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## *Real economy and monetary economy*

*Real economy is often effective effort. It has coverage in effort and quantifiable results. Monetary economy is often speculative. From desire to reality is a huge gap that is defined by the ratio between the records and promises. Most of times, in the monetary economy, the results are defined as assumptions. What I did so far is to suggest the situations in which the real economy and the monetary economy function separately or at different speeds. In fact we believe that the current world crisis is due to permanent desynchronizations between the real economy and the monetary economy.*

*In this context, including the stock market one, it has intentionally played a negative role in accelerating desynchronizations. It is obvious that the real world requires tangible situations instead of imaginative situations. The imaginary world encourages a lack of both effort and education.*

*Prof. Ph.D. Paul Marinescu*



# Real economy versus virtual economy – New challenges for nowadays society

~ Associated Professor Dr. **Veronica Adriana Popescu** (Academy of Economic Studies, Romania)

~ Assistant Dr. **Cristina Raluca Popescu** (University of Bucharest, Romania)

**Abstract:** In the paper *Real Economy versus Virtual Economy – New Challenges for Nowadays Society* our goal is to present the importance of both real economy and virtual economy.

At the begging of our research, we have presented the main views of some specialists concerning both virtual and real economy. After that we have compared the two types of economies and we have stressed the most important aspects connected to them. The main reason why we have decided to approach this complex subject is due to the increasing interest in the virtual economy matters and the relation that this particular type of economy develops with the real economy.

**Key words:** real economy, virtual economy, Internet games, virtual goods, digital economy, digital micro tasks, real goods and services, economic calculations

## Introduction

The economy is extremely complex and very difficult to understand by someone. In this particular matter, we can easily talk about the virtual economy, on one hand, and of real economy, on the other hand:

- Virtual economy, represented by its very complex computer games, especially

massively multiplayer online games, contains narrative and mechanisms that mimic real economic activities, such as production, trade, and consumption, which has made some specialists to apply the concepts and techniques from economics to study the complicated interactions inside games worlds ([http://en.wikipedia.org/wiki/Virtual\\_economy](http://en.wikipedia.org/wiki/Virtual_economy)). A virtual economy (also known as the

synthetic economy) is an emergent economy existing in a virtual persistent world, usually exchanging virtual goods in the context of an Internet game. People enter these virtual economies for recreation and entertainment rather than necessity, which means that virtual economies lack the aspects of a real economy that are not considered to be “fun” (<http://virtualeconomics.com/>).

- Real economy is the part of the economy that is concerned with actually producing goods and services, as opposed to the part of the economy that is concerned with buying and selling on the financial markets. To study the economy of a country or region, one must begin by looking at all of the activities that are involved in the production, distribution and consumption of goods and services. The economy is constantly being studied and it is used to make future predictions, set interest rates, and plays a role in setting prices for goods and services (<http://lexicon.ft.com/Term?term=real-economy>). There are many methods, theories and models that are used to study and interpret the economy. One such method is the real economy which is used to specifically account for the factor of inflation or deflation into the economy.

### 1. Literature review

- It is a generally known that economics is a discipline not usually associated with the study of computer games, but as increasingly elaborate game worlds are fashioned and their interaction with the real world grows thanks to the real-money trade of games, scientist have become concerned of resource allocation. In this matter, some economic models are better at explaining reality, while some are worse. Economics is

often criticized for being alienated from actual reality, focusing excessively on abstract models that are internally valid but out of touch with the society.

### Types of economies

**Classical economy: Adam Smith, David Ricardo and Karl Marx:**

- Classical economy puts a great accent on society and politics as much as production and commerce.

- Economic activity is being highly connected with other aspects of the society which made it absolutely necessary to discuss them together.

### Industrialized economy

- Economic activity was gradually liberated in industrialized countries.

- It became possible to study production, consumption, trade and commerce as a discipline of its own.

- The term economics was first used around 1870.

- Inspired by the success of natural sciences, economists set out to find the universal “laws of the market” using mathematics and objective reasoning.

### Rational choice theory

- Rational choice theory: Appears where economic theory fails to connect with reality, reasons can often be sought from its assumptions. A central assumption is the so-called rational choice theory.

- In this type of theory individuals are modeled as “rational agents”, which when faced with a decision, calculate the costs and benefits of each choice with a view to maximizing their own well-being.



► Other assumptions include those related to the availability of information and the ease of transacting on a market.

► Contemporary economics is able to work around some of these issues, but assumptions remain that the limit applicability of the theories to economic phenomena.

#### **Quantitative economic analysis**

► Quantitative economic analysis: Is being applied in situations that previously were the exclusive domain of sociology or social psychology.

► Rational choice theory and cost-benefit analysis are being used to study human relationships, which is, in fact, the perspective called the social exchange theory. The validity of the results again depends on whether the context actually matches with the premises of the theory.

#### **Virtual worlds and virtual economies and Artificial economies**

► Virtual worlds and virtual economies: Artificial economies running inside computer systems are not a new idea to economists. Agent-based computational simulations have been used for some time as a research method by economists in various fields (Tsfatsion, 2003).

► Virtual worlds and virtual economies can be used to study complex dynamic problems when analytical solutions cannot be readily obtained.

► It has been shown that the validity of the results is limited by the accuracy of the model.

► It is a fact that modeling human behavior is one of the harder challenges.

► Virtual economy, represented by its very complex computer games, especially massively multiplayer online games,

contains narrative and mechanisms that mimic real economic activities, such as production, trade, and consumption, which has made some specialists to apply the concepts and techniques from economics to study the complicated interactions inside games worlds.

► A virtual economy (also known as the synthetic economy) is an emergent economy existing in a virtual persistent world, usually exchanging virtual goods in the context of an Internet game. People enter these virtual economies for recreation and entertainment rather than necessity, which means that virtual economies lack the aspects of a real economy that are not considered to be "fun".

#### **Real economy**

► Real economy is the part of the economy that is concerned with actually producing goods and services, as opposed to the part of the economy that is concerned with buying and selling on the financial markets.

► To study the economy of a country or region, one must begin by looking at all of the activities that are involved in the production, distribution and consumption of goods and services. The economy is constantly being studied and it is used to make future predictions, set interest rates, and plays a role in setting prices for goods and services.

► There are many methods, theories and models that are used to study and interpret the economy. One such method is the real economy which is used to specifically account for the factor of inflation or deflation into the economy.

Virtual economies ([http://en.wikipedia.org/wiki/Virtual\\_economy](http://en.wikipedia.org/wiki/Virtual_economy)) are observed in MUDs and massively multi player online role-playing games (MMORPGs).

Nowadays, the largest virtual economies are currently found in MMORPGs. Virtual economies also exist in life simulation games which may have taken the most radical steps toward linking a virtual economy with the real world. Virtual property is a label that can refer to any resource that is controlled by the powers-that-be, including virtual objects, avatars, or user accounts.

## 2. Real Economy versus Virtual Economy

In the rows below we have presented a short description of how specialists see both the real economy and the virtual economy.

### Virtual economy – a short presentation McClure & Mears, 1986

► Early research was centered around the suspicions concerning negative effects of video games on players.

#### Bradley and Froomkin, (2004)

► Examine the possibility of using virtual worlds as a test bed for legal rules.

#### Ravaja et al., 2005

► Show that the scope of virtual economy is obviously much wider, starting from emotional responses to game events. Today the scope is obviously much wider, from emotional responses to game events.

#### Kolo & Baur, 2004

► Have shown a great interest to the social dynamics of massively multiplayer games in virtual economy.

► Referring to the unprecedented technological requirements of the virtual economy and its strong social significance.

#### Castronova, 2002

► Has wrote in his studies that, at the begging, economists completely absent from

the area of virtual economy showing emotional responses to game events or to the interest to the social dynamics of massively multiplayer games in virtual economy.

► Edward Castronova was perhaps the first economist to become interested in virtual worlds, and no doubt remains the most important. His first paper on the subject, *Virtual Worlds: A First-Hand Account of Market and Society on the Cyberian Frontier* (2001), examines *Norrath*, the world of the popular MMORPG *EverQuest* (Verant, 1999). The paper became quite famous in the popular media as it treated *Norrath* much like a real country, producing provocative results such as claiming that *Norrath's* gross national product per capita was between that of Russia and Bulgaria. Castronova's second paper, *On Virtual Economies* (2002), elaborates some of the observations made in (2001), but is largely centered around developing a formal model that explains how people allocate time between virtual worlds and the real world.

► In the two seminal papers, Castronova made various observations regarding which basic assumptions of elementary economics hold in the virtual environment, and which do not.

► The observation that in his view legitimizes the whole study is that consumers perceive virtual assets as possessing real value. From the perspective of mainstream economics, their value is equally "real" as that of any tangible earthly object. This casts aside any doubts concerning their worthiness as a subject of study. Castronova summarizes the subjective theory of value as follows: "the value of objects does not depend on their characteristics or their components, but rather on their contribution to the well-being of the people who use them." (Castronova 2002).

►Castronova notes that time spent in a virtual world is a substitute to activities in the real world, prompting him to call those who spend a significant portion of their time in a virtual world “immigrants” (2002).

►He also observes the familiar real-world concepts of labor specialization and comparative advantage (2001), as well as a foreign exchange market, which enables him to put a real dollar value on Norrath’s assets.

#### **Shankar & Bayus, 2003**

►Economists were originally completely absent from the areas mentioned above, contributing on game business but not on games or gamiwnng per se. media studies, literary criticism, anthropology and computer science.

#### **McClure & Mears, 1986**

►Have stated that early research was centered around the suspicions concerning negative effects of video games on players.

#### **Esbensen, 2005**

►The rise of massively multiplayer games represents a revolution in the game industry. This claim can be justified by referring to their unprecedented technological requirements.

#### **MacInnes, 2005**

►Talks about the new revenue models associated with the unprecedented technological requirements of the virtual economy and its strong social significance. Massively multiplayer games have also taken the complexity of games to a new level, prompting the use of the term virtual world.

#### **Justin Nash and Evan Schneyer, 2004**

►Examine a specific virtual world in their unpublished manuscript *Virtual Economies: An In-Depth Look at the Virtual World of Final Fantasy XI: Online* (2004).

#### **Simpson, 1999**

►Describes the Ultima Online economy in more casual terms from a developer’s perspective.

#### **Hiroshi Yamaguchi, 2004**

►Focuses on virtual currencies.

Computer games often involve activities that bear a resemblance to what in the real world economists would call production, trade, consumption or labor:

a) In simple games:

- The characteristics of the virtual economy can be derived directly from the game mechanics.
- This kind of analysis does not bring any added value on top of what is already known about the game mechanics.

b) In more complex games:

- Massively multiplayer games in particular, the virtual economy can be more difficult to understand by referring to game mechanics alone.
- There are multiple reasons why such understanding is nevertheless needed.
- The game designer’s perspective provides the most obvious reason: to be able to design, the designer needs to have some understanding of the relationship between the choices she makes and the play that takes place.

The emergence of real-money trade of game items and other virtual assets alerted businesses to the fact that revenues can actually be made by selling assets that exist in a virtual economy.

Consumer researchers should be interested in identifying the institutions and

mechanisms that result in players perceiving “nonexistent” items as being worth significant sums of money.

On one hand, virtual economy products bring to hundreds of companies hundreds or even thousands of dollars. Some of these companies sell multiple virtual goods for a single game and others sell multiple virtual services based upon various games. Although virtual markets may represent a growth area, it is unclear to what extent they can scale to supporting large numbers of businesses, due to the inherent substitutability of goods on these markets plus the lack of factors such as location to dispense demand. In these virtual economies, the value of in-game resources is frequently tied to the in-game power they confer upon the owner. This power allows the user, usually, to acquire more rare and valuable items. In this regard, in-game resources are not just tradable objects but can play the role of capital. Players also acquire human capital as they become more powerful. Powerful guilds often recruit powerful players so that player can acquire better items which can only be acquired by the cooperation among many players. Virtual economies have also been said to exist in the “meta-game” worlds of live-action role-playing games and collectible card games.

However, the virtual economy is much wider than as mere online game economies, although online game economies are big part of it. Other sectors of the virtual economy are markets for such things as Facebook, Twitter followers, and digital micro tasks. All of these are valuable digital assets that have emerged as the so-called “digital economy” of online services has grown. The development potential refers to the potential to provide

income opportunities to poor and undereducated people in developing countries, and to support the development of local ICT infrastructure. Specials have stated that the total revenues of the on-line game industry are estimated at 3.0 billion USD (<http://www.forbes.com/2010/01/04/virtual-economy-gaming-technology-breakthroughs-levchin.html>).

There is also another sector of the virtual economy that represents an unequivocally positive contribution to society: the market for micro work, or small tasks such as tagging an image or transcribing a snippet of hand-written text. E-commerce sites and other companies need such work. With suitable technology, this demand translates to income opportunities for digitally connected individuals in developing countries. In the report, we examine the value chain of this industry and assess its development potential. One important point to make is that micro work is distinct from the related concept of crowd sourcing. Crowd sourcing refers to the outsourcing of all kinds of tasks to a crowd via an open call. Micro work refers to tiny, digitally distributed tasks, whether these are sourced via an open call or, as is also common, through closed networks (<http://www.forbes.com/2010/01/04/virtual-economy-gaming-technology-breakthroughs-levchin.html>).

On the other hand, when studying the real economy of a country, a better view of real goods and services are seen at a constant dollar value without the interference of inflation (<http://lexicon.ft.com/Term?term=real-economy>). Inflation is the rise or decrease, or deflation, of goods and services during a certain time frame. This rise in the cost of goods and services is measured by two common methods, including the Consumer Price Index and The Producers Price Index.

By making economic calculations based on the real economy, business owners are better able to determine the real value of their goods and services. This view gives business owners a better understanding of the change in their goods and/or services over several years, which can look skewed when inflation is factored in.

Real values allow economists to compare goods and services at many different points in time and the value of the dollar will not play a part in the calculation. A real value must always be used as a comparison between two or more points of time, because a single real value does not provide any information. However, when an economist or business manager wants to know the reality of how well their product or service has progressed between different points of time; the real economy is the best way to make this analysis. They will be better able to calculate their real income.

The real economy is used to evaluate the real economic growth rate for a country or region. The real economic growth rate is a percentage that is determined to measure how the economy has grown or reduced from one period to the next. Many economists look toward this growth rate to see a true analysis that is not distorted by the inflation or deflation changes that constantly occur through time. This helps determine how much the nation's gross domestic product changes from year to year and helps make better predictions about the country's economic future.

## Conclusions

Virtual economy products bring to hundreds of companies hundreds or even thousands of dollars. Some of these companies sell multiple virtual goods for a single

game and others sell multiple virtual services based upon various games. However, the virtual economy is much wider than as mere online game economies, although online game economies are big part of it. Other sectors of the virtual economy are markets for such things as Facebook, Twitter followers, and digital micro tasks. All of these are valuable digital assets that have emerged as the so-called "digital economy" of online services has grown. The development potential refers to the potential to provide income opportunities to poor and undereducated people in developing countries, and to support the development of local ICT infrastructure. Specials have stated that the total revenues of the on-line game industry are estimated at 3.0 billion USD. There is also another sector of the virtual economy that represents an unequivocally positive contribution to society: the market for micro work, or small tasks such as tagging an image or transcribing a snippet of hand-written text. E-commerce sites and other companies need such work.

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# The management of change or the change management – Controversies for nowadays society

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**Abstract:** The management of change or the change management has brought a lot of controversies in nowadays society. That is the reason why we have decided to study this particular matter in our paper.

Our research starts with the definition and main implications of change to the society in general. Then, the paper presents both the Management of Change and the Change Management with their definitions, characteristics, implications. We have also presented the most common misconceptions of the Management of Change and we have brought several arguments to prove why the change management is needed in an organization.

**Key words:** Management of Change, Change Management, organization, competitiveness, society, management

## Introduction

Each day people are confronted with the need or opportunity to change, which they can even consider a very emotional experience. That is the reason why we have decided to present in our paper the importance of change even if certain types of people

often find change very unsettling. Of course, people there are also people who welcome change and also certain industries and disciplines which have a high concentration of staff that need a strong reliability/dependability personality profile.

In this particular matter, business development potentially includes everything



involved with the quality of the business or the organization which also implicates a strong need to change and to adapt properly to changes.

### 1. The meaning of change and the relation with the Management of Change or the Change Management

Specialists believe that the most difficult part of management of change is recognizing change. In this particular matter, the most important starting point is clearly defining the notion of "change" for an organization that someone wishes to manage.

That is the reason why the simplest way to present change in an organization is to have a clear image of what change falls

under the MOC process and what sort of changes do not.

There are many definitions of change from many different sources. It is the responsibility of the site leadership to define change in terms consistent with the business interests and any regulatory precedents.

Since every business has different areas of risk exposure and different tolerance of undesired consequences, it is up to each business to assess risk and define its tolerance for uncontrolled change.

In the table bellow we have presented a range of changes a business may wish to manage (the list does not present all the aspects possible that change might implicate for a business) (*see, in this matter, Table no. 1: Changes a business may wish to manage*):

Table no. 1: Changes a business may wish to manage

1. Addition of new process equipment or critical business system (including software)
2. "Not in kind" replacement of process equipment or parts
3. Modifications or minor additions to process equipment
4. Modifications or minor additions to critical business system (procedural or software)
5. Modifications or minor additions to infrastructure/non-process equipment
6. Changes to process control and/or instrumentation (includes control strategies)
7. Changes in specifications or sourcing of technical MRO
8. Changes in critical process parameter operating limits (outside of ranges specified in standard operating procedures [SOPs])
9. Alterations to safety systems (interlocks, shutdowns, fire or explosion suppression, etc.)
10. Revisions to standard operating procedures (including emergency procedures)
11. Changes in site-level organizational structure
12. Changes to maintenance procedures
13. Changes in raw material/component specifications or sourcing
14. Alterations or new connections to utilities systems (air, electrical, gas, water, steam, etc.)
15. Alterations or new connections to critical data networks
16. Changes to QA procedures or critical test equipment

Of course, in day to day situations, there exist also 'temporary' changes. That is the reason why the concept to apply when implementing MOC refers also to 'temporary' changes. Due to this fact, experience shows that there are really

only permanent changes that are intended to be temporary until they have been restored to original conditions (see, in this matter, Table no. 2: Temporary changes a business may wish to manage – main characteristics).

*Table no. 2: Temporary changes a business may wish to manage - main characteristics*

<i>Of all of the uncontrolled changes that occur, "temporary" changes are the most pernicious and the most frequent cause of accidents and incidents.</i>
<i>"Temporary" changes of a controlled system never should be exempted from the MOC process.</i>
<i>Temporary changes could be made to perform routine business.</i>
<i>The right way to deal with temporary changes is to treat the situation as a permanent change, incorporating it into approved procedures with appropriate safeguards.</i>
<i>If something is intended as a non-routine temporary change, treat it as a change.</i>
<i>MOC procedure should ensure that equipment and procedures are returned to their original conditions at the end of a temporary change.</i>
<i>History and prudence would suggest that "temporary" changes should be managed as "permanent" with special attention to the MOC procedure because they present the highest risk to the business.</i>

## **2. The Management of Change or the Change Management – definitions, characteristics, implications**

The most important aspects that should be done when dealing with The Management of Change or the Change Management is

to have a clear image of what this notions mean and what they implicate in any type of organization (see, in this matter, Table no. 3: Definitions and characteristics of the Management of Change (MOC) and of the Change Management and their implications in an organization):

*Table no. 3: Definitions and characteristics of the Management of Change (MOC) and of the Change Management and their implications in an organization*

<b>Definitions and characteristics of the Management of Change (MOC):</b>	<b>Definitions and characteristics of the Change Management:</b>
<i>OSHA 1910.119 (1) (1) sets the requirements for MOC as: „The employer shall establish and implement written procedures to manage changes (except for „replacements in kind“) to process chemicals, technology, equipment and procedures; and, changes to facilities that affect a covered process.“</i>	<i>Change management is a structured approach to shifting/transitioning individuals, teams, and organizations from a current state to a desired future state. It is an organizational process aimed at empowering employees to accept and embrace changes in their current business environment (<a href="http://en.wikipedia.org/wiki/Change_management">http://en.wikipedia.org/wiki/Change_management</a>).</i>

<p><i>MOC is a process for preventing or mitigating business losses - including degradation of safety, health or environment - as the result of changes made to how you construct, operate, manage, or repair your facility or your processes. MOC makes sense for safety and it makes financial sense.</i></p>	<p><i>In project management, change management refers to a project management process where changes to a project are formally introduced and approved (<a href="http://en.wikipedia.org/wiki/Change_management">http://en.wikipedia.org/wiki/Change_management</a>).</i></p>
<p><i>It is generally known that every business, regardless of legal requirements, needs to control potential losses. That is the reason why MOC, appropriately applied, is an excellent, cost - effective loss prevention process for almost any business.</i></p>	<p><i>As a multidisciplinary practice that has evolved as a result of scholarly research, Organizational Change Management should begin with a systematic diagnosis of the current situation in order to determine both the need for change and the capability to change. The objectives, content, and process of change should all be specified as part of a Change Management plan.</i></p>
<p><i>MOC addresses only changes to things presently existing. That is why design of new processes or facilities is another issue entirely.</i></p>	<p><i>Change Management processes may include creative marketing to enable communication between change audiences, but also deep social understanding about leadership's styles and group dynamics. As a visible track on transformation projects, Organizational Change Management aligns groups' expectations, communicates, integrates teams and manages people training. It makes use of performance metrics, such as financial results, operational efficiency, leadership commitment, communication effectiveness, and the perceived need for change to design appropriate strategies, in order to avoid change failures or solve troubled change projects.</i></p>
<p><b>The Management of Change (MOC) implicates in an organization:</b></p>	<p><b>The Change Management implicates in an organization:</b></p>
<p>➤ <i>Helping organizations become exciting places to work, where people work collaboratively, feel valued, and committed to organizational success.</i></p>	<p>➤ <i>Benefits management and realization to define measurable stakeholder aims, create a business case for their achievement, and monitor assumptions, risks, dependencies, costs, and return on investment, benefits and cultural issues affecting the progress of the associated work.</i></p>
<p>➤ <i>Developing teams which are energetic, fun to be part of, and where everyone consistently achieves standards of excellence.</i></p>	<p>➤ <i>Effective Communications that informs various stakeholders of the reasons for the change (why?), the benefits of successful implementation (what is in it for us, and you) as well as the details of the change (when? where? who is involved? how much will it cost? etc.).</i></p>

The Management of Change (MOC) implicates in an organization:	The Change Management implicates in an organization:
► Helping managers become transformational leaders, skilled at developing, motivating and empowering their people.	► Devise an effective education, training and/or skills upgrading scheme for the organization.
► Helping managers become transformational leaders, skilled at developing, motivating and empowering their people.	► Devise an effective education, training and/or skills upgrading scheme for the organization.
► Designing and running learning events which are participative, experiential and engaging, and which lead to genuine, long term, change back at work.	► Counter resistance from the employees of companies and align them to overall strategic direction of the organization.
► Helping people at all levels to grow, develop their self esteem, become more confident, and increase their self awareness.	► Provide personal counseling (if required) to alleviate any change related fears.
► Helping anyone who is responsible for managing change and influencing others.	► Monitoring of the implementation and fine-tuning as required.
► Ensuring that everyone concerned is committed to ensuring that the change is implemented successfully.	► Change management is a systematic approach to dealing with change, both from the perspective of an organization and on the individual level. A somewhat ambiguous term, change management has at least three different aspects, including: adapting to change, controlling change, and effecting change. A proactive approach to dealing with change is at the core of all three aspects. For an organization, change management means defining and implementing procedures and/or technologies to deal with changes in the business environment and to profit from changing opportunities.

In regard to the management of change, there exist many possible common misconceptions, and we are going to present some of

them in the table bellow (see, in this matter, Table no. 4: Eight common misconceptions of the Management of Change (MOC)):

Table no. 4: Eight common misconceptions of the Management of Change (MOC)

1. First impression: <b>Not making a real modification, just trying to make something a little better.</b> – False impression: it means making a change	► If someone not leaving the part/equipment/business system exactly the way that it was prior to starting the work, then that person has made a change.
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	<p>➤ Whether or not the change is one that falls under the scope of the MOC process is determined by the criteria set in the procedures.</p> <p>➤ The default approach to take is to assume that any change in configuration, form, fit, function, materials or procedure is covered under MOC until an examination of the criteria in the procedure proves otherwise.</p> <p>➤ Also uncontrolled „temporary changes“, well-intentioned minor improvements rank as the next largest cause of incidents that fall under the failure-of-MOC category.</p>
<p>2. First impression: <b>A person or an organization is so far behind that it cannot start doing MOC, due to the fact that it will never catch up with all of those unrevised drawings.</b> – False impression: it means making a change</p>	<p>➤ Document control is a process that complements a well-designed MOC process, and is often the first thing people think of when mentioning MOC.</p> <p>➤ The need to update documents is certainly a frequent outcome of an MOC and necessary for the long-term integrity of your processes and facilities, but it is not MOC. It is merely a frequent outcome.</p> <p>➤ If the situation is dire, someone may be forced to prioritize the corrective actions - if any are based on the criticality of the systems. A method to correct vital information when it is discovered can and should be easily incorporated into the work control procedures.</p> <p>➤ The one thing that any organization can do is to start implementing MOC right now.</p>
<p>3. First impression: <b>Not having time to wait for the MOC evaluation, due to the fact that the action that must be done now represents an emergency.</b> – False impression: it means making a change</p>	<p>➤ During an emergency is precisely when the self discipline imposed by a well - established MOC process is most necessary.</p> <p>➤ Minor changes often take much more time than expected.</p> <p>➤ The questions that should be asked are: Is the risk to the business associated with a „temporary“ change worth the savings in time? And can someone really control the risk to an acceptable level by „special operating procedures“?</p> <p>➤ Accident reports show that hasty decisions, made under pressure, without a balanced evaluation, have been at the root of many serious problems.</p>

	<ul style="list-style-type: none"> <li>➤ <i>The first step is focusing on correcting the deficiencies in the MRO processes to ensure that it always have the right parts.</i></li> <li>➤ <i>The organization should be stabilizing the process with standard work procedures and materials supplier qualification programs.</i></li> </ul>
<p>4. First impression: <b>Routing this form for approval takes so long we can never get anything done.</b> – False impression: it means making a change</p>	<ul style="list-style-type: none"> <li>➤ <i>An effective MOC process requires an appropriate level of approval and communication.</i></li> <li>➤ <i>Poorly designed MOC approval procedures confuse the need to be informed of a change after it happens with the need to approve a change before it happens.</i></li> <li>➤ <i>The levels of approval required need to be both appropriate to the change and the potential risk associated with it.</i></li> <li>➤ <i>They also need to be flexible enough so that they can be tailored to the situation at hand.</i></li> <li>➤ <i>The purpose is to minimize the number of approvers, and make them the right ones.</i></li> </ul>
<p>5. First impression: <b>The area manager already has to approve funds for changes.</b> – False impression: it means making a change</p>	<ul style="list-style-type: none"> <li>➤ <i>Do not confuse the authority to make a decision with possession of the knowledge necessary to make that decision.</i></li> <li>➤ <i>Not all changes, and often the most critical ones, even pass through funding approval.</i></li> <li>➤ <i>In an effective MOC process, it is the manager's responsibility to ensure that the appropriate designated resources are involved in a well-balanced evaluation of the proposed change.</i></li> <li>➤ <i>Approval authority is secondary to competence to evaluate and a well-balanced team will give more consistently good results than depending upon one smart individual.</i></li> </ul>
<p>6. First impression: <b>The type of organizations we are referring at are in fact a warehouse/light manufacturing/ data center/repair facility, which means that there is nothing that could be dangerous.</b> – False impression: it means making a change</p>	<ul style="list-style-type: none"> <li>➤ <i>MOC is a process for preventing or mitigating all potential self-inflicted business losses associated with a change.</i></li> <li>➤ <i>There are other losses besides just process safety.</i></li> </ul>



	<ul style="list-style-type: none"> <li>➤ <i>It is a loss if an uncontrolled process change causes the organization to lose a valued customer because of contaminated or faulty product.</i></li> <li>➤ <i>Even though the potential for changes to create dangerous situations in the environment are small, we all have something to lose when our facility or processes fail in their primary missions.</i></li> </ul>
7. First impression: <b>MOC does not catch every possible problem, so there is no reason in doing it.</b> – False impression: it means making a change	<ul style="list-style-type: none"> <li>➤ <i>Risk management is all about change.</i></li> <li>➤ <i>A valuable additional benefit of MOC in complex systems is when assuming the risk.</i></li> </ul>
8. First impression: <b>This is just a software/procedure change, which means it is not like the organization is changing something. That is the reason why the organization does not need to approve or document.</b> – False impression: it means making a change	<ul style="list-style-type: none"> <li>➤ <i>Some extremely serious incidents and severe losses have occurred in a number of industries because of software or procedure changes that were not subject to MOC.</i></li> <li>➤ <i>Furthermore, just because a document or code has been altered and reflects the change does not mean that the change is documented.</i></li> <li>➤ <i>If the potential risk exists and justifies it, then treat changing a line of code no differently than rewiring a safety shut-down system; it should receive the same level of scrutiny and control.</i></li> </ul>
<p><b>Conclusion:</b> A well-designed MOC process is an essential loss prevention tool for any business, because:</p> <ul style="list-style-type: none"> <li>➤ <i>The process applies to any company that wishes to avoid future losses resulting from today's changes.</i></li> <li>➤ <i>MOC does not have to be so difficult to use that it inhibits change.</i></li> <li>➤ <i>It cannot effortlessly compensate for past omissions, only reduce your future risk.</i></li> <li>➤ <i>The Management of Change is an important aspect of safety management: whenever a change is introduced to an existing system, such as a new operational requirement or a revised maintenance process or procedure, and it is determined that the change may lead to a risk, the risk must be identified and then the change must be carefully managed in co-operation with the affected stakeholders.</i></li> <li>➤ <i>The Management of Change is systematically considered: a methodical approach to change management ensures that the impact of the change is assessed, actively managed and controlled before implementation.</i></li> <li>➤ <i>Sharing best practices and key lessons is critical component of the Management of Change process</i></li> </ul>	

The change management has several characteristics and a very complex structure, as presented in the table bellow (see, in this matter,

Table no. 5: Characteristics of the change management):

*Table no. 4: Eight common misconceptions of the Management of Change (MOC)*

Main characteristic:	Arguments:
1) Successful adaptation to change is as crucial within an organization as it is in the natural world.	<ul style="list-style-type: none"> <li>➤ <i>Organizations and the individuals in them inevitably encounter changing conditions that they are powerless to control.</i></li> <li>➤ <i>Adaptation might involve establishing a structured methodology for responding to changes in the business environment or establishing coping mechanisms for responding to changes in the workplace.</i></li> </ul>
2) In a computer system environment, change management refers to a systematic approach to keeping track of the details of the system.	<ul style="list-style-type: none"> <li>➤ <i>Change management entails thoughtful planning and sensitive implementation, and above all, consultation with, and involvement of, the people affected by the changes.</i></li> <li>➤ <i>Forcing change on people makes problems arise.</i></li> <li>➤ <i>Change must be realistic, achievable and measurable.</i></li> <li>➤ <i>These aspects are especially relevant to managing personal change.</i></li> <li>➤ <i>Before starting organizational change, an organization has to have an answer to the following questions:</i> <ul style="list-style-type: none"> <li>• <i>What do we want to achieve with this change, why, and how will we know that the change has been achieved?</i></li> <li>• <i>Who is affected by this change, and how will they react to it?</i></li> <li>• <i>How much of this change can we achieve ourselves, and what parts of the change do we need help with?</i></li> </ul> </li> </ul>
3) Do not 'sell' change to people as a way of accelerating 'agreement' and implementation.	<ul style="list-style-type: none"> <li>➤ <i>'Selling' change to people is not a sustainable strategy for success.</i></li> <li>➤ <i>Change needs to be understood and managed in a way that people can cope effectively with it. Change can be unsettling, so the manager logically needs to be a settling influence.</i></li> </ul>



4) Show responsibility for managing change.

➤ *The employee does not have a responsibility to manage change - the employee's responsibility is no other than to do their best, which is different for every person and depends on a wide variety of factors (health, maturity, stability, experience, personality, motivation, etc).*

➤ *Responsibility for managing change is with management and executives of the organization - they must manage the change in a way that employees can cope with it.*

➤ *The manager has a responsibility to facilitate and enable change, and all that is implied within that statement, especially to understand the situation from an objective standpoint, and then to help people understand reasons, aims, and ways of responding positively according to employees' own situations and capabilities.*

➤ *Increasingly the manager's role is to interpret, communicate and enable - not to instruct and impose, which nobody really responds to well.*

### Conclusion:

1. Change must involve the people, but it must not be imposed upon the people.
2. Change such as new structures, policies, targets, acquisitions, disposals, re-locations, etc., all create new systems and environments, which need to be explained to people as early as possible, so that people's involvement in validating and refining the changes themselves can be obtained.
3. Whenever an organization imposes new things on people there will be difficulties.
4. Management training, empathy and facilitative capability are priority areas - managers are crucial to the change process - they must enable and facilitate, not merely convey and implement policy from above, which does not work.
5. You cannot impose change - Employees need to be able to trust the organization.
6. Change management principles say that:
  - At all times involve and agree support from people within system.
  - Understand where the organization is at the moment.
  - Understand where the organization wants to be, when, why, and what the measures will be for having got there.
  - Plan development towards achievable measurable stages.
  - Communicate, involve, enable and facilitate involvement from people, as early and openly and as fully as is possible.

Of course, when talking about the change management, one must not forget John P Kotter's (American John P Kotter (b 1947) is a Harvard Business School professor and leading thinker and author on organizational change management. Kotter's highly regarded books 'Leading Change' (1995) and the follow-up 'The Heart Of Change' (2002) describe a helpful model for understanding and managing change. Each stage acknowledges a key principle identified by Kotter relating to people's response and approach to change, in which people see, feel and then change.) 'Eight steps to successful change' which we have summarized below ([www.kotterinternational.com](http://www.kotterinternational.com)):

a) Increase urgency - inspire people to move, make objectives real and relevant.

b) Build the guiding team - get the right people in place with the right emotional commitment, and the right mix of skills and levels.

c) Get the vision right - get the team to establish a simple vision and strategy, focus on emotional and creative aspects necessary to drive service and efficiency.

d) Communicate for buy-in - Involve as many people as possible, communicate the essentials, simply, and to appeal and respond to people's needs. De-clutter communications - make technology work for you rather than against.

e) Empower action - Remove obstacles, enable constructive feedback and lots of support from leaders - reward and recognize progress and achievements.

f) Create short-term wins - Set aims that are easy to achieve - in bite-size chunks. Manageable numbers of initiatives. Finish current stages before starting new ones.

g) Don't let up - Foster and encourage

determination and persistence - ongoing change - encourage ongoing progress reporting - highlight achieved and future milestones.

h) Make change stick - Reinforce the value of successful change via recruitment, promotion, and new change leaders. Weave change into culture.

## Conclusions

It is generally known that, when people are confronted with the need or opportunity to change, especially when it's 'enforced', they can become emotional. That is the reason why strong resistance to change is often rooted in deeply conditioned or historically reinforced feelings. Also, certain types of people often find change very unsettling. Of course, people who welcome change are not generally the best at being able to work reliably, dependably and follow processes. Certain industries and disciplines have a high concentration of staff who need a strong reliability/dependability personality profile, for example, health services and nursing, administration, public sector and government departments, utilities and services; these sectors will tend to have many staff with character profiles who find change difficult.

Business development potentially includes everything involved with the quality of the business or the organization. Business development planning first requires establishing the business development aims, and then formulating a business development strategy, which would comprise some or all of the following methods of development: sales development, new product development, new market development, business organization, shape, structure and processes

development, tools, equipment, plant, logistics and supply-chain development, people, management and communications

development, strategic partnerships and distribution routes development, international development, acquisitions and disposals.

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# Meanings and significance of “public accountability” From economy and management to public policies

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**Abstract:** The concept of “public accountability” is a challenge for political science as a new concept in this area in full debate and development, both in theory and practice. This paper is a theoretical approach of displaying some definitions, relevant meanings and significance of the concept in political science. The importance of this concept is that although originally it was used as a tool to improve effectiveness and efficiency of public governance, it has gradually become a purpose in itself. “Accountability” has become an image of good governance first in the United States of America then in the European Union. Nevertheless, the concept is vaguely defined and provides ambiguous images of good governance. This paper begins with the presentation of some general meanings of the concept as they emerge from specialized dictionaries and encyclopaedias and continues with the meanings developed in political science. The concept of “public accountability” is rooted in economics and management literature, becoming increasingly relevant in today’s political science both in theory and discourse as well as in practice in formulating and evaluating public policies. A first conclusion that emerges from the analysis of the evolution of this term is that it requires a conceptual clarification in political science. A clear definition will then enable an appropriate model of improving the system of public accountability in formulating and assessing public policies, in order to implement a system of assessment and monitoring thereof.

**Keywords:** public accountability, economy, management, political science, public policy \ JEL Classification: H83 - Public Administration; Public Sector Accounting and Audits

## Introduction

Rooted in economics and management literature, the concept of “public

accountability” becomes ever more relevant in political science both in theory and discourse, as well as practice in developing, implementing and assessing public policies.

This paper is a theoretical approach of the evolution of the concept in economics and management in public policies area and seeks to clarify the concept in political science and public policies and to identify practices of this concept.

The attempt to clarify the concept of accountability in the public system and to identify its practices associated thereto as well as the impact on all actors involved has as context the assessment of the efficiency and effectiveness of public programs and policies. One of the questions this paper seeks to answer is "Who takes public responsibility for the results of the implemented public policies and programs?" I am referring here to accountability as a result, a consequence of the assessment and auditing of a public policy.

This paper begins with some definitions, meanings and significance of "public accountability" as shown in specialized dictionaries and encyclopaedias. Further on I shall present the origins of the term and the way it grew apart from its meanings in economics and management to a concept which embodies the principles of fair governance. Among the debates in political science literature, the most relevant and recent theories concerning this concept in evolution were developed by Mark Bovens (2007) – he describes a theoretical frame, Jens Steffek (2010) – gives a response to the question "What is "public" in "public accountability"?", Richard Mulgan (2000) – provides an image on the expansion of the concept and Teresa Kulawik (2009) – describes a range of mechanisms for implementation and public accountability assessment practices. Currently, the concept of "public accountability" is defined as specific to a democratic state and useful in the preparation and assessment of effective public policies.

### **Definitions, meanings and significance of „public accountability“**

"Public accountability" is a recently used concept in political science, but under continuous development which has gained a central role in the international and European area both in public discourse and the preparation and assessment of public policies. In this moment the meanings of the concept are controversial and unclear as it lacks precise definitions, regulating principles, enforcement mechanisms and assessment tools/criteria to measure the concept. Moreover, there is no considerable literature around the concept of "public accountability" focused on the analysis of the concept which is often used by its synonyms. The overall purpose of this paper is to define the term in political science in order to further on establish the methodological framework needed to analyze the concept of "public accountability" in preparing and assessing public policies.

In the specialized dictionaries and encyclopaedias<sup>2</sup> "accountability" is regarded as a person's obligation to do something, to respond in the sense of accounting for something, that is to bear the consequences for the effects/results of his/her activities or actions. To be responsible means to undertake a responsibility position, a conscious and cons-

<sup>2</sup>I've studied the definitions and the meaning of "accountability" in Bealey, Frank W., 1999: "The Blackwell Dictionary of Political Science: A User's Guide to Its Terms", Blackwell publishers; Robertson, David (2002): "A dictionary of modern politics: third edition", Europa Publications, United Kingdom; Webster, Merriam (2004): "The Merriam-Webster English Dictionary", Bedworth, David, Bedworth, Albert E (2009): „Dictionary of Health Education“, Oxford University Press, USA

cientious attitude towards one's duty and a sense of liability towards social and/professional duties.

Accountability may also be a situation where a person/authority/institution is empowered to make decisions and may be blamed/challenged if his/her activity does not meet the expectations of those affected by his/her responsibility.

