing liabilities. It will also affect the pricing of bank loans in response to changes in the monetary policy stance. There is the chance of mergers resulting in geographic diversification of bank portfolios, enhance the safety and soundness of banking institutions, improve payments system, improve the allocation of credit and performance of the economy. Consolidation may reduce the liquidity or increase the volatility of the reserves, making it more difficult for the Central Bank of Nigeria to keep their policy rate near target. On the other hand, consolidation has its negative social consequences such as reduction in availability of services to small customers.

Section 6: Conclusion

The banking industry has witnessed drastic changes especially in information

technology propelled by the new generation banks (banks that came on board from 1988). Capitalization is a means of preparing the industry for survival. It makes an institution bigger, more efficient and better capitalized; among others. Though, driven by government but it is also influence by market forces. The impact of capitalization/consolidation is pathway to achieving financial stability. The benefits or gains of capitalization depend on the quality of the regulatory authorities, supervision and financial market sophistication. Bank capitalization/consolidation is vital and deeply rooted in the agenda of the financial system of both developed and developing countries that strives to compete in any global market. It requires bank management to understand the potential effects of capitalization/consolidation as this would serve as a tool for meaningful decision making. The recapitalization process should at all time give premium in building high quality assets to avoid distress syndrome which has been the bane of the Nigerian banking industry in the past.

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