Merriam-Webster (2004) defines "accountability" as "an obligation or willingness to accept responsibility or to account for one's actions." In accordance thereto "accountability" involves a series of requirements from officials, their government agents or public service organizations, including colleges and universities, namely:

- 1) They must make proof of having used their own powers.
- 2) They must make proof of working to achieve their mission or the priorities of the institutions or organizations.
- 3) They must make proof of their performance "power is opaque, accountability is public" (Schedler, 1999).
- 4) They must produce efficiency and effectiveness: "for the resources they use and the outcomes they produce" (Shavelson, 2000).
- 5) They must assure the quality of the programs and services provided.
- 6) They must prove that they serve public needs.

The beneficiaries of public services are the public in general and students, business people, governments, non-governmental organizations in particular.

In "The Blackwell Dictionary of Political Science: A User's Guide to Its Terms" "accountability" is defined as the synonym of

"responsibility" and explains how a government or an elected person is responsible in two ways. "First of all, to be responsible means to be on a managing position and thus to be called for answers to questions about one's activity and the latter one about his/her subordinates' activity. Secondly, it is an objectionable concept. A government is liable when it may be voted both by the voters and the members of the legislature. In practice, both are nearly identical meanings. If ministers fail to fulfil their business properly, they may receive a negative vote. An unpopular government may be defeated in elections. Liability is usually seen as a necessary ingredient in a democracy. In the modern world it may be difficult to ensure its effectiveness. The lack of information makes it difficult to discover who it is to blame"<sup>3</sup>.

"A dictionary of modern politics: third Edition", Robertson, David (2002) defines "accountability" as a concept with two major and overlapping meanings. "First, the standard meaning, ordinary in democracies, is that those who exercise power such as governments, elected representatives or appointed officials must be able to demonstrate that they have exercised their power and fulfilled their obligations properly. Secondly, accountability may refer to the arrangements made to ensure the consistency between the values of persons who delegate and the person or persons to whom power and responsibility were delegated to. With the growing interest in human rights and democracy worldwide and especially in the new Eastern European democracies, the voters seek "accountability more than ever. This term is often associated

<sup>3</sup> Bealey, Frank W., 1999: "The Blackwell Dictionary of Political Science: A User's Guide to Its Terms", Blackwell publishers



with the transparency of governance and the ability of knowing exactly what the elected officials do."

The concept of "accountability" is often used in literature interchanged with terms such as responsibility", „responsiveness", „accountable", „transparency", „answerability", sometimes not clearly stated or without any distinction between these terms. There is confusion at conceptual level in Romania as well where no distinction is made between "accountability" and "responsibility" or between accountability and responsibility.

### **„Public accountability" – from economy and management to public policies**

In terms of origin, the concept of "accountability" is Anglo-Norman. Historically and semantically, the term is very close to that of "accounting". Dubnick (2002) states that the roots of the contemporary concept may be traced back to the reign of William I, when Normandy was conquered by England. In 1085 William requested all the proprietors in his land to count everything they had. These properties were assessed and added to a list of royal agents in the so-called royal Domesdaz Book. This census was not conducted only for taxation purposes but it was used to lay down the foundations of royal government. Domesdaz Book was the king's realm.

In contemporary political discourse, "accountability" and "accountable" no longer mean a clogged picture of accountings and financial administration but they hold strong promises of fair governance. Furthermore, the relationship of liability was reversed. "Accountability" means that the authorities themselves have now become accountable to their citizens. Since the late twentieth century, the Anglo-Saxon world in particular has

witnessed a transformation of the traditional accountings function in public administration into a broader form of public accountability. The broader change from financial accountings to "public accountability" occurred in parallel with the introduction of the new public management by the Thatcher government in Great Britain and with the reinvention reforms of the governance initiated by Clinton-Gore administration in the United States of America. Therefore the emancipation of the concept of accountability from its origins in the accounting lies in the Anglo-Saxon phenomenon - because other languages such as French, Portuguese, Spanish, German and Japanese have no exact equivalent and do not distinguish semantically between "responsibility" and "accountability"<sup>4</sup>.

However, what started as a tool to improve effectiveness and efficiency of public governance has increasingly become a purpose in itself. Accountability has become an image of good governance, first in the United States of America, developing then in the European Union as well. As a concept, "accountability" is rather elusive. Richard Mulgan (2003) stated that the term "came as a general term for any mechanism that makes powerful institutions accountable to particular publics." This is one of the evocative political words that may be used to settle an incoherent argument, to evoke an image of trust, fidelity, and justice or to remove criticism. As an icon, the concept has become less useful for analytical purposes and today it looks like garbage filled with good intentions, a concept loosely defined, and vague images of good governance.

<sup>4</sup>Bovens, Mark (2007): „Analysing and Assessing Accountability: A Conceptual Framework", European Law Journal, Vol. 13, No. 4, pp. 447-468

The concepts of “accountability” and “public accountability” are in full debate in political science literature, many authors trying to provide definitions, meanings and significance and raising discussions around this concept in various aspects. I will set forth in this paper some of the most relevant positions.

In contemporary political and scientific discourse, accountability often serves as a conceptual umbrella that covers various other distinct concepts as transparency, fairness, democracy, efficiency, responsiveness, accountability and integrity (Mulgan, R., 2003). Particularly in the American scientific and political discourse, accountability is often used interchangeably with good governance or virtuous behaviour. For example, in O’Connell’s view accountability is present when public services have high quality, low cost and are competitive in a courteous manner. Koppell (2005) distinguishes no less than five different dimensions of the concept of accountability: transparency, accountability, controllability, responsibility, and responsiveness - each of them as images and umbrella concepts themselves. Some dimensions as transparency are instrumental for accountability but not constitutive, others, like responsiveness are rather evaluative in exchange of the analytical dimensions.

Accountability in a very broad meaning is essentially an evaluative concept, not an analytical one. It is used to describe a positive state of facts or the performance of an actor. The term gets close to responsiveness and a sense of responsibility - a desire to act in a transparent and fair-way. Accountability in this broad sense is an essentially challenged and challengeable concept (Galle, WB, 1962) as there is no general consensus regarding the standards for the accountability specific

behaviour and because it differs from one role to the other, from one time to the other, from one place to the other and from speaker to speaker. In an article starting from the idea that the European Union suffers from a serious lack of “accountability”, author Mark Bovens uses the concept in a very narrow meaning, defined as the relationship between an actor and a forum in which the actor has the obligation to explain and justify his conduct, the forum may ask questions and make judgments and the actor may bear the consequences. Mark Bovens does not use the concept of accountability in his article in a broad, evaluative meaning, but in a much narrow one, in the sociological meaning. For Bovens, accountability is not just another political slogan, but it refers to concrete practices of given accounts. The most concise description of the concept of accountability should be: “the obligation to explain and justify the conduct.” This involves the relationship between an actor, an accountant and a forum, accountholder or accountee. Bovens remains closer to the etymological and historical roots and defines accountability as a specific social relationship as follows: “accountability is the relationship between an actor and a forum where the actor has the obligation to explain and justify his conduct, the forum can make questions and make judgments, and the actor can bear the consequences.

Bovens’ definition of liability in a narrow meaning as a social relationship, has seven constituent elements:

- The existence of a relationship between the actor and the forum
- Where the actor is obliged
- To explain and justify
- His behaviour
- The forum may ask questions



- Make judgments
- And the actor may bear the consequences.

Bovens identifies several types of accountability. Public institutions are often necessarily responsible for their conduct towards various forums in several ways. Starting with the elements of the concept of accountability, Bovens asks four questions and he answers to them:

- Whom should it be accounted for to?
- Who should be responsible?
- What should be given an account for?
- Why do actors feel compelled to be accountable?

Regarding the first question, Bovens states that public organizations and the officials working in a constitutional democracy are facing at least five different types of forums and hence five different types of accountability:

- Political accountability - elected representatives, political parties, voters, media
- Legal accountability - the courts of law
- Administrative accountability - auditors, inspectors and inspection bodies
- Professional accountability - professional peers
- Social accountability – groups of interest, charity organizations and other stakeholders.

Political accountability is an extremely important type of democratic accountability, where it is exercised in the principal-agent relationship. Voters delegate their sovereignty to their representatives who, in return, at least in parliamentary democracies, delegate most of their authority to a cabinet of ministers. Ministers then delegate much of their

authority to the officials or to several administrative more or less independent bodies. The mechanism of political accountability operates exactly in the opposite direction to delegation. In many countries the media has quickly gained the power of informal forum for political accountability.

Legal accountability has increased in importance for public institutions especially in Western countries, as a result of increased formalization of social relations due to greater confidence in the courts than in parliaments. This is usually based on specific responsibilities formally or legally conferred by authorities. Therefore, legal accountability is the most ambiguous of the types of accountability whereas the legal situation relies on detailed legal standards prescribed by civil, criminal, administrative or earlier statutes.

Administrative accountability is based on administrative forums exercising regular financial and administrative controls often based on specific statutes and prescribed norms. Professional accountability is particularly relevant for public managers of servants working in professional public organizations such as hospitals, schools, research institutes, etc. In response to a perceived lack of trust in the government in many Western democracies a direct and explicit accountability between the public agencies and clients, citizens and civil society was urgent.

Regarding the actor that should be responsible, Bovens raises the “issue of several hands” stated by D.F. Thompson, that forums are facing, meaning that policies pass through several hands before they are effectively implemented. Bovens proposes four strategies to the forums in order to settle this issue, the first one focusing on organization, and the other three on officials individually.

Thus, the four types of identified accountabilities are:

- Corporate accountability: the organization as an actor is responsible.
- Hierarchical accountability: one for all - the highest official is responsible and usually this strategy is dominant in politics.
- Collective accountability: all for one - the public organization is responsible even if one member shall be held liable.
- Individual accountability: everyone for himself/herself – each individual is liable by his/her official position.

The actor can be held accountable for two reasons: he/she is bound to do so or he/she makes it voluntarily. Depending on the nature of the obligation, accountability may be of three types:

- Vertical - particular feature of political accountability, the forum formally gives the actor power to make decisions - principal-agent relationship. It is the case of public institutions accountable towards ministries or directly towards Parliaments.
- Diagonal - indirect accountability through intermediaries as auditors, inspectors, supervisors, etc.
- Horizontal – there is no principal in the accountability relationship.

Regarding the effects of accountability, Bovens identifies three evaluative perspectives, each of them generating different types of “accountability” deficiency:

- Democratic perspective: popular control
- Constitutional perspective: prevention of corruption and power abuse
- Learning perspective: improving government effectiveness.

Public accountability is very important in the democratic perspective as it helps citizens to monitor those who hold public office (March and Olsen, 1995). The theoretical base is the principal-agent model. Modern representative democracies may be described as a chain of principal-agent relationships (Strom, 2000). People who are principal in a democracy transferred their sovereignty to their representatives who, in turn, transferred the development of laws and policies to the government. Subsequently ministers entrusted their tasks to thousands of officials who delegated some of them to more or less independent institutions. Each principal in this chain of delegation tries to monitor the performance of delegated public duties by calling the agent to be responsible. At the end of the chain of accountability there are the people who make judgments on government's behaviour and who show their discontent by voting other representatives. Therefore, public accountability is a prerequisite for the democratic process as it provides the people's representatives and the voters the necessary information to judge good faith and the effectiveness of the government's behaviour.

The main purpose of the constitutional perspective is to prevent the absolute tyranny of leaders, of the elected leaders, or of a too wide and “privatized” executive power. The remedy against an arrogant, abusive and corrupt government is to organize “checks and balances” of countervailing institutional powers. Good governance arises from a dynamic equilibrium between the different powers of the state.

Accountability is seen as an instrument to induce governments, agencies and individual elected to carry out their promises. From the perspective of learning, the purpose of

public accountability is to determine the executive branch to learn. Moreover, the public nature of the process of accountability teaches others on the same position the expectations towards them what works and what does not. Analyses of public performance, for example, may induce more managers than those under control to rethink and re-adjust their policies. The mechanisms of accountability lead to reflexivity in the political and administrative systems that might otherwise be first of all in seeking active improvement. There is a long tradition in political science and related fields that perfectly fits this idea. In this context, Lindblom refers to "intelligence of democracy": the superiority of pluralistic democracies over other political systems derives from the large number of incentives that encourage information and learning in the policy-making process. Accountability is an important link in this matter as it provides regular mechanism to confront managers with information about the way they work and forces them to meditate on the past successes and failures of their policies.

Bovens also provides the criteria of assessing public accountability from the three perspectives mentioned above. Thus the assessment criterion for the democratic perspective is as follows: the degree to which an accountability arrangement or the regime enables the democratically legitimized bodies to monitor and to assess the behaviour of the executive and to determine the executive actors to alter their behaviour in line with their expectations. The main criterion of assessment for the future constitutional perspective is the extent to which a commitment of accountability reduces the abuse and the privileges of executive power. The criterion for the learning perspective is the degree to

which accountability stimulates the executive and the bodies to focus consistently on achieving the desirable results expected by the society.

The debate frame of the concept of accountability provided by Bovens is only a suggestion to assess accountability by each state. The author notes that the assessment of accountability cannot be separated from everybody's vision of what constitutes adequate democratic governance in the context of European integration. Own vision eventually determines why some see the European accountability glass half full and others the glass half empty. The construction around the concept offered by Bovens can structure, as the author says, the debates about accountability and develop it in empirical research.

One of the authors focusing on the debate on the public feature of accountability is Jens Steffek, giving an answer to the question what is "public" in "public accountability". The spread of the management notions of accountability in the public domain in the particular context of the new processes of governance led to a contest between an established meaning of the concept of public accountability as democratic liability and the new conceptualization inspired by management literature. In a conventional meaning, "public accountability" means a relationship in which the public understood as citizens, renders its elected representatives liable. Michael Dowdle (2006) states that "the idea of public accountability seems to express the belief that the people with public responsibilities should be accountable towards the people for the performance of their commitments". Which stresses for the citizens that public accountability is very close to the concepts of political accountability and

democratic accountability. The key mechanism for democratic accountability is elections as they provide an incentive for political decision makers to explain their behaviour and an opportunity for citizens to penalize them. The test for democratic accountability is the officials' responsiveness to citizens' expectations and concerns. Robert Behn (2001) suggests that political performance and responsiveness are key aspects of any conception of public accountability. Jens Steffek says that the term "public" from the concept of public accountability is increasingly redefined in the context of international governance, but it does not fully disappear.<sup>5</sup>

Steffek identifies three features of recent discourse that undermines the traditional view of public accountability as democratic accountability: 1. Returning to the concept of stakeholders, 2. Fitting in the principal-agent theory, 3. Perspective on public accountability as an umbrella concept under which it collects the instruments and the mechanisms that may be subsumed.

Regarding the return to the concept of stakeholder, the author notes a significant tendency in the literature about government to replace the term stakeholder with citizens. A term with origins in the literature of management, its transfer to the public domain means pushing the citizens from their status of proprietors of the state to the status of stakeholders. Stakeholders are consulted by public institutions in their decision. That is a matter of good governance and not an expression of popular sovereignty. In governance literature, the authority of the governing institutions often appears given as such

and unproblematic. Institutions have the unchallengeable and indisputable right to take binding decisions, while citizens are expected to show interest in a particular policy or decision. The return to stakeholders has practical political consequences. The concept implies that public accountability is not for everyone, but for those affected by the decisions taken and it assumes that this class of individuals can be admitted objectively, perhaps even a priori. The increase of accountability towards stakeholders often suggests that public institutions of government should establish consultative forums in which stakeholders shall exercise their right and take decision makers into account. While some would not preclude consultations with the interested and affected parties, the selection of preferred partners creates new risks of exclusion. The return to the stakeholders interested in governance may lead to social exclusion and to a risk of democratic equality.

The conceptual movement from citizens to stakeholders is supplemented by fitting the accountability relations within the principal-agent theory. The roots of this theory are not in political science or in the theories of democracy but in economic organization. In the context of public accountability in international governance, where the states delegate their competences to governments, citizens become external stakeholders.

Also inspired by the management literature, the concept of public accountability is used as an umbrella that covers many types of accountability in the public domain. Jens Steffek notes the use of the public accountability concept often as alternative for "political accountability" and "democratic accountability". Author's aim is to give the concept a clear and very limited meaning:

<sup>5</sup>Steffek, Jens (2010): „Public accountability and the public sphere of international governance“, *Ethics&International Affairs*, 24, no.1, p.45-68

the accountability of the persons or of the institutions invested with public authority towards critics, questions and comments expressed in public by citizens and by the civil society. Steffek identifies three mechanisms of democratic accountability: electorally - citizens' direct accountability or of the political bodies elected towards the citizens, legally – the accountability of the unelected institutions which protect citizens' rights and publicly – the accountability for the public as public scope. These three mechanisms reinforce one another.

Jeffek's conclusion is that international governance is not affected by the lack of accountability in the managerial meaning, but by accountability in the public space. The reconcepting proposed by the author is that public accountability shall signify the accountability of the government institutions towards citizens in public scope. In this respect, public accountability requires that decision maker's choices shall be publicly examined, discussed and criticized. This will strengthen the legal mechanisms of democratic accountability. Jens Steffek considers that public accountability and the public scope are the necessary condition for the democratization of global and European governance.

"Accountability" - an ever-expanding concept? This is the question that author Richard Mulgan answers to. In stating his argument that the term extends beyond its central meaning "to ask someone accountable for its actions" (Jones, 1992), the author identifies three relevant features of the concept, namely:

- 1) It is external - accountability is made by another person or institution than the responsible person or institution;
- 2) It implies social interaction and change - between a party that calls somebody to account for something,

seeks for answers and rectification and the liable party who answers and accepts sanctions;

- 3) It implies the right of authority - those who control have rights of superior authority over those liable, including the right to ask for answers and impose sanctions.

In the context of democratic states, the key of the relationships of accountability, in its main purpose, are the relationships between citizens and the public service providers, between elected politicians and bureaucrats. More recently, in the academic language, the concept of accountability has been developed beyond its main meaning in the scopes where its various features no longer apply. For example, accountability usually refers to the meaning of individual responsibility and concerns public interest of public officials. Secondly, accountability is a feature of various checks and balances institutions through which democracies seek to control the actions of the government even if there is no interaction or exchange between the government and the institutions that control them. Thirdly, accountability is linked to the extent that governments follow the wishes or needs of the citizens (accountability as responsiveness) regardless of whether they are induced to make them through the process of control and authoritarian exchange. Fourthly, accountability applies to public discussion between citizens democracies depend on (accountability as dialogue), even if there is no suggestion of any authority or subordination between the parties involved in the relationship of accountability.<sup>6</sup>

<sup>6</sup>Mulgan, Richard (2000): „Accountability: an ever-expanding concept?", Public Administration vol.78, no.3, p.555-573



The development of the concept of accountability has led to a restriction of the concept of responsibility. Sometimes these terms were used interchangeably, but now responsibility develops as the ethical part of personal accountability the freedom of action and discretion, that is of the internal aspects of official activities (Harmon and Mayer, 1986). As generally accountability used to be seen as part of responsibility (external aspect), now the position is often reversed - responsibility is often taken as part of accountability (internal aspect). Accountability refers to external functions of control as calling somebody to account for something, requiring justification and the imposing sanctions, while responsibility covers internal functions of personal guilt, morality and professional ethics. Concerning the implementation mechanisms and the accountability evaluation criteria, a practical example is provided by author Teresa Kulawik in an article on political science and public accountability in Poland, case study research on stem cells. The conclusions of the study show that public involvement requires precise institutional rules in order to have impact and to develop public accountability in consolidated democracies.

Accountability is an important factor to ensure the legitimacy of public power in representative democracies. Accountability is measured by a broader range of criteria. Teresa Kulawik says that recent policy debate overpasses a pure model of government accountability based on democratic elections and representative meetings. Accountability was usually equated with the performance of accountability (performance accountability), and recent literature increasingly begins to incorporate „policy-making.“ Susan Rose-Ackerman (2002) states that governments

should respond publicly for taking up policies. The „Public“ includes those who voted the government in the last election and also those affected by or particularly interested in the chosen policies. The interaction between government decisions on policies and citizens' commitment and the participation in public affairs is essential in relation to accountability. Teresa Kulawik pays greater attention to the dimension of accountability regarding the process of taking policies by the government. Although the significance of accountability for a democratic policy seems obvious, applying the concept in science and political science is a completely new phenomenon. It should be attributed to a changing society, usually summarized in the concept of „society of knowledge“. The new mechanisms of accountability involve new tools to assure quality and the distribution of resources and it also includes new procedures and criteria for decision making in political science.<sup>7</sup>

The concept of „public accountability“ means practices that allow the review and assessment of the power exercised within the principal-agent relationship. The principal-agent relationship is part of representative democracies and is based on one of the major mechanisms of delegation of sovereignty which in turn delegate their power to a cabinet of ministers. Ministries then transfer the proper administration of their authority to officials and administrative agencies. The mechanisms of accountability operate exactly in the opposite direction.

They provide the „principal“ with the necessary information to judge the decency

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<sup>7</sup>Kulawik, Teresa (2009): „Science policy and public accountability in Poland: the case of embryonic stem-cell research“, *Science and Public Policy*, 36(6), July 2009, p.470

entrusted to the agent. In democracies, citizens expressing their judgement on the governors' behaviour to the reiterated elections are at the end of the cycle/chain of accountability.

Although the concept of "accountability" and its development are new, the mechanisms of accountability have always been and are essential components of parliamentary democracies. There are very many reasons to enhance the popularity of the concept in politics and academic work. The new social movements have high demands in the democratic processes in order to expand opportunities for citizens' participation beyond the electoral process. Moreover, the relevance of the current concept is related to the changes that took place in the political power and decision-making structures which are the delegation of national sovereignty to supranational bodies and the transformation of public administration by the methods of public management (Bovens, 2006). These developments indicate a weakening of the traditional vertical accountability via ministerial responsibility and meetings emerging from elections. Changes led to new forms of control characterized by more direct and explicit relationships of accountability between public institutions and officials as well as between citizens and groups of interests. The new mechanisms of controls consist of mediators, audit agencies and forums for citizens and stakeholders. Therefore, the emergence of participatory technology of assessment is seen as part of a broader trend in the overall transformation of the democratic accountability arrangements.

Good accountability is expected to produce a variety of positive outputs: resettlement of public authority trust and the

assurance of its legitimacy, fair, accurate and competent policies and the increase of civic commitment. In new democracies, the low level of civic commitment and the poor quality of public policies are the indicators of poor democratic processes that give rise to demands for increasing accountability commitments (Rose-Ackerman, 2005). Accountability is an umbrella concept whose specific purpose and dimensions are challenged. In a narrow interpretation the concept of "accountability" is defined solely by focusing on the controllability and justification of the already taken decisions. In a broader meaning of the concept, the decision-making procedures are considered a significant component of democratic accountability. Teresa Kulawik assigns the concept to a direct and proactive function to enhance the quality of policies taking, thus stating the responsiveness to the needs and interests of the people. From this perspective, the assessment of public accountability is not focused on performance but rather on the ways to create policies within the government and administration and their relationship with the public (Rose-Ackerman, 2002). The exercises of involving the public involvement and consulting the company are important mechanisms of public accountability.

### Conclusions

Having its roots in economics and management literature, the concept of "public accountability" becomes ever more relevant in political science, both in theory and discourse, as well as in practice in preparing and assessing public policies. The approaches of "public accountability" concept in political science is recent and in continuous development,

the basic idea that in a democracy the power is publicly accountable towards the citizens being developed in various aspects. The questions not provided with clarifying and complete answers in the specialized literature, cover the subjects of accountability: who has the right to accountability and who is responsible in a democracy, which are the mechanisms of implementation of accountability, how we evaluate accountability, which are the limits of the concept, what is its importance in the democracy in international and European governance how this


can lead to efficiency and effectiveness in the act of government. All these questions are still subject of debate in this domain.

In terms of political science it has not been given a final definition of the concept of "public accountability". The conceptual clarification will subsequently enable to formulate an appropriate model for improving the system of accountability in preparing and assessing public policies, to implement a system of assessment and monitoring thereof, in line with the European and international systems.

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## Organizational change and current trends in management

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**Abstract:** *"The challenge is to manage the organization's culture so that you can tap the company's strengths to achieve superior performance and identify its weaknesses in time to overcome them before they cause serious damage." Successful adaptation to change is as crucial within an organization as it is in the natural world. Just like plants and animals, organizations and the individuals in them inevitably encounter changing conditions that they are powerless to control.*

**Key words:** organizational change(s), learning organization, change management, interpersonal relations, management style.

Charles Darwin shows us that it is not the strongest or most intelligent of the species that survive, but those that are most responsive to change.

The transition from controlled change largely imposed with phenomena of resistance of those who take a stand against it, to continuous change as a way of thinking and action in everything that an organization performs is one of the most important mutations of the management system in

today performing companies. This orientation has led to a new concept – "learning organization".

The creator of this concept, Peter M. Senge, a professor of management at Massachusetts Institute of Technology, was incorporated in 1999 by the Journal of Business Strategy, among the 24 personalities of the twentieth century who had the highest impact on the direction of affairs, and his book *The Fifth Discipline* was published in

1990 and sold more than 750,000 copies.

According to Peter M. Senge's concept, the "learning organization" is an organization where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning how to learn together (Peter Senge, *The Fifth Discipline*, p.3).

In McCalman and Paton Change's opinion the change is "a continuous process of confrontation, identification, evaluation and action." Change issue is an almost obsessive concern in the sociology of organizations, perhaps because of the emphasized and also proved bureaucratic rigidity, or practical problems that managers of both state and private enterprises are constantly facing with.

Kurt Lewin considers change as a dynamic equilibrium of some forces which, on the one hand, are forcing the change, and on the other hand, that cause a resistance to change.

In K. Lewin's opinion, there is evidence both for change and factors that hinder the change (such as technological change, the explosion of knowledge, product obsolescence, mental blockages, indifference, fear of new things, fear of failure, but also changing of the labor structure).

Change within the organization/company can be influenced by external factors (which can be controlled to a lesser extent by managers such as: changes in technology, increasing complexity of life that generates complex communication systems and social changes). Internal factors through which changes act within the organization are actually represented by processes of making decisions, communication, interpersonal

relations, leadership, management style etc.

In addition to the factors listed, there are a multitude of factors which, by nature of their content, are generating change.

But there are other factors underlying change, the most frequent in Romanian society as in many European Union countries: political law, European and international laws/regulations, tax system, competition, unemployment rate, lending policies, demographic trends (workers, taxpayers), and changes in lifestyle or business ethics.

Managers' clear and deep perception of the need for change is essential for the change process. Perception of change is important but not sufficient and should therefore be supported by a mix of actual activities of the managers. Consequently, one of the most important aspects is the understanding of the organization's staff, managers and subordinates regarding the need for change. The organization's staff should be helped to understand that the current organizational structure should be adapted to new requirements posed by the transition towards a market economy, the current information system should be changed and transformed into an effective tool available for managers and that their decisions need a participatory background using modern methods and techniques of management.

Total employee's involvement in the process of orientation by working together for ensuring collective responsibility to change the values or principles of the organization is one of the main characteristics of "learning organization" mentioned in the article.

According to Peter Senge's opinion, the "learning organization" is characterized by five dimensions: the existence of a shared

vision, team learning, systemic thinking, personal mastery and also the existence of mental models.

Having a common vision enables all employees to have a clear perception of the organization's vision and makes it possible for every employee to act consciously to transpose the vision into practice.

Team learning means finding solutions for solving new problems and applying all together. In such a vision, "learning organization" provides continuous learning opportunities for all its components, uses learning to achieve organizational goals and, most importantly, ensures the permanent joint between individual and organizational performance.

Systems thinking represent the essential element of "learning organizations" because each of the organization's components knows its own tasks and understands how they interact with others' tasks in the overall process of providing goods and services. Personal mastery refers to the concern regarding the understanding of members' tasks. In this way, the organization can successfully overcome all the problems they face with.

Explicit construction of mental models of what the organization's members tend to become or do. They provide a deep and integrated critical analysis of the facts, develop generalizations and design images that have an influence on how people understand the world and act.

David Garvin (Building a Learning Organization ) has defined the main activities of a "learning organization":

- Systematic problem solving through: theory systems-based thinking, use data and not assumptions, using statistical tools.

- Experimentation with new approaches: providing a new traffic flow of ideas, impulses for risk taking, demonstration projects.
- Learning from their own experience and acknowledging mistakes.
- Learning from the experience of others by taking some of their best practices.
- Transferring knowledge quickly and efficiently throughout the organization by the means of reports, conferences, training programs.

In a modern vision (Calhoun Wick and Leon Lu Stanton, *The Learning Edge*), the managers act as models and encourage others to learn within the mentioned organizations (they recognize that all employees need to learn), and the employees accept responsibility for their own careers and learning. Organization's procedures and policies are used to provide guidance for action and there is a continuous process of reassessment and change of job requirements.

Today, European companies are making progress towards the "learning organization". Learning faster than the competition allows obtaining important competitive advantages. Companies that learn creates a safer environment for their people, therefore they are more willing to take risks. In these organizations, the main idea is to that individual learning enriches and enhances the organization as a whole and it is believed that creative tension is an important source of energy and renewal.

In Kurt Levin's opinion, the process of change within the organization must take the following three steps:

- Opening – where the change of the balance between the desired situation

determining the change and the effective one is experienced.

- Change or transformation – where the changes allowing the transition to the desired situation are introduced.
- Closing – where a new balance in the system is aimed. This may be done by resorting to legislation, organizational culture and structure.

Change management requires a systematic sequence of trials accompanied by a permanent feedback.

The manager must be familiar with the problem situation involving change in order to act in this regard. This requires a diagnosis stage of problems and causes that generate the problem and also of the effects those situations have or may have for each type of problem. Understanding the nature of the causes that have generated positive and negative symptoms is crucial in this stage. Also the manager and his team will establish the necessary resources involved in these methods of action and the implementation of change.

Major changes in the organization simply do not happen. Changing involves the development of a true complex process where forces that exert pressure for change and forces opposing change are facing. This process has several stages: awareness of the need for change and raising interest in initiating change among the organization's managers, the diagnosis of the situation based on information gathered and analyzed by the actual change, the application of version selected using all appropriate measures and strengthening of new values that support behavioral changes.

It is important to differentiate between organizational changes resulting from

strategy development and implementation (that is, "strategic change"), and organizational changes resulting from self-assessment (that is, "process change").

Events determining orientation towards a change in culture, ideology and organizational structure can be:

- Opportunities or major disruptions in the context of the company (economic crisis, economic boom, the emergence of a new generation of technology).
- Changes in company's ownership and/or management (merger with another company, making a joint venture, changing the upper management of an organization, etc.).

Change is essentially a transformation or a change in the status quo, a change from a state of affairs to another, from one set of conditions to another. Resistance to change is a good thing because it proves the existence of some degree of stability and allows the prediction of organizational behavior. However, the effects of resistance to change are mainly negative: it can cause conflicts within the organization, but mostly it is a hindrance to progress.

One of the most important ways to reduce human resistance to change is their involvement in change planning by focusing them on their own feelings, insecurities, and resistance. When people are confronted each other openly, when they have information in place of insecurity, they may participate in change rather than resist it. People must be given the chance to discuss and understand the nature of change and their fears triggered by it.

Another way to reduce human resistance to change is represented by the anxiety created by change. That emphasis should be

placed on finding the source of discomfort to people who have fear of change and not on using sanctions or threats as a means to persuade people to engage in change.

Given that habits and routines are the source of resistance to change within a process of change, we must not ignore the behavioral patterns of work that have already been stated or “institutionalized”.

Communication is one way of reducing resistance to change. Resistance may be reduced by communicating with employees, helping them understand the need for change. This method is effective when the main cause of resistance is individuals’ lack of information regarding the change process. The time and effort involved in this tactic represent its main disadvantages, especially when the change affects a large number of people.

“What changes are required to secure a more effective activity within today’s organizations?” We can often see changes no one needs. It happens many times to understand that, it was only after a change was made, it did not answer to our real problems. In most cases the organization is involved in a process of continuous interactions with its environment. In addition to organization, there are other systems in this environment – suppliers, customers or end-users – which can influence the organization and, in turn, are influenced by it.

Inside it, the organization can be perceived as having four interacting components: tasks, organizational structures and systems, culture and people – members of the organization. It is necessary for the organization to adopt changes especially in the interior in order to survive in an environment increasingly unpredictable. The organization must consider the change an opportunity, as a help to grow and prosper.

The changes are part of the managerial and organizational life. They may be important and happen increasingly frequent being decisive for the organization’s survival. Changes may provide different opportunities to persons involved: increasing professional satisfaction, improved working conditions, improve practices, increasing efficiency, etc.

Change’s external favorable pressures may be due to political, economic, sociological and technological factors exerted by the external environment where the organization subscribes.

Other external pressures arise from market demands and offers, competitive conditions and changing conditions. Change’s external favorable pressures lay beyond the control of the organization. Change’s internal favorable pressures are often linked to external ones. Change’s internal favorable pressures are controlled by the organization.

The Nadler-Tushman diagnostic model can be used to understand the organization’s present state and to describe the foreshadowed one. The main components of this model are the tasks performed by the organization, organizational structures and systems, its culture and people working within. In addition, the model highlights the need to find collective vision shared within the organization and individuals (or groups) that can facilitate change.

By mentioning the level of change, we can estimate the duration of its implementation, complexity and process difficulty. It is also necessary to analyze our own reactions to change and to determine the influence of attitude we have to change on our ability to manage it.

Length and difficulty of implementing a change depend directly on the level it occurs.

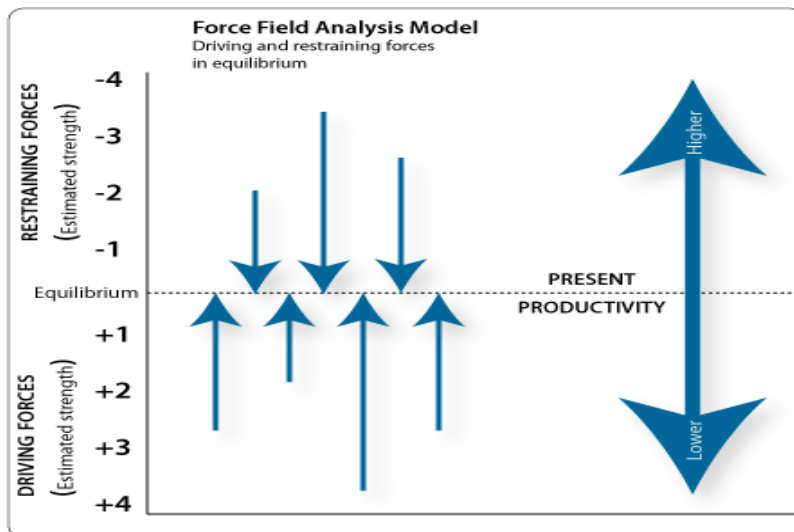
The Lewin's force field diagram is an analytical tool that can be used to identify the forces that oppose and require change, their relative size and any items in favor of change which could be attracted by the forces that require change. Force field analysis is also an influential development in the field of social science. It provides a framework for looking at the factors (forces) that influence a situation, originally social situations. It looks at forces that are either driving movement toward a goal (helping forces) or blocking movement toward a goal (hindering forces). The principle, developed by Kurt Lewin, is a significant contribution to the fields of social science, psychology, social psychology, organizational development, process management, and change management.

Lewin believed that changes of an individual's "life space" depend upon that individual's internalization of external stimuli (from the physical and social world) into the "life space." Although Lewin did not use the word "experiential," (see experiential

learning) he nonetheless believed that interaction (experience) of the "life space" with "external stimuli" (at what he calls the "boundary zone") were important for development (or regression). For Lewin, development (or regression) of an individual occurs when their "life space" has a "boundary zone" experience with external stimuli. Note, it is not merely the experience that causes change in the "life space," but the acceptance (internalization) of external stimuli.

Lewin took these same principles and applied them to the analysis of group conflict, learning, adolescence, hatred, morale, German society, etc. This approach allowed him to break down common misconceptions of these social phenomena, and to determine their basic elemental constructs. He used theory, mathematics, and common sense to define a force field, and hence to determine the causes of human and group behavior.

Lewin assumes that in any situation there are both driving and restraining forces that influence any change that may occur.





In their book called "In Search of Excellence"(1982), Peters and Waterman drew attention to eight characteristics that any innovative organization which is open to change must meet: action-oriented, customer approach, autonomy, productivity by the means of a good human resource management, simple structures, centralization of key issues, decentralization of actions/implementation and daily control, focus on key issues.

Organizational transformation is profound changes while considering harmonization, organizational adjustments and reorientations. Frequently, organizational transformation involves redesigning the organization as a whole, and depending on how the manager chooses to influence his employees. It must be said that managers, at all levels, have their own management style; some choose to delegate and to support their subordinates, others choose the authoritarian style. But effective managers must be able not only to choose a management style, but also to apply it correctly. There is not only one management style which characterizes a manager: each manager can adopt a style or another, depending on the situation.

Robert Tannenbaum and Warren Schmidt wrote one of the most groundbreaking articles in the Harvard Business Review in 1957, showing that the management style is the manager's OPTION. They based their theory on two aspects: orientation towards inter-human relations, which defines the democratic style of management and orientation towards obtaining results, which defines the authoritarian management style. Thus, they identified seven levels of management style:

- The manager allows subordinates to operate without limits defined by him;
- The manager defines limits but let the

- group to make the decision;
- The manager presents the problem, ask the group for suggestions and then make the decision himself;
- The manager presents the group the tentative decision. The decision may be changed by the group;
- Manager presents the ideas and then invites the group to ask questions;
- The manager makes the decision and then convinces the group that the decision is correct;
- The manager makes the decision and then presents it to the group.

Being concerned about the ways of improving profitability and increasing the response to market opportunities, managers will try to make some changes in the way of doing business and conducting daily activities, using the most appropriate leadership methods. They include a continuous active and visible participation in change projects.

Senior managers must equally be initiators and advocates of change. Usually employees want to obtain the change image directly from the organization's chief executive.

Roles of managers need to materialize as a support for the execution staff in the process of organizational change and for their orientation in order to achieve the professional development throughout the transition to the new environment. Being at the interface between the initiators and those who actually feel the change, who must acquire new skills and act in a manner different than before, they will have an essential role in the effective achievement of the change.

**In conclusion** - organizational change aimed at making significant changes within the organization as a whole, which is in opposition with small changes which involve

non-essential modifications of the organizational structure, work program or other persons in managerial or executive positions. Organizational change involves changing an organization's mission and vision, introducing new technologies with new types of activities, introducing a performance appraisal system and redesigning the payroll system, performing essentially changes into the organizational structure, orientating to

new groups of target customers having other needs and behavior totally different from the previous ones, introducing the management system by the means of objectives and more. Organizational change should be a new fundamental and radical trend in respect of ways in which the organization is to conduct their activities, with critical implications on the behavior of all the organization's components, from chief executive to executive staff.

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## Competitive marketing strategies: tools for enhancing value in the dynamic world of business.

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**Abstract:** Developing solid competitive marketing strategies in order to contribute towards long-term sustainable success, has become imperative today for every success driven organization. The paper examines a number of Competitive Strategies, which have become strong tools for enhancing value in the Nigerian Telecommunication industry. The objectives of the paper among others are to (i) Examine whether there is any relationship between the use of competitive marketing strategies and business success and (ii) Find out whether the various competitive marketing strategies used by Nigerian telecommunication firms have effects on rival companies, among others. The paper uses survey method with two hypotheses stated in the null form, with structured questionnaire, which were, distributed among the sampled respondents who are secondary school teachers in Lagos, Ogun, and Oyo states of Nigeria. Results were analyzed with the aid of correlation test statistics. Findings show that there is significant positive relationship between the use of competitive Marketing Strategies and Business Success. Finding also reveals that the various Competitive Strategies used by players have effects on other competitors. The paper makes various policy recommendations, which operators in the Nigerian Telecommunication Industry will find useful, if faithfully implemented. These include the need for firms to constantly engage in research to meet the changing needs of their esteemed Customers. Companies must identify where they could have competitive advantage over their Competitors and that Companies must render quality Service and try to constantly improve their offers in the face of changing market Dynamics, amongst others.

**Key words:** Competition; Marketing; Strategies; Enhancing; Value; Business.

### Introduction

The need to develop as well as implement solid competitive strategies has today

become an important factor that will contribute towards the long-term sustainable success of any business venture. However most

businesses don't have one. Today's organizations have to deal with the dynamic and uncertain environments. In order to be successful, organizations must strategically be aware and understand their environmental factors. They must understand how changes in their competitive environment are unfolding. They should actively look for opportunities to exploit their strategic abilities, adapt and seek improvements in every area of the business, building on awareness and understanding of current strategies and successes. Organizations must be able to act quickly in response to opportunities and barriers.

Competitive analysis is a systematic attempt to identify and understand the key elements of a competitor's strategy, in terms of objectives, strategies, resource allocation and implantation through the marketing mix. A sound understanding of these areas enables stronger defenses to be built and sustainable competitive advantage to be created and also provides a foundation for outmaneuvering the competition to gain more market share or market position.

### Problem statement

On the problem, which necessitates this research, it is observed that firms constantly seek means of satisfying their customers more effectively and efficiently than their competitors so as to succeed in the ever changing and dynamic world of business.

David and Heineke (2003) asserted that to excel at any of the competitive priorities, a firm must determine its critical success factor, which are those things that the organization must get right in order to stay ahead of other competitors. The need for firms to create distinctive competence, which creates preference for a firm's products/ service, and

thus achieve competitive advantage is also a challenge for many service firms today. In Nigeria service industry today, little attempt, if any, has been made to explore how competitive Strategy can be used to enhance value; this prospered research intends to fill that strategic intellectual gap.

### Objectives of the study

The objectives of the paper among others are to: (i) examine whether there is any relationship between the use of competitive strategies and business success by major players in Nigeria Telecommunications industry. (ii) Find out whether the various competitive strategies used by the players in the Nigeria Telecommunications Industry have strong effects on rival companies. (iii) Proffer useful policy recommendations which company executives in the industry will find highly useful, if faithfully implemented.

### Research Hypotheses

The paper makes two prepositions which are sated in the form of null hypotheses which are: (i) There is no relationship between the use for competitive strategies and business success by major players in the Nigerian Telecommunication Industry and (ii) the various competitive strategies used by players in the Nigeria Telecommunication industry do not have effect on other competitors.

### Literature Review

A strategy is a long-term plan of action designed to achieve a particular goal, most often "winning". Strategy is differentiated from tactics or immediate actions with resources at hand by its nature of being

extensively premeditated, and often practically rehearsed. Strategies are used to make the problem or problems easier to solve.

Strategic marketing involves the formulation of rules and guidelines for effective marketing decisions. That is, ensuring consumer satisfaction and bringing about orderly and profitable growth of the enterprise. Strategy is the bridge between policy or high-order goals on the hand and tactics or concrete actions on the other. Strategy and tactics together bridge the gap between ends and means. In short, strategy is a term that refers to a complex web of thoughts, ideas, insights, experiences, goals, expertise, memories, perceptions, and expectations that provides general guidance for specific actions in pursuit of particular ends.

In the words of Aano(1996), as cited by Brassinton and Pettit (2003), *"Corporate strategies are the schemes which management hopes to put in place in order to move the organization from its present position to arrive at its target goal by the of a specified period recognizing, during the intervening period, changes are going to take place in the environment"*

Successful competitive strategic marketing therefore would imply that the company makes sure that it has a good understanding of its strength and weakness, including opportunities and threats (SWOTS) to the company through an adequate understanding of the environment. There are important factors that constitute the success factors in strategic marketing. These factors can be broken into three important areas of strategic marketing such as.

- a) Definition of the business
- b) Identification of competitors and
- c) Determination of strengths and

weakness.

Competitive strategy is defined by Porter as the search for favorable competitive position in an industry". Competitive marketing strategy aims at establishing sustainable position against forces which determine industry's a profitable and sustainable position against forces which determine industry and their underlying causes have been diagnosed, the firm is a position to identify its strength and weakness are the firm's posture vis-à-vis the underlying causes of each competitive force. Where does the firm stand against substitutes? Against the sources of entry barriers? In coping with rivalry from established competitors? According to Ibidunni (2004), five fundamental steps are involved in formulating a good strategy. They are:

- Define the strategic objectives
- Identify and analyze the strategic variable
- Identify and analyze the operating variables
- Formulate a strategic plan from the variable and alternatives and
- Monitor and modify the strategy based on observation and feedback.

In defining the strategic objectives: The objectives (results) to be accomplished are the foundation on which a strategy is formulated. It can be simple, such as restructuring the composition of the firm's working capital, or complex, such as developing product line that counterbalances a strongly seasonal cash flow whose problem can be solved through acquisitions in new fields, development of new markets and diversification through internal research. Secondly, once the problem, opportunity or objective is identified, the next step would be to identify and analyze the strategic variable,

which means forecasting the environment in which our strategy would operate. Strategic variables are two forms: extra-company and intra-company.

The third step includes:

- 1) Source financing
- 2) Appointment of management personal
- 3) Allocation of management personnel
- 4) Pricing of products, usually affected by government regulations, competitor decisions and consumer acceptance of the value offered.

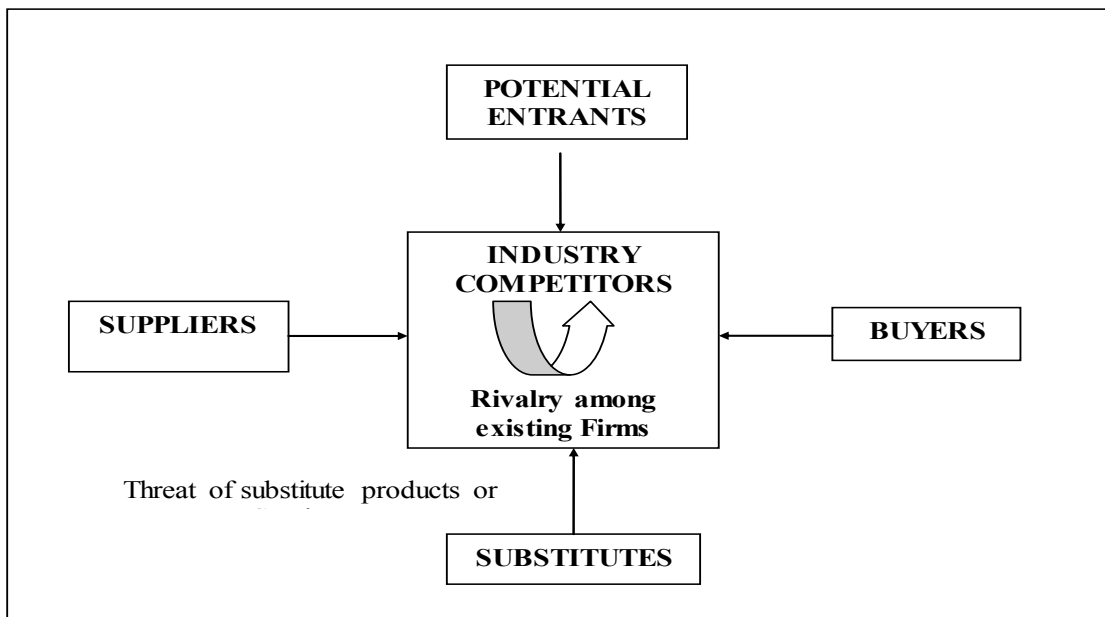
**Formulation of a strategic plan from the variables and alternative:** To construct a strategic plan (strategy), timing is critically important. If a strategy is constructed at the wrong time, it may not achieve the desired objective; whatever strategy is taken

can be tested to determine their feasibility. Simulation and experimenting are two of the methods that may be used to test whatever strategy that may have been adopted.

**Monitor and modify the strategy based on observation and feedback:** These involve establishing a basis for measurement which is done at the objective setting stage, establishing feedback and analyzing the results coming from operating or executing the strategy and establishing authority for and responsiveness to change.

**Factors Governing Competition in an Industry:** Competition in an industry continuously works to drive the rate of returns on capital employed towards the competitive flow of return. At the macro level, Porter (1985) in his five forces model describes the competitive forces that operate in an industry. These are shown in the diagram below:

Figure 1: Forces Driving Industry Competition



Source: Porter M.E (1985) *Competitive Advantage: Creating and Sustaining Superior performance* (New York, Free Press)



At this point we now examine each of the variables in the diagram.

The threat of new entrants largely depends on the barriers to entry, coupled with the actions from existing competitors that the entrants can expect. High entry barriers exist in some industries (e.g. shipbuilding) whereas other industries are very easy to enter (e.g. estate agency, restaurants). Key barriers to entry include:

**a) Economic of scale:** according to Porter (1985) this refers to decline in unit cost of a product (or operation or function that goes into producing a product) as the absolute volume per period increases, economics of scale determines entry by forcing the entrant to come at large scale and risk strong reaction from existing firms or come in at a small scale and accept a cost disadvantage, both undesirable options.

**b) Capital/ Investment requirements:** according to Porter (1985) the need to invest large financial resources in order to compete create a barrier to entry, particularly if the capital is required for risky or unrecoverable up-from advertising or research and development. Capital may be necessary not only for production facilities but also for things like customer credit, inventories or covering start-up losses,

**c) Customer switching costs:** according to Porter (1985) a barrier to entry is created by the presence of switching costs that is one-time costs facing the buyer of switching from one supplier's product to another. These may also include employee retraining costs, cost of new ancillary equipment, cost and time in testing or qualifying a new source, need for technical help as a result of reliance on seller engineering aid product redesign or even psychic cost of severing a relationship.

If those switching cost are high, then new entrants must offer a major improvement in cost or performance.

**d) Access to industry distribution channel:** a barrier to entry can be created by the new entrants need to secure distribution for its products. To the extent that established firms have already served logical distribution channels for the product, the new firm must persuade the channels to accept its product through price breaks, cooperative advertising allowances, and reduce profit.

**e) The likelihood of retaliation from existing industry players:** the potentials entrant's expectations about the reaction of existing competitors also will influence the threat of entry. If existing competitors are expected to respond forcefully to make the entrant's stay in the industry an unpleasant one, then entry may be deterred. Conditions that signal in the industry likelihood of retaliation of retaliation to entry includes the following:

- A history of vigorous retaliation to entrants
- Established firms with substantial resources to fight back
- Established firms with great commitment to the industry and highly illiquid assets employed in it.
- Slow industry growth, which limit the ability of the industry to absorb a new firm without depressing the sales and financial performance of established firms.

Porters (1985) describe five competitive forces that operate in an industry which tend to drive Competition. These forces are:

- **New entrants:** New entrants to an Industry bring new capacity, the desire to gain market share and



the possibility to raise the level of competition thereby reducing its attractiveness.

#### ► **Bargaining Power of Suppliers**

Bargaining power of suppliers (suppliers are the business that supply materials & other products into the industry) the cost of items bought from suppliers (e.g. raw materials, components) can have a significant impact on a company's profitability. According to Richard Lynch (2006) suppliers can exert bargaining power over participants in an industry by threatening to raise or reduce the quality of purchased goods and service. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increase in its own prices by raising their prices. If suppliers have high bargaining power over a company, then in theory the company's industry is less attractive. According to Michael E. Porter (1985). The bargaining power of suppliers will be high when:

- There are many buyers.
- There are undifferentiated, highly valued products
- Suppliers threaten to integrate forward into the industry (e.g. brand)
- Manufacturers threaten to integrate backward into supply
- The industry is not a key customer group to the suppliers

► **Bargaining power of Buyers.** Buyers compete within the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other all at the expense of industry profitability.

Buyers are the people/organizations who create demand in the industry. The bargaining power of buyers is greater when:

- There are few dominant buyers and many sellers in the industry
- Products are standardized
- Buyers threaten to integrate backward into the industry
- Suppliers do not threaten to integrate forward into the buyer's industry.
- The industry is not a key supplying group for buyers.

► **Threat of Substitutes.** All firms in an industry are competing in a broad sense, with industries producing substitute products. Substitutes limit the potential returns of an industry by placing a ceiling on the prices that firms in the industry can profitably charge. Identifying substitutes products is a matter of searching for other products that can perform the same function as the products of industry; sometimes doing so can be a subtle task and one, which leads the analyst into business seemingly far removed from the industry. Substitutes products that deserve the most attention are those that (1) are subject to trends improving their price performance tradeoff with the industry's products, or (2) are produced by industry earning high profits. In the latter case, substitutes often come rapidly into play if some development increases competition in their industries and cause price reduction or performance improvement. The presence of substitute products can lower industry attractiveness and profitability because they limit

price levels. The threat of substitute products depends on:

- Buyer's willingness to substitute
- The relative price and performance of substitutes
- The costs of switching to substitutes

► **Intensity of Rivalry.** The intensity of rivalry between competitors in an industry depends on a number of factors such as the structure of competition, the structure of the industry costs, switching cost, switching objectives, exit barriers, among others.

Competitive strengths and weaknesses:

Examine a competitor's strengths and weakness provides a valuable insight into its strategic thinking and actions. It is necessary to examine certain areas such as manufacturing, technical and financial strengths, relationship with suppliers and customers and markets and segment served. It is particularly important to have a detailed review of the product range, identifying where volume, profits and cash from, whether the competitor is the market leader, where it is weak and where it seems to be leading. Useful source of information are shared customers, suppliers, secondary data, sales report, exhibitions and price-cuttings. Hence the analysis of this information should be considered in the context of critical success factors, which evolve around technology, image, finance, service, quality, distribution, management or the skills of workforce. This information can be used to later to plan and launch an attack.

### Types Of Competitive Strategies

The key to a successful competitive strategy is to establish a position, which is less vulnerable to attack from competitors,

whether established or new and, less vulnerable to erosion from the buyer, suppliers and substitutes goods. According to Porter 1985 as cited by Ibidunni (2004), there are two central questions, which underline the choice of competitive strategy for any firm:

► Is the industry an attractive one as regards long-term profitability

► What are the determinants of relative competitive position within the industry?

The aim for any firm should be to develop a distinctive competence greater than its competitors. The generic strategies for achieving a competitive position in the market are, according to (Porter 1985):

► Cost Leadership

► Differentiation

► Focus

### Cost Leadership

Through the strategy of cost leadership, the company seeks a cost advantage over its competitors. This might involve efficiency, derives tight cost controls or a preoccupation with low-cost production. It might mean investment in production to achieve productivity gains, or it might mean investment in marketing to ensure that adequate sales volumes are achieved. A competitive supply market might encourage a powerful buyer to demand yet lower prices. The cost leader can deliver on those prices and perhaps still retain a small advantage; such a focus on costs and price can also have the advantage of making it less attractive for new entrants to come into the market.

Low-cost strategy: firms strive to be and remain the low-cost producer in the industry therefore making it possible for the firm to

compete against other competitors in the industry. To this effect, firms should:

- Construct the most efficient-sized plants
- Implement cost-reducing technology
- Get sales and market share needed
- Maintain a tight control over overhead and other administrative types of fixed cost.

According to Ibiduni (2004), A condition favouring low-cost strategy includes the following:

- a) When demand is price elastic
- b) When all the firms in the industry produce standardized commodity type products
- c) Impossibility of product differentiation of product that have much value to buyers
- d) When most buyers use the product in the same days
- e) When the target industry is young and has potential for rapid growth on the long run.

Differentiation strategy: in order to succeed, an organization must offer something to the buyers that the buyer values and that are different from those of other competitors in a unique way. This differentiation is usually defined in terms of better performance, better design or a better fit with the customer's needs. The aim is to create an edge over rivals and to have a differentiation package that is sustainable over time. In marketing this can be real e.g. (a produce design feature) or imaginary (a strong brand image or advertising campaign). The main advantage of a differentiation strategy is that it takes the focus away from price, and therefore might lead to the possibility of charging a price

premium. It might also generate buyer loyalty, reducing their tendencies towards substitution or switching.

Source of differentiation can emerge from any area of the market offering:

- Product branding, innovation, quality, specification, design, image, patents
- Price: price positions, price-value combinations
- Place: intensive distribution, exclusive distribution, back-up, service support
- Promotion: creativity, spend
- Service: strong trusting relationship with customers, adaptation: transaction – specific investments.

The difficulties with approach stem from environmental changes, more experienced consumer may see through imaginary difference and even question the value offered for the price premium.

### Focus strategy

An organization adopting a focus strategy is deliberately selective, focusing on a narrow group of customers, rather than on the whole market. The philosophy here is to do a little thing thoroughly and well by meeting the needs of a clearly defined group far better than anyone else. A segment of the industry is focused upon and a strategy is thereafter tailored to achieve a competitive advantage in that segment. Although focus in itself might not be enough, however the organization might have to combine it with cost leadership or differentiation to build advantage. If a focus strategy is to succeed, the organization must understand segments thoroughly, however their needs are changing and what range to offer. "If you are not

serving a segment more effectively than your competitors, then you are in a poor position” Brassington and pettitt (2003).

Conditions for successful useful of the focus strategy: according to Brassington and pettitt (2003) these are:

- i. When there is a distinctly different group of buyers who either have different needs or utilize the product in different ways.
- ii. When no other rival is attempting to specialize in the same target segment.
- iii. When firm's resources do not permit it to go after a wide segment of the total market.
- iv. When industrial segments differ widely in size, growth rate, and profitability.

#### Methods

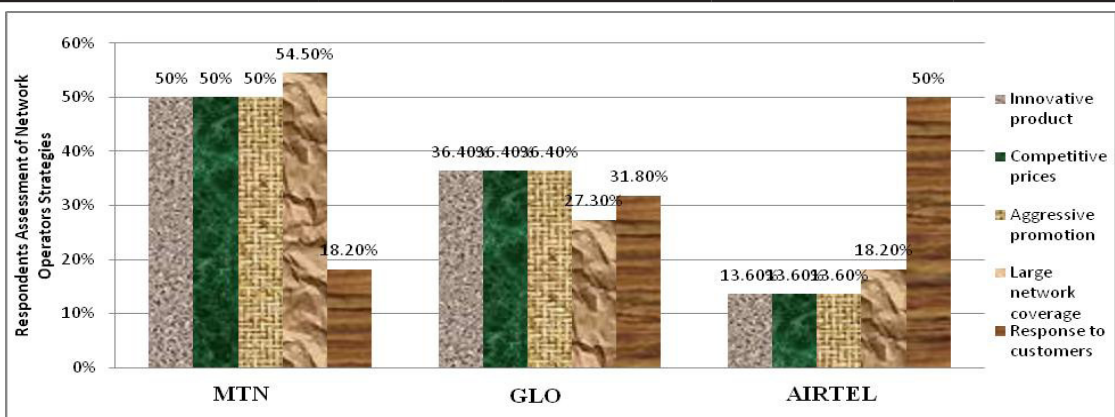
The paper uses survey method with structured questionnaire. The questions were

structured based on seven responses on likert scale type. The respondents in this study were randomly selected among teaching staff of five secondary schools in each of the following states: Lagos, Ogun and Oyo States. 240 questions were distributed in equal proportion of 80 each. Out of this, 225 were recovered back while 220, which were properly filled, were analyzed. Therefore, a total of two hundred and twenty questionnaires, which were properly filled by respondents, were analyzed. The questionnaire was divided into different sections such as bio-data, years of experience, and strategic aspects as shown in the table below.

On the different strategies used by various network operations. The views of respondents are expressed below in a table and graphical presentation.

*Comparative table of MTN, GLOMOBILE and AIRTEL use of Different strategies*

	MTN	GLOMOBLIE	AIRTEL	TOTAL
Innovative product	110 (50%)	80 (36.4%)	30 (13.6%)	100%
Competitive prices	110 (50%)	80 (36.4%)	30 (13.6%)	100%
Effective distribution	38.6%	26.9%	14.0%	100%
Aggressive promotion	110 (50%)	80 (36.4%)	30 (13.6%)	100%
Large network coverage	120 (54.5%)	60 (27.3%)	40 (18.2%)	100%
Good network service	9.7%	15.1%	21.5%	100%
Response to customers	40 (18.2%)	70 (31.8%)	110(50%)	100%



The above illustrates the rating of some of the various strategies employed in the telecom industry, as to percentage rating. Observing the table above, the illustration shows that MTN is on the frontline in employing competitive strategies, in the areas of innovative products, competitive prices, effective distribution networks, aggressive promotion, and large network base. Also GLOmobile puts up a good showing in most of the strategies indicated above. However, in the area of response to customers AIRTEL was given an upper lead. This shows that company is trying to penetrate the market by responding timely and appropriately to customer needs.

The main focus of Innovative, Competitive price, Aggressive promotion, Large Network coverage, and response to Customers rating were used rating from

Very Adequate (VA), Adequate (A), just Adequate (JA) and Not Adequate (NA) Not at all Adequate (NAA) nine items were used in all, three items on each of the areas identify. In order to ensure content validity of the research instrument, it was given to experts for criticism and suggestions. After the scale was found adequate for the study, the reliability of instrument was determined. Guttman Split-half test was used to get the reliability, which was 0.82.

### Analysis And Results

Responses were analyzed using regression analysis.

**Hypothesis 1:** There is no significant relationship between the use of competitive strategies and business success.

Table 1: Regression

R =.696 R2 =.485 Adj.R2 =.475 Std. Error = 9.1007					
Model	Sum of Squares	df	Mean of Squares	F	Sig
Regression	9660343.68	1	9660343.68	70.5359	0.000
Residual	628.24	218	136956.32		
Total	9660971.92	219			
<ul style="list-style-type: none"> <li>• Predictors: (Constant), competitive strategies</li> <li>• Dependent variable: Business success</li> </ul>					

From Table 2 the Pearson's correlation between competitive strategies and Business success is given ( $r=0.696$ ).

R square = 0.485 which implies that only 48.5% of business success is explained by the competitive strategies. The table revealed a significant effect of competitive strategies on

Business success  $r = 0.696$ ,  $r^2 = .485$ ,  $f(1,218) = 70.53 < .05$  significant level.

It shows a positive relationship between the use of competitive marketing strategies and business success. To succeed, firms need to adopt appropriate marketing strategies in the ever-dynamic world of business.

Table 2: Coefficients

Model	Understandised Coefficients	Standardised Coefficients	t	Sig	95% confidence Interval for B	
					Lower Bound	Upper Bound
	B	Std. error	Beta			
(Constant)	115.06	7.999	12.36	.000	57.42	94.22
Competitive Strategies	2.042	.426	.684	.5622	512	1.46

Table 2: provides the quantification of the relationship between and competitive strategies and business success. With every increase of one unit in competitive strategies, the business success (on the average) increases by 1.46 units,  $p < 0.05$ .

The analysis and explanation above implies that there is a significant effect of competitive strategies on Business success of

firms. Therefore the null hypothesis, which states that there is no significant relationship between competitive strategy and Business success, is hereby rejected.

**Hypothesis 2:** There is no significant effect of the use of competitive marketing strategies on other competitors.

Table 3: Regression

R= .589 R2= .347 Adj. R2 = .345 Std. Error = 6.1216					
Model	Sum of Squares	df	Mean Squares	F	Sig
Regression	885844.84	1	885844.84	56.47	0.000
Residual	3419683.16	218	15686.62		
Total	4305528	219			
<ul style="list-style-type: none"><li>• Predictors: (Constant), competitive strategies</li><li>• Dependent variable: performance of other competitors</li></ul>					

From Table 4, the Pearson correlation between use of competitive strategies and effect on other competitors is given ( $r = 0.486$ ). R square = 0.347 which implies that only 34.7% of the Effect on other competitors is explained

by the use of competitive strategies. The Table also reveals a significant relationship between competitive strategies and effects on other competitors at  $r = 0.569$ ,  $r^2 = 0.347$ ,  $f(1, 218) = 56.47$  and  $< 0.05$  significant level.



Table 4: Coefficients

Model	Understandised Coefficients	Standardised Coefficients	t	Sig	95% confidence Interval for B	
					Lower Bound	Upper Bound
	B	Std. error	Beta			
(Constant)	115.06	8.3427	11.214	.000	62.14	44.49
Competitive Strategies	4.0214	.6422	.6422	.5622	.438	1.03
• Dependent variable: effect on other competitors						

Table 4 provides the quantification of the relationship between the use of competitive strategies and effect on other competitive. Therefore the null hypothesis, which states that there is no significant effect of the various competitive strategies on other competitors, is rejected. The analysis on table four shows that there is significant effect on the use of competitive marketing strategies by an organisation on other competitors. The use of marketing strategies such as appropriate pricing policies, response to customers needs, innovative products and aggressive marketing promotions, have the effects of making competitors to be at alert and on their toes.

### Findings

- Findings reveal that competitive strategies are essential and indeed can be used as effective tools for a company's sustainability and survival in the midst of competitors.

- Competitive strategy should be seen as "the search for favorable competitive position in an industry". Competitive marketing strategy should aim to establish a sustainable position against forces, which determine

industry's competition.

- Competition is dynamic as it has change overtime and is still changing. This implies that competition at its peak today does not mean it wouldn't change in the nearest future.

- For a competitive advantage to be sustainable, it has to be difficult to copy because it distinguishes a company from its rivals, especially in situation such as the telecom industry where similar service is rendered.

- According to Brassington and Pettitt (2003) it is very important to be able to assess competitor's responses to general change in the marketing environment and to move in major battles within the market. These responses could range matching a price cut an increase in promotional spends, through to ignoring events or shifting the ground completely.

- The basis for competitive strategies is the differentiation of a company's offer to the customers, which must be enough to win the loyalty of customer and likewise attain a larger market share.

- Competitive strategy helps in placing a company in a respectable position by other companies, which put the company in



vantage in vantage position as the market leader.

- The formulation and delivery of exceptional competitive strategy is a deliberate and conscious effort to differentiate companies' product from rival competitors, in essence that its' obvious to customers and prospects.

- Finally competitive strategy is the life-line to any intending successful organization or company especially in developed economy where there is maximum competition.

### Conclusion

The paper believes that there is good competition in the Nigerian Telecommunication Industry. This has made operators to embark on continuous generation and application of competitive strategies. The aggressive nature of competitive strategies implemented by companies affect rival companies because it has made each of the competitors to be on close watch of one another. This strategic competitive nature has made companies to be more innovative, creative and highly dynamic in their operations.

However, the papers still believes that more competition should be encouraged by the industry regulatory agency and that this will make operators to be more responsive and proactive to the need and aspirations of their esteemed customers.

### Policy Recommendations

- For firms to remain ahead competition, they must constantly engaged in research ultimately to identify and adjust to changing market trends.

- Since competitive strategy is crucial

to the long-term survival of a company especially in telecommunication industry, companies should therefore identify areas where they think they can achieve a competitive advantage that will be unique to them and difficult to imitate or be adopted by other rival companies and can possibly be sustained over a long period of time.

- Due to the actual fact that service delivery cannot be separated from the service providers service companies should endeavour to render quality services and constantly improve their offers in the face of changing market dynamics.

- Pricing is an essential factor in a competitive market; telecom companies are admonished to embark on low cost strategy especially as regards to changing rate of calls across other networks.

- Nigerian Telecom companies should generally improve the provision of good network services because customer are not in any way satisfied with present deteriorating network services.

- Nigerian Telecommunication Companies should endeavour to establish their network services in other areas in the country, as there is need from consumers and potential consumers. Therefore, it is necessary to enlarge the current area as to benefit consumers and the company at large.

- Nigerian Telecommunication Companies should improve on their response to customer complaints, as it being observed that telecom companies place customers' calls to answering machine without a physical/personal response.

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# Consumers' Attitude Segmentation For Effective Market Communication: A Case Study Of Soft Drinks

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**Abstract:** *The fate of any product is ultimately determined by consumers' attitude to it. This study based on primary data attempts to stratify the demand side of the market on the basis of the intensity of consumers' feelings for a brand and it's variant. Our hypothesis results indicate that consumers' attitude to the parent brand is not related to its variants. The study recommends the need to set different communication objectives for each brand's market segment with varying intensity of advertising and promotional appeals.*

**Keywords:** Segmentation, consumers' attitude, communication objective, product variants

## Introduction

Market segmentation is a necessity if corporations are to effectively address their market with relevant need-based products. It is, therefore. Profitable for effective marketing effort is to isolate the consumers in the overall market into segments that can be addressed with need-based products relevant to each market segment. Differentiated versions of the basic products that reflect the

slight variation in consumers' tastes and lifestyles and accompanied with varying intensity of advertisement and sales promotion hold the potential for increasing corporation profit. Segmentation studies are designed to discover the needs and wants of specific groups of consumers, so that specialized goods and services can be developed and promoted to satisfy each group's needs (Sciffman and Kanuk, 2007). A market segment can be defined as "a group of present and potential

customers with some common characteristics which is relevant in explaining (and predicting) their response to suppliers marketing stimuli" (Dubois, Czellar and Laurent, 2005). Effective market segmentation enables an organization to build market niche and competitive advantage as it enhances firms ability to integrate consumers real need with their own intellectual capability to satisfy consumers need the probing and partitioning effort involved in segmentation can assist "companies in better achieving strategic and tactical objective as they are utilized in prioritising market segment opportunities" (Marco, 2001). Consequently, "a rational and more precise adjustment of the product and marketing effort to consumer requirements" [Smith, 1956] can be achieved.

The identification of market segments is a key aspect of marketing. Properly defined marketing programme should be built around the unique needs of each market segment. The importance of various attributes is one way of defining customer needs for a given product. Segmenting customers on the basis of their most important attributes is called benefit segmentation (Hawkins, Best and Coney, 2004). Furthermore, marketing as we have come to understand it as it focus on the consumers. Segmentations based on the developments on the demand side of the market provides discrete labels for grouping which organize managerial thinking and facilitate communication by providing concrete characterizations of consumers wants within the market. Marketing resources can thereby be effectively allocated. For example, advertising appeals can be more easily coordinated and media plans developed to minimize waste through excess exposure. However, market segmentation for them to

be relevant and beneficial to the corporation is best based on the understanding of consumers' behavior and the factors that influence it: Attitude, family and culture. Attitude for one is an important factor of consumer behavior and a useful market segmentation variable. It has been argued that 'consumers' purchases are governed by their attitude towards a product and its alternatives" (Mowen 1998). The fact that attitude is "relatively stable and enduring predisposition to behave" (Leon and Leslie, 1991) makes it a useful segmentation variables.

This paper intends to provide useful insight into consumers' attitude towards soft drinks. A variant of soft drink that has the most depth (versions of the basic product) is our empirical tool. The paper further seek to segment and identify a range of attitudes for these drinks and then make suggestions for desirable communication strategies to achieve profitable sales result. The study provides a useful comprehensive framework for management to guild their thinking in setting communication objectives and generating and developing advertisement messages for the product. The fact that brand attitude is the pillar upon which corporation profit rests and that attitude based consumer segmentation will ensure that product development effort and communication investment is well directed and focused for result provides justification for this study.

### Litrature Review

Attitudes, particularly the cognitive component are the basis for market segmentation strategies such as benefit segmentation and for new-product development strategies (Schiffman and Kanuk, 2007). Attitude is

an inner feeling expressed by a person's favorable or unfavorable disposition to some objects. Attitudes form the core of our likes and dislikes for certain people groups' situations, object and intangible ideals. Dubois, Czellar and Laurent (2005) defined attitude as a "predisposition to act in a certain way towards some aspect of one's environment including other people". Leon and Leslie [1991] and Dubois, Czellar and Laurent (2005) suggest that attitude is learned predisposition to behave is a consistently favorable or unfavorable way with respect to a given object. Attitude as a concept is very central to the entire field of social psychology it is such a distinctive and indispensable concept in contemporary in social psychology and "theories and methods associated with its explanations and measurement have largely evolved from the work of social psychologists" Aaker and Kevin, 1990]. However, because of its practicability the concept has found wide applications in marketing especially in consumer behavioral researches and advertisement management.

Attitude is one of the most important concept marketers used to understand consumers. Indeed, companies expend considerable funds in an aspect to influence attitude through advertisement, sales promotion and other types of persuasions. By influencing consumer attitude marketers hope to influence purchase behavior. An attitude is learnt and its formation has consistently been related to learning: classical conditioning, instrumental conditioning and cognitive learning theory. Katz (1960) as also identified the function of attitude to include utilitarian, ego defensive, knowledge and value expressive function. However, to increase the usefulness of attitude construct requires management

to develop a "clearer understanding of the causal determinant of the attitude formation and change" (Olso and Mitchel, 1981). Management need to comprehend variables that affect consumers' attitude towards their product and how to shape attitude to achieve to achieve efficiency in the sale of their products. By probing portioning consumer based on attitude management "learns the attributed that consumer's value in brand offering and conditions to portray so as to gain targets attention through advertising. The outcome of an effective consumer's attitude segmentation will be segments that are "identifiable, substantial, accessible, stable, actionable and differentiable" (Nimal, Brown, Nkandawire, Folda, Bose, and Creel, 2009; Kotler, 1994). On this basis can appropriate and effective media plans be developed that will minimize waste through excessive exposure.

Consumers' attitudes are formed in several ways, depending on the particular hierarchy of effects in operations (Schiffman and Kanuk, 2007). The sources of these attitudes are important for marketers as bases for segmentation. For example, highly brand-loyal consumers may have an enduring, deeply held positive attitude towards an object and this involvement may be difficult to weaken (Tan and Lo, 2008). The belief underlying the benefit segmentation approach is that the benefits people are seeking in consuming a given product are the basic reasons for the existence of true market segments. This approach thus attempts to measure consumer value systems and consumers' perception of various brands in a product class (Dubois, Czellar and Laurent, 2005). Belief segmentation could be useful for selecting advertising copy, media, commercial length, packaging and new product design.

## Research Hypothesis

This study is aimed at identifying consumers' attitudinal pattern with respect to carbonated waters [soft drinks] and then stratified the market on the strength of consumers' product attitude in order to facilitate focused and effective communication with the market. Therefore, we hypothesized that:

*H1a: there is no significant difference in the pattern of consumers' attitude to these four brands.*

*H1b: there is a significant difference in the pattern of consumers' attitude to this four brands.*

The attractiveness of the strategy of offering differentiated versions of a basic product is not only to attract the patronage of buyers of widely diverged tastes and preferences but also to increase the efficiency of advertising and promotional expenditures. It is assumed that the level of "affect" which consumers have in the parent brand (Fiske and Pavelchak, 1986; Broush and Loken, 1991), consumers brand or category knowledge (Murphy and Medin, 1985) will gender favorable consumers attitude associated with the parent or basic product in its variants, that is, transfer of attitude in respect of the parent brand to its versions.

Hence, we further hypothesized that:

*H2b: Consumers' attitude to the parent brand is related to consumers' attitude to the brands variants.*

*H2b: consumers attitude to the parent brand are not related to attitude to its variants.*

## Methodology of Data Collection and Analysis

Attitude is bound up in individuals; common wisdom, therefore, dictates that

individuals are in the best position to express their dispositions or attitudes for or against a product. In this light empirical data for this study was gathered through questionnaires. Questionnaire administrations were not restricted to the serving points because attitudes are relatively stable and easy to recall when such good comes for considerations" (Leon et al, 1991). In addition, the consumption of soft drinks is wide spending in the country. It is used at homes, offices or work places, on the street, traffic locations etc. it is, therefore, impossible to research the whole population of the consumer. Rather respective sample dedicated by time, financial and logistic constraints was included I the sample with questionnaire administered to bring the sample size to two hundred and eight six (286). The study adopts accidental sampling method in selecting respondents. Respondents were asked to rate each brand on a seven point liker-scale according to the intensity of their products versions as attitude is viewed "as a person's overall evaluation of a concept" (Olson and Grunnert, 1999). This rating was then partitioned into attitude segment using visual display to suggest the required communication objectives and strategies for each segment. In addition the two hypotheses formulated were tested with the chi-square and F-test statistic. The tests were carried out at 0.05 level of significance.

## Analysis and Findings

Respondents expressed attitude (table 1) gave the percentages of those expressing positive attitude, that is, ratings 5,6 or 7 to be 90.9%, 80.4%, 66.6% and 69.9% for the R, L P and G variants of the drink respectively. Those who could be taken as indifferent on



neutral ratings, that is, 4 (table 1) represents 3.8%, 4.9%, 6.3% and 8.4% of the respondents; while those in varying degrees, felt

negative 1, 2 or 3 point scores stand at 5.2%, 14.7%, 27.2% and 21.7% for brand R, L, P, G respectively.

Table 1: Respondents Attitude For Each Brand

Attitude segments	R	L	P	G
7	120 (69.75)	60 (69.75)	51 (69.75)	48 (69.75)
6	98 (81.5)	70 (81.5)	74 (81.5)	84 (81.5)
5	42 (68.75)	100 (68.75)	65 (68.75)	68 (68.75)
4	11 (16.75)	14 (16.75)	18 (16.75)	24 (16.75)
3	7 (15.25)	21 (15.25)	13 (15.25)	20 (15.25)
2	7 (27)	16 (27)	57 (27)	28 (27)
1	1 (7)	5 (7)	8 (7)	14 (7)
Total	286	286	286	286

## Results of Hypothesis

### Hypothesis 1:

*H1a: there are no significant differences in the pattern of consumers' attitude to these four brands.*

*H1b: there are no significant differences in the pattern of consumers' attitude to these four brands.*

The calculated F- value is 0.004 while the critical value at alpha of 0.05 is  $F_{3, 24} = 3.01$  since the calculated F- value is less than the tabulated F- value we do not reject the null

hypothesis and hence concluded that consumer attitude to this four brands, (the parent brand and its variants) follow the same pattern. Put differently, the consumers' attitudes to each of these brands appear not to show significant difference from one another. This is indicative of successful market effort on the part of the company which seems to have swayed consumers' response to each of the offering in the direction of overwhelming positive consumer attitudes. This is a desirable state companies will strive to attain and maintain.

Table 2: ANOVA

source	Sum of squares	df	MSS
Between samples	14.29	3	4.76
Within samples	32319.14	24	1346.63
Within total	32333.43	27	

### Hypothesis 2:

*H2a: Consumers' attitude to the parent brand s related to consumers attitude to the variants.*

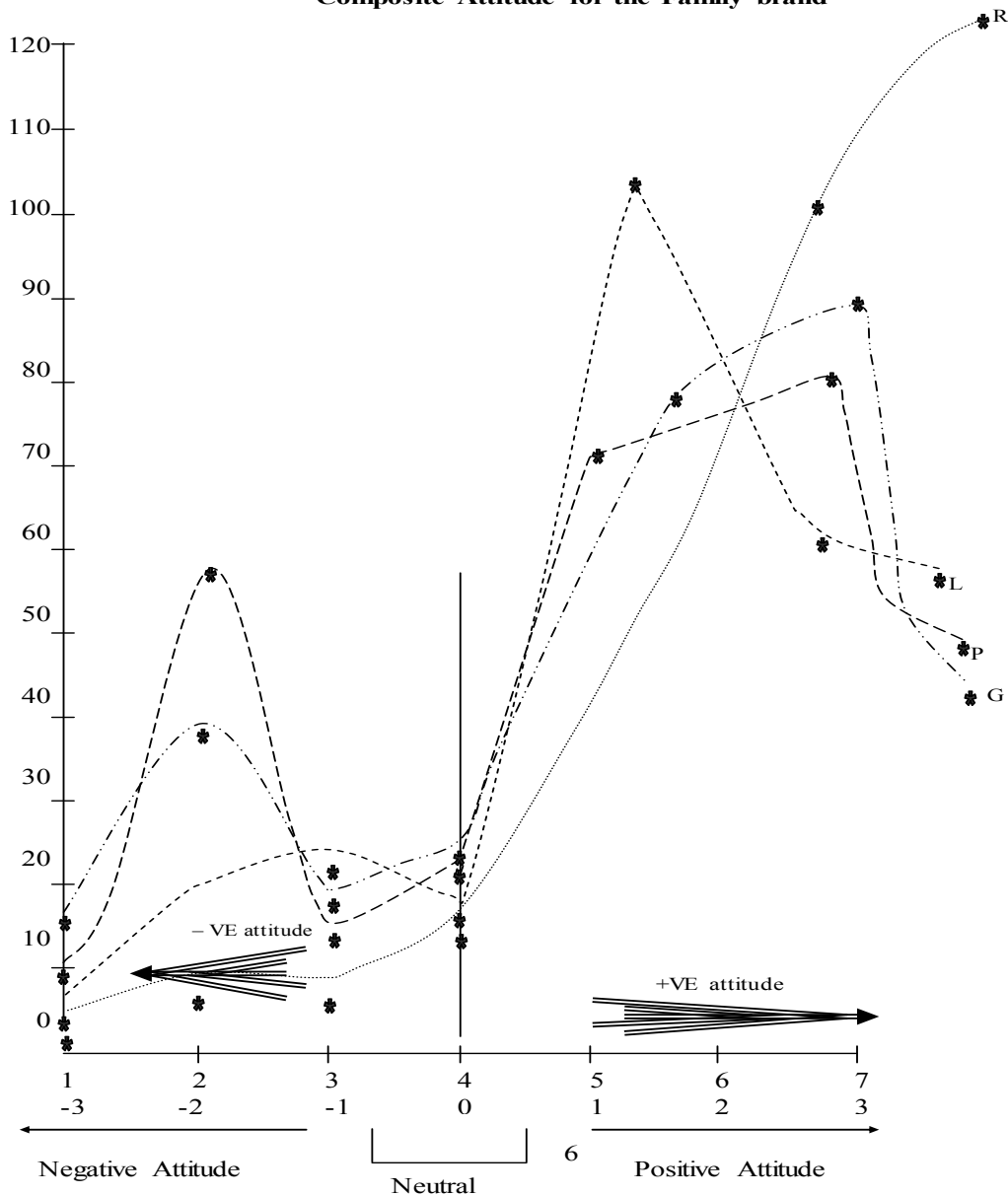
*H2b: consumers attitude to the parent brand are not related to attitude to its variants.*

Hypothesis two is not upheld seeing the calculated chi-square of 173.34 is greater than the critical value of chi-square at alpha of  $0.05 = 28.87$  (table). On the strength of this we conclude that consumers attitude to the parent brand are not related to attitude towards

variants. This findings questioned earlier studies which suggest that “transfer” and “complement” are the more important in explaining attitude towards extensions (Reast, 2005; Van Riel, Lemminto and Ouwersloot, 2001). This provides a justifiable ground to segment attitude for each brand (parent brands and the

variants) so that communication objectives can be set and advertising and promotional effort be focused on attaining the objective defined for each segment. Partitioning this respondents into attitude segments suggest seven attitude segments (graph) for each of the brand.

**Composite Attitude for the Family brand**



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**Segment 1:** this segment has a strong dislike for the brand. Consequently they will seek to avoid each of these brands. The extremeness of their dislike naturally makes them to reject the brand and probably soft drinks.

**Segment 2 & 3:** this segment range from mild dislike to an almost strong dislike for the version considered. They are unlikely to buy the drink and may even reject it if offered freely.

**Segment 4:** this segment is made up of Individuals who are indifferent to each version of the drink. They, having no strong preference or attachment to these brands and will easily shift their purchases between other brands including competitors' product. To them there is no significant difference between any of the brand and others. This segment represents potentials that can be induced to develop positive attitude

**Segments 5:** this segment showed mild likeness for each of the variants depth of their likeness for each brand will motivate them to, with their own money, buy the brand if the brand rated 7 by them is not available.

**Segment 6:** these individuals may not be completely loyal to each of he brand but will definitely prefer this brand if choice is permitted. They will buy the brand over others but may not completely loyal to it.

**Segment 7:** this segment represents those respondents of relatively heavy users. They are fully satisfied with the brand rated 7 and probably are strongly loyal to it.

Overall the graph of these attitude segments for each of these drinks, except for the chap taste brand [brand P can be said to be positively skewed (graph). These attitude

expressions, however, have implications for advertisement objectives, messages and intensity of communication.

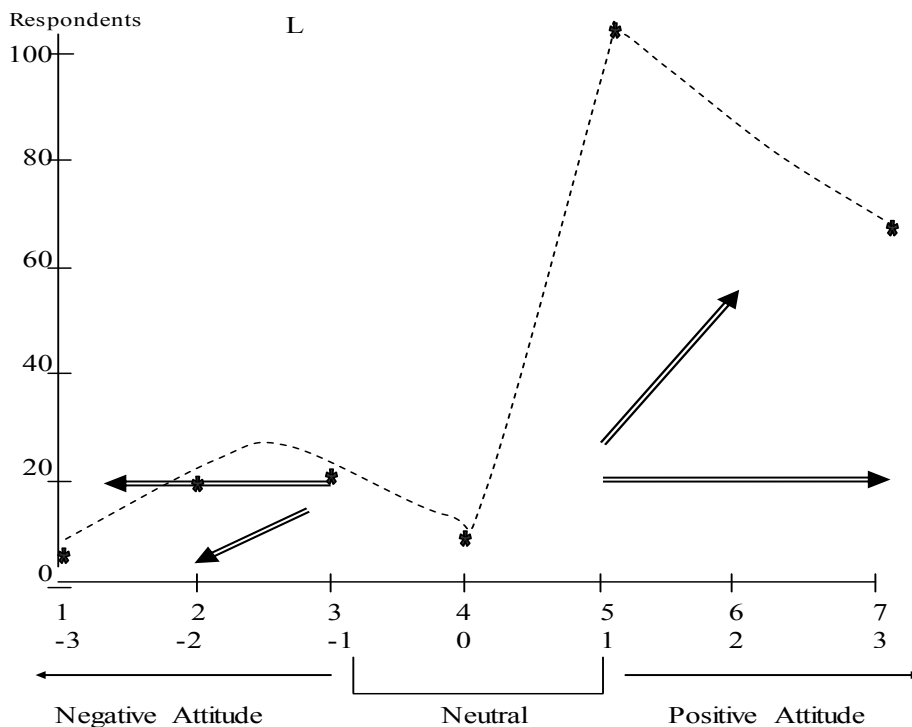
## Discussions and Conclusion

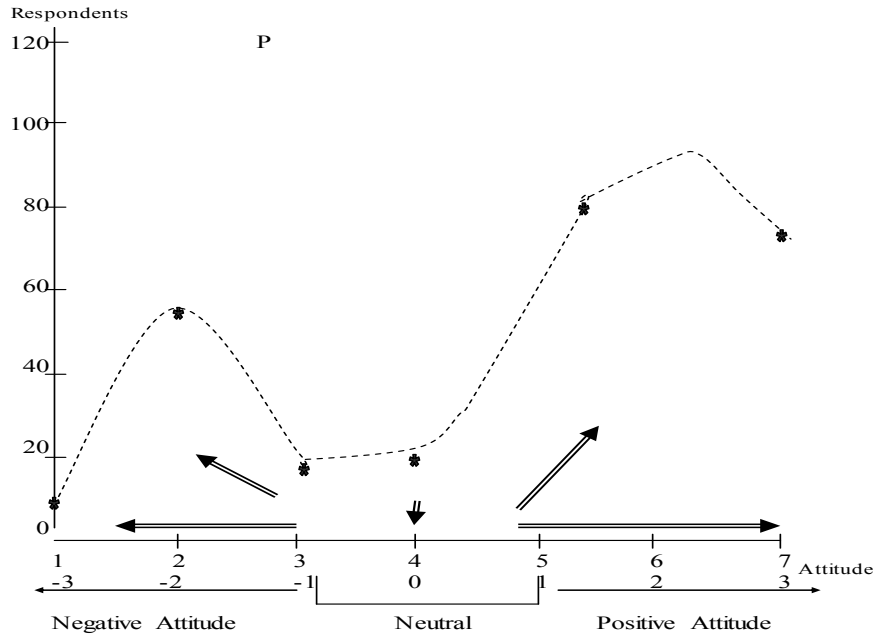
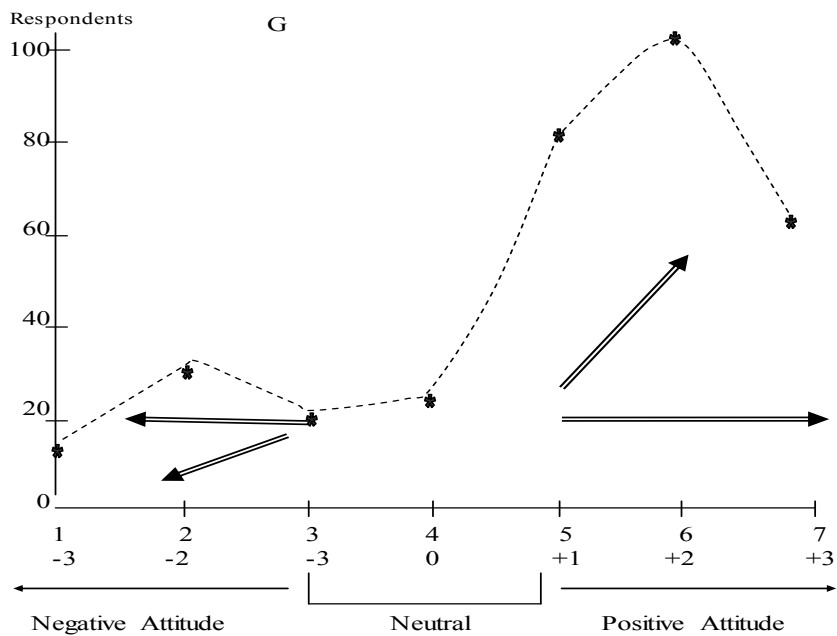
Findings for this study indicates that consumers holds different attitude to this drink with the basic product (orange taste) enjoying the most favorable evaluation. This attitude segmentation provides us a framework to guild our thinking in respect of the kind and the objective of communication required for each of the product versions. This is necessary because the study finds that consumers attitude to the parent brand are not related to consumers' attitude to the brand variants. This suggests the need to apply earlier studies in line of "transfer" and "compliment" with care when advertisement and promotion effort is to be planned for in the soft drink industry. For each of the brands, therefore, the communication objective for the segment holding negative attitude is to create positive attitude, especially in the segment holding extra stream negative attitude, that is, to change or reverse this attitudes to become positive. The frequency of communication with this segment should be high. And, their attitude can positively affected by altering consumers' perception of the components of the multi-attribute model (that is, either the belief or evaluative component) as it relates to components (belief or evaluative component] that must be influenced to ring about or increase positive attitude. It is suggested that carbonated drinks (soft drinks) bottlers applying this study should devote effort at knowing current consumers beliefs about their brand(s) and its attribute discovering consumers' beliefs or product/attribute

evaluations is an asset if such knowledge is employed in advertising to change consumers' product belief or improve their evaluations. A deeper focus might reveal the need to, for example, to add and emphasis in the market communication new salient belief about these drinks or link more positive high order consequences to some of the product attributes. Those who are neutral to any of these brands are the immediate potential consumers that can be led to develop positive attitude to these drinks. Indeed, each can be advertised with motivational themes derived from the analysis of the characteristics of this segment. The objective is to build the brand image and tilts the consumers to positively evaluate the brand and become loyal to it. Communication effort could be focused on making the existing favorable belief

more pronounced or salient and, or improve the evaluation of strongly held belief about these drinks. It is somewhat useful to extent this idea to all the segments: analyze the characteristics of each attitudinal segment to determine its basic motivational structure. Stressing social appeal by showing valued people having 'good time' with the brand will be a potent tool to moving the neutral segment to develop positive attitude to these products. This is derived from the fact that attitudes are formed not only through direct usage experience but also through contact with family, friends or associating a product with admired celebrity. This is the part of attitudinal conditioning which explains attitude formation by the way in which evaluations are transferred between stimuli if these stimuli have been paired frequently.

#### Attitude Segment for brand 'L' (A Variant of Brand R)



**Attitude Segment for brand 'P' (A Variant of Brand R)****Attitude Segment for brand 'G' (A Variant of Brand R)**

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## Effects of production relocation on human resources

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**Abstract:** Extensively discussed and analyzed (many times controversial), globalization is accepted as an objective phenomenon, by its size and unrivalled evolution in the world history. Both globalization and regionalization have emerged and developed as a result of the unprecedented intensification of competition among economic agents, countries or regions. Many countries have been helped to develop at a much faster pace than they would have normally done under other circumstances. An advantage of the accelerated development of their economies was explained by reducing barriers to international trade (as a globalization effect). The international trade can significantly contribute to the growth of a nation, and on its turn, being influenced by the exports, represents the central component of a state's economic policy, one that contributes to improving living standards of millions of people and to the national development. (Drucker, P., 1997). However, this requires a shift of the human factor from one area of the world to another. The temporary or permanent migration, driven by the economic development, may still be an important element to strengthen the power of certain economies on the detriment of others? Absolutely. In fact, the economic future will be a regionalization of wealth in other areas than those well known. And this will lead or amplify, at every level, the social, politic, economic and even military confrontations.

**Key words:** globalization, regionalization, relocation, forms and effects of the relocation.

### 1. Introduction

The environment in which companies recently develop has radically changed in the

past ten years. The customers took control and they accept less and less to be perceived as mere members (anonymous) of a collectivity and want to be treated as a distinct and

concrete individuality.

If, in a not too distant past, companies were independent, belonging to one country, gradually, as they approached the client, they encouraged a process of transfer of the production to other geographic areas, by placing subsidiaries and branches, characteristic to the „new economy“ based on advanced technology, high performance, which allows certain processes to be more efficient if they are made by other companies (also). The parent companies hope to gain important profits by using local, cheaper resources, but the host country is also in advantage because the foreign companies absorb a part of the local workforce and the products made here are marketed to the company-parent, thus encouraging international trade flows and jobs in the field.

According to experts, the world market globalization leads to increased skills, to a more efficient economic activity, but also to a reduction in the employees' social protection. In any place in the world, where goods or services are freely negotiated, never to take into account any border, employees are caught in an apparently unstoppable maelstrom of their own value assessment.

One of the most important manifestations of the current globalization process is the relocation of production with direct impact on the labour market.

In the new model, different from the typology of the traditional theories of economic development, a key role is held by the increase in competitiveness due to the differentiated use of the labour factor at global level, as well as of the costs associated to it. The fundamental hypothesis of the Heckscher-Ohlin model and the theory of international trade appear to lose validity as the relocation of

production is in continuous expansion as well as the trade with intermediary goods, which induces changed in the labour demand on the world market (in the developed countries, the scarce demand for the low-skilled activities and the increase for those requiring high skills created bigger disparities between wages).

In fact, we are assisting to a transnational exploitation of production factors, which alters the credibility of traditional tools of assessing the economic growth within a particular national space, as well as the real contribution of its various components, both as supply and demand, especially the foreign one. Thus, the flow of intermediary goods subject to so many transformations, crossing so many borders and distorting national (foreign trade, manufacturing, balance of payment etc) and international statistics, is, in essence, only a work transfer. In most cases, because of extremely high differences in labour costs on the global market, in order to make costs more effective, the production of goods and services has to be oriented according to this variable, which, in its turn, influences the movement of capital flows and even the workforce flow.

The configuration of the world economy depends more and more on decisions to optimize the allocation of resources at world level (Druker P., 1997), as well as on how each state leverages its comparative advantages in labour costs, attracting a smaller or bigger part of the sub-contracting at world level.

## 2. Literature review

There were many theoretic approaches, both in our country and abroad, either by experts used to observe and analyze the economic phenomena, or by the managers who live them – create and shape them according to the market signals. There is no surprise the

concepts of globalization, relocation of production and labor market are taken together by names like Bari, I., Bauman, Z., Brezeziski, Z., Friendman, Th.L., Iancu, A., Marin, D., Soros, G...

### 3. Paper Content

In this context, the relocation of production may be defined as the displacement of the economic activity from the country of origin to another country in order to achieve a lower cost of the production factors, accompanied by the closure or reduction of activity in the country of origin in order to expand abroad.

In most cases, foreign investment in developing countries is a representation of the relocation process. In search of lower cost of the production factors, the western countries invested in these countries in order to enter their own markets with products made with a higher degree of competitiveness.

If we consider the relocation of production and services involves a transfer of jobs from developed countries to developing ones, the key issues that arise are:

- solving problems caused by increasing unemployment in the first group of countries;
- Sustainable economic growth induced this way, in the second group...

Generally, the mechanisms used by companies to relocate their activities to foreign destinations are:

- *Offshoring* – the location by a company from a particular country (called the parent country), of parts of its activities abroad by setting up subsidiaries or branches, while retaining ownership of the entire production process. The level at which this activity take place is intra-company;

- *Outsourcing* – the process of contracting, by a company in a certain country, of parts of the production process (including production services for IT, accounting, human resources management etc.) to suppliers located in other countries. This is a process made inter-companies.

#### 3.1. Relocation by offshoring

The economic logic of this process is to reduce costs by exploiting the comparative advantage held by the country of destination, through reduced labour costs. So that the parent-company will be able to sell freely, at good prices, the products obtained in the host country with lower costs than using local workforce.

##### 3.1.1. Production offshoring.

Involves moving production units to places with lower costs.

Product design activities, as well as the research and development processes which lead to new products are relatively difficult to relocate. This is because research and development necessary to improve the products and create new design standards require skill levels that are difficult to obtain in regions with cheap labour. For this reason, in many cases, only processing will be relocated by the company that wants to reduce costs.

##### 3.1.2. Services offshoring.

Increased relocation of services is facilitated by the existence of an important available infrastructure which, in the conditions of extended digitization of many services, made possible the change of location to countries with low costs, in a transparent manner for the end users. .

This process generates benefits for the host country and for the parent country

through free trade: creation of jobs for the country of destination and goods and services at lower costs for the country of origin, while both the countries register a GDP growth. The total number of jobs will increase in both countries, when workers in the country of origin (left without jobs), can orient towards jobs requiring higher skills, for which their countries hold comparative advantage.

If a company moves production of goods and services to another country, its investments, not being made on the domestic market, are transferred to the foreign market (Zaman, G., Geamane, M., 2006). The offshoring creates and strengthens the competitive industries in the host country, while, strategically, lowers their counterparts in the countries of origin.

A solution for the workers made redundant through the process of offshoring in the countries of origin is retraining for new jobs. Requalification in another field, at the same skill level cannot be considered an option in most of the cases, because of the large number of years of study and the costs involved.

### 3.2. Relocation by outsourcing

Most of the times, in order to define the transfer abroad of manufacturing operations, processing, transformation, assembling of goods and/or provision of services (computer, financial, legal etc.) we use the term "outsourcing", which could be translated by "subcontracting."

Although outsourcing often refers to goods and services, expressing the typology of this complex phenomenon, in the current commercial language, in order to define the temporary import of goods for processing

(assembly, processing, repair etc.) and re-export of the products, we use the expression "inward processing". The reverse, the temporary export of goods for processing in another country and re-import of the products is called "outward processing."

Among the reasons why companies turn to outsourcing are:

- reducing operating costs;
- the company's focus on a wide range of business segments;
- the implicit access to investments in technology, methodology and labour ;
- reducing the capital to be invested in adjacent business activities;
- risk sharing between several companies;
- company's resources orientation towards basic activities;
- smoother tracking and sharing of costs;
- achieving additional benefits: specialized, complete solutions, of a professional level, ease in installation and configuration, integrated, powerful, flexible and reliable applications, increasing productivity and efficiency, reduce or even eliminate storage needs, more motivated employees (they will be more intensely involved in activities for which they are qualified, increasing their self-esteem).

In our scientific approach we considered that, according to the mechanism of generating the process of relocation of production, it is possible to measure its expansion, in the two directions. Thus:

- the share of multinationals doing business on the territory of the host country (offshoring) can be reflected in the foreign direct investments (FDI);
- the share of overseas transfer of

operation of processing, assembling of goods and/or provision of services (outsourcing) could be reflected by data on trade, especially inter-company trade and trade with intermediary goods, the commercial balance account etc.).

### **3.3. Workforce in Romania – contributing factor for relocation**

The human resources, the social capital, the education and research, are key factors at the base of multinational corporate decisions to relocate their production in our country.

The relocation of production is intended, first of all, to get a lower cost of labour in other country than that of the investor's. Thus, labour costs in Romania are at the lowest levels in the region, transforming the country into an attractive target for foreign companies.

Even if this situation affects the purchasing power of the population, it can also bring advantages, in the sense that more European companies could consider transferring production to Romania. In addition, investments in countries with very cheap labour, like China and India, have the disadvantage of higher transport costs of finished goods to Europe, which counterbalances the savings made with the salaries.

Another reason why Western companies invest in Asian countries is the fact that they gain access to the local market. Locally, in the host countries, the companies' sales are protected to a certain extent, because, a raise in salaries and production costs is associated with an increased consumption and therefore of the sales. In the same time, also in Romania there are wage differences between employees in different sectors.

The results show that employees working in certain sectors, such as financial and air transport, get bigger wages, while those employed in agriculture, hotels and restaurants, food industries, have the lowest incomes.

On the one hand, it was assumed that there is a positive correlation between the size of the company, wages and wage differences between the sectors. For example, wages in sectors dominated by large companies are higher than those in sectors where the majority is made of small companies. On the other hand, there are only partial explanations regarding the effect due to the size of the company on wages. It is known that certain industries employ staff with high qualifications (financial, air transport, telecommunications) and are highly capitalized compared to other sectors and therefore offer their employees higher salaries. Finally, some industries offer harder work conditions (risky) and thus must pay higher wages.

### **3.4. Relocation in Romania**

#### **3.4.1. Relocation as direct foreign investment (DFI)**

In the vast majority of countries in transitions, relocation is represented by direct foreign investment. In search for lower costs of production factors, the Western companies invested in these countries in order to introduce the products obtained on their own market, with a higher degree of competitiveness.

Multinational companies substantially contribute to increase the number of foreign investments motivated by a growth in efficiency, with important implications on exports for the recipient country, on economic growth or competitiveness. The latter requires the development of new markets, both

to reduce production costs and to better capitalize the final result, but it also obliges to address new forms of international production, ownership and contractual agreements that potentiate their market power, such as mergers, acquisitions, minority or majority participation, public exchange offer etc.

It should be noted that such investments were a characteristic, almost exclusively, of the European Union countries. The association agreement concluded immediately after the 1990 and the steady trend of the transition countries towards integration favored the investment flow to these countries, which have become perfect areas of relocation for companies of the member countries. Thus, one can consider that relocation investments have been an element of approach and training for the economies in transition by/and for the European single market.

Using cheaper production factors from the countries in transition has not only meant creating jobs and a certain contribution for their economies, but also a substantial growth in their compatibility with the requirements of the European single market (Druker, P., 2001). The products, destined to this single market, were fully compatible and competitive, which meant the creation, in the candidate country, of an entire infrastructure of production and a managerial mentality required by EU rules.

The investments of EU countries in candidate countries, whether private or public, were characterized by the presence of a "European spirit", translated by the knowledge that they will all be part of the EU capital in the future. Investments were always aimed not only to immediately and under any conditions make the invested capital efficient, but also to ensure this efficiency by

making its structure and management compatible with the European single market requirements.

In a country undercapitalized like Romania any foreign investment is and will be welcome. The beneficial effects of foreign investment on the Romanian economy, from creating jobs to the transfer of management mentality, matters and a growth in investments is automatically a factor of the economic growth and of raising the living standard. But any foreign investment should be analyzed not only through its efficiency effect, but also in terms of contribution to the integration effort. It is not enough to create new jobs or develop production, it is also important to increase the quality of jobs and the type of industrial development.

Romania continues to be, in terms of foreign investments, on one of the last places in the ranking of countries in transition. This difference could be explained by the position of policy makes towards direct foreign investments, which differ both in content and consistency.

In Romania, until 1996 there was a stable and attractive legislative frame, but the privatization offer was very low and did not include public utilities or banks. In the period 1997-2000 the situation was reversed, the legislative institutional framework had become extremely unstable, but the privatization offer increased significantly. After the 2000 elections, the promotion of direct foreign investment was distribute among several institutions without an adequate budget, a reality completely different from the rest of the countries in transition. The year 2004 was a very productive one for the Romanian Agency for Foreign Investment, 50 new projects, whose combined value exceeded 3.3



billion euro, being in different stages of implementation. In 2005, new areas appeared, especially in the export-oriented industries.

To call on foreign investments is necessary and must be seen as a positive factor from many points of view. One of these is the fact that for the Romanian economy in transition the role of direct foreign investments is crucial, as our country is in closer relations of cooperation with the EU countries as a result of joining the EU in January 2007.

Small companies and individual investors can act on an imperfect market, because they have minimum inertia, are not involved in large investments with long technological cycles and can quickly capitalize favorable cyclical situations. In this context, we can estimate that increasing the number of medium-sized companies among foreign investors will be a true barometer of the normal functioning of the Romanian market economy. The SMEs are more vulnerable than large companies in the current processes of trade liberalization and economic integration. In this context, their ability to survive, to achieve a size which is efficient from the economic point of view and to create new jobs depends on a number of factors, including their ability to innovate and engage in co-operation activities.

In order to become a functional market economy able to compete on the single market, the Romanian economy should strictly follow a strategy of priorities, whereby emphasis is placed on those industries and areas with the chance to become compatible with EU structures and markets. The prospects for development of foreign investments in Romania are moderate. Progress made for the EU accession can be a positive factor, but it is not enough. It is expected that the direct

foreign investments in Romania to experience a slow growth on medium term, a real change can only be expected when the stage of functional market economy is attained, when the sustainable economic growth is resumed, when certain structural modifications in the Romanian economy are made, when the private sector is strengthened and the legal and institutional framework is stabilized.

Romania has been and could continue to be a destination increasingly attractive to foreign investors by EU membership, adoption of the EU *acquis* and the low price of high qualified workforce compared to other EU countries. Taking into account the gradual reduction of transaction, financing and production costs which is lower in Romania than in the other member states, it is possible to witness the relocation of production processes here. Romania could become more attractive to investors coming from non EU countries such as Japan and the U.S., because they can avoid customs duties on exports to the European market, with direct implications on the product's price.

The main domain for foreign investors was industry. In an analysis regarding foreign investments on fields of activity, between 1991 and December 2005, industry ranked first (52%), followed by professional services (21.7%), commerce (14.9%), transport (7.1%), tourism (1.8%), construction (1.7%), agriculture being last (with a rate of 0.9%). Land prices, lower than in other countries in the region, the developed infrastructure, the skilled and cheap workforce, the existence of production abilities and tradition in the field, were the main reasons for which investors turned to industry.

The distribution on the eight regions of development of these capitals accounting for

FDI shows a very uneven distribution. Only Bucharest-Ilfov region has attracted 710 million dollars of the total of 1.13 billion dollars. The largest investor in the area at present was Mobifon, where shareholders in Cyprus, Netherlands, U.S. or Ireland decided to invest \$ 228,500,000 in the mobile operator.

Another pole that attracted major investors is the Central region, the value of investments amounting to 140.6 million dollars. Austrians are in the top (with investments of \$ 64,000,000 in a wood processing plant called Holzindustrie Schweighofer) and Germans (who built a Selgros store in Brasov totaling 22.8 million dollars).

In a classification on regions the third ranked South-Muntenia (with investment of \$ 94,200,000), then: North-West region (74.6 million dollars), West (55.96 million dollars) and North-East region (41.5 million dollars). The counties located in the south-east and south-west of the country have been bypassed by foreign investors. Statistics showed that the Dobrogea region attracted only 9.3 million dollars in significant investment, while Oltenia only 4.4 million.

### Effects for the host country

#### A. Advantages

FDI can have major positive effects on the economic climate of the host country by transferring capital, technology and managerial resources that otherwise would not be available for the respective country. The FDI effects on employment are both direct and indirect. Direct effects occur when, by opening subsidiaries it is created an offer of jobs where locals are hired. The indirect effects are the creation of jobs in the upstream and downstream sectors where direct investment has been made, driven by collaboration

between foreign companies and local companies (supplies, distributors) which increase capabilities. Generally, indirect effects are at least equal to the direct ones.

There are three major potential effects of FDI on the balance of payments:

- Through the opening by a foreign company of a subsidiary, the credit capital account of the host country increases with the initial capital investment;
- The balance of payments is improving because what was previously recorded as import in the relations with the host country now disappears because the production units in the host country;
- If the parent company uses a subsidiary to export goods and services in other countries.

#### B. Costs

The most important negative effects affecting the host country are found in the competition with local companies, negative effects on the balance of payments and the sovereignty and local autonomy.

### Effects for country of origin

#### A. Advantages

First of all, regarding the capital account of the balance of payments, the earnings from the foreign subsidiaries are returned to the country of origin.

Similarly to the effect on the balance of payments, the degree of employment can be increased, if it is created a demand for the import of certain components from the mother country in the host country.

The foreign companies can improve their management and production technologies. If they pass and implement the knowledge acquired in the country of origin, the result will be a net gain for the economy of this country.

### B. Costs

The capital account is deteriorating because of the initial flow of FDI capital required.

Jobs created in the country of origin are actually transferred or exported into the FDI host country.

In 2005, through FDI 197,000 job were created across Europe, a figure down 13.5% compared to the previous year. This downward trend is explained by the average of jobs created by each project. If Western Europe was characterized by many projects, with a small number of related jobs, on the contrary, due to lower labour costs and green field investments, Central and Eastern Europe had a small number of projects, but each with a considerable number of jobs. 97,880 jobs were created in the region, among which 37,775 only in Poland and 12,395 in Romania. .

The FDI exercises on the employment market both direct effects ( by creating new jobs, by opening new branches in the host country) and indirect effects (creation of jobs upstream and downstream that sector, driven by collaboration between local companies with foreign companies – suppliers, distributors – which are improving their capacity). Generally, the indirect effects are at least equal to the direct effects.

For this reason, achieving a precise and very direct correlation between attracting FDI and creating a number of jobs is quite difficult. It can be done, however, a correlation between the changes in the share capital of companies with foreign participation in the period 1991-2005 and the evolution of unemployment at national level for the same period. In general, high levels of share capital of companies with foreign participation correspond to low values of unemployment.

The conclusion may be extended in terms of unemployment, i.e. employment of work-force in developing regions. The curves that represent the unemployment of each region of development usually follow the curve of unemployment at national level, as a trend, but at different levels, since each region has a different level of attractiveness for foreign investors.

It should be mentioned the tendency to locate human resources in the recent years, due to increasing FDI in:

- Clothing and footwear industry, due to the sectors' offering large capacity, traditions and existing skills plus the ability to develop and design skills and create new products with higher added value;
- Production of furniture, in the wood-working industry, because of the existence of raw materials and the necessity to exploit it rationally, protecting the forests by creating products with higher added value of less wood. The furniture industry has a long tradition, its contribution to development is important and the number of persons employed is high.
- IT&C and offshore outsourcing because of the high potential of human resources, the increasing importance of IT outsourcing worldwide and its ability to stabilize and preserve the country highly skilled workforce, thus stopping its outward migration;
- Specialized metal parts and components for the automotive industry with high added value due to continuous specialization in the world market combined with the growing importance of global value chains relocation;
- Electro-technical products, because of specialized and technical skills, ability to

improve and export technical content with high added value ;

- Tires, rubber goods, benefiting from tradition, the existence of strategic FDI and a great capacity to adapt to market conditions, with specialized products ;

- Plastic products, pharmaceuticals and fertilizer, chemical industry sub-sectors that have managed to adapt better to the period of transitions and to orient towards products or services required by foreign markets;

- Viticulture, glassware and handicraft sectors namely the sectors where are very important competences and creation of competitive advantages by capitalizing culture, tradition or natural environment, conditions and aptitudes. Their potential to combine the synergies with tourism is also significant.

- Rural tourism, spa treatment or organic farming are areas in which consumer behavior show a growing interest worldwide and where Romania has the unique goods that it can offer such as environment, culture and tradition;

- High potential services (promotional event, transport, consulting, engineering, finance, quality management, creation of skills, research and development, environment etc.) thanks to heterogeneous reasons such as: availability of highly trained human resources (engineering, consulting, research and development).

From the analysis of trade relations and investment strategies structure of certain companies that have invested significant capital to take advantage of low labor cost, but have not shown any concern to overcome the Lehn production, which makes the respective fields less compatible with the single market. Lehn production is not a preparation for the Romanian industry for

the state of competitiveness needed for 2007. Even though many say Lehn could be useful for our economy for a long time from now, it has to be considered that it is less productive in terms in value added tax in industry as a whole. Romania should be oriented towards EU foreign investments, towards achieving the state of integrated economy by fostering development and the innovative and marketing segments. In this way we could have an industry that would meet the requirements of the single market in terms of value added tax.

Production development strategy should consider the product's compatibility with the single market requirements, bringing income and consumer type on the Romanian market at EU level, and not the disparities in structure, standards and quality of consumption among different national markets present in the EU. Creating a new product, destined only to the Romanian market and other outside-EU countries, not only marginalizes Romanian production in terms of access to EU market, but also questions the extent to which the respective investor supports Romania's integration in the EU.

### 3.4.2. Relocation as outsourcing in Romania

The twenty-first century tends to be characterized by a new organizational formula in terms of international businesses, derived from capitalizing comparative advantages at world level, by which the parent companies (usually cross-border) maintain the single control center, but create a system whose functional sectors (technical and material supply, research and development, production and sales) are placed in other different companies, owned by themselves or by partners, from different countries. It is

becoming increasingly clear that the global economy is in a phase of deep and rapid change, the process of outsourcing bringing a major contribution to the vertical integration at world level of these activities. Among the contributing factors of such an extension and which complete the variety of comparative advantages is: lower transport, communication and coordination costs, liberalization of international trade, as well as the geographic vicinity.

The global outsourcing of goods and services involves more or less visible cross-border movements, which are measurable. Although, in what concerns the goods, there are control and tracking systems imposed by customs, most often they are not filled with the specific instruments needed for the economic analysis. Regarding services, things are more complicated due to multiple transfer ways (telecommunications, internet etc.), which makes it difficult to correctly assess these flows.

The extent of international trade of goods as processing, respectively the mutual supplies of goods (raw materials/finished products, components/assembled products etc.) can be demonstrated by the fact that statistical data on world trade places such activities at a level of 40%. Some Eastern European countries (Hungary, Romania) hold 50% (and over) from the total of exports for this type of operations.

The reason this type of activity is so extended is that both partners benefit from it, even though in different proportions (Bauman, Z., 1999). On short term the advantages are:

- The general contract holder (usually from a developed country) obtains products with lower costs than those found in his

country of origin, and therefore more competitive on the market;

- The subcontractor, respectively the operator from the third country (usually a developing state) makes a profit, often modest, but steady.

However, on long term the operator's profit can be much higher, if he can obtain, free of charge, know-how and to adapt it to a production on his own for the domestic or foreign market.

Perhaps the most important effect of processing in the developing countries, particularly in Romania, by connecting in real time to changes on global demands, is the potential to accelerate the functionality of the domestic market and its integrations on the European single market and on the world market.

The main risk in the processing operations is represented by the fact that the host countries cannot assimilate the productive qualification, the expertise and the market and sales strategy, and in the case those operations will be relocated in other regions that offer higher comparative advantages they will be in a state of collapse or in a less serious situations, but generating social costs.

In response to growing pressure from the developing states in the traditional sectors, even cross-border states have adopted strategies of international fragmentation of production, transferring parts of it, initially labor-intensive related sectors/activities, and then capital-intensive sectors/activities, to geographic areas with lower costs in this respect.

The extension of the active processing phenomenon, namely introducing in Romania (as temporary imports) some raw materials, components etc. and their



re-export after being processed in the country, can be highlighted by the analysis of the foreign trade evolution according to the customs regime of export and import goods (Zaman, G., Geamane, M., 2006).

Once Romania joined the EU, as a result of the appreciation of the national currency and the growth of real wage, Romania's comparative advantages were reduced, especially on workforce costs, which influenced the degree of attractiveness for the active processing.

If the extension of active processing in Romania is in essence a positive phenomenon, with an important contribution to the GDP creation and growth, its economic, and not commercial, motivation makes a correct assessment of the status of our country's foreign trade to exclude this component from the whole image and to strictly concentrate on products subject to final export/import.

The value of goods imported as FDI is nominal (not their actual payment) and increases, artificially, the value of the total imports. It is also included in the value of the FDI exports, nominally (what is actually charged is the amount of active processing operation)

Companies that produce using this operation benefit of certain fiscal facilities: exemption from payment of import custom duties for goods intended for re-export, after undergoing processing, repairs. Also, they will receive back the duties collected when the final products are exported, this system being introduced as an incentive for economic operators.

What is important is that all goods introduced in Romania under customs postponed payment of exercise regime remain the property of the respective foreign

company. Consequently, their subsequent introduction in Romania's exports, together with the Romanian products, appears only as a statistical convention, which should be considered in the correct interpretation of the data regarding the evolution of foreign trade and the real export potential of our country. In most cases, imports are temporary, with nominal recording of their value, and can be found both in the number of total imports and exports. What is significant in terms of flow of payments is only the difference between exports after the active processing and the respective temporary imports, namely the corresponding currency contribution (consisting mainly in the value of actual work submitted in providing such services).

After the CMEA trade disappeared, the Romanian trade flows were gradually oriented towards the EU, especially after Romania signed the European Association Agreement in February 2002. More important than its relative size, namely the increase of Romanian exports in the EU, from approx. 35% in 1992 to approx. 68% in 2003, accompanied by a significant increase in total EU imports, is the increase in the total value of exports in EU, from only 1.2 billion euro in 1992 to 10.6 billion in 2003, as well as the imports from the EU, from approx. 2 billion euro to more than 12.2 billion euro in the same period.

After accession, Romania was selling 73% goods to developed countries, although their share in total exports decreased by 1.6%. Mostly, the increase in trade flows was not due to economic restructuring, to increased competitiveness of Romanian products or to the promotion of a successful trade policy, but it was based on the fact that our country has been used as one of the very few sources for global outsourcing.



The final exports were and remain undersized, reflecting the modest potential of our economy compared with the requirement of external markets. In the structure of final exports, raw materials or products with a low degree of processing prevailed (food, minerals, chemicals, wood, metals), which together account  $\frac{3}{4}$  of these; this data shows the low external competitiveness of Romanian products.

Approx. 46.2% of Romania's total exports were exports based on a subcontracting agreement. Of the total exports to the EU, 58.6% were exports based on subcontracting certain activities from the developed countries. The best known examples are in the clothing industry, footwear and electrical machinery, because of low labor costs and the need to modernize the production capacities of Romanian companies.

By analyzing the amount of imports and exports by main product groups subject to active processing, we can clearly observe the increased amount of exports compared to imports, thus creating an image of the size of labour contribution in attaining them. It is basically an export of workforce, and not a "clean export,"

Besides the fact that Romania is known as a major exporter of textiles, garments, and auto parts obtained by active processing, more and more this process began to be introduced also in the food industry, where this type of production accounts 19.1% of total exports.

Even if the active processing system permitted the transformation of local producers with low financial potential in subcontractors of international companies, the great disadvantage is that economic agents cannot grow their businesses, because they do not have

the possibility to carry out similar productive activities on their own. Although the contribution of machine building industry in increasing the degree of complexity is notable, we can observe the predominance of components' production at the expense of designing and marketing our own brands. Moreover, from the macroeconomic point of view, this type of exports cannot cope with the increase in imports, which will lead to an increased trade deficit (Iancu, A., 2008).

The advantages for the Romanian economic agents offered by the practice of industrial activities by means of active processing are:

- Ensure jobs for approx. 500,000 workers in the industrial fields;
- Faster introduction of new technologies in industries where these activities are practiced;
- Staff qualification and professional training, particularly for the management staff;
- Growth in industrial education, changing mentalities on quality products and educating workers to make products for export;
- Facilitate the acquisition of know-how practiced by big international companies;
- Ensure the necessary conditions for Romanian companies in terms of quality standards;
- Increase competitiveness of industrial products and enlarge the market for Romanian exports and for the import of material resources.

The disadvantages of engaging in industrial activities based on active processing in Romania:

- The impossibility for Romanian economic agents to equally share the financial

results obtained from these activities, because they do not participate in the decision-making process regarding the prices of the imported material resources and finished goods;

- A low level for their workers' wages;
- A diminished possibility to promote on the internal and external market products with their own brand;
- The permanent risk of reduction in the number of jobs, because the price of labour in Romania is increasing and this type of activities may reorient towards other countries, with cheaper labour (Ukraine, the Russian Federation etc).

The present trends in practicing industrial activities based on active processing:

- The continuous transfer of production capacities from developed countries to developing ones, with cheaper labour force, due to rising prices for materials ;
- Development of processing activities in countries with competitive workforce;
- Increase in clothing and footwear imports for EU countries;
- EU imports of clothing and footwear in the next period will come mainly from China, Turkey, Romania, Poland, the Czech Republic and Hungary;
- The increase in costs with the workforce in Romania, which will lead to the transfer of industrial activities in other countries with cheaper labour costs;
- The increase in the number of companies that will produce for export using raw materials and accessories directly purchased by the company.

#### 4. Conclusions and implications

1. Relocation of economic activities through outsourcing and offshoring is still

concentrated in the manufacturing sectors (although the service sector is also registering a growth in these activities) (Bauman, Z., 1999).

2. Having a rather limited character, there is no evidence that this phenomenon causes major problems at macroeconomic level, particularly in terms of trade imbalances; moreover, fear of industrialization in developing countries is also exaggerated.

3. The EU can benefit from the relocation of production abroad, ensuring competitiveness of European industry in manufacturing and services in accordance with their own comparative advantages.

4. In order to obtain benefits the EU has to be able to adjust and develop new areas of comparative advantage in sectors/fields which are technologically advanced in order to prevent the deindustrialization process that takes its place.

5. So, adjustment costs are likely to affect, in particular, certain sectors, regions and types of employees.

#### 5. Acknowledgements

##### 1. Relocation gains

– The outsourcing and offshoring activities created a new division of labour, which could be beneficial for everyone – consumers and all parts involved (host country and country of origin);

– Through their decision to fragment and relocate their activities, companies will improve their own abilities to cope with international competition, increasing their share on world markets and creating new jobs ( Iancu, A. 2008);

– For the host countries the benefits will be, in particular, an increase in efficiency by

using resources transferring them from low value added activities to high value added activities, as production moves to high quality segments from the horizontal sectors;

- On long term, increased foreign imports will be matched by increased exports.

## **II. Relocation losses:**

- Relocation, however, involves a process of adjusting the industrial structure of each partner to meet the highest measure of their comparative advantages. Inevitable, some sectors are likely to develop (including employment), while other will decrease, reflecting the difference in comparative advantage;

- The fact that the phenomenon will lead to an increase, for all parties involved, of the value added tax, the fears that the EU will not be able to maintain its comparative advantage in a wide range of activities and will not succeed in halting the total relocation of industry is true.

## **III. Impact on employment:**

- Debates on relocation are fueled by concern that outsourcing/offshoring will permanently reduce the number of jobs (Bauman, Z., 1999);

- Relocation will increase the expansion of labour-intensive services sector increasing the overall impact on labour markets in developed economies;

- Relocation is not yet a large scale phenomenon if we take into account the general dynamic of the adjustments occurring in the national economies;

- EU experience of previous enlargements, also reveals that the negative impact of relocation on employment and wages, which generated fears, did not materialize

and is likely to be limited to certain sectors;

- Even if there is concern at macroeconomic level, relocation costs resulting from job losses and be strongly felt (at least on short term) in certain sectors and regions where these sectors are placed;

- Particularly at risk are those sectors most exposed to international competition and in which labour costs represent a large share of the total costs (Zaman, G., Geamane, M., 2006). For example, clothing and textiles, leather and footwear, shipbuilding and metallurgy are the ones who have the biggest losses in terms of jobs over the past two decades.

## **IV. Impact on incomes distribution:**

- Relocation may increase social inequality, which affects employment in different ways with different levels of qualification;

- Despite recent growth in the relocation of highly qualified professions, especially in services, the majority of relocations are affecting developed countries with impact on the low-skilled workers. This will increase the relative demand for skilled workers in developed economies, which determine the increase in the relative level of employment and/or in wages.

## **V. Political economy:**

- The great challenge that relocation represents for EU is the need to identify the political recommendations to better prepare the EU economies to capitalize the opportunities coming from this phenomenon in terms of promoting international competitiveness, while becoming able to strengthen its social institutions;

- The European Commission suggested that the priorities in creating economic

policies should meet these challenges, eliminating any protectionist approach with emphasis on promoting the factors supporting their own comparative advantages;

– It is necessary to take into account that differences in comparative advantages and

ability to move in new specialization area can affect the exposure degree of different member countries involved in the relocation;

– Authorities must intervene in order to provide assistance and social protection for workers and regions which are most affected.

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# Emission tax on a monopolistic polluter with unknown costs

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**Abstract:** Simple emission taxes chosen by a regulator who does not know the precise costs of a regulated monopolistic firm are examined. When the costs of both producing the final products and abating pollution are not known, but are known to be related, the regulator can cause the firm to reveal its costs truthfully by postponing its decision on a tax rate until it has inspected abatement equipment. Depending on the basic parameters, this postponement can increase social welfare.

**Key words:** Effluent Tax; Environmental policy; Monopolistic Polluter; Incomplete information; Signaling.

## 1. Introduction

In practical policy-making, environmental regulators rarely know the abatement costs of the firms they regulate as clearly as the firms do. With such asymmetric information, the timing of environmental policy can become a delicate issue. On the one hand, if the regulator commits to a policy before the firms take any action, it is able to exploit first-mover advantages. On the other hand, if the regulator delays its policy decisions until after the regulated firms make some

abatement investments, the regulator might be able to learn something about the firms' private costs. Such a delay of regulation may also induce the firms to voluntarily distort their investments to signal their private information, if the firms are strategic enough to recognize their actions can influence the regulator's decisions. By taking strategic actions and thereby revealing their true efficiencies, firms might expect to induce less stringent regulatory policies. If these actions are welfare-improving, there is a possibility for the regulator to exploit them.

Some anecdotal evidence shows that regulated firms recognize that their actions can influence future regulation in some circumstances. Consider a quote from Brent Blackwelder, president of Friends of the Earth: "While some of the environmental changes now emerging in corporate America are genuine and welcome...a few are being specifically designed to preempt more stringent public policies from emerging." Another quote from a Monsanto executive goes: "[Taking the first steps toward pollution control] allows a company to play a key role in shaping the way its industry is regulated."

If a government also acts strategically, it will consider the possibility of exploiting strategic behavior by firms. Letting firms with private information take the first action and then exploiting their voluntary efforts may be more optimal in terms of social welfare than committing to a specific policy before the firms take any action.

The objective of this paper is to investigate strategic environmental policies when a government regulates a monopolistic polluter without precise knowledge of the firm's pollution abatement costs and its policy instrument is restricted to simple linear emission taxes. Specifically, the paper focuses on the timing of environmental policy: it asks whether a government can cause a firm to truthfully reveal relevant information by delaying its policy decision. It shows that this can actually be achieved under specific assumptions. The model developed below assumes that the marginal cost of producing goods, as well as that of abating effluent, is unknown to the government, but that these costs are known to be related to each other and to reflect the firm's overall technological efficiency. These are the only assumptions

specific to this model and all other assumptions are made for the sake of tractability.

Under these assumptions, it is shown that what enables the government to identify the firm's true costs is the signaling behavior of the firm itself to induce less stringent policies. This signaling explains what, at least seemingly, resembles 'voluntary' environmental protection undertaken by firms and turns out to be welfare-improving, depending on the basic parameters.

## 2. Literature review

The literature related to environmental regulation under uncertainty is increasing. Arrow and Fisher (1974), Kelly and Kolstad (1999), and Pindyck (2000) among others have analyzed the effect of uncertainty and irreversibility on environmental policy. However, the focus of these models is not on informational asymmetry.

In an early paper, Weitzman (1974) investigated whether price or quantity controls are preferable when a regulator is uncertain about industry costs. Following Weitzman, mechanism design literature has analyzed optimal environmental policy under asymmetric information without restricting a regulator's instrument to a linear policy. This approach, which is different from that of this paper, is taken, for instance, by Kwerel (1977) and Ellis (1992). See also Baliga and Maskin (2003).

The effect of informational asymmetry on environmental regulation in dynamic settings are investigated in Newell and Pizer (2003) and Hoel and Karp (2001) among others. However, these papers treat regulated firms as non-strategic price takers.

Moledina et al. (2003) consider dynamic environmental policy under asymmetric



information, assuming that firms are strategic. However, in their model the regulator is naïve and abides by a simple non-strategic policy rule; therefore, outcomes are that the firms successfully cheat the regulator by sending untrue signals of their nature.

In the sense that both the regulator and polluters are assumed to be strategic, Yao (1988) and Denicolo (2000) are probably the papers most closely related to the one here. There are, however, some obvious differences. Yao (1988) considers a situation in which a regulator with incomplete information about technological capability imposes standards on automobile emissions. In his model, industry distorts a research investment downward to signal their uncompetitiveness. Denicolo (2000) analyzes a duopoly, not monopoly, model that has a feature similar to a 'beer-quiche' game in the sense that a Sender (one of the two firms) signals its type by choosing from two actions (using either a good or a bad technology) and a Receiver (the regulator) responds with one of two actions (whether to regulate or not to regulate). The purpose of the signaling is to induce the regulator to impose more, not less, stringent pollution regulation and thus raise the rival's costs. There is also a more essential difference between those two papers and this one; this paper focuses on the timing of the environmental regulation and compares welfare under different policy regimes.

As discussed in Section 8, an important conclusion of the present paper is that under some circumstances discretion (i.e., making a later decision about the tax rate) beats rules (i.e., committing to a tax rate before learning the costs of the firm) in terms of social welfare. However, it should be stressed that discretion in this context does not mean

negligence of an important but uninviting task for a time. Rather, it means that the government promises the introduction of a future effluent tax, but delays its rate decision so as to induce efforts on part of the firm.

The rest of this paper is organized as follows. Section 3 introduces the model. Section 4 examines the Abatement-First Case, in which the firm spends on sunk costs for abatement activities first and then the government decides on a tax rate. Section 5 analyzes the Tax-First Case. Section 6 is devoted to welfare considerations. Section 7 discusses alternative setups. The final section compares the result of this model with those of rule-versus-discretion models, as mentioned above.

### 3. The Model

A simple model of effluent control is developed, in which a government regulates a monopolistic firm producing final products that generates external damages. For a more concrete example, let us assume that the externality in question is air pollution. The firm produces output  $Y$  and discharges smoke  $S$ , generating  $D(S)$  in external damage. The firm's cost function can be written as  $C(Y, A)$ , where  $A \geq 0$  is the abatement expense of pollution treatment, with  $C_1 > 0$  and  $C_2 > 0$ , where the subscripts denote partial derivatives. If the government imposes a tax  $t$  per unit of smoke discharged, the firm's profit will be,

$$\pi = pY - C(Y, A) - tS$$

where  $p$  is the price of the product. In the absence of taxes, the firm will set  $A = 0$ .

For tractability, the model uses the following parametric specifications. The inverse

demand function is assumed to take the simple linear form  $p = f(Y) = \delta - Y$ . It is also assumed that the cost function is linear in output and abatement expenses:

$$C(Y, A) = cY + acA$$

A key assumption here is that the marginal costs of production and abatement are positively related, reflecting the firm's overall technological efficiency, which the government cannot directly observe.<sup>1</sup> Although a more complete analysis should involve the research and development (R&D) activities carried out by the firm so as to affect these marginal costs, this paper focuses on a short time-horizon for which the firm's efficiency is predetermined.<sup>2</sup> The parameter  $c$  is assumed to be a random variable that takes on the values  $c^H$  and  $c^L$  with probabilities  $m$  and  $1-m$ , respectively. That is,  $m$  is the prior probability that the firm is a high-cost or less efficient type. While the firm itself knows the exact value of  $c$ , the regulator knows only the above distribution.

It is assumed that  $S$  is increasing in  $Y$  and decreasing in  $A$  and that the effect of pollution abatement diminishes as abatement expenditure increases. An expression that satisfies these conditions and is relatively tractable is:

$$S(Y, A) = vY - \sqrt{A} \quad (1)$$

The robustness of the conclusions of the model to other variants of the pollution function as well as more general functions is briefly discussed in Section 7. The damage function is assumed to be linear in  $S$ :  $D(S) = S(Y, A)$ , which implies that the marginal damage is unity. The parameters  $\delta$ ,  $a$ , and  $v$  are all positive constants and publicly known.

The sum of consumers' and producers' surpluses minus external damages is used as a measure of social welfare:

$$W = \int_0^Y f(Y)dY - C(Y, A) - S(Y, A)$$

#### 4. Abatement-first case

This section examines a situation in which the regulator postpones its decision on a pollution tax rate until it has inspected the firm's abatement efforts. Abatement expenses are treated as sunk costs paid before production of the final products starts: e.g., the costs of constructing air-cleaning equipment, attaching scrubbers for stacks, etc.<sup>3</sup> The government is assumed to be able to observe the abatement effort (e.g., is able to inspect constructed equipment), as opposed to the firm's costs.

The timing of the game in this section is as follows: before the game starts, Nature chooses the firm's efficiency,  $c^H$  or  $c^L$ ; in the first stage, the firm decides on its abatement level; in the second stage, the government chooses  $t$  after observing the abatement level, but not knowing the firm's efficiency; in the third stage, the firm chooses  $Y$  and generates smoke accordingly. This sequence is well recognized by both players.

The solution concept used here is a perfect Bayesian equilibrium (PBE), the definition of which is given in the context of the current model as follows: the firm and the regulator maximize their respective payoffs given each other's strategy and the regulator's set of beliefs about the firm's cost type; and the set of the beliefs is updated by the actual strategy of the firm on the equilibrium path using Bayes' rule.

Denoting the abatement level as  $B \equiv \sqrt{A}$  and using the specifications from the previous section, the firm's profit can be rewritten as

$$\pi^i = (\delta - Y)Y - (c^i Y + ac^i B^2) - t \times (vY - B)$$

$$i = H, L. \quad (2)$$

In the third stage, the firm maximizes this profit with respect to  $Y$  taking  $t$  and  $B$  as parameters. The first-order condition yields:

$$Y^i = (\delta - c^i - tv) / 2 \quad (3)$$

The government's objective function when confronted with a type  $c^i$  firm is:

$$W^i = \delta Y - Y^2 / 2 - (c^i Y + ac^i B^2) - (vY - B) \quad (4)$$

where  $Y$  is given by Eq. (3). In the second stage, the government updates the prior  $m$  to a posterior probability by observing  $B$ , and then maximizes the expected welfare,

$EW \equiv nW^H + (1-n)W^L$  with respect to  $t$ , taking  $B$  as given, where  $n$  is the posterior that the firm is of type  $c^H$ . The first-order condition for the above maximization yields:

$$t = 1 - (\delta - \hat{c} - v) / v, \quad (5)$$

where  $\hat{c} \equiv nc^H + (1-n)c^L$  is the updated belief of the regulator about the firm's cost. It is noteworthy that the government imposes a lower emission tax on a firm believed to be more efficient (with a smaller  $\hat{c}$ ). The reason for this is that once  $B$  has been set by the firm,  $\hat{c}$  is the belief about the production cost, not the abatement cost. The government, which believes a smaller  $\hat{c}$ , then assigns a larger weight in its payoff based on its concern about the product market rather than about pollution. Substituting Eq. (5) into Eq. (2) yields:

$$Y^i = (2\delta - c^i - \hat{c} - 2v) / 2. \quad (6)$$

To focus on interior solutions, I assume

the following.

Assumption 1.  $\delta - c^H - v > 0$ .

In the first stage, the firm determines its abatement level strategically, taking into account all the above considerations. Substituting Eqs. (5) and (6) derives the firm's profit as a function of its true type, the belief held by the regulator about its type, and a signal sent by the firm:

$$\pi(c^i, \hat{c}, B) = \left( \frac{2\delta - c^i - \hat{c} - 2v}{2} \right)^2 - acB^2 + \left( \frac{-\delta + \hat{c} + 2v}{v} \right) B$$

$$i = H, L \quad (7)$$

As a benchmark I first derive a solution under complete information. As before, letting subscripts denote partial derivatives, I solve  $\pi_3(c^i, c^i, B) = 0$  for  $B$ :

$$B^{i, Comp} = \frac{-\delta + c^i + 2v}{2a^i v}. \quad (8)$$

Again, to limit attention to interior solutions, I make the following assumption.

Assumption 2.  $-\delta + c^L + 2v > 0$ .

Returning to the incomplete information case, I take the derivative of the profit with respect to  $\hat{c}$ :

$$(9) \quad \pi_2(c^i, \hat{c}, B) = -\frac{2\delta - c^i - \hat{c} - 2v}{2} + \frac{B}{v}.$$

Now the final assumption is made.

Assumption 3. The model focuses on a situation in which smoke  $S = vY - B$  is positive.

That is, I exclude the situation in which the firm cleans air more than when it produces nothing, and receives subsidies instead of having taxes imposed. Since the first term of the RHS of Eq. (9) is  $-Y^i$  [see Eq. (6)],

Assumption 3 ensures that  $\pi_2 < 0$ . This fact leads to the following lemma.

**Lemma 1 (Belief Monotonicity).** Regardless of whether it is type  $c^H$  or  $c^L$ , the firm would like the regulator to believe that it is more efficient (smaller  $\hat{c}$ ).

This leads to an incentive for a type  $c^H$  firm to mimic type  $c^L$ , and thus any report about its type submitted by the firm itself is not credible and carries no information as long as it is 'cheap talk,' i.e., a non-binding costless report.

To derive PBE, Figure 1 depicts isoprofit curves for the firm that are derived by equating Eq. (7) to some constant profit levels in  $(B, \hat{c})$  space. Each isoprofit curve has an inverse-U shape (see Steps 1 and 2 in Appendix 1) and bold (thin) lines represent isoprofit curves for a type  $c^H$  ( $c^L$ ) firm. Reflecting Lemma 1, the lower the location of an isoprofit curve, the larger is the firm's profit. Solving

$$\pi_3(c^i, \hat{c}, B) = -2a^i B + (-\delta + \hat{c} + 2v)/v = 0$$

yields,  $B = \frac{2ac^i v B + \delta - 2v}{2a}$

which is shown in Figure 1 as two upward-sloping dotted straight lines. The straight line for  $i=L$  is located to the right of that for  $i=H$ . On this line, each indifference curve reaches its highest point, and the outcome achieved under complete information, Eq. (8), corresponds to points X and Y in Figure 1.

To describe equilibrium, we denote the profit that a high-cost type firm achieves under complete information as  $\pi^{H,Comp}$ , label the point at which the isoprofit curve

corresponding to  $\pi^{H,Comp}$  intersects the horizontal line  $\hat{c} = c^L$  as point Z, and denote the abatement level corresponding to point Z as  $B^*$  (see Figure 1).

It is known that a signaling game with binary types can have many PBEs (pooling, hybrid, and separating equilibria) since Bayes' rule does not restrict the updating of beliefs following deviations from the equilibrium path. However, most of these off-equilibrium-path beliefs are unreasonable. To eliminate equilibria with unreasonable beliefs, this model uses 'intuitive criterion' developed by Cho and Kreps (1987). Since the model here satisfies the single-crossing condition, there is a unique intuitive outcome (selected by the criterion) that is the most efficient separating equilibrium outcome of all the PBE outcomes.

**Proposition 1.** In the unique intuitive outcome in the Abatement-First Case, a type  $c^H$  firm chooses abatement level  $B^{H,Comp}$  and a type  $c^L$  firm chooses abatement level  $Max(B^*, B^{L,Comp})$ , which is greater than  $B^{H,Comp}$ . By observing the abatement level, the regulator is able to tell with certainty with which type it is confronted.

The proof of this result is given in Appendix 1. Intuitively, recall that Lemma 1 states that the firm would like to be believed to be more efficient. In particular, when point Y is to the left of point Z (i.e., when  $B^* > B^{L,Comp}$ ), as in Figure 1, if a type  $c^L$  firm selects its complete-information abatement level (point Y), then a type  $c^H$  firm deviates from point X to Y. In any separating PBE, therefore, an efficient type ( $c^L$ ) must choose an abatement level that is at least  $B^*$

to 'run away' from the less efficient type. This upward bias in abatement effort generated by an efficient type firm is called 'distortion', and the intuitive criterion selects the separating PBE with minimum distortion (i.e.,  $B^* - B^{L,Comp}$ ) as a unique outcome. I call this a 'Distortion' Case.

On the other hand, when  $B^* \leq B^{L,Comp}$ , unlike in Figure 1,  $B^{L,Comp}$  is large enough to prevent the less efficient type from mimicking an efficient firm, and thus the same outcome as under complete information emerges (a 'No-Distortion' Case).

The following corollary states that Distortion Cases are more pervasive than No-Distortion Cases.

Corollary 1. The No-Distortion Cases, in which type  $c^L$  selects  $B^{L,Comp}$  in the unique outcome,

(i) never take place if  $\delta - 2v \geq 0$ , and

(ii) do not take place unless  $c^H - c^L$  is sufficiently large, even if  $\delta - 2v < 0$ .

The proof of this result, as well as the meaning of 'sufficiently large', can be found in Appendix 2.

Thus, in many situations, an efficient firm (type  $c^L$ ) distorts its abatement effort upward so as to discriminate itself from the less efficient type ( $c^H$ ). This phenomenon, at least seemingly, resembles what is called 'voluntary' environmental protection undertaken by firms.

Several papers have addressed the question as to why firms engage in environmental protection beyond their requirements. Some argue that firms might benefit from the favorable public image of being 'greener.'<sup>5</sup> Maxwell, Lyon, and Hackett (2000) explain firms' overabatement activities as efforts to

preempt future regulations, similarly to the current paper. However, in their paper information is complete and thus firms' activities do not have an element of signaling behavior. They focus on the case in which consumers will successfully lobby for new regulations if the firms take no voluntary actions. The objective of the firms in their model is to prevent such successful lobbying by consumers. In Denicolo (2000), cited in the introduction, overcompliance comes from rivalry between two firms. In my model, overabatement occurs without consumer interest groups or a competing firm.

Porter and van der Linde (1995) argue that pollution is a manifestation that firms are inefficient. Likewise, in this paper, less abatement effort is a manifestation that firms are inefficient. In spite of this resemblance, however, their main conclusion is very different from the context of this paper. They insist that stringent environmental regulation induces innovation and works to a polluting firm's advantage. In the model developed here, even after the imposition of an effluent fee, the marginal costs of production and abatement remain unchanged. Indeed, the fact that abating pollution is costly is the very reason that it can be used as a means of signaling.

Before proceeding to the next section, I briefly mention the tax rate and output levels selected in this Abatement-First Case. As the regulator distinguishes which type it faces in the unique outcome, it chooses the tax rate in Eq. (5) with  $\hat{c}$  replaced by  $c^i$ . Then the output level chosen by the firm is Eq. (6) with  $\hat{c} = c^i$ . Thus,

$$t^* = 1 - (\delta - c^i - v) / v \quad \text{and}$$

$$Y^{i*} = \delta - c^i - v, \quad i=H,L. \quad (11)$$

### 5. Tax-first case

This section examines a more familiar sequence of the game: a Tax-First Case, in which the regulator sets an emission tax before the firm decides on abatement and production. In this case the regulator is not able to induce the firm to truthfully reveal its type, since the regulator is assumed to move first and have only a simple linear tax as a policy instrument.

Proceeding backward, in the second stage, the firm selects  $B$  and  $Y$  to maximize its profit in Eq. (2), taking  $t$  as given:

$$B^i = t(2a^i) \text{ and } Y^i = (\delta - c^i - tv) / 2$$

$i=H,L. \quad (12)$

In the first stage, the government maximizes  $EW \equiv mW^H + (1-m)W^L$  with respect to  $t$ , where  $m$  is the prior, and  $W^i$  is given by Eq. (4), in which  $B^i$  and  $Y^i$  are expressed in (12). The resulting tax rate is:

$$t^{**} = 1 - \frac{av(\delta - Ec - v)}{av^2 + 2E(1/c)}$$

where  $Ec \equiv mc^H + (1-m)c^L$

$$E(1/c) \equiv m(1/c^H) + (1-m)(1/c^L).$$

As reported by Barnett (1980) and others, the optimal effluent fee is less than the marginal external damage in this monopoly set-up; if the regulator sets a Pigouvian tax (unity here), this would further restrict the already suboptimal monopolist's output.

The resulting output and abatement levels are:

$$B^{i**} = t^{**}(2a^i) \text{ and } Y^{i**} = (\delta - c^i - t^{**}v) / 2$$

$i=H,L \quad (14)$

### 6. Welfare considerations

First of all, it is straightforward to show from Eqs. (4), (8), (11), (13), and (14) that under complete information, welfare in the Tax-First Case is always higher than welfare in the Abatement-First Case.

Returning to the incomplete-information case, the rest of this section compares ex ante welfare levels achieved under the above two sequences of the game of incomplete information: the Abatement-First Case and the Tax-First Case.

First, for later discussion, I derive optimal abatement and production levels achieved in a command-and-control economy with complete information, which is excluded in the set-up of this paper. Taking derivatives of Eq. (4) with respect to  $Y$  and  $B$  yields:

$$B^{i,Command} = 1(2a^i) \text{ and } Y^{i,Command} = \delta - c^i - v$$

$i=H,L \quad (15)$

In a welfare comparison, a key question is through which channels does movement from the Tax-First Case to the Abatement-First Case generate a difference in welfare. There are three possible sources for bringing about such a difference. First, the regulator loses its first-mover advantage in affecting abatement levels. Second, an efficient firm distorts its abatement effort upward (in the



Distortion Case), which may offset the first effect. Third, by inspecting abatement equipment, the regulator distinguishes which type it faces, and thus can induce output equivalent to that in the command economy [see Eqs. (11) and (15)]. It is noteworthy that the second and third factors are related to the existence of incomplete information.

To observe the overall effects of the above three factors on welfare, simulations were carried out. One difficulty in deriving a general conclusion comes from the complexity of the functional form of  $B^*$ , which is shown in Eq. (A3) in Appendix 2.

The procedure for simulations is as follows. The parameters  $m$ ,  $\delta$ ,  $a$ ,  $v$ ,  $c^H$ , and  $c^L$  are given specific values under Assumptions 1 and 2. Then the ex ante welfare in the Abatement-First Case is:

$$EW^* \equiv mW^{H*} + (1-m)W^{L*}$$

where  $W^{H*}$  is calculated using Eq. (4), with  $B^{H,Comp}$  in Eq. (8) and  $Y^{H*}$  in Eq. (11);  $W^{L*}$  is calculated using Eq. (4) with  $Y^{L*}$  in Eq. (11) and  $B^*$  in Eq. (A3) if  $B^* \geq B^{L,Comp}$  (Distortion Case), or  $B^{L,Comp}$  in Eq. (8) if  $B^* < B^{L,Comp}$  (No-Distortion Case). Ex ante welfare in the Tax-First Case is,

$EW^{**} \equiv mW^{H**} + (1-m)W^{L**}$  where  $W^{H**}$  is calculated using Eqs. (4), (13), and (14). Finally,  $EW^*$  is compared with  $EW^{**}$ , excluding from the simulation situations that violate Assumption 3.

Simulations were carried out under the following assumptions:  $m = 0.5$ ;  $\delta$  is normalized to 10; and  $c^L = c^H / 2$ . This paper reports a result when  $v = 5$ . Figure 2 depicts the result for various values of  $c^H$  and  $a$ . Note that when  $v = 5$  (Figure 2(a)), the range

of  $c^H$  permitted by Assumptions 1 and 2 is (0,5). Areas I and III in Figure 2(a) show the ranges in which  $EW^* \leq EW^{**}$  holds. That is, if the parameters fall within this range, the regulator is better off setting its tax rate first. In Area I, since  $c^H$  and  $a$  are relatively low, the optimal tax rate in a command economy,  $B^{L,Command}$  in (15), is high; thus even the upward distorted  $B^*$  falls short of  $B^{L,Command}$ . Therefore,  $EW^*$  becomes smaller than  $EW^{**}$ . In Area III,  $B^*$  is too large and thus makes  $EW^*$  smaller than  $EW^{**}$ . By contrast, if the parameters fall within Area II,  $B^*$  becomes close to  $B^{L,Command}$ , and thus improves welfare ( $EW^* > EW^{**}$ ).

*Result. Depending on the basic parameters, the regulator can increase ex ante welfare by choosing the Abatement-First Case, i.e., by postponing its tax decision until after it has inspected the firm's abatement equipment.*

Simulations were carried out for other values of  $v$  and showed that if  $v$  increases, i.e., if the marginal smoke discharged by producing output increases, then a relatively wider range of the space is covered by Area II ( $EW^* > EW^{**}$ ) (Figure 2(b)). This result contrasts with that of the complete-information case, in which the Tax-First Case always dominates the Abatement-First Case. Under complete information, only the first of the three channels mentioned above, through which the difference in the timing brings about the difference in outcomes, works. Thus, if the regulator, who is a welfare-maximizer, moves first, it is always welfare improving. (Note not for publication: Computer software like

Mathematica can calculate the equations for the borderlines of Area I, II, and III. However the equations are extremely messy and omitted here.)

### 7. Alternative setups

Now I alter some of the assumptions in the above model. First, if the marginal costs of producing final products and abating pollution have no relationship, e.g., if they are drawn by Nature independently, then signaling by the firm never takes place; the Tax-First Case unambiguously brings about better welfare than the Abatement-First Case. Second, if the two costs have a negative relationship, then distortions, if any, occur in the opposite direction: a firm with higher marginal abatement costs distorts its abatement effort downward.

Next, I check the robustness of the results in this paper in regard to other specifications of the smoke function. Even if

$S(Y,A)=vY-\ln A$  is used instead of Eq.(1), Proposition 1 and the Result are qualitatively unaltered. Another alternative is  $S(Y,A)=vY+1/A$ , which was assumed in the Katsoulacos and Xepapadeas (1995) model of environmental policy under oligopoly. This set-up has the advantage that since smoke discharged is always positive, Assumption 3 in this paper becomes unnecessary. In this set-up, Proposition 1 remains the same qualitatively: the regulator can distinguish which type of firm it faces in the Abatement-First Case.<sup>6</sup> However, because of computational difficulties, the optimal tax in the Tax-First Case could not be explicitly derived in this set-up. Katsoulacos and Xepapadeas show

that the optimal tax falls within a certain range, but this approach is problematic for my purpose of comparing precise welfare levels under two alternative regimes.

Though some variations of the model are considered above, this model remains special in number of ways. For instance, using general demand and/or smoke functions makes the exact level of the over-abatement impossible to determine and the welfare analysis intractable. However, if Lemma 1, as well as the technical single-crossing condition, holds with the same direction, the intuitive criterion selects an outcome that is qualitatively the same as in Proposition 1. With regard to the belief monotonicity (Lemma 1), Tarui and Polasky (2005) point out, although their model does not deal with asymmetric information so that firms neither overabate nor underabate in the sense that they do not distort their actions compared to under complete information, that:

*With (emission) taxes that adjust, the firm has a strategic incentive to increase investment because a lower abatement cost function causes the regulator to set a lower tax rate (Tarui and Polasky, 2005, p. 449).*

A similar property is inherited in the current paper, as explained immediately after equation (5), resulting in Lemma 1 and thus Proposition 1.

### 8. Concluding remarks

This paper has shown that under incomplete information about the abatement costs of a monopolistic polluter, a regulator can induce the polluter to signal its costs simply by postponing its tax-rate decisions until

an inspection of the firm's abatement equipment. Furthermore, it was shown that under specific parametric assumptions, the firm's signaling behavior induced by this postponement is welfare-improving.

In this final section, I briefly mention the relationship between the results of this paper and those in commitment vs. discretion models. There are several papers that compare environmental policy under rules and discretion (e.g., Biglaiser et al., 1995; Tarui and Polasky, 2005; Requate, 2005). A typical conclusion of those papers is: Rules are more favorable in many cases, if it is possible to commit to them. This is because rules prevent firms taking strategic actions. On the other hand, the introduction of uncertainty brings about the merit of discretion, which allows the regulator to learn about the uncertainty and update its policy. Malik (1991) shows in his model with emission standards that even when there is substantial uncertainty, rules are preferable in most cases.

As for the timing of policy, the Tax-First Case in this paper corresponds to rules, while the Abatement-First Case corresponds to discretion.<sup>8</sup> The merit of discretion is doubled in this paper by the presence of incomplete information. By delaying its decision and allowing the polluter to first make an investment, the regulator not only learns the true costs of the polluter but also induces an efficient firm to conduct overabatement in most cases, which can be preferable under some parametric values. In this sense, the polluter's signaling behavior in this model can ease the time-inconsistency problem.

In many signaling models, distortions in a signal-sender's action have a negative

impact on welfare (e.g., Collie and Hviid's [1993, 1994, 1999] series of international trade models).<sup>9</sup> The reason for this is that a signal-sender that is a welfare maximizer sacrifices part of its payoff so as to send a signal in such models. By contrast, distortions in this paper can be welfare-improving for a simple reason: The signal-sender is not a welfare maximizer; distortions caused by the firm when it sends a costly signal inevitably reduce its payoff, i.e., its profit, but can have a positive impact on welfare in the form of increased pollution abatement efforts.

## Appendix 1 Proof of Proposition 1

This is given in several steps.

**Step 1** Isoprofit curves are hyperbolic.

$\pi(c^i, \hat{c}, B) = \tilde{\pi}^i$ , where the LHS is given by Eq.(7) and  $\tilde{\pi}^i$  is some constant, can be rewritten as:

$$-ac^i B^2 + \frac{1}{v} B c^i + \frac{1}{4} (c^i)^2 + \left( \frac{-\delta + 2v}{v} \right) B - \left( \frac{2\delta - c^i - 2v}{2} \right) \hat{c} + \left( \frac{2\delta - c^i - 2v}{2} \right)^2 - \tilde{\pi}^i = 0 \quad (A1)$$

Since  $(1/v)^2 - 4 \times (-a^i) \times (1/4) > 0$ , Eq. (A1) represents hyperbolic curves in  $(B, \hat{c})$  space. Solving the above quadratic equation for  $\hat{c}$  yields two solutions. While the larger one has a U shape as the H-H segment of a line in Figure 1, the smaller solution has an inverse-U shape.

**Step 2** Of the two solutions for  $\hat{c}$ , only the smaller one is relevant.

Totally differentiating Eq. (A1) with

respect to  $B$  and  $\hat{c}$  yields the slope of an isoprofit curve:

$$\frac{d\pi}{dB} = \frac{-\pi_3}{\pi_2} = -\left(-2a^H B + \frac{-\delta + \hat{c} + 2v}{v}\right) / \left(-\frac{2\delta - c^H - \hat{c} - 2v}{2} + \frac{B}{v}\right)$$

Since  $\pi_2 < 0$  holds under Assumption 3 and a small (large)  $B$  makes the numerator negative (positive), any isoprofit curve must have an inverse-U shape.

**Step 3** The isoprofit curves satisfy the single-crossing condition.

$$\frac{d\pi}{dB}\bigg|_{i=H} = \frac{d\pi}{dB}\bigg|_{i=L}$$

Rearranging derives the tangency locus at which two isoprofit curves  $\{\tilde{\pi}^H, \tilde{\pi}^L\}$  are tangential to each other:

$$-avB\hat{c} = 2avB \times (\delta - v - \hat{c} - B/v) + (1/2)(-\delta + \hat{c} + 2v)$$

However, this tangency locus cannot cross the relevant range in  $(B, \hat{c})$  space, since the RHS of the above equation is positive under Assumptions 2 and 3. Indeed always holds in the relevant range (see Figure 1). The single-crossing property follows from this fact in conjunction with monotonicity (the profit for the firm is strictly decreasing in  $\hat{c}$ ).

**Step 4** Cho and Kreps (1987) show that the Intuitive Criterion selects the 'Riley outcome,' which is the Pareto-efficient separating equilibrium, in a signaling game with binary types of a signal-sender that satisfies the single-crossing condition. In the current model, the Pareto-efficient separating equilibrium outcome is the one in which  $c^H$  chooses  $B^{H,Comp}$  and  $c^L$  selects  $B^*$  if  $B^* > B^{L,Comp}$  or  $c^L$  selects  $B^{L,Comp}$  if  $B^* \leq B^{L,Comp}$ .

## Appendix 2 Proof of Corollary 1

(i) Suppose that  $\delta - 2v \geq 0$ . Then, from Eq. (8) it is straightforward to show that  $B^{L,Comp} \leq B^{H,Comp}$ . That is, point Y is located to the left of point X, unlike in Figure 1. On the other hand,  $B^{H,Comp} < B^*$  always holds by the discussion of Step 2 in Appendix 1. Thus,  $B^{L,Comp} < B^*$ , which inevitably brings about a Distortion Case.

(ii) Here no assumption is made about the sign of  $\delta - 2v$ . The profit that type  $c^H$  obtains under complete information (point X in Figure 1),  $\pi^{H,Comp}$ , is derived by substituting  $c^H = \hat{c} = c^H$  and Eq. (8) into Eq. (7). Then the abatement level that corresponds to point Z in Figure 1,  $B^*$ , is derived by solving  $\pi^{H,Comp} = \pi(c^H, c^L, B^*)$ , where the functional form of the RHS is given by Eq. (7), or equivalently by solving:

$$(\delta - c^H - v)^2 + \frac{(-\delta + c^H + 2v)^2}{4a^H v^2} = \left(\frac{2\delta - c^H - c^L - 2v}{2}\right)^2 - a^H B^{*2} + \left(\frac{-\delta + c^L + 2v}{v}\right) B^*$$

The solution is:

$$B^* = \frac{-\delta + c^L + 2v}{2a^H v} + \sqrt{(c^H - c^L)\eta} \quad (A3)$$

$$\eta \equiv a^H (4\delta - 3c^H - c^L - 4v) + (2\delta - c^H - c^L - 2v)/v^2 > 0$$

The inequality comes from Assumption 1. Now carry out comparative statics analysis by increasing  $c^H$ , starting from  $c^H = c^L$ . From Eqs.(A3) and (8) it is obvious that  $B^* = B^{L,Comp} (= B^{H,Comp})$ , when  $c^H = c^L$ . To observe the effect of the increase in  $c^H$  on  $B^*$ , Eq. (A2) is totally differentiated with respect to  $c^H$  and  $B^*$ :

$$\left( -2(\delta - c^H - v) + \frac{2\delta - c^H - c^L - 2v}{2} + \frac{-\delta + c^H + 2v}{2ac^H v^2} \right) dc^H \\ = \left( -2ac^H B^* + \frac{-\delta + c^L + 2v}{v} \right) dB^*$$

When evaluated at  $c^H = c^L + \varepsilon$ , for a small  $\varepsilon$ , the coefficient for  $dB^*$  is close to  $-Y^H + B^{H,Comp}/v$  and thus is negative under Assumption 3. From Eq. (A3), it is obvious that the coefficient for  $dB^*$  is always negative. Therefore, starting from  $c^H = c^L$ , the increase in  $c^H$  increases  $B^*$ , while it does not change  $B^{L,Comp}$ , so  $B^* > B^{L,Comp}$  (Distortion Case). However, if  $c^H$  becomes large enough to make the coefficient for  $d^H$  positive, an increase in  $c^H$  starts to reduce  $B^*$ . If  $\delta - 2v < 0$ , a further increase in  $c^H$  may bring  $B^*$  below  $B^{L,Comp}$  (No-Distortion Case). However, in simulations conducted by the author the latter case was rare. In many cases,  $c^H$  hits the ceiling set by Assumption 1 before bringing about the No-Distortion Case.

#### (Endnotes)

1. Of course, it is possible for a firm to engage in R&D activities that are solely meant to reduce production costs and not abatement costs. However, since large uncertainties always surround the outcomes of R&D investments, such R&D may also bring about unforeseen technological advances in pollution control as a by-product. If this is the case, this 'positive' relation case will be more natural than vice versa, although the 'negative' or 'no' relation case is briefly mentioned in the final section.

2. There is a substantial body of literature exploring the effects of various policy instruments on R&D decisions concerning

abating technology (see Jaffe et al., 2003 for a review). However, it is unlikely that R&D activities and asymmetric information about abatement costs draw attention at the same time. If a firm makes its R&D decisions strategically to affect its costs and a regulator can observe them, incomplete information of costs as assumed here would not likely become the focus of analysis.

3. In practice, some abatement expenses have to be paid at the same time as or after the production: e.g., running costs of an air-cleaner. Adding these costs complicates the firm's third-stage decision below without giving additional insights, so they are neglected in the model.

4. More formally, Assumption 3 requires that: (i) the upper limit of possible abatement levels,  $\bar{B}$ , is the level that equates Eq. (9) to zero when  $c^i = \hat{c} = c^H$ ; (ii)  $Max(B^{L,Comp}, B^*) < \bar{B}$ , where  $B^*$  is defined later. The simulations below show that this condition is not too restrictive and is satisfied naturally in most cases.

5. Segerson and Miceli (1998) and Wu and Babcock (1999) analyze voluntary programs for environmental protection in terms of strategic interactions between a regulator and a polluter, but from a different viewpoint from that taken in this paper.

6. The reason for the robust results with respect to Proposition 1 is that Lemma 1 and the single-crossing property explained in Section 4 are also both satisfied in these two alternative set-ups.

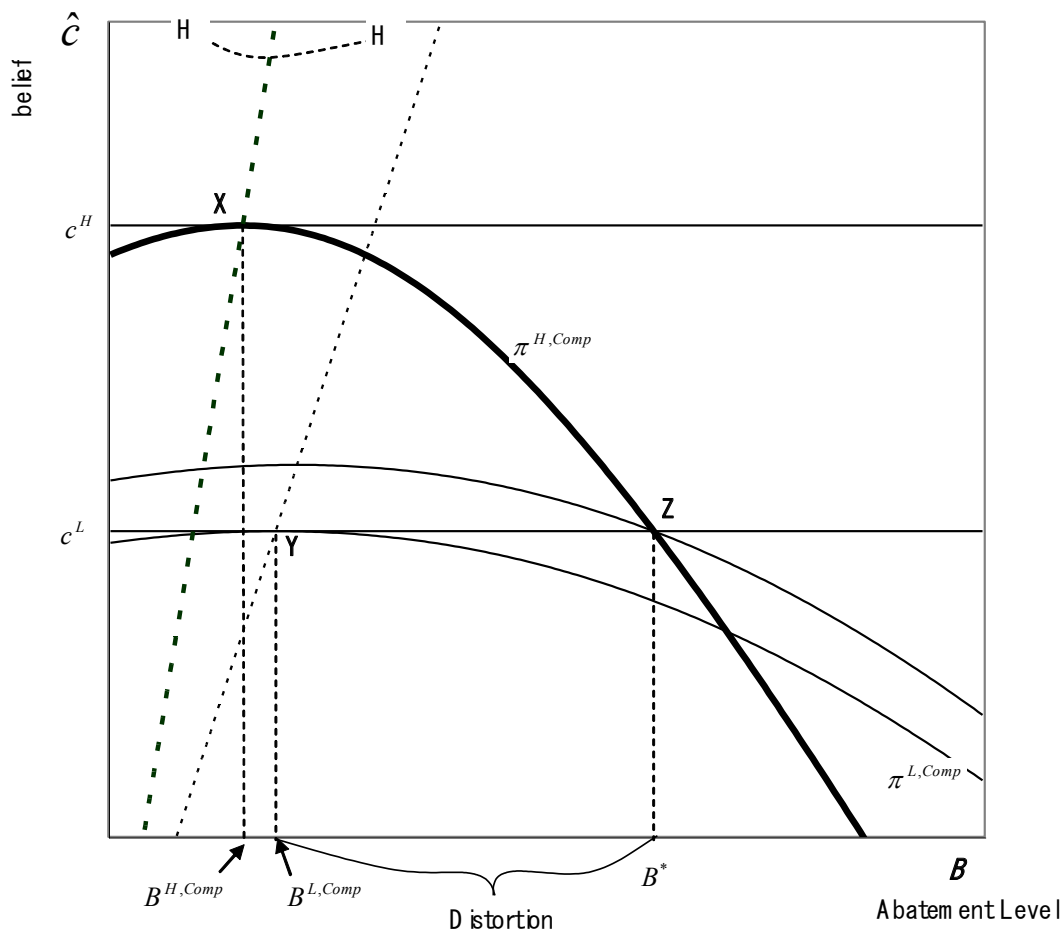
7. Also, a continuum of types,  $c \in [c^L, c^H]$ , can be assumed instead of binary types. In this case, all the types except  $c^H$  overabate compared to the complete-information case,

if the regulator postpones its tax-rate decision. With a continuum of types, however, an explicit solution cannot be derived for the same reason as explained in Collie and Hviid (1993, p. 334) and welfare considerations become intractable.

8. There are two reasons why I did not use the terms 'rules' and 'discretion' in the description of the model. First, in the Abatement-First Case of this paper, the government must actively inspect the abatement equipment and this procedure must be recognized by all parties, unlike a usual discretion

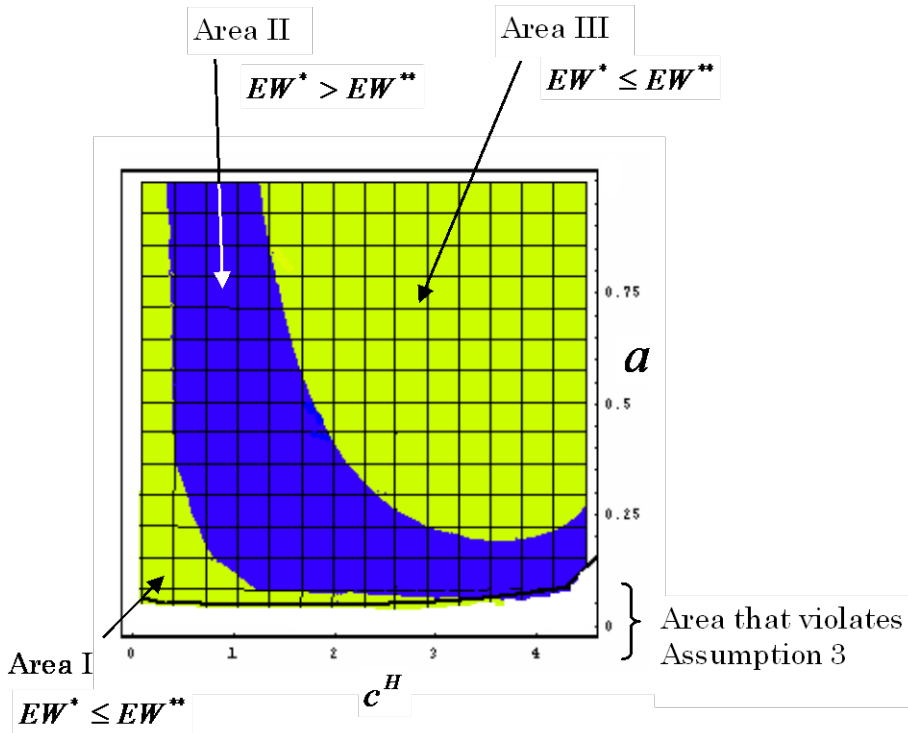
case where a regulator is anticipated to easily revise its policy. Second, in the papers that deal with the Tax-First Case only (e.g., Katsoulacos and Xepapadeas, 1995), the term 'rule' is not used. This is probably because in these papers the timing of the firms' two decisions (investment and production) does not matter much.

9. An exception is the Vickers (1986) monetary policy model, in which distortions created by the central bank are welfare-improving for a different reason from that in this paper.

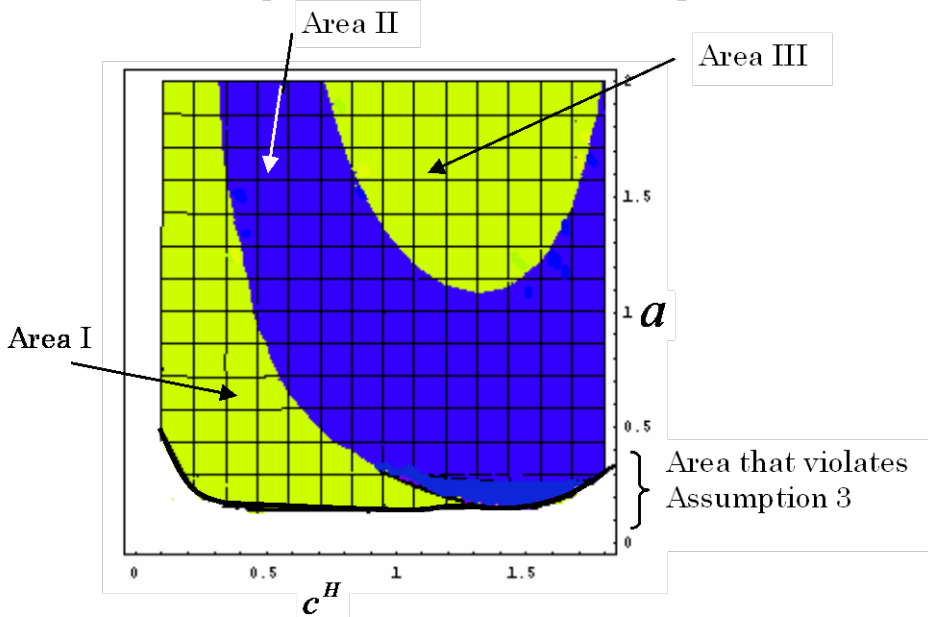




(a) Assumptions:  $m=0.5$ ;  $\delta=10$   $c^L = c^H/2$   $v=5$



(b) Assumptions: the same as above except for  $v=8$



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# Strategic Marketing of Made-in-Nigeria Goods and Consumer's Acceptance in Nigeria. An Empirical Analysis of Textile Products

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**Abstract:** This study was conceived with the intention of the author to appraise and assess the viability, acceptability and challenges inherent with the marketability of product Made-in-Nigeria products among the Nigerian populace. Investigations were carried out on Textiles Consumers' perceptions of the quality of Made-in-Nigeria products; possible motivation behind Nigeria attitudes towards domestically produced textile products and relationship between consumer attitudes and satisfaction with product made-in-Nigeria. Survey study was carried out through questionnaire administration on 120 respondents; using purposive sampling technique to select the three popular markets in Lagos (Yaba, Oshodi and Eko) to gather the required data for empirical analysis. The population of this study were the textile products consumers in Lagos State where Textiles customers were randomly sampled in each of these markets. Ordinary Least Square method (OLS), t-test, f-statistics, coefficient of determination ( $R^2$ ) and Durbin Watson Statistics were used to estimate the data. The results showed: (a) significant relationship between product quality and desire to buy made-in-Nigeria at 0.05 level ( $r = .984$ ,  $P < 0.05$ ); (b) a significant, high positive relationship between the perceived cost of individual purchases and the satisfaction derived from made-in-Nigeria goods ( $r = .961$ ) and (c) a correlation coefficient of 0.979, for cultural believes and buying behaviour of Nigerians. The results necessitated the formulation of required strategies for implementation in concluding the study.

## INTRODUCTION

Effective and efficient marketing of goods is one of the strategies used by many manufacturing organizations in Nigeria today as mean of their survival to cover cost

and deliver expected profit. Previously, manufacturing organizations were majorly meant to produce and manufacture products for human consumption but today for the survival and effective market growth and strong competitive advantage marketing department

has formed major aspect of manufacturing organization.

Nigeria as a developing country needs to produce her own goods so that it will help develop her economy in terms of growth and stability. The Nigerian government in 1988 took another bold step to encourage favorable attitudes towards made-in-Nigerian goods in a bid to actualize the Enterprises Promotion Decree. The basis of this decree was to reduce foreign dominance on the economy, encourage local retention of profit, and create employment opportunities amidst other objectives. Since independence in 1960, a lot of changes have taken place in the country economically, politically and socially which as a result, firms, small and large have gone down the drain. The cause of this was mainly due to lack of good management and leadership in the country as well as lack of vision and foresight. The country is plagued with large scale under capacity resource utilization, power supply that cannot be used for any meaningful planning purpose and a whole economy that cannot be forecasted.

Marketing implications of the above scenario will be: irregular supply of products, supply of lower quality product due to dwindling income of consumers, fluctuating prices due to product shortages, low reputation of manufactured goods, low motivation towards advertising, low marketing orientation and a general consumer discontent with home made goods (Aire, 1973; in Kalegha et al 1983).

However, with the democratization of the system and the call to the citizenry to look inward for a sustainable growth through self-reliance, it has become expedient therefore, to research into the Nigerians wills, desires and favourable attitudes towards

made-in-Nigeria-goods. As our society under goes rapid changes and becomes more affluent, newer social forces make consumers spend a greater part of their income in ways remarkably different from what took place in the past. Consumers want the advantage of affluent and the latest services that technology and business can offer. (Achumba 1998).

The focus of this study is the Nigerian textile market. This industry was chosen firstly because most textile products have clearly displayed "Made-in" label; and secondly it is an industry where imported products had long dominated, even causing local ones to carry foreign labels.

### The Study's Objectives.

The broad objective of this study is to assess the acceptability and challenges inherent with the marketability of product made-in-Nigeria. Other specific objectives include to:

- investigate Consumers' perceptions of the quality of Made-in-Nigeria products.
- examine the possible motivation behind Nigeria attitudes towards domestically produced products
- examine the effects of demographic factors on these motivational influences to buy products made-in-Nigeria.
- find out the relationship between consumer attitudes (evaluation) and Satisfaction with product made-in-Nigeria.

### Research Questions

This research attempted to address the following research questions:

- What is the preference of Nigerian consumers for made-in-Nigeria

products relatively to similar products of foreign origin?

- Are there significant differences between past and present evaluations of made in Nigeria goods?
- How familiar are consumers' with made-in-Nigeria textile brands?
- What is their satisfaction level compared with foreign brands?
- What role will culture play in determining taste and preferences for made-in-Nigeria product?

### Research Hypotheses

#### *Hypothesis One*

- There is significant relationship between quality and the desire to buy made-in-Nigeria products.

#### *Hypothesis Two*

- There is significant relationship between the perceived costs of individual purchases and the satisfaction derivable from made-in-Nigeria products vis-a-vis foreign substitute.

#### *Hypothesis Three*

- Cultural believes and preservations will aid the satisfaction level derivable by buyers of made-in-Nigeria products.

### Justification of the Study

Nigerian economy has been characterized by declining capacity utilization in the real sector, poor performance of major infrastructural facilities, large budget deficits, rising level of unemployment and inflation. Given the poor state of the economy, it is the desire of all Nigerians to have in place and functional too, an economic policy which will revive and grow Nigeria's comatose economy; significantly raise the standard of living

of the people; put Nigerian back to gain-full work and create new employment opportunities and reposition the economy to participate beneficially in the global economy. Therefore, this work is an attempt to research into the problems and prospects of marketing made in Nigeria goods with particular reference to textiles products. Internal and external factors impair marketing local products. The study focused on locally manufactured textile products with the hope that the result of this work can be generalized to other locally manufactured goods in Nigeria

### Theoretical Framework

The production of traditional textiles has been in Nigeria for many years, but real industrial activity in textile production is comparatively recent. Kaduna Textile Mills was the first to be established in 1956, followed by Nigerian Textile Mills in 1962. From inception, these companies were conceived as vertically integrated mills, to convert locally available raw materials - mainly cotton - through spinning for the production of yarn, weaving for the production of grey cloth, and dyeing, printing and finishing, for the production of finished textiles.

As at today, the sector has developed to incorporate fibre production, spinning, weaving, knitting, lace and embroidery makings, carpet production, dyeing, printing and finishing. The sector produces a varied series of fabrics annually, ranging from African prints, shirtings, embroideries, etc., to Guinea brocades, wax prints, jute and other products. (Africa.com 2011). Central Bank of Nigeria Annual report for 1995 showed that, out of 13 subsectors in the Manufacturing sector, the Textile sector - comprising Cotton



Textile and Synthetic Fabrics - continued to account for a significant proportion of the overall growth of manufacturing production. The synthetic fibre section of the textile industry has recorded substantial growth over the years. A trend towards integration can be observed in the textile industry. Today, almost all large companies are active in several sub-sectors. Many of the companies in this sector are quite small. A process of concentration is taking place, and a number of important groups are emerging. Between 60% and 70% of the raw materials used in the industry are sourced locally, the main exceptions being high quality cotton and synthetic materials.

The industry is labour intensive, with little mechanization; it is estimated that it provides employment to around 150,000 Nigerians, excluding the thousands who are directly employed in the cottage sector of the industry. The major textile enterprises in Nigeria are located around Lagos which has the majority of the country's spinning mills and weaving mills. Kano and Kaduna equally have a reasonable number of textile industries. After years of blooming business in the textile industry, several foreign textile companies came to operate in Nigerian shore like Aflon Nigeria Plc (ANPLC) which was incorporated in 1985 but commenced operation in April 1988. It is a wholly owned subsidiary of Afprint Nigeria Plc, a textile company which in turn is part of the worldwide Kewalram/Chanrai Group which has business interests and social commitments in North America, the UK, West Africa and South and East Asia. Spintex Mills (Nigeria) Limited (SMNL) also, was one of the vibrant company that operated in the early inception of textile industrialization of Nigeria. It was established in 1980 and

began commercial operation in June 1982. It is a 100% subsidiary of Sunflag (Nigeria) Limited, a textile company which manufactures knitted fabrics and ready made garments with a substantial interests in Kenya, Tanzania, Cameroon, India and the UK.

However, ANPL and SMNL before the crumbling of Nigerian textile industry performed successfully in satisfying the Nigerian Market before delving into the foreign market by exporting their textile products to other nations. ANPLC export activities began in 1991 with export sales of US\$1.6m. This rose to US\$4m in 1992. Cotton yarn is the company's major export item. The market channels used by the company are agents which are the associate companies and which bear all risks relating to credit. The target market is the developed countries of Europe and North America with France, Belgium, Germany, Italy, the UK and the US constituting the major focus. SMNL, as well engaged in exporting business entered the scene in 1987 with cotton yarn and polyester filament yarn as its major items. The export sales in 1987 amounted to US\$784,464 and in 1992 the company earned US\$4.3m as proceeds from exporting. (Federal Republic of Nigeria; First National Rolling Plan 1992)

X-raying the United Nigeria Textile Company (UNTL) for example in Nigeria; it was discovered that UNTL was a long standing textile company in the Nigerian textile industry that was able to withstand the Nigerian economic challenging environment, boosting the nation's economy, providing employments and many other social responsibilities. Though, the company closed down its operations in 2007 due to the overbearing external forces/factors and non conducive business

environment but through the intervention of the Vice President, (the then Governor of Kaduna State, Arc. Namadi Sambo) who constituted a Special Committee for the revival of textile and cotton industries in the State made it possible for the company (UNTL) to be revived and eventually reopened recently; precisely on Friday, 3rd December, 2010 for operation. This was a practical demonstration of the Vision 2020 which is aimed at making Nigeria one of the 20 leading industrialized economies in the World.

### Strategic Marketing

Marketing strategy is a process that can allow an organization to concentrate its limited resources on the greatest opportunities to increase sales and achieve a sustainable competitive advantage. A marketing strategy should be centered around the key concept that customer satisfaction is the main goal. The Nigerian Government indigenization policy has become an opportunity to leverage upon by the local-products manufacturers to try and push their products very strongly for the acceptance of consumers as against the foreign products that are highly taxed in the nation. Marketing strategy is a method of focusing an organization's energies and resources on a course of action which can lead to increased sales and dominance of a targeted market niche. A marketing strategy combines product development, promotion, distribution, pricing, relationship management and other elements; identifies the firm's marketing goals, and explains how they will be achieved, ideally within a stated timeframe.

Marketing strategy determines the choice of target market segments,

positioning, marketing mix, and allocation of resources. It is most effective when it is an integral component of overall firm strategy, defining how the organization will successfully engage customers, prospects, and competitors in the market arena. Corporate strategies, corporate missions, and corporate goals. As the customer constitutes the source of a company's revenue, marketing strategy is closely linked with sales. A key component of marketing strategy is often to keep marketing in line with a company's overarching mission statement

Marketing concept incorporates some fundamental and basic ideas that are of utmost importance to the survival of a business. These ideas are illustrated in the following statements: Drucker (1968) stated that "if we want to know what a business is, we have to start with its purpose – And its purpose must lie outside of the business itself. In fact, it must lie in society, since a business enterprise is an organ of society. There is only one valid definition of business purpose: To create a customer".- Leeps (1958) supported this point of view by saying that: "The new image of marketing implies that management must start with the customers' needs and desires, in so far as they can be ascertained in advance of production, and follow through to activities which aid the customer in getting utility from products which he has purchased". Accordingly, the customer and his wants become the fulcrum around which a business moves. Concern and responsibility for marketing, although centered in one department for operational purposes, but must permeate all areas of the business enterprise.

Levitt (1962) further stated that: "one thing we know for such about society and

consumers is that they are constantly changing in ways that are extremely important to every business. The trick is to anticipate and act on these changes before the competitor does and to do it at the right time and in the right way". Although, the marketing concept is referred to as new, it is of course, not new at all. Every successful business has followed it, albeit sometimes unconsciously or by accident. Obviously no business can succeed for very long without filling customers' needs or wants in an efficient manner (Buell, 1970). In support of the foregoing, Morden (1987) said that "Management in the business enterprise has two main areas of responsibility:

- Remaining sensitive to market needs: The management of the business must be aware of the nature of market demand, and of changes that occur in it. The nature of market demand, and the need to supply it effectively yet profitably, should be the driving force behind the decisions of all of the company's managers, not just its marketing functions.
- Market-oriented operations management: The whole business should be run so that:
  - a) Marketing objectives may be achieved, and
  - b) The whole business trades in a competitive and profitable manner.

From these, it can be seen that the marketing concept is based on three fundamental beliefs:

- All company planning and operation should be customer oriented.
- Profitable sales volume should be the goals of a firm and not just volume for the sake of volume alone.

- All marketing activities in a firm should be organizationally coordinated. It is the adoption of this concept – that is, a business philosophy that puts customer satisfaction at the center of management thinking throughout the organization that distinguishes a marketing-oriented firm from other less enlightened companies.

According to Lancaster and Massingham (1988) they opined that, changing marketing environment will certainly challenge and task the ingenuity of marketers. Those who comprehensively analyze and plan to meet these challenges creatively by adopting a proactive response, according to the author, will reap benefits in profits. Those who ignore the changing environment or sit tight, stand the risk of being eclipsed by changes brought about by consumerism. In the light of this, the study has the interest of investigating whether the understanding of the applications of the marketing strategies has actually influenced acceptance of made-in-Nigeria product.

### Consumer Acceptance

Chris et-al (2007) opined that, consumer acceptance describes consumer willingness to receive and/or to tolerate. For example, a customer might accept the occurrence of a certain number of yearly supply interruptions given a certain price. Consumer acceptance and satisfaction are related, as the first is a precursor of the latter. However, despite the fact that satisfaction and acceptance can be thought of as lying on a continuum, acceptance does not automatically lead to satisfaction. Weighing needs or preferences against provided product or service attributes results

in the balance of satisfaction pointing in a negative or positive direction, depending on whether interests are conflicting or corresponding. This determines the way in which people evaluate companies' or utilities' performance. Only when a consumer's needs for a stated good or service are met, i.e. when the service provided corresponds with their preferences, will they feel satisfied. Customer satisfaction can be enhanced when their needs are met (in terms of both quality and quantity) and accord with their preferences.

At the other end of this dimension, where the service provided conflicts with the prevailing needs or preferences, customers may experience feelings of dissatisfaction. Acceptance is also used in the literature to mean an affirmative answer to a proposal. The distinction is subtle but there are occasions where consumers might not agree to a proposal yet accept the subsequent service in the sense of tolerating it.

### **Marketing Challenges of Made-in-Nigeria Products**

The challenges of made-in-Nigeria products are multidimensional and multifaceted. According to Njoku (2004), she highlighted the following as some of the challenges faced by the textile industries in Nigeria;

**Currency of Technology:** Going by the level of technology which is indicated by the age of technology which is installed in a country, that of Nigeria is very low.

**Cost Fuel and Energy:** Heavy furnace oil is used by most companies as the primary fuel for steam generation

**Cost of Cotton:** Cotton prices in Nigeria, in common with the international situation, have risen sharply over the last year.

**Dyes and Chemicals:** Reactive dyes attract at present a 20% duty, which is very high. To bring it to a level of 5% would make it be globally competitive. (*this was the prevailing percentage as at when she carried out this research*)

**Working Capital:** In textiles production generally the working capital cycle can be quite long. In Nigeria however, the cycle is much longer than elsewhere.

**Cost of Finance:** The problem of a long working capital cycle is made much worse in Nigeria by the cost of short-term financing. This costs from 20.5% per year and upwards. This adds very significantly to producer costs and places Nigeria at a competitive disadvantage against textile producers elsewhere in the world who enjoy much lower working capital needs and cheap finance to fulfill their needs. Many companies also stated that banks impose many additional handling and bank charges, which significantly increases the cost of capital even further.

**Long Term Loans:** A curious feature of the banking system in Nigeria is the fact that there is a total absence of Long-Term funding available to manufacturers from local banks. Most loans available are for less than 12 months, with only the top companies occasionally being offered loan facilities for up to 3 years. Most textile machinery has a service life of at least 10 years and internationally is usually financed with loans of more than 5 years duration. Such loans if available in Nigeria are again offered at interest rates of 20.5% and upwards making it prohibitively expensive to invest other than by using one's own equity. This is a key factor for the long-term under-investment that is evident in many companies.

The very poor local market environment coupled with prohibitively expensive bank financing has deterred many companies from making critical investments, which would improve their productivity and costs as a result, such companies are becoming progressively less competitive.

**Cost of Capital:** The cost of short-term borrowing in Nigeria at the present rate of 28 to 30% is a major international cost disadvantage for the Nigerian textile industry.

Apart from these challenges as highlighted by Njoku (1994), another very significant challenge to the marketability of made-in-Nigeria textile product is the preference of Nigerian for '*second-hand-cloth*' popularly known as '*okirika*' in Nigeria language. Bales of these second-hand clothes are daily off-loaded into the country from Benin Republic. Many of the sellers of made-in-Nigeria textile products are equally the distributors of these *okirika* fabrics. The materials are smuggled at night through the numerous bush paths along the porous Nigeria-Benin border because second-hand clothes have been banned by the government and anyone caught has his goods seized. Nevertheless, quantum number of these materials still find their ways into the nation in a large quantity and very cheap prices compared to the locally produced textiles. Second-hand textile materials raging from *shirts, trousers, pants, T-shirts, bed sheets, window blinds, stockings, handbags and shoes* are a common site at bend-down boutiques in many cities and towns in Nigeria. Similarly, new but relatively cheap textiles from China, Indonesia and Malaysia are equally highly patronised by Nigerians because of the economic advantage to the citizens in terms of cost. The purchasing power

of most citizens is now directed to second-hand goods and this erodes the productive capacity of the Nigerian textile industry one of the reasons why the prices of local materials are high is because production at a very high cost since the major source of energy is generator since electricity in the nation is epileptic. There is no way this will not add-up to the cost of production.

There is no doubt that this trend poses a serious threat to the continued existence of local textile mills. Massive importation of textiles both second-hand and new garments especially from Asia coupled with high cost of production of locally made products once led to the shutting down of 65 local textile mills and the laying off of a total of 150,000 textile workers in the last decade (*Comrade Issa Aremu, General Secretary of Textile, Tailoring and Garment Union 2005*). However, more than one million other persons whose jobs are linked to the textile industry, such as traders and cotton farmers have lost their means of livelihood as a result of the closures. As a matter of fact, this sector which used to be the highest employer of labour in Nigeria has since been a shadow of itself until recent intervention of Nigeria government to resuscitate the Kaduna Textile Industries and host of others in the nation,

## METHODOLOGY

Questionnaire was the basic instrument used in this study to gather the required data for empirical analysis. The population of this study were the textile products consumers in Lagos State. Purposive sampling technique was adopted in selecting the area where the copies of the questionnaire were administered. Three popular markets in Lagos; (Yaba,



Oshodi and Eko) where textiles materials are known to be sold were sampled. Textiles customers were randomly sampled in each of these markets. In all, 120 copies of questionnaire were administered on the users of textiles product in Nigeria whether locally made or internationally made in order to determine the preference and acceptability of Nigerian for made-in-Nigeria textiles product. Ordinary Least Square method (OLS) was used to analyse the collated data.

### Model Specification

The general formula for regression analysis model is:

$Y = f(x)$  and where  $f(x) = a + bx + ui$

Where: Y = Dependent variable

X = independent variable

b = Slope

ui = Error term or stochastic variable

For hypothesis I, the model was developed to access the relationship between customers' desire to buy *made-in-Nigeria* product and its quality. The regression model is denoted by:

$DTB = f(PQT) + U_i$

$DTB = b_0 + b_1 PQT + U_i$  ..... equation (i)

Where:

DTB = Desire to buy

PQT = Product quality

ui = Error term or stochastic variable

The model for the hypothesis II was derived to evaluate the relationship between perceived cost of individual purchases and the satisfaction derived from *made-in-Nigeria* goods. The model is denoted by;

$PCP = f(STF) + U_i$

$PCP = a_0 + b_i STF + U_i$  .....equation (ii)

Where:

PCP = Perceived Cost of Purchases

STD = Satisfaction Derived

$U_i$  = Stochastic Error Term

For hypothesis III our model was developed to appraise the relationship between an individual's cultural believes and preservations and acceptance of made in Nigeria goods. The regression model was denoted by:

$ACM = f(CBP) + U_i$  ..... equation (iii)

$ACM = a_0 + b_i CBP + U_i$

Where:

ACM = Acceptance of made in Nigeria products

CBP = Cultural believes and preservations

$U_i$  = Stochastic Error Term

However, from the administered 120 copies of questionnaire, only 108 copies (representing 90% rate of return) were recovered. This can be seen as a good representation of the sampled population.

### DATA ANALYSIS

From the administered questionnaire, 18.5% of the respondents were male while 81.5% were female. Traditionally, female tend to buy textile products than their male counterparts. This research only confirmed this.



## RESPONDENTS' ANALYSES

## KEYS:

- 1) Strongly Agreed (SA);
- 2) Agreed (A);
- 3) Indifferent (I);
- 4) Disagreed (D);
- 5) Strongly Disagreed (SD)

Table I

	QUESTIONS	SA	A	I	D	SD
1.	<i>Nigerian government public orientation on the patronage of made-in-Nigeria textile products, had improved the quality of Nigerian textile products</i>	40 37.04%	30 27.78%	6 5.56%	10 9.26%	22 20.40%
2.	<i>Purchase of made- in –Nigeria textile products is value for money</i>	38 35.18%	20 18.52%	0 0%	20 18.52%	30 27.78%
3.	<i>The patronage of made – in – Nigeria textile products foster the development and growth of the nation's textile industry</i>	44 40.74%	10 9.26%	14 12.96%	15 13.89%	25 23.15%
4.	<i>Frequent sales promotions and advertisements of made – in – Nigeria textile products had created the appeal to buy Nigeria made products in both the consumers and potential consumers.</i>	0 0	20 18.5%	0 0	10 9.26%	18 16.67%
5.	<i>Govern Government intervention and assistance in the development of textile industry in the country had led to reduction or moderate pricing of made – in – Nigeria textile products</i>	42 38.89%	30 27.78%	8 7.41%	10 9.26%	18 16.67%
6.	<i>The reduced/moderate pricing of made – in – Nigeria textile products had encouraged increased purchase by consumers</i>	60 55.56%	30 27.78%	2 1.85%	4 3.70%	10 9.26%
7.	<i>Durability and longevity utility of made – in – Nigeria textile products in terms of quality, texture, fineness and colouration had consequently allowed for frequent purchase and use.</i>	40 37.04%	22 20.37%	10 9.26%	16 14.81%	20 18.52%
8.	<i>Consumers derive satisfaction and self – esteem in the purchase and use of made – in – Nigeria textile products.</i>	38 35.19%	20 18.52%	10 9.25%	15 13.88%	25 23.15%

9.	<i>The frequent improvement in textile products designs and pattern of made – in – Nigeria textile products create the “want” desire in both Nigeria and foreign consumers.</i>	50 46.30%	40 37.04%	0 0	8 7.41%	10 9.25%
10.	<i>Availability of variety of made – in – Nigeria textile products will competitively stop the dumping of foreign textile products in the Nigerian market.</i>	38 35.19%	20 18.52%	10 9.25%	15 13.89%	25 23.15%
11.	<i>The patronage, purchase and use of Nigerian – made textile products will promotes the country culture and ideology among the comity of nations.</i>	50 46.30%	35 32.41%	8 7.41%	5 4.43%	10 9.25%
12.	<i>Adoption and use of modern textile production technology in the nation’s textile industry will enhance the acceptability of the Nigerian – made textile product</i>	50 46.30%	40 37.04%	0 0	8 7.41%	10 9.25%
13.	<i>The elderly in the Nigerian society tends to favour the purchase and use of made – in – Nigeria textile products than the youth.</i>	58 53.70%	30 27.78%	0 0	8 7.41%	12 11.11%
14.	<i>The establishment, development and growth of textile industry in Nigeria will create job opportunities and promote the nation’s economy.</i>	100 92.59%	8 7.41%	0 0	0 0	0 0
15.	<i>The affordability of average consumer to purchase of made – in – Nigeria textile products than imported textiles is very high.</i>	60 55.56%	35 32.41%	0 0	5 4.63%	8 7.41%

1. Source: Survey Result 2010

### Hypotheses Testing and Discussion of Results

The three formulated hypotheses were tested with the use of OLS (ordinary least square) regression statistics in the following order;

#### Hypothesis One

- There is significant relationship between quality and the desire to buy made-in-Nigeria products.

Table II

Model	Coefficient	Std Error	t	Sig. T
Constant	.448	.101	4.459	.000
Product Quality	.538	.010**	56.594	.000

Source: Survey Result 2010

(\*\* means significant result)

( $R^2 = .968$ ,  $R = .984$ ,  $R^2 = .968$ ,  $F = 3202.903$ ,  $DW = .281$ )

In the estimated regression line, the relationship between product quality and desire to buy made-in-Nigeria goods is high, positive and significant at 0.05 level ( $r = .984$ ,  $P < 0.05$ ). Therefore, the null hypothesis ( $H_0$ ) is rejected while the alternative hypothesis ( $H_1$ ) is accepted. It implies that there is significant relationship between product quality and the desire to buy made-in-Nigeria goods. The result shows that  $b_0$  (the constant term) is .448. This means that holding the value of product quality constant, the value of desire to buy will be about .448. The regression coefficient of product quality in the estimated regression lines is .538 which implies that 53.8% of the increase in the desire to buy was accounted for by the product quality. The calculated-'t' statistics is 56.594 while the tabulated -'t' statistics is 1.980. The value of calculated-'t' statistics is greater than the value

of the tabulated 't' statistics. This implies that the relationship between product quality and desire to buy is statistically significant at 0.05 level. The coefficient of determination ( $R^2$ ) is .968. It shows that 97% of variation in the desire to buy is caused by variation in the explanatory variable (product quality). The Durbin Watson Statistics is .281 which shows that auto-correlation exists in the regression equation. The regression model is statistically significant in terms of its overall goodness of fit at 95% confidence limit for the F-statistics is 3202.903, meaning that;  $P < 0.05$ .

### Hypothesis Two

- There is significant relationship between the perceived costs of individual purchases and the satisfaction derivable from made-in-Nigeria products vis-a-vis foreign substitute.

Table III

Model	Coefficient	Std Error	T	Sig. T
Constant	1.519	.142	10.681	.000
Satisfaction Derived	1.082	.030**	35.705	.000

Source: Survey Result 2010

(\*\* means significant result)

( $R^2 = .923$ ,  $R = .961$ ,  $R^2 = .923$ ,  $F = 1274.862$ ,  $DW = .142$ )

In the estimated regression model, there exist a significant, high positive relationship between the perceived cost of individual purchases and the satisfaction derived from

made -in-Nigeria goods ( $r = .961$ ). This implies that the null hypothesis ( $H_0$ ) is reject, that is, there is significant and positive relationship between the perceived cost of

individual purchases and the satisfaction derived from made-in-Nigeria goods. The regression result shows that  $b_0$  (the constant term) is 1.519. This implies that holding the value of satisfaction derived constant, the value of perceived cost of individual purchases will be about 1.519. The regression coefficient of satisfaction derived in the estimated regression line is 1.082 which implies that 108.2% of the increase in the perceived cost of individual purchases was accounted for by the satisfaction derived. The relationship between the perceived cost of individual purchase and the satisfaction derived from made in Nigeria goods is statistically significant ( $t = 35.705$ ,  $P < 0.05$ ) The coefficient of variability

( $R^2 = 0.923$ ) implies that, 92% of variation in the perceived cost of individual purchases is explained while 8% unexplained variations are due to other variables outside the regression model which are otherwise included in the Stochastic error term. The Durbin Watson Statistics is .142 which implies that auto correlation exist in the regression model. The regression model is statistically significant in terms of its overall goodness of fit ( $F = 1274.862$ ,  $P < 0.05$ )

### Hypothesis Three

- Cultural believes and preservations will aid the satisfaction level derivable by buyers of made-in-Nigeria products.

Table IV

Model	Coefficient	Std Error	t	Sig. T
Constant	-.217	.099	-2.198	.000
Cultural Believes	.624	.013	49.113	.000

Source: Survey Result 2010

(\*\* means significant result)

( $R^2 = .958$ ,  $R = .979$ ,  $R^2 = .958$ ,  $F = 2412.090$ ,  $DW = .083$ )

The above result showed a correlation coefficient of 0.979. The null hypothesis ( $H_0$ ) is therefore rejected. This implies, that the more an individual believes so much in the Nigerian culture, the higher his/her satisfaction with made in Nigeria products. In the estimate regression line,  $b_0$  (the constant term) is -.217 implies that, holding the value of cultural believe constant, the value of satisfaction will be about -.217. The regression coefficient of cultural believes in the estimated regression line is 0.624 which implies that 62.4% of the increase in the satisfaction with the made in Nigeria product was accounted for by individual respect for his/her culture and values. The relationship between cultural values and satisfaction with made-in-Nigeria

products is statistically significant ( i.e.  $t = 49.113$ ,  $P < 0.05$ ). The Coefficient of determination is 0.979. This implies that 98% of the variation in satisfaction with made in Nigeria product is explained by variation in individual's cultural believes. The remaining 2% unexplained variations are largely due to other variables outside the regression model which are otherwise included in the stochastic error term. The Durbin Watson Statistic is 0.083 which implies that auto correlation exist in the regression model. The regression model is statistically significant in terms of its overall goodness of fit for the calculated F-statistics ( i.e.  $F = 2412.090$ ,  $P < 0.05$ ) which is greater than tabulated F – Statistics (3.92) at 0.05 level of significance.

## CONCLUSION

This study actually had in mind to evaluate the Nigerian responses to their own locally made products and their perceptions of these products by empirically investigating the most popular manufacturing industry in Nigeria- the Textile Industry. It is equally the intention of the study to formulate workable marketing strategies for manufacturing companies engaging in made-in-Nigeria products as to perfectly understand the required selling point that can serve as attraction to the Nigerian populace to patronise their own. The findings of the study revealed that, about 65% of the sampled population believed that the Federal Government's orientation effort on locally made products patronage very recently has led to the players in the industry to improve the quality of their output. Similarly, 50% of the sampled population agreed that patronising made-in-Nigeria products will foster growth and development especially in the Textile industry. 66.67% agreed to the fact that Federal Government's intervention in the Textile industry was responsible for the moderate pricing of made-in-Nigeria fabric products. Besides, 83.34% of the respondents claimed their present patronage of the locally made textile to the fact that the price has reduced significantly in comparison with imported fabrics. 83.7% respondents believed in the undisputable designs and pattern of made-in-Nigeria product while 54.62% agreed to the fact that constant availability of made-in-Nigeria product will stop the dumping of foreign textiles products (in the name 'Okirika') to Nigeria.

As a rider to this, 78.71% agreed that purchase of these locally made products will definitely promote the country's culture, ideology and values while 81.48% of

the respondents believed that the elderly in Nigeria believed more in patronising made-in-Nigeria products. The respondents concluded with 87.97% of them agreeing to the fact that made-in-Nigeria products are more affordable to purchase compared to the imported fabric. These empirical results and the outcomes of the tested hypotheses provide magnitude of opportunities for the locally made producers to increase their market shares and successfully compete in the national and international market with a pride. Hence the following are recommended based on the empirical results;

- Since the Nigerian Government rescuing effort by way of intervention fund has re-positioned the Textile industry in Nigeria for better performance, mechanism should be further put in place to protect the new phase of the fabric industry. The government should through all her information dissemination agencies inform and educate her citizens on the need to keep faith with the locally made products as signs of keeping the country's posterity and protecting her wealth by way of GDP growth.
- The estimated regression line showed a very high, positive and strong relationship between product quality and desire to buy made-in-Nigeria goods. The implication of this is that, a little effort by the made-in-Nigeria products manufacturer in quality assurance will give birth to market dominance in the Nigeria national market. The study revealed that, where the product is made is not as important as the level of quality that characterised such product. Thus, it means that a product is not necessary inferior because it is made in Nigeria for if it has competitive quality it will enjoy a better and wider acceptability. (e.g. Nigeria Wire and Cable Products are

preferred by most Nigerian builders and contractors to any imported wires.)

- Similarly, the estimated regression model revealed a significant and high positive relationship between the perceived cost of individual purchases and the satisfaction derived from made-in-Nigeria goods. This is equally an opportunity that can be harnessed by the made-in-Nigeria products manufacturers. Individual when making purchases especially from among substitutes is always conscious of economy of scale, cost minimisation and consumption optimisation. Pricing is significantly considered when taking final decision. With these backgrounds, manufacturers of made-in-Nigeria products must therefore make spirited efforts to ensure that their prices are competitive enough to encourage the priority of their products over that of their foreign counterparts by way of effective and affordable prices. This should not be viewed as a mark of weakness or inferiority by the local producers but instead, should be seen as a competitive advantage.

- Also, the correlation coefficient tested in the study showed that, the more an individual believes so much in the Nigerian culture, the higher his/her satisfaction with made in Nigeria products. The regression coefficient of cultural believes in the estimated regression line is 0.624 which implies that 62.4% of the increase in the satisfaction with the made in Nigeria product was accounted for by individual respect for his/her culture and values.

Hence, this must be leveraged on as a great opportunity. The made-in-Nigeria products manufacturers should re-defined Nigeria culture in their products by creating diversified products that will respect and satisfy each ethnic group in Nigeria. Culture has been seen in this study to significantly influence the desires of Nigerian to identify with the locally made products or not depending on the intensity of their cultural inclination. Thus, acceptability of made-in-Nigeria products has been noted in this study to have strong association with cultural believes and heritage of the Nigerians. If this is converted to an effective marketing strategy both the textile industry and other sectors of the made-in-Nigeria products industry will rise above the line into becoming internationally recognised conglomerates.

- Finally, Government at all levels in Nigeria should intensify efforts to see to the realisation and provision of social amenities and business enhanced environment. One of the major reasons over a long period of time now that many made-in-Nigeria products manufacturers cannot nationally or globally compete with rivals from the overseas is because of overhead costs of energy. This has always made locally-made products to be exorbitantly priced to cover cost and inadvertently loose benefit of effective competition. Little can any of these manufacturers do if all these amenities are not provided by the Government since their provision is highly capital intensive.

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# The impact of leadership qualities on quality management improvement

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**Abstract:** Currently, the importance of leadership is considered more and more often in quality management. The need of an appropriate leader has been already emphasized in ISO 9000 standards, in TQM philosophy as well as in different models of improvement which are used in the methodologies of prizing quality. Yet, it is in the concept of TQL where the attitude based on the need of leadership in an organization has achieved its best-developed, full shape. On the basis of the conducted studies, the following publication presents the analysis of the dependence between leadership qualities of managers and the improvement of quality management. There has been an attempt to define the qualities, which a manager being responsible for quality management, should have.

**Key words:** quality management, leadership, quality improvements, Total Quality Leadership

## 1. Introduction

In the XX century, it turned out that a traditional neo-positivist model of scientific management did not come true (Sułkowski 2005). It appeared that a pure rational attitude, which does not take into account human factors, does not provide sufficient results. Therefore, the social aspects must be taken into consideration in a contemporary quality management.

Currently, the importance of leadership is considered more and more often in quality management. The need of an appropriate leader has been already emphasized in ISO 9000 standards, in TQM philosophy as well as in different models of improvement which are used in the methodologies of prizing quality (Skerlevaj 2007; Han et al. 2009; Zu et al., 2010). Yet, it is in the concept of TQL where the attitude based on the need of leadership in an organization has achieved

its best-developed, full shape (Sadikoglu and Zehir 2010). On the basis of the conducted studies, the following publication presents the analysis of the dependence between leadership qualities of managers and the improvement of quality management. There has been an attempt to define the qualities, which a manager being responsible for quality management, should have.

## 2. Literature review - leadership qualities

There are two attitudes dominating in the studies concerning leadership in an organization. The first one assumes that leadership is based on certain qualities which a leader should have. The second one assumes so-called - a process-like attitude to leadership, according to which leadership is mainly based on the interaction between a leader and employees and does not entirely result from leader's qualities (Kumala et al. 2009; Peter and Northouse, 2010). The attitude based on qualities is in accordance with a concept in which being a leader stands for a set of inborn features which can't be learned. Whereas, the attitude based on the interaction assumes that most managers can learn how to be a leader through gained experience. (Jago, 1982; Ishi et al. 2009; Li 2009).

According to B.M. Bass, leadership practices can be presented as a continuum (Table 1). There will be autocratic practices on one side while on the other side, there will be democratic ones. However, such attempts to classify leadership is criticised as being simplified and they do not cover the whole spectrum of issues, which can be considered with reference to leadership (Avrey 2009). Studies which have been conducted all

over the world allow defining different features, which are significant for a successful leader. The specialists have attempted the issue in different ways. Some of them were trying to choose just few qualities of the biggest importance while the others were trying to identify as many features influencing a good leader's abilities as possible.

Kouzes and Posner conducted a very interesting analysis of leadership qualities (Rowitz, 2001). They have created a ranking of features which appear in most of 52 studies concerning leadership qualities all over the world whose results they have deeply analysed. On the basis of their research, the following hierarchy has been achieved: (the number in the brackets means the number of studies in which a given leadership quality appears): technical skills (18), social skills (18), motivation (17), team-work skills (17), interpersonal skills (16), emotional equilibrium (15), need of success (15), executive skills (12), making impressions (12), intellectual skills (11), domination (11), responsibility (10), ethic (10), skills of work coordination (9), communication skills (6), physical stamina (6), use of standards (5), creativity (5), conformism (5), courage (4), experience (4), maturity (3).

The leadership qualities decide, to a large extent, if a person is a good and successful leader. The contemporary studies suggest (Vires et al. 2009, Faris et al. 2009) that a good leader should have not only charisma but most of all, should have communication skills as communication with his subordinates, superiors, co-workers, clients, deliverers and stakeholders is a large part of his work. In the conducted studies, the concept of leadership was based on leadership qualities. The qualities, which have been

Table. 1. Autocratic and democratic leadership practices

Autocratic practices	Democratic practices
<ul style="list-style-type: none"> <li>• being authoritarian, giving orders, forcing</li> <li>• the use of power and making decisions independently by a leader</li> <li>• putting pressure on the realization of aims</li> <li>• task –and result orientation</li> </ul>	<ul style="list-style-type: none"> <li>• taking into account other team members' opinions and feelings</li> <li>• counsels</li> <li>• people and human-relationship –orientation</li> <li>• taking decisions by a group</li> <li>• facilitating contacts</li> <li>• sharing with knowledge and control</li> </ul>

Source: Author's own study.

taken into consideration in the research, were chosen by means of the analysis of literature and an expert-like method.

### 3. The characteristics of the conducted studied.

The questionnaire studies were conducted within the research project of Ministry of Science and Higher Education in the first quarter of 2010. In order to analyse the influence of social aspects on the improvement of quality management and differences within this scope depending on the kind of an organization, a possibly and wide choice of research tests have been decided on so as not to include only industrial enterprises but also service sector in different branches. Additionally, a wide spectrum of research tests have been used so as to assure a representative nature of research and possibilities for their statistical analysis.

The questionnaires were sent to 2500 companies. 700 of them were industrial companies while 1800 were services ones. 1120 correctly filled -in questionnaires were obtained. The expert-like method was used in order to define variables used in these studies. The characteristics of entire studies were presented synthetically in Table 2. In

the research, the concept of improvement of quality management is understood in a given publication as a set of problems, such as: a systemic attitude to quality management, the use of different methods and techniques of managing quality, creating innovative solutions, market position of a company, its financial status (Figure 1).

The following variables were taken into account within a scope of the improvement of quality management:

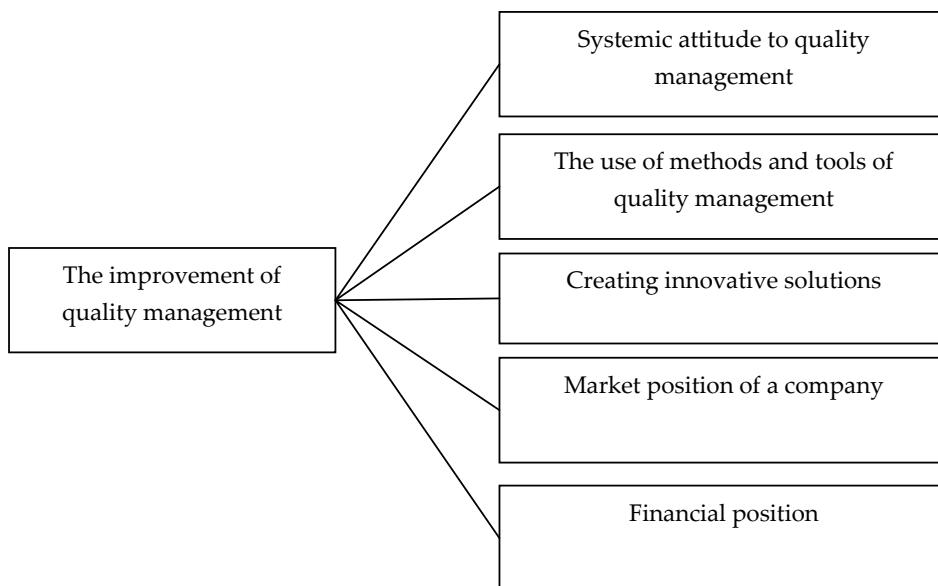
- D1 – having a quality management system being in accordance with standards of PN-EN ISO 9001,
- D2 –attitude to the implementation of standardization in an organization,
- D3 – having trade quality management systems,
- D4 – having environmental management systems,
- D5 – having security management systems,
- D6 – use of team work ,
- D7 – involvement in team work,
- D8 –use of methods and tools of quality management systems (the variable which defines how many methods and tools of quality management is used in a given organization),

Table. 2. The characteristics of all studied companies

Variables		Number of respondents	Percentage of population
The criterion of division	Interval		
Tape of activity	Industry	385	35%
	Trade and services	725	65%
Business sector	Industry (except for mining)	356	32%
	Mining	29	3%
	Trade	175	15%
	Construction	74	7%
	Transport and logistics	41	4%
	Financial Institutions	41	4%
	Other commercial services	290	26%
	Non-commercial services (education, health)	45	4%
	Administration	59	5%
Size	Micro organizations	235	21%
	Small organizations	268	24%
	Medium size organizations	420	38%
	Big organizations	187	17%

Source: Author's own study.

Figure 2. The components of improvement of quality management systems



Source: Author's own study

- D9 – number of innovative ideas per an employee,
- D10 – rewarding employees for their innovative ideas,
- D11 – pro-innovative attitude of a company,
- D12 – market position of a company in comparison with the best companies in a given branch of business,
- D13 – change of market position in comparison with companies in recent years,
- D14 – financial condition of a company.

In order to analyse the concept of leadership in an organization, the theory of leadership based on leadership qualities was used in this publication. The following variables, which characterize a successful leader, were used in the studies:

- P1 – physical appearance, such as height or appeal,
- P2 – interpersonal communications skills,
- P3 – vigour,
- P4 – aiming for constant development,
- P5 – planning and action organizing skills,
- P6 – courage,
- P7 – resistance to stress,
- P8 – ability to assess others' work,
- P9 – innovation,
- P10 – diplomatic skills,
- P11 – ability to persuade,
- P12 – aim-oriented attitude,
- P13 – open-minded action taking,
- P14 – self-assessment ability,
- P15 – truthfulness,
- P16 – being consistent,
- P17 – fulfilling promises,
- P18 – discretion.

#### 4. The results of empirical studies

18 qualities, which were defined on the basis of the concept of leadership qualities, were examined in terms of their importance on the effectiveness of a leader (variables P1-P18). The following ones were chosen by the respondents as the most important: planning and action organizing skills (94, 46), resistance to stress (4, 27), interpersonal communication skills (4, 21), aiming for constant development (4, 18) and being consistent in his actions (4, 16). The least important qualities turned out to be: physical appearance (2, 35), open-minded action-taking (3, 60), persuasion (3, 60), truthfulness (3, 68) and achieving measurable results (3, 72).

What seems to be an important problem, which should be taken into consideration, is defining the extent to which leadership qualities can affect the improvement of an organization. Nowadays, the results of a company are measured within financial categories or beyond financial ones. In this publication, they are assumed to be measured with respect to quality by means of the above mentioned fourteen variables which concern quality improvement (D1-D14).

It is worth to observe that asking a question if leadership influences quality development reflects the opinion that there is a cause and effect connection between leader's actions and a success of a company within a pro-quality strategy.

There has been a dispute in the scientific literature about the influence of leadership on the results of a company yet, mostly there has been an opinion that there is an impact on leadership on company's status. When analyzing this influence, it has to be remembered that one single variable (single leadership quality) has a small influence on



an organization. While it is a set of qualities that can define if a given person is an effective leader. When examining separate leadership qualities, it will be not the strength of its influence that will be of interest but its existence which means that a given leadership quality is important for the improvement of quality. Nonetheless, it is worth remembering that not only one, even a very important quality comprises the idea of a good leadership as a good leader must be characterized with a set of qualities. What's more, his profile has to be compatible with an organizational culture of a company.

In order to establish the influence of leadership qualities on the improvement of quality, the correlations of importance of these qualities (P1-P18) with the above mentioned variables connected with the improvement of quality management (D1-D14) were counted. The analysis of a mutual dependence was presented in Table 3. The classic, typical levels of statistic significance used in economics were used in the studies. The following ways of their assessment are often assumed in scientific studies when interpreting the levels of importance. (Stanisz, 2007):

- $p < 0,05$  – essential effect,
- $p < 0,01$  – highly essential effect,
- $p < 0,001$  – utmost essential effects.

In table, the sign "+" stands for a positive correlation between variables while the sign "-" stands for a negative correlation. When the correlation is statistically essential at the level of statistical significance 0,05, it was marked by means of a sign "+", the statistical significance at the level 0,01 was marked with a sign "+" and the importance at the level of 0,001 was labelled with "+".

Leadership, as it was described in chapter 2, is extremely significant in the process

of implementing standards of ISO 9000, especially TQL. PN-EN ISO 9004:2009 standards state that it is leaders who set the aims and directions of an organization. It is recommended for them to create and maintained an internal environment in which people can fully involve in the process of achieving aims (PN-EN ISO 9004:2009). The fact that a leader should be marked with a set of appropriate qualities was included in a systemic attitude.

In the above mentioned standards of ISO 9004:2008, it is assumed that employees were marked with leadership skills in order to maintain the process of achieving aims of the company and its development (PN-EN ISO 9004:2009). According to R. Karaszewski, a proper leadership is the pillar and the basis of implementing the concept of total quality management.

In TQL, which is one of most-developed pro-quality concept, a proper leadership is the first and the most important rule which conditions the effectiveness of its use.

When analysing how a pro-quality leadership should look like, qualities, which are positively correlated with the most number of variables concerning different aspects of the improvement of quality management, were defined. None of examined qualities turned out to be insignificant however, what can be observed is that some of attributes of pro-quality leaders are more important than the other ones. Taking into account the results of studies, leadership qualities can be divided into three groups in terms of their usefulness in the improvement process of quality management (table4):

- The key qualities: essential for a leader who improves quality management. If a leader does not have these qualities,

*Table 3. The importance of coefficients of correlation between the qualities, with which leaders should be marked and the development of quality management.*

	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10	D11	D12	D13	D14
P1	+					+	+							
	*					***	**							
P2			+								+	+		+
			*								***	*		*
P3											+			+
											***			*
P4							+		+	+	+		-	
							*		***	**	***		*	
P5									+		+			
									**		***			
P6									+	+	+			
									**	*	***			
P7											+	+		
											***	*		
P8		+				+	+			+	+			
		**				**	**			*	**			
P9		+									+	+		
		***									***	**		
P10		+		+			+		+		+			
		*		*			*		**		***			
P11									+		+			
									*		***			
P12		+	+						+	+	+	+		
		*	**						***	*	***	*		
P13		+							+	+	+			+
		**							**	*	*			*
P14		+	+	+						+	+			+
		**	*	*						*	***			*
P15		+							+	+				
		***							*	**				
P16		+									+	+		
		***									**	*		
P17		+				+					+	+		+
		***				*					**	*		**
P18		+				+	+							
		***				**	**							

Source: Author's own study

it is impossible to implement the concept of quality management by a leader (TQL). The key leadership qualities are: achieving measurable results, ability to assess others' work, self-assessment skills, and fulfilling promises.

- The important qualities: - very important when implementing pro-quality strategy of action. Leaders marked with these qualities have a strongly positive influence on the improvement of quality. The following

qualities can be mentioned here: aiming at a constant development, innovation, diplomatic skills, open-minded action taking, and discretion.

- The useful qualities- leadership qualities from this group have a positive influence on the improvement of quality management. However, they are not of greater importance and lack of them do not hinder the process of pro-quality strategy in a significant way. The following qualities belong to this group:

**Table. 4.** *The division of leadership qualities in terms of their usefulness in the process of improvement of quality management.*

Category	Leadership qualities
Key	<ul style="list-style-type: none"> <li>• achieving measurable results</li> <li>• ability to assess others' work</li> <li>• self-assessment skills</li> <li>• fulfilling promises</li> </ul>
Important	<ul style="list-style-type: none"> <li>• timing at a constant development</li> <li>• innovation</li> <li>• diplomatic skills</li> <li>• open-minded action taking</li> <li>• discretion</li> </ul>
Useful	<ul style="list-style-type: none"> <li>• physical appearance</li> <li>• interpersonal communication skills</li> <li>• vigour</li> <li>• planning and action organizing skills</li> <li>• courage</li> <li>• resistance to stress</li> <li>• persuasion</li> <li>• truthfulness</li> <li>• being consistent in action-taking</li> </ul>

*Source: Author's own study.*

physical appearance, interpersonal communication skills, vigour, planning and action organizing skills, courage, resistance to stress, persuasion, truthfulness, being consistent in action-taking.

On the basis of conducted studies, achieving measurable results can be recognized as the most important leadership quality in terms of improvement of quality. In the chapter concerning leadership, it was underlined that one of the rules of implementing TQL in an organization is drawing attention to possibility of measuring taken actions and a need to apply strict quantitative methods based on statistical tools and graphic analyse of data for analyzing quality. It is a consequence of the fact that one of eight rules of managing quality according to PN-EN ISO 9000:2006 standards is taking decisions on

the basis of facts. Thus, firstly, it is important to be able to take measurements, numeral or based on the concept of self-assessment. Effective decisions are based on the analyses of data and information (PN-EN ISO 9000:2006).

Similarly, the measures of process assessment are used in standards of ISO 9000. The use of these measures allows defining if the aims are realized or if a client is satisfied. Achieving measurable results is positively correlated with a client's satisfaction (Pearson's C contingency coefficient between achieving measurable results and position of a company on the market is 0,15 on the importance level 0,05) because a good process of client's service requires the use of assessment of his satisfaction (for example the use of Servqual method, updating complaint etc.).

The studies suggest that if a leader is not able to use numeral methods, assess a client's satisfaction correctly and consequently, he cannot shape his choices so as to satisfy him. In contemporary companies, there has been a constant, very rapid, exponential growth of information and data. Their analysis can help defining the sources of problems and problems to appear as well as making right decisions – correcting and preventing. If a leader cannot process them and use them for analyzing and taking decisions, he becomes ineffective. Thus, direct recommendations concerning the use of numeral methods along with statistical techniques for monitoring both measures of products and processes have been included in standards concerning a systemic attitude to quality.

Ability to achieve measurable results by a leader influences especially strongly variables concerning innovation. What can be observed is a significant correlation between the above described leadership quality and a number of innovative ideas per an employee (Cramer's V contingency coefficient is 0,25 at the level of statistical significance 0,001), rewarding innovative ideas (Pearson's C contingency coefficient is 0, 1 –at the level of statistical significance 0, 05) and pro-innovative attitude (Pearson's C contingency is 0, 27 –at the level of statistical significance 0,001). In case of innovation, if an employee is to be satisfied and assesses his reward for his solutions as 'fair', a leader has to be marked with adequate abilities concerning measurement of effects of new solutions proposed by an employee.

The issue of importance of fair assessment of employees by a leader is underlined by J. Łańcucki who claims that fairness in assessment, ability to praise and thank

employees for his work is a very important manager's quality (Łańcucki , 2006). It turns out that it is a leader who motivates employees to a constant improvement of products and their work positions. The initial declaration of a leader is not enough as a leader's involvement should be constant and real.

In case of organizations which are oriented on achieving measurable results by a manager, almost 6% is very strongly pro-innovative-oriented and 22% strongly. While in case of companies which are not oriented on measurable results, 16% of them are marked with lack of innovation and in case of 23%, improvement is at the poor level. It turns out that a leader by means of his involvement or lack of it influences significantly on the employees' behaviour. They observe him and analyse taken decisions and his behaviour stands for a prototype to imitate.

Organizations, which draw attention to leader's measurable results, have better market positions in comparison with organizations for which achieving measurable results is not of the greatest importance (Pearson's C contingency coefficient is 0,17 at the level of statistical significance 0,05). 71% of organizations have a good or very good market position and only 3% of them have very bad one if they think that that it is important for a leader to have measurable results. While organizations for which achieving measurable results isn't important, 60% of them have a good or very good market position and 8, 5 % has a very bad market position. On the basis of conducted studies, a moderate influence on studied variable of systemic attitude can be observed.

The ability to assess employees and self-assessment is also connected with achieving measurable results. Both variables are

strongly correlated with orientation on measuring results (Pearson's C contingency coefficient between studied variables at the level of statistical significance 0,001 is respectively 0,66 and 0,67). A leader should be able to assess other employees' work as well as his own work so as to achieve measurable results. In many cases, in quality management, there is a need to measure variables which are difficult to be measured and in such cases the ability of using self-assessment is necessary for assessing their influence on quality.

## 5. Conclusion

The conducted studies allowed to define these qualities which have the strongest and positive influence on the improvement of quality management. The analysis of


correlation of studied leadership qualities and variables concerning the improvement of quality management suggests that the most important qualities for a leader, manager who is responsible for quality management are:

- Achieving measurable results,
- Ability to assess others' work
- Self-assessment ability
- Fulfilling promises.

These qualities are significant and each and every manager who is in charge of for example: implementing and maintaining quality management systems being in accordance with requirements of PN-EN ISO 9001:2009 standards, should have these qualities. The rest of leadership qualities are useful however, they are of less importance in term of quality management.

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# Optimizing job satisfaction through motivation in the face of Economic crisis among Nigeria's University staff.

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**Abstract:** This study examined job satisfaction through motivation in the face of economic crisis among universities staff in Nigeria with reference to the University of Ado Ekiti and Olabisi Onabanjo University Ogun State Nigeria. This study adopted the descriptive survey research design. A total of 100 respondents were selected for the study using stratified sampling technique. Two sets of questionnaire were used for data collection. chis - square model was used to test the hypothesized research questions generated for the study. The finding revealed that effective application of motivational strategies in the university will definitely improve the level of their job satisfaction in most of the institution especially in Nigeria. Based on the findings of the study, it was recommended that the Irregularities in promotion have to be looked into and corrective measure has to put in place to ensure free passage of staff from one level to the order as at when due. Conducive working environment has to be created to enhance job satisfaction of the staff.

Training, workshop, seminars and conference programme has to be usually organized for the workers to update their working knowledge and skill in their respective area.

There should be a cordial relationship between staff union and the management of the University and if any mater arises it must be settled amicably.

**Key words;** Motivation, Job Satisfaction, Optimizing, Economic crisis and Chis-Square model  
JEL: M50, M52

## INTRODUCTION

A major part of a manager's leadership role is to enhance the willingness of people to exert work efforts to help accomplish organisational objectives. One best way

to accomplish this crucial task is through the concept of motivation (Innocent 2007). Promotional mix is concerned as the process by which a product is made available to the prospective consumer.

Motivation according to Ibukun, W.D. (1997) refers to the inner drive that pushes individuals towards action for the purpose of achieving target objectives. Furthermore, Adedoyin, I. S. and Abidoye, A. V. (2001) refers to motivation as the act of understanding and encouraging, and urging people to get particular tasks done. Also, motivation is seen as a process of stimulating people's action to achieve desired goals or accomplishing a given task. It is the drive within a person to achieve a goal or objectives (Adesiyon, O. 1983). Moreso, motivation is defined as the causes of particular behaviour by an individual especially causes (e.g emotions) related to the inner state of the individual (Adebisi, W. 2008). In addition, motivation according to Aluko and Adefisayo (2003), referred to it as the process of creating organizational conditions that will causes employees to strive for superior performance.

Job satisfaction on the other hand is described as the pleasurable emotional state resulting from the appraisal of one's as achieving or facilitating the achievement of one's job values (Adewumi, P. 1988). Also, job satisfaction according to Herbert and Donald (1978) refers to an emotional reaction to the job and its surrounding conditions it can be thought of as resulting from an evaluation by employees of the rewards they perceive the job actually provides compared to their expectations of the rewards the job should provide.

## GENERAL ISSUE OF MOTIVATION AND JOB SATISFACTION

For Morgan (1966), and Armstrong, P. (1971), motivation has a driving state within the organization that is set in motion by

bodily needs environment, stimuli or mental events such as thoughts and memory, the behaviour aroused and directed by this stage and the goal towards which the behaviour is directed. They believed that motivation can strengthen and direct behaviour. According to these scholars, a well motivated person is someone with clearly defined goals who takes actions which he or she believes will achieve those goals.

Hicks, G. and et al (1975) defined motivation as every action taken in an organization to stimulate a reaction in employee. They added that motivation can either be positive or negative. The positive motivation is described as "Anxiety-Reducing Motivation" or the "Carrot Approach" offering something valuable to the person such as pay-rise, praise, promotion, etc. the negative motivation on the other hand is described as the "Stick approach", it uses punishment, reprimands, threats of being fired and threats of being demoted if performance is

unacceptable. They also distinguish between two types of motivation which are intrinsic and extrinsic respectively. In intrinsic motivation, the work itself is satisfying to the individual, while the extrinsic motivation on the other hand refers to the holding out of incentives which may be in terms of praise from boss, higher pay bonus, prestige, better working condition and recognition.

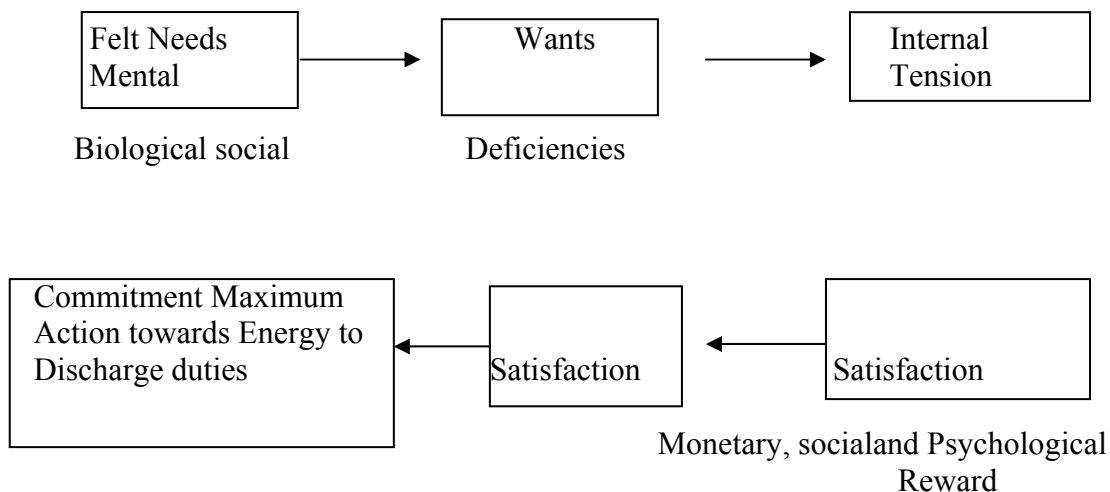
In the work of Adedoyin and Abidoye, A. G. (2001) they analyzed the essential issues that must be present in any good motivational system. These are outlined below:

- 1) A good motivational system must be able to induce subordinate to work and produce more.
- 2) It must be comprehensive in providing for the satisfaction of all needs

- 3) The confidence of workers must be won by management through fairness and justice
- 4) Provision must be made for financial opportunities particularly those given more personal freedom to have shares in the company where they work.
- 5) The system must be flexible in order to account for varying requirements of people who need different stimuli. For example, some would work harder for more pay while other may do the same for improvement in their status.
- 6) Security is a vital element in ensuring performance at the work place. Thus a good motivational system must provide for employees safety.
- 7) A good working environment must be provided for workers so as to create the right physiological understanding. This entails ensuring suitable arrangement of work flow, rest periods heating, lighting and ventilation.
- 8) Social relationship must not be neglected. The needs of job which gives a person a respected position in society and enables social relationships to develop is a very important factor that must be provided for by a good motivational system.
- 9) A good motivational system must ensure that employees are well compensated for their efforts on their job.
- 10) Basic needs of employees, groups participation, guidance and counseling, self esteem paid holding car allowances, parking spaces, canteen and other recreational facilities should be incorporated into an employee's package of motivation.

### MOTIVATION PROCESS

When the needs of individuals are perceived as being met under existing circumstance, individuals in organization are satisfied and discharge their function with maximum energy. The diagram below explains this process.



Source: Ibukun W.O. (1997) *Educational Management- Theory and Practice*

## Research design

This study used the descriptive research design using a chi-square method to critically look at the link and correlation between motivation and the level of job satisfaction among University staffs of Ekiti and Ogun State (OSU/UNAD).

## Population for Study

The focus population for this study consists of all staff of the University of Ado Ekiti And Olabisi Onabanjo University ranging from the top level management and to the least including the Security men.

## Sample and Sampling technique

Due to the large population, 100 respondents were targeted through stratified random sampling technique and 50% from each University covering both academic and Non Academic staff.

## TESTING OF HYPOTHESES

### Hypothesis I

Ho-Job satisfaction cannot really be achieved through effective motivation among university staff in the face of economic crisis.

Hi-Job Satisfaction can really be achieved through effective motivation among university staff in the face of economic crisis.

### Related Questions used in Testing the Hypothesis

B2 - Motivation is significantly related to job satisfaction in work place.

B4 - Motivation can really solve the problem of job satisfaction among university staff.

B6 - The motivational techniques employed by the management of UNAD / OOU have a positive impact on job satisfaction in the institution.

CHI-SQUARE TABLE 1

Items	Stronly Agree	Agree	Stronly disagreed	Disagreed	Undecided	Degree of freedom	x2caculated	x 2 table
B2	47	43	0	0	2	2	40.457	5.99
B4	45	42	0	0	5	2	32.370	5.99
B9	25	47	1	7	12	4	72.565	9.49

Chi-square analysis 2010

**Decision Rule:** Reject null hypothesis and accept the alternative if the calculated chi-square [x2 calculated] is greater than the chi-square table [x2 table].

Since the calculated value of chi-square is greater than the chi-square table therefore, the null hypothesis is rejected while the alternative hypothesis is accepted. Hence, job satisfaction can really be achieved through

effective motivation among university staff.

### Hypothesis II

Hi- Due promotion and staff development has been able to boost job satisfaction among university staff.

Ho-Due promotion and staff development has not been able to boost job satisfaction among university staff.

Question used testing the hypothesis.

B6 - Regular promotion and staff development often improves job satisfaction among university staff.

B16 - Regular promotion often boosts the morale of university staff and their attitude to work.

TABLE 11

Items	Strongly agree	Agree	Strongly disagree	Disagree	Undecided	Degree of freedom	2calculated	x2 table
B6	40	46	3	0	3	3	70.348	7.81
B7	24	34	8	15	11	4	24.413	9.49
B16	33	38	3	10	8	4	55.065	9.49

Data analysis 2010

Thus, since the calculated chi-square is greater than the table null hypothesis is therefore rejected while the alternative is accepted. Hence, promotion has been able to boost job satisfaction among university staff.

### Hypothesis 111

Ho - Conducive working environment has no positive impact on job satisfaction of university staff.

Hi - Conducive working environment

has positive impact on job satisfaction of university staff.

### Questions used in testing the hypothesis

B8 - Conducive working environment has a positive impact on job satisfaction among staff UNAD/OOU.

B13 - There are no benefits available for staff of UNAD / OOU at the end of an academic year.

B19 - The University staff are satisfied with the remuneration received at the end of the month.

CHI-SQUARE TABLE 111

Items	Strongly agree	Agree	Strongly disagree	Disagree	Undecided	Degree of freedom	x2calculated	x 2 table
B8	45	41	3	0	3	3	69.913	7.81
B13	33	26	10	17	6	4	27.022	9.49
B19	2	3	39	48	0	3	74.870	7.81

Data analysis 2010

Since the calculated of chi-square is greater than the table therefore the null hypothesis is rejected while alternative hypothesis is accepted. Hence, conducive working environment has positive impact on job satisfaction of university staff.

### FINDINGS

Motivation was also seen as the act of understanding and encouraging people to get particular tasks done as a result of mechanism put in place to boost workers tasks done.

The problem of the study originated due to the lack of motivation policies in the selected universities. The purpose of the study was to cross examine the nexus between motivation and job satisfaction among the employees in Nigeria University.

The finding revealed that effective application of motivational strategies in the university definitely it would improve the level of their job satisfaction in most of the institution. Under this study it was revealed that out of the three (3) hypotheses tested the result of the whole hypotheses was positive and significant. This shown that motivation stand a major factor that influenced employees to perform to best expectation in any organization as the case may be.

In view of this, the research concluded that if the management of UNAD and OOU could embark on motivational strategies and implement them to the latter then, workers we performed more than expectations.

## CONCLUSION

As earlier stated that motivation can be seen as the process of creating organizational conditions that will cause employees to strive for superior performance.

Job satisfaction on the other hand refers to an emotional reaction to the job and its surrounding conditions. It was revealed that motivation is very important in any work organization because it boosts employees' morale and give job satisfaction.

In conclusion, therefore, motivation in university should be improved upon so that performance would be achieved maximum and hence job satisfaction of workers.

## 5.4 RECOMMENDATIONS

Based on the findings of the study, the following recommendations were made:

- 1) Organization should improve on their motivational techniques so as to improve workers job satisfaction.
- 2) Irregularities in promotion have to be looked into and corrective measure has to put in place to ensure free passage of staff from one level to the order as at when due.
- 3) Conducive working environment has to be created to enhance job satisfaction of the staff.
- 4) Training, workshop, seminars and conference programmes has to be usually organized for the workers to update their working knowledge in their respective area.
- 5) There should be a cordial relationship between staff union and the management of the University and if any matter arise it must be settled amicably.
- 6) There should be provision for leaves study, leaves bonus and other fringe benefit for the staff of the University.
- 7) Management should allow the staff to take part in decision making so as to have base for sense of belonging.

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# Electronic commerce, automation and online banking in nigeria: challenges and benefits

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**Abstract:** Electronic banking has been around for some time in the form of automatic teller machines and telephone transactions. More recently, it has been metamorphosed by the Internet; a new look and delivery channel for banking services that benefits both customers and banks. The objective of this paper is to find out the correlation between the anticipated benefits/challenges and encountered benefits/challenges. This paper therefore empirically, adopted the use of survey research to explore in quantitative terms the various challenges and benefits e-business poses to Nigeria businesses, with particular reference to Banking and Finance Industry. It was found out that there is statistically significant difference between the anticipated and encountered benefits and major challenge is the security breach faced the customers. We therefore recommend that workshops should be organized for customers periodically on how to keep their data secret especially on how to combine numbers to form password and Constant training of employees both local and international on new development in online trading should be encouraged.

**Keywords:** e-commerce, Electronic Banking, Automation, e-business, Banking/Finance Industry

## INTRODUCTION

E-banking includes familiar and relatively mature electronically-based products in developing markets, such as telephone banking, credit cards, ATMs, and direct

deposit. It also includes electronic bill payments and products mostly in the developing stage, including stored-value cards (e.g., smart cards/smart money) and Internet-based stored value products. E-banking in developing countries is in the early stages

of development. Most banking in developing countries is still done the conventional way. However, there is an increasing growth of online banking, indicating a promising future for online banking and Nigeria banks are taking good advantage of it.

Nigerian banks started very low in the quest for the adoption for electronic banking but this slow pace witnessed at the beginning of last decade is fast changing for the better in term of adoption of e-banking. Adeyemi (nd) posited that slow adoption of electronic banking practice is rapidly changing for the better. This assertion was supported by Ayo; Adebisi; Ekong & Fatudimu (2007) where they posited that with improved technological development and provision of basic infrastructure there will be improved e-Commerce and e-Payment services with overall reduction in the amount of currency in circulation.

Awareness of electronic payments in Nigeria is increasing and it accounted for N360 billion worth of transaction in 2008 (Adeyemi, n.d). (Ayo et al., 2007 cited in Adesina & Ayo, 2010) submitted that, this revolution started in the Nigeria banking system in 2003 with the introduction of Guideline of Electronic Banking by the Central Banking of Nigeria. This was accompanied by bank reformation exercise in June 2004. The reformation exercise left Nigeria with 24 strong and reliable banks against 89 banks previously in existence. The author further maintained that, the surviving banks of the recapitalization exercise have enormously engaged the use of ICT as a platform for effective and efficient delivery of banking services. This has made Nigerian banking sector more competitive because customers are now yearning for more online services that will cater for all their needs right from the rooms with their

desktops, laptops, and palmtops and even from their handsets or desks in their various offices without necessarily step into the banking hall. Global demand as a result of inflow of cash into the economy has also been linked to this dramatic change in ICT embracement. Muniruddeen, (2007) cited in Adesina & Ayo, (2010) corroborated this submissions that the banks' huge investment in telecommunication networks and various e-Banking services delivery could be seen as an effort towards measuring up with global standard. This is among other reasons such as increased customer demand, increased competition among banks themselves; derive minimized cost, new entrants, and better service delivery. Moreso, Schaechter (2002) argued that electronic banking has made it easier for customers to compare banks' services and products, increase competition among banks, and allows banks to penetrate new markets and thus expand their geographical reach. Some even see electronic banking as an opportunity for countries with underdeveloped financial systems to leapfrog developmental stages. Customers in such countries can access services more easily from banks abroad and through wireless communication systems, which are developing more rapidly than traditional "wired" communication networks. Prior to the introduction of electronic banking in Nigeria in the 1990's masterminded by the new generation banks such as Intercontinental Bank, Zenith Bank, Guarantee Trust Bank etc., financial services delivery was very poor. Customers had to spend hour in long queues in the banking hall to carry out transactions either to withdraw or deposit cash into their account. This was the era of manual processing of transactions. The old generation banks such as

United Bank of Africa, First Bank of Nigeria and Union Bank of Nigeria saw themselves as lords in the financial service industry. They dictated the pace in the banking industry and being market leader with many products and services, customers had no choice than to patronize them. With the emergence of internet and electronic banking, customers' expectations in financial services delivery are yet to be met, hence the reason for this paper. This paper therefore is poised to look at the various benefits and challenges that were anticipated before the advent of internet banking (that is, in those days when there were long queues and spending of hours in the banking hall to carry out transactions either to withdraw or to deposit cash into your account) vis-a-vis the encountered benefits and challenges after the advent of online banking. This was as a result of the existing gap between actual and expected financial services delivery to customers.

The objective is to find out the correlation between the two pairs of the variables measured i.e. the anticipated challenges and benefits with encountered challenges and benefits. But even with the development of e-commerce, online banking in developing countries has yet to receive any significant attention among researchers, and so echoes the general lack of information systems research in sub-Saharan Africa (Mbarika, Okoli, Byrd & Datta, 2004). Hence the reason for this research works. This paper is divided into five sections. Section one above is the introduction, section two captured the literature review, section three looked at the methodology, while four and five end the paper with discussion of findings, conclusion and recommendation.

## 2.0 LITERATURE REVIEW

The concept of e-banking includes all types of banking activities performed through electronic networks. It is the most recent delivery channel of banking services which is used for both business-to-business (B2B) and business-to-customer (B2C) transactions (Mohammad, 2009). The definition of e-banking varies amongst researchers partially because electronic banking refers to several types of services through which a bank customer can request information and carry out most retail banking services via computer, television or mobile phone (Daniel 1999; Molls 1998; Sathye, 1999). Burr (1996) describes e-banking as an electronic connection between the bank and customer in order to prepare, manage and control financial transactions while Leow, Hock Bee (1999) state that the terms Personal Computer (PC) banking, online banking, Internet banking, telephone banking or mobile banking refers to a number of ways in which customer can access their banks without having to be physically present at the bank branch. Therefore, e-banking covers all these ways of banking business electronically (Mohammad, 2009). The discovery of internet and what we called electronic commerce have opened various opportunities for online trading all over the world. It has brought the market close to the customers and potential customers at a relatively low cost. Infact, online purchase reduces cost compare to physical visiting of shop for purchase. This has opened the market of the developed countries to the entire world. Also, financial institutions being the financial of the economy have been the champion of this crusade where their customers i.e. borrowers of fund cut across various countries. Adesina & Ayo, 2010 disclosed that the

advent of Internet, electronic commerce, communication technology and users' response to this technology has opened opportunity for many businesses including the financial institution. Before this period, there were just a few dial-up e-mail providers in Nigeria before 1998; a couple of Internet Service Providers (ISPs) that operated on slow links. For years, Nigerian Telecommunications (Nitel), the parastatal monopoly, dominated on the whole Nigeria telecommunications market. E-commerce in Nigeria is just at the beginning stage. From the convenient places like their homes or offices, these days most banks offer internet banking services which enable the customers to conduct banking transactions online. Today the majority of the Nigerian banks offer online, real-time banking services.

The area of e-commerce that has developed in Nigeria mostly is e-banking. A few banks started the ATM Consortium in 2003 to set up ATMs across the country. Nigeria is far behind other countries in providing technology at an affordable cost to its population. Adesina & Ayo (2010) also maintained that the adoption of electronic banking service delivery is fast gaining ground in Nigeria. Different e-Banking channels such as electronic cards, internet banking and mobile banking services have been introduced. Pikkarainen et al. (2004) highlighted two major reasons underlying online banking development and penetration. First, banks get significant cost savings in their operation through e-Banking services and secondly, that banks have reduced their branch networks and downsized the number of service staff. It was also indicated that electronic banking services delivery are the cheapest,

the most profitable and wealthiest delivery channel for banking products. Internet banking services are crucial for long-term survival of banks in the world of electronic commerce (Burnham 1996). The market for internet banking is forecast to grow sharply in the next few years, affecting the competitive advantage enjoyed by traditional branch banks (Duclaux 1996; Liao, Shao & Chen, 1999). It was also argued that internet banking would help banks present a potentially low cost alternative to brick and mortar branch banking (Margaret & Thompson 2000). Nigeria Direct, (2006); Onwuka, (2006) cited in Francis & Babatunde (2009) posited that with a population of over 150 million that is growing at 3 percent annually, Nigeria has witnessed an increased demand for improved service delivery and convenience by consumers. Banks can provide improved service delivery and convenience by enhancing their value networks through online banking (Sannes, 2001; Crane, & Bodie, 1996). Francis & Babatunde, (2009) therefore submitted that some banks in Nigeria, amongst other facets of the economy, have taken advantage of the country's ICT infrastructure to improve services to customers.

## 2.1 BENEFITS OF E-COMMERCE

The uptake of e-commerce is influenced by its potential to create business value and by awareness of its participants of the potential benefits (Salnoske, 1997). A major reason for most companies, irrespective of size, to participate in business is to extract some benefit from it. E-commerce is no different Joze, Julie & Angela (2002). The benefits of e-commerce identified from the current literature as adapted from Joze, Julie & Angela (2002) are

classified in two main categories - tangible and intangible. The authors work carried out in Australian is similar to what this paper is considering in Nigeria. Hence the adaptation

of the benefits and challenges as presented in the tables below. Table 1 presents the key benefits as described in the literature.

Table 1

Benefits	Research/literature
<b>Tangible benefits</b>	
Business efficiency	(Fraser et al. 2000; Lee 2001; Riggins, 1999) Amrit (2007)
Increased automation of processes	(Fraser et al. 2000; Dan et al, 2001).
Transformation of traditional market chain	(Fraser et al. 2000), Amrit (2007)
Retained and expanded customer base	(Fraser et al. 2000; Rahul, Biju and Abraham 2001; Turban, et al, 2000).
Reduced operation	costs (Kent and Lee, 1999; Grover and Ramanlal, 2000; Kare-Silver, 1998; Fergusson, 1999).
Acquisition of a niche market	(Riggins, 1999; Rahul et al. 2001)
<b>Intangible Benefits</b>	
Enhancing well-being and education of customers	(Whinston et al. 1997; Lee 2001), Amrit (2007)
Consumer loyalty	(Lee 2001; Hoffman et al. 1999; Coulson, 1999)
Competitive advantage	(Kalakota et al. 1999; Hoffman et al. 1999; Straub, 2000; Kare-Silver, 1998), Amrit (2007)
Convenient shopping	(Hannon, 1998; Winner, 1997)

*Adapted from Joze, Julie & Angela (2002)*

## 2.2 CHALLENGES OF E-COMMERCE

To extract benefits from e-commerce, it is important for businesses to overcome the e-commerce inhibitors and challenges Joze, Julie & Angela (2002). Findings have also shown that insecurity; inadequate operational facilities like telecommunication and electric supply are among hindrances to online banking in Nigeria (Ezeoha 2005; Chiemeka et al., 2006). E-commerce challenges identified from the literature are classified as - technological, managerial, and business related and are summarised and presented below.

## 2.3 PRIOR STUDIES ON BENEFITS AND CHALLENGES OF ONLINE BANKING

A previous study in Joze, Julie & Angela (2002) showed that the major benefits of e-commerce adoption not anticipated by the sector are business, efficiency, improved image, competitive advantage, increased automation of processes and increased business turnover. Also, the key challenges identified for the sector are the costs of the technology, the lack of knowledge of e-commerce, managing the change, budgeting and issues



Table 2

Challenges	Research/literature
<b>Technological challenges</b>	
Security	(Koved et al. 2001; Czerniawska & Potter, 1998; Alexander, 1998, Chaechter, 2002)
Web site issues	(Watson et al. 1999; Zhang & von Dran 2000; Lee 2001)
Technology issues including costs, software, infrastructure	(Hoffman et al. 1999; Abeyesekera et al. 1999; Rahul et al. 2001, Chaechter 2002)
<b>Managerial challenges</b>	
People and organisational issues	(Hoffman et al. 1999; Feeny 2000)
Obtaining senior management backing	(Feeny 2000)
<b>Business challenges</b>	
Customer service	(Whinston et al. 1997; Alter, 1999; Lee 2001)
Customers' old habits	(Hoffman et al. 1999; Schwartz, 1999)
Legal issues	(Hoffman et al. 1999; Lawrence et al. 1998; de Souza & von Wiese 2000), Chaechte, (2002)

*Adapted from Joze, Julie & Angela (2002)*

associated with linking back end systems. They did not consider secure transactions as a major challenge for the sector; in contrast they were considered one of the success factors.

Pohjola (2002) also showed that the contribution of the use of information communication technology to growth of output in the Finnish market sector has increased from 0.3 percentage points in early 1990s to 0.7 points in late 1990s. Similarly, research conducted in Estonia (Aarma and Vensel, 2001), bank customers use bank office services on average 1.235 times per month, and wait in queue in bank office on average for 0.134 hours. Simple calculation shows, that making payments via E-banking facilities (for instance using Internet bank) rather than in the bank offices create overall economy savings in the amount of 0.93% of GDP (Average

distance to nearest bank office is 4.14 km (Aarma and Vensel, 2001), which takes approximately 0.21 hours to travel. (BankAway, 2001; Gur\_u, 2002) also considered the benefit from the customer point of view that there is a reduction in costs of accessing and using the banking services, increased comfort and timesaving - transactions can be made 24 hours a day without requiring the physical interaction with the bank, quick and continuous access to information and corporations will have easier access to information as, they can check on multiple accounts at the click of a button, better cash management

According to a survey by Booz, Allen & Hamilton (1996), an estimated cost providing the routine business of a full service branch in USA is \$1.07 per transaction, as compared to 54 cents for telephone banking, 27 cents for ATM (Automatic Teller Machine) banking

and 1.5 cents for internet banking (Nathan 1999; Pyun et al., 2002). In Nordea Bank, Finland, one online transaction costs the bank an average of just 11 cents, compared to \$1 for a transaction in the branch (Echikson, 2001). Average payment in internet bank or via direct debit cost 4 times less, than payment in branch. On actual cost side (or cost side from the bank point of view), average direct debit payment cost 16 times less and payment in internet bank 7 times less, than payment in branch. Amrit (2007) however submitted that risk management, infrastructure development and policy formulation are the three major challenges of E-banking in Nepal. Technological problems like connect break in service while withdrawing cash from ATM and poor mobile service. He also considered that an adequate level of infrastructure and human capacity building are required before banks adopt the full-fledged E-banking. But Mohammad (2009) summarized the major risk of e-banking as operational risks (e.g. security risks, system design, implementation and maintenance risks); customer misuse of products and services risks; legal risks (e.g. without proper legal support, money laundering may be influenced); strategic risks; reputation risks (e.g. in case the bank fails to provide secure and trouble free e-banking services, this will cause reputation risk); credit risks; market risks; and liquidity risks

### 3.0 METHOD

The research work was carried out in the Banking industry in Nigeria based on a sample of three deposit money banks in Nigeria. The research work was designed in such a way that data was generated from

the questionnaires personally administered to the staffs of the respective banks with a high response rate of 90%. The sample size of this research work constitutes three Nigerian banks. They include: Oceanic Bank, UBA Bank and Intercontinental Bank. The three sample banks are made up of two old generation banks and one new generation bank. A total number of 120 questionnaires was administered, 40 for each of sample company. These banks were selected using judgmental sampling technique in order to have a representation of the population. Krejcie & Morgan (1970) in Amadii (2005) agrees with the sample as they proposed the population proportion of 0.05 as adequate to provide the maximum sample size required for generalization. The banks were selected because of their size and wide range of products which are all over the country. To the best of the researcher's judgment, the banks make a good representation of the banking industry in Nigeria. The expert opinion was sought for in order to validate the content and the structure of the questionnaire during the pilot study.

For testing the hypothesis, a statistical parametric test called Pair Sample t-test was employed to test the significance difference between the pre and post of online banking in Nigeria through the use of SPSS statistical package. Our intention is to establish if there is any significant difference between the anticipated benefits and challenges and encountered benefits and challenges of online banking in Nigeria.

### Statement of Hypotheses

H0: There is no significant difference between the anticipated and encountered

benefits of online banking in the Nigerian Banking system

H0: There is no significant difference between the anticipated and encountered challenges of online banking in the Nigerian

Banking system

#### Decision Rule

Reject H0 if P value is < .05 and accept H0 if P value is > .05

## 4.0 EMPIRICAL RESULTS AND IMPLICATION OF FINDINGS

### EXPECTED/ENCOUNTERED BENEFIT OF ONLINE BANKING IN NIGERIA

Table 1: Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	INTURNEXP	3.67	90	.474	.050
	INCTURNENC	3.56	90	.500	.053
Pair 2	INCBUSACTEXP	3.50	90	.503	.053
	INCBUSACTENC	3.39	90	.594	.063
Pair 3	COMPADVEXP	2.94	90	.916	.097
	COMPADENC	3.22	90	.715	.075
Pair 4	OPCOSTREDEXP	3.06	90	.853	.090
	OPCOSTREDENC	2.94	90	.784	.083
Pair 5	EXPCUSTBASE	3.39	90	.682	.072
	CUSTBASEEXENC	3.56	90	.500	.053
Pair 6	LOYALTYEXP	3.28	90	.561	.059
	LOYALTYENC	3.06	90	.407	.043
Pair 7	REDWATIMEXP	3.39	90	.831	.088
	REDWATIMENC	2.94	90	.625	.066
Pair 8	BETTUNDEXP	3.11	90	.661	.070
	BETTUNDENC	3.11	90	.461	.049
Pair 9	INCNTWOKEXP	2.89	90	.880	.093
	INCNTWOKENC	3.11	90	.941	.099
Pair 10	POSIMAGEEXP	3.39	90	.594	.063
	POSIMAGEENC	3.28	90	.561	.059

Source: Computer Printout of Researchers' Survey

Table 2: Paired Samples Test

		Paired Differences					T	Df	Sig. (2-tailed)
		Mean	Std. Dev.	Std. Error Mean	95% Confidence Int. of the Difference				
					Lower	Upper			
Pair 1	INTURNEXP – INCTURNENC	.111	.570	.060	-.008	.230	1.850	89	.068
Pair 2	INCBUSACTEXP – INCBUSACTENC	.111	.661	.070	-.027	.250	1.595	89	.114
Pair 3	COMPADVEXP – COMPADENC	-.278	.735	.077	-.432	-.124	-3.586	89	.001
Pair 4	OPCOSTREDEXP - OPCOSTREDENC	.111	1.249	.132	-.151	.373	.844	89	.401
Pair 5	EXPCUSTBASE - CUSTBASEEXENC	-.167	.691	.073	-.311	-.022	-2.288	89	.025
Pair 6	LOYALTYEXP – LOYALTYENC	.222	.632	.067	.090	.355	3.335	89	.001
Pair 7	REDWATIMEXP – REDWATIMENC	.444	1.072	.113	.220	.669	3.934	89	.000
Pair 8	BETTUNDEXP – BETTUNDENC	.000	.887	.093	-.186	.186	.000	89	1.000
Pair 9	INCNTWOKEXP – INCNTWOKENC	-.222	1.322	.139	-.499	.055	-1.595	89	.114
Pair 10	POSIMAGEEXP – POSIMAGEENC	.111	.741	.078	-.044	.266	1.422	89	.158

Source: Computer Printout of Researchers'

## EXPECTED/ENCOUNTERED CHALLENGES OF ONLINE BANKING

Table 3: Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	HCOSTECHEXP	3.33	90	.750	.079
	HCOSTECHENC	3.61	90	.490	.052
Pair 2	LECOMMKWNEXP	2.83	90	.503	.053
	LECOMMKWNENC	3.06	90	.709	.075
Pair 3	ITSKCOSTEXP	2.83	90	.963	.101
	ITSKCOSTENC	2.83	90	.838	.088
Pair 4	ECOMMINFRCHEXP	2.83	90	.503	.053
	ECOMMINFRCHENC	2.83	90	.604	.064

Pair 5	RESTOMANTELEXP	2.83	90	.963	.101
	RESTOMANTELENC	3.28	90	.561	.059
Pair 6	GETRELVENEXP	3.11	90	.570	.060
	GETRELVENENC	3.06	90	.709	.075
Pair 7	SECBREACHEXP	2.94	90	.527	.056
	SECBREACHENC	3.22	90	.632	.067
Pair 8	RESTTONLBANEXP	2.56	90	.602	.063
	RESTTONLBANENC	2.61	90	.831	.088
Pair 9	NONACEORURPEXP	2.94	90	.709	.075
	NONACEORURPENC	2.94	90	.625	.066
Pair 10	NONCAPOFDATEXP	2.44	90	.689	.073
	NONCAPOFDATENC	2.78	90	.858	.090
Pair 11	MAKBUZKNTCUSTEXP	2.50	90	.963	.101
	MAKBUZKNTCUSTENC	3.22	90	.715	.075
Pair 12	UNRELOFINTPROEXP	3.11	90	.661	.070
	UNRELOFINTPROENC	2.89	90	.570	.060
Pair 13	LAKOFFPROBUDGTEXP	3.11	90	.570	.060
	LAKOFFPROBUDGTENC	3.17	90	.691	.073
Pair 14	POWAFaILEXP	3.06	90	.625	.066
	POWAFaILENC	2.94	90	1.085	.114

Table 4: Paired Samples Test

		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Dev.	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	HCOSTECHEXP – HCOSTECHENC	-.278	.874	.092	-.461	-.095	-3.014	89	.003
Pair 2	LECOMMKNWEXP – LECOMMKWNENC	-.222	.790	.083	-.388	-.057	-2.668	89	.009
Pair 3	ITSKCOSTEXP – ITSKCOSTENC	.000	1.341	.141	-.281	.281	.000	89	1.000
Pair 4	ECOMMINFRCHEXP – ECOMMINFRCHENC	.000	.581	.061	-.122	.122	.000	89	1.000
Pair 5	RESTOMANTELEXP – RESTOMANTELENC	-.444	1.219	.128	-.700	-.189	-3.459	89	.001

Pair 6	GETRELVENEXP – GETRELVENENC	.056	1.032	.109	-.161	.272	.511	89	.611
Pair 7	SECBREACHEXP – SECBREACHENC	-.278	.561	.059	-.395	-.160	-4.694	89	.000
Pair 8	RESTTONLBANEXP – RESTTONLBANENC	-.056	.976	.103	-.260	.149	-.540	89	.590
Pair 9	NONACEORURPEXP – NONACEORURPENC	.000	1.060	.112	-.222	.222	.000	89	1.000
Pair 10	NONCAPOFDATEXP – NONCAPOFDATENC	-.333	.821	.087	-.505	-.161	-3.851	89	.000
Pair 11	MAKBUZKNTCUSTEXP – MAKBUZKNTCUSTENC	-.722	1.290	.136	-.992	-.452	-5.312	89	.000
Pair 12	UNRELOFINTPROEXP – UNRELOFINTPROENC	.222	1.089	.115	-.006	.450	1.936	89	.056
Pair 13	LAKOFPROBUDGTEXP – AKOFPROBUDGTENC	-.056	.625	.066	-.186	.075	-.844	89	.401
Pair 14	POWAFaILEXP – POWAFaILENC	.111	1.293	.136	-.160	.382	.815	89	.417

Computer Printout of Researchers' Survey

## DISCUSSION OF EMPIRICAL RESULTS

Table 1 and table 2 explain the expected/encountered benefits of online banking in Nigeria. The tables i.e. 1 and 2 shows a significant difference in the scores for: Competitive advantage expected (COMPADVEXP) (M=2.94, S.D=.916) and competitive advantage encountered (M=3.22, S.D=.715) conditions;  $t(89)$ ,  $p(.001)$ . Expansion in customer base expected (EXCUSTBASE) (M=3.39, S.D=.682) and expansion in customer base encountered ((M=3.56, S.D=.500) conditions;  $t(89)$ ,  $p(.025)$ . Loyalty anticipated from customers (LOYALEXP) (M=3.28, S.D=.561) and Loyalty from customer encountered (LOYALTYENC) (M=3.06, S.D=.407) conditions;  $t(89)$ ,  $p(.001)$ . Expected waiting time reduction (M=3.39, S.D=.831) and waiting time reduction encountered (M=2.94, S.D=.625) conditions;  $t(89)$ ,  $p(.000)$ .

However, there is no significant difference in the mean score for: increase in turnover expected (INTURNEXP) (M=3.67, S.D=.474) and increase in turnover encountered (INCTURNENC) (M=3.56, S.D=.500) conditions;  $t(89)$ ,  $p(.068)$ . Anticipated increase in bank branches network (INCNTWOKEXP) (M=2.89, S.D=.880) and encountered increase in bank branches network (INCNTWOKENC) (M=3.11, S.D=.941) conditions;  $t(89)$ ,  $p(.114)$ . Positive image anticipated (POSIMAGEEXP) (M=3.39, S.D=.594) and positive image encountered (M=3.28, S.D=.561) conditions;  $t(89)$ ,  $p(.158)$ . Rise in understanding of activities by employees expected (BETTUNDEXP) (M=3.11, S.D=.880) and rise in understanding of employees encountered (BETTUNDENC) (M=3.11, S.D=.941) conditions;  $t(89)$ ,  $p(1.00)$ . Efficient increase in business activities expected (INCBUSACTEXP) (M=3.5, S.D=.503) and efficient increase in business activities encountered (INCBUSACTENC)



( $M=3.39$ ,  $S.D=.594$ ) conditions;  $t(89)$ ,  $p(.114)$ . Reduction in operation cost expected (OPCOSTREDEXP) ( $M=3.06$ ,  $S.D=.853$ ) and reduction in operation cost encountered (OPCOSTREDENC) ( $M=2.94$ ,  $S.D=.784$ ) conditions;  $t(89)$ ,  $p(.401)$ .

From the descriptive statistics result in table 1 and 2 above, it was observed that there is a significant difference in the scores of the mean of anticipated benefits and the encountered benefits. Therefore, we can conclude that the differences between condition means are not due to chance. The meaning of this that there was a difference between the benefits expected that online banking will provide for the sector and what is being experienced presently in the sector as regards banks competitive advantage, expansion in customer base, customer loyalty and waiting time in the banking hall. There was however no significant difference in term of efficient business activities, reduction in the operation cost, increase in turnover, increase in branch network, the bank positive image and better understanding of bank activities.

A paired-samples t-test was conducted in table 2 above to compare: the increase in turnover expected (INTURNEXP) and increase in turnover encountered (INCTURNENC);  $p(.068)$ . Competitive advantage expected (COMPADVEXP) and competitive advantage encountered;  $p(.001)$ . Expansion in customer base expected (EXCUSTBASE) and expansion in customer base encountered;  $p(.025)$ . Loyalty anticipated from customers (LOYALEXP) and Loyalty from customer encountered (LOYALTYENC)  $p(.001)$ . Expected waiting time reduction and waiting time reduction encountered  $p(.000)$ .

These values are less than .05 level of significance. We then conclude that there is

a statistically significant difference between the means of the expected benefits and the anticipated benefits. Therefore, we accept the alternative hypothesis which says there is statistically significant difference between the anticipated and encountered benefits of online banking in the Nigerian Banking system.

A paired-samples t-test was also conducted in table 2 above to compare: the anticipated increase in bank branches network (INCNTWOKEXP) and encountered increase in bank branches network (INCNTWOKENC);  $p(.114)$ . Positive image anticipated (POSIMAGEEXP) and positive image encountered (POSIMAGEENC)  $p(.158)$ . Rise in understanding of activities by employees expected (BETTUNDEXP) and rise in understanding of employees encountered (BETTUNDENC)  $p(1.00)$ . Efficient increase in business activities expected (INCBUSACTEXP) and efficient increase in business activities encountered (INCBUSACTENC);  $p(.114)$ . Reduction in operation cost expected (OPCOSTREDEXP) and reduction in operation cost encountered (OPCOSTREDENC)  $p(.401)$ .

These values are greater than .05 level of significance; as a result of this we conclude that there is no statistically significant difference between the means of the expected benefits and the anticipated benefits. Therefore, we accept the null hypothesis which says there is no statistically significant difference between the anticipated and encountered benefits of online banking in the Nigerian Banking system

Table 3 and Table 4 explain the expected/encountered challenges of online banking in Nigeria. Table 3 showed a significant

difference in their scores: anticipated high technology cost (HCOSTECHEXP) (M=3.33, S.D=.750) and high technology cost encountered (HCOSTECHENC) (M=3.61, S.D=.490) conditions;  $t(89)$ ,  $p(.003)$ . Lack of e-commerce knowledge expected (LECOMMKWNEXP) (M=2.83, S.D=.503) and lack of e-commerce encountered (LECOMMKWNEHC) (M=3.06, S.D=.709) conditions;  $t(89)$ ,  $p(.009)$ . Anticipated fear of resisting change from manual to electronic (RESTOMANTELEXP) (M=2.83, S.D=.963) and fear of resisting change from manual to electronic encountered (RESTOMANTELENC) (M=3.28, S.D=.561) conditions;  $t(89)$ ,  $p(.001)$ . Fear of security breach expected (SECBREACHEXP) (M=2.94, S.D=.527) and fear of security breach encountered (SECBREACHENC) (M=3.22, S.D=.632) conditions;  $t(89)$ ,  $p(.000)$ . Customer data not captured on the site expected (NONCAPOFDATEXP) (M=2.44, S.D=.689) and customer data not captured on the site encountered (NONCAPOFDATENC) (M=2.78, S.D=.858) conditions;  $t(89)$ ,  $p(.000)$ . Making business known to customers expected (MAKBUZKNTCUSTEXP) (M=2.50, S.D=.963) and making business known to customers encountered (MAKBUZKNTCUSTENC) (M=3.22, S.D=.715) conditions;  $t(89)$ ,  $p(.000)$ .

However the following variables shows no significant difference in their scores: Constraint of budgeting expected (LAKOFPROBUDGTEXP) (M=3.11, S.D=.570) and Constraint of budgeting expected (LAKOFPROBUDGTENC) (M=3.17, S.D=.691) conditions;  $t(89)$ ,  $p(.401)$ . Effect with power failure (POWAFAILEXP) (M=3.06, S.D=.625) and effect with power failure (POWAFAILENC) (M=2.94, S.D=1.085) conditions;  $t(89)$ ,  $p(.417)$ . Cost of

acquiring IT skill expected (ITSKCOSEXTP) (M=2.83, S.D=.963) and cost of acquiring IT skill encountered (ITSKCOSENC) (M=2.83, S.D=.838) conditions;  $t(89)$ ,  $p(1.000)$ . Lack of e-commerce infrastructure expected (ECOMMINFRCHEXP) (M=2.83, S.D=.503) and Lack of ecommerce infrastructure encountered ((ECOMMINFRCHENC) (M=2.83, S.D=.604) conditions;  $t(89)$ ,  $p(1.000)$ . Getting reliable vendor expected (GETRELVENEXP) (M=3.11, S.D=.570) and getting reliable vendor expected (GETRELVENENC) (M=3.06, S.D=.709) conditions;  $t(89)$ ,  $p(.611)$ . Resistance to online banking expected (RESTONLBANEXP) (M=2.56, S.D=.602) and Resistance to online banking encountered (RESTONLBANENC) (M=2.61, S.D=.831) conditions;  $t(89)$ ,  $p(.590)$ . Unreliability of internet providers (UNRELOFINTPROEXP) (M=3.11, S.D=.661) and unreliability of internet providers (UNRELOFINTPROENC) (M=2.89, S.D=.570) conditions;  $t(89)$ ,  $p(.056)$ . Non accessibility of rural people expected (NONACEORURPEXP) (M=2.94, S.D=.709) and non accessibility of rural people encountered (NONACEORURPENC) (M=2.94, S.D=.625) conditions;  $t(89)$ ,  $p(1.000)$ .

A paired-samples t-test was also conducted in table 4 above to compare: anticipated high technology cost (HCOSTECHEXP) and high technology cost encountered (HCOSTECHENC)  $p(.003)$ . Lack of e-commerce knowledge expected (LECOMMKWNEXP) and lack of e-commerce encountered (LECOMMKWNEHC)  $p(.009)$ . Anticipated fear of resisting change from manual to electronic (RESTOMANTELEXP) and fear of resisting change from manual to electronic encountered (RESTOMANTELENC)  $p(.001)$ . Fear of security breach expected (SECBREACHEXP) and fear of security

breach encountered (SECBREACHENC)  $p(.000)$ . Customer data not captured on the site expected (NONCAPOFDATEXP) and customer data not captured on the site expected (NONCAPOFDATENC)  $p(.000)$ . Making business known to customers expected (MAKBUZKNTCUSTEXP) and making business known to customers encountered (MAKBUZKNTCUSTENC)  $p(.000)$ .

These values are less than .05 level of significance, we can therefore conclude that there is statistically significant difference between the means of the expected challenges and the encountered challenges. Therefore, we accept the alternative hypothesis which says there is no statistically significant difference between the anticipated and encountered challenges of online banking in the Nigerian Banking system

However the following variables in Table 4 showed no significant difference in their scores: Constraint of budgeting expected (LAKOFFPROBUDGTEXP) and Constraint of budgeting expected (LAKOFFPROBUDGTENC)  $p(.401)$ . Effect with power failure (POWAFaILEXP) and effect with power failure (POWAFaILENC)  $p(.417)$ . Cost of acquiring IT skill expected (ITSKCOSTEXP) and cost of acquiring IT skill encountered (ITSKCOSTENC)  $p(1.000)$ . Lack of e-commerce infrastructure expected (ECOMMINFRCHEXP) and Lack of ecommerce infrastructure encountered ((ECOMMINFRCHENC)  $p(1.000)$ . Getting reliable vendor expected (GETRELVENEXP) and getting reliable vendor expected (GETRELVENENC)  $p(.611)$ . Resistance to online banking expected (RESTTONLBANEXP) and Resistance to online banking encountered (RESTTONLBANENC)  $p(.590)$ .

Unreliability of internet providers (UNRELOFINTPROEXP) and unreliability of internet providers (UNRELOFINTPROENC)  $p(.056)$ . Non accessibility of rural people expected (NONACEORURPEXP) and non accessibility of rural people encountered (NONACEORURPENC)  $p(1.000)$ .

These values are greater than .05 level of significance, we can therefore conclude that there is no statistically significant difference between the means of the expected challenges and the anticipated challenges. Therefore, we accept the alternative hypothesis which says there is statistically significant difference between the anticipated and encountered challenges of online banking in the Nigerian Banking system

## IMPLICATION OF FINDINGS

Even though there is a positive correlation between the variables under this category, table 1 above showed a high hope of benefits expected of the online banking are not been experienced as thought before the advent of online banking. First the high expectation could be due to what online banking has brought to bear in the developed nation where it has recorded huge success. This might have informed the decision of the various players in the sector not minding other impending factor(s) peculiar to the country. Secondly, the old nature of doing business in Nigeria for example the waiting time in the banking hall has not reduced to the level desired compare to the developed world and the level of computer literacy in the country could also be responsible.

The result in table 2 above showed no significant different among the variables tested. For example, the increase in the network

of bank expected before online banking has been like that till date. The banks studied in this work for example, have increased greatly in term of sizes due to the introduction of online banking. The reduction in the operating cost could be linked to the deployment of chain of computers. This has cut down manual activities where the service of a human is needed and also, the efficient increase in business activities could also be linked to various training and re-training being carried out time without number by various banks for their staffs. This has also helped a great deal.

### CONCLUSION AND RECOMMENDATION

Inspite of the benefit of Electronic Commerce, Automation and Online Banking such as increase in bank branches network, reduction in operation cost among others; the paper identified lack of e-commerce knowledge, fear of resistance to change from manual to electronic, security breach, non-capturing of customer data in total, unreliability of internet providers, making business known to customers through the net and accessibility of the rural people to online banking and power failure as obstacles to full implementation of electronic commerce,

automation and online banking in Nigeria. To tap into the full benefits and potential of electronic banking and e-commerce, the operators and the business at large must understand and be abreast with the benefits and challenges of electronic trading.

### RECOMMENDATIONS

Notwithstanding the challenges highlighted above, we proffer the following recommendations:

i. The largest room of improvement is change. Therefore operators should impress it upon employees the need to be responsive to online banking.

ii. Constant training of employees both local and international on new development in online trading.

iii. Workshops should be organized for customers periodically on how to keep their data secret especially on how to combine numbers to form password. They should also be vigilant about who stand next to them when using the ATM.

iv. Even though it is impossible for now considering the dearth of infrastructural facilities in Nigeria, a base could be provided where neighboring villages can access online banking if it is impossible to situate internet facility in each village in the country.

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# Critical Success For Kelantanies Constraction Operate Outside Kelantan State In Malaysia

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**Abstract:** The Malaysia construction industry has been experiencing boom and bust conditions in the past few decades. For example, the construction industry suffered three business cycle downturns in 1976-1978, 1984-1988 and 1997-1999. Furthermore in 1998 the industry contracted sharply by 23 percent and finally moderated to a further contraction of 5.6% percent in 1999. However, the industry has shown a small growth of 1 percent in 2000. With the higher public and private investment especially in infrastructure projects, education, health, and social infrastructure, the construction industry is expected to have grown by 5 percent in year 2001 and forecasted to grow by 4.3 percent in 2002. With the expected growth in the industry, this will enhance the number of contracting firm in the industry. The contracting firm, which is also known as the 'builder', is defined as a supplier of services whose scope of work and engagement is determined by the requirements of the client (user of services) formalized in the form of a contract document. The client engages a contractor through a tendering process, to construct and to complete the project in accordance with certain design, specification and period of completion at an agreed price. Despite the Malaysian Economics growth, Kelantan still lags behind because of political reason. Governed by an avowedly Islamic party, party selslam Malaysia (PAS), the past has been unable to attract vital foreign direct investment. This has led to poor project development in the state compared to other states in Malaysia. In order to succeed, Kelantanies contractor are driven to get jobs outside Kalantan. The most popular state is Selangor to the intense development demand.

**Keywords:** Critical success factors; Contractors; Construction industry; Kelantan, Malaysia

## 1.0 INTRODUCTION

Kelantan is the state that was always been regarded as poor and isolated. Due to the political reason, the state has lagged behind the rest Malaysia over the past decade. As a result, poverty rates continue to hover around 20% and population growth has dipped to a miserly 0.9% - substantially less than the 6.1% recorded by Selangor. Less development in Kelantan results in absence of jobs and opportunities for Kelantanies live elsewhere in the country. This however has led to inevitable drift to cities where the Kelantanies long respected for their industriousness have succeeded in business, the civil services and the military – including the women. It is already well known that Kelantanies famous with the entrepreneurial possessed by their people. Normally, the capabilities of Kelantanies in business are related with heritage and have long been through social-culture transmission process. Their enterprising spirits have been acknowledged not only by Malaysian but also foreigners in the same business. Entrepreneurship is usually referred to the psychology and behavioral dimensions of the owners and founders of the business. Many studies on successful entrepreneurs show that the successes of the business venture are mainly due to 'entrepreneurship' (Ali and Hasli, 2001). Previous Malaysian Prime Minister Mahathir Mohamad noted that 'Kelantanies are capable and hardworking. They have and currently excellent in contributing for country's development'. The high involvement of Kelantanies in business most probably due to certain entrepreneurial characteristic possess by them. One of the popular industry attract their attention is construction industry.

## 2.0 Short overview on CSFs

Ideas of CSFs were first discussed by Daniel in 1960s. At the beginning it has been proposed to be used in different area for example, Anthony et al., (1972) identified CSFs in management control system, Rockard (1972) identify CSFs as a mechanism for definition of CSFs when proposed that it can be used a management information system (MIS) planning tool. Meanwhile in 1980, munro and wheeler suggested that managers and organizations should use CSFs to achieve higher performance. This has encouraged studies on CSFs in the area of strategic management. Leidecker and Bruno (1984) applied CSFs at three levels of analysis i.e firm specific. Industry and economic socio-political environment. They argued that CSF analysis provides a method to identify the essential competencies, economics climate. Usually SCF analysis emphasizes on SWOT analysis, which determine the company's strength and weakness in a specific environment. This concept then has been adopted in various disciplines for example Dickinson et al., (1984) and lumpkin and Ireland (1988) both have applied it in small business, Chan (1999) in banking industry and so forth. With respect to construction management, the CSF ideas have been applied to determined projects critical success factors (PCSFs) by Sanvido et al., (1992) and Chua et al., (1999). Given the different applicant of CFSs in previous studies, the definition tends to be different area of study. Various SCFs definition have been discussed by Leidecker and Bruno (1984) identified CSFs as those characteristic, conditions or variables that when properly sustained, maintained or managed can have a significant impact on the success of a firm competing in a particular industry.

This study will adapt the definition by Jaffar (2004) whereby CSFs will be defined as 'internal or external factors (characteristics, conditions or competencies) that need to be properly sustained, maintained or managed due to significant contribution to company success'. This definition can be applied to businesses to ensure their long-term survival and success in the specific industry.

### 3.0 Contractors in the Construction Industry

The construction industry is one most important industries in Malaysia's economic cycle. The Malaysia construction industry has been experiencing boom and bust conditions in the past few decades. For example, the construction industry suffered three business cycle downturns in 1976-1978, 1984-1988 and 1997-1999. Furthermore in 1998 the industry contracted sharply by 23.0 percent and finally moderated to a further contraction of 5.6% percent in 1999. However the industry has shown a small growth of 1 percent in 2000. With the higher public and private investment especially in infrastructure projects, education, health, and social infrastructure, the construction industry is expected to have grown by 5 percent in year 2001 and forecasted to grow by 4.3 percent in 2002. With the expected growth in the industry, this will enhance the number of contracting firm in the industry. Based on a definition by Jaffar et al., (2001) the contracting firm, which is also known as the 'builder', is defined as a supplier of services whose scope of work and engagement is determined by the requirements of the client (user of services) formalized in the form of a contract document. The client engages a contractor through a

tendering process, to construct and to complete the project in accordance with certain design, specification and period of completion at an agreed price. Despite the Malaysian Economics growth, Kelantan still lags behind because of political reason. Governed by an avowedly Islamic party, Party Selslam Malaysia (PAS), the past has been unable to attract vital foreign direct investment. This has led to poor project development in the state compared to other states in Malaysia. In order to succeed, Kelantanies contractor are driven to get jobs outside Kelantan. The most popular state is selangor to the intense development demand. Based on the data by UPEN (1995). 54.8 of total Kelantan's population (1.2 million) are involved in business. The business sector contributes 14.0% to the state's GDP. 4% from that figure comes from property and constructions. This means that 26,304 Kelantanies businesses are involved with construction. Thus, this paper is attempted to study the critical success factors (CSFs) for kelantanies contractor operate outside Kelantan. The CSFs concept is very important nowadays in the industry due to higher competition facing by contractors. This study is attempted to find the answer to the following question: (1) Is the kelantanies contractors operate outside Kelantan used CFSs like management commitment and customer focus tools in managing the projects? (2) Does the company obtained success from the completion of project differ by individual characteristics?

### 4.0 Methodology

The population under study consists of chairman or owner/managers of Kelantanies constructor operating in all states other than

Kelantan. The population will cover only contractor class "A" Kelantanies contracting firms. Data collection will be done by using the self-administered mail (post and mail) survey method. In addition, we will conduct one-to-one interviews with selected parties to get more information. In this research, the size of contracting firms is defined according to its registration grades or classes with the construction industry development board

(CIDB) and "Pusat Khidmat Kontraktor" (PKK), which are the main organization that regulate the construction industry. Before the establishment of the CIDB in December 1994, contractors had to register with the PKK. However, these two bodies require somewhat similar registration criteria to be fulfilled by the contractors. Basically, the CIDB classifies contractors by grades G7 while the PKK by classes A (Table 1).

*Table 1: contractors' classification according to total paid up capital*

Registration grade(CIDB)	Registration class (PKK)	Minimum paid up capital(RM)	Minimum project price (RM)	Contractor category (Size)
G1	F	5,000.00	Not more than 100,000.00	Small
G2	E and X	52,000.00	Not more than 500,000.00	Small
G3	D	50,000.00	Not more than 1,000,000.00	Small
G4	C	150,000.00	Not more than 3,000,000.00	Medium
G5	BX	250,000.00	Not more than 5,000,000.00	Medium
G6	B	5000,000.00	Not more than 10,000,000.00	Medium
G7	A	750,000.00	No Limit	Large

*Source: CIDB and PKK*

Frequency distribution test was used to analyze the data in this study. In the conceptualization and operationalization of the variables six (6) points scale questionnaires were employed. The respondents were asked to answer the questionnaire based on their perception accordingly. The questionnaires were developed based on (1) Strongly disagree (2) Disagree (3) Slightly Disagree (4) Slightly Agree (5) Agree (6) Strongly Agree.

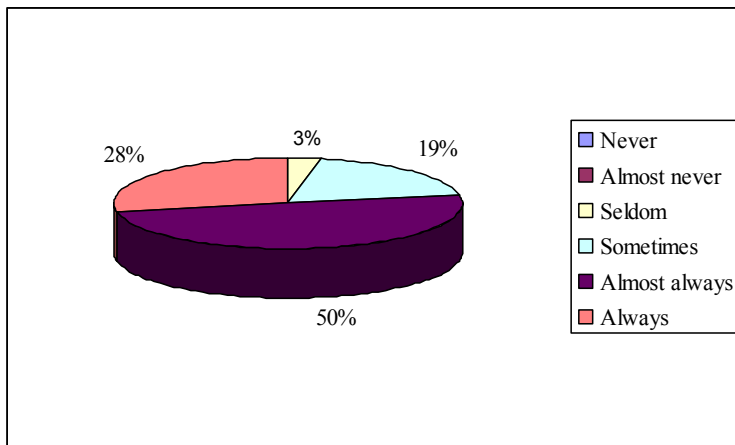
## 5. Results analysis

The discussions are based on the formulated based on the research questions, namely: management commitment and customer focus. All respondents in this study were classified under G 7. Majority of the companies (91%) responded in this study were Bumiputra. None of the companies are certified by any Quality Management System Certification; however 31% of the companies were in process of obtaining it. The areas

of specialization for the majority of companies were building (62.5%), civil engineering (25%), specialist work (9.4%) and other types (3.1%). The companies responded in this study are considered small due to the majority of them having 11 to 15 staff in their organizations (44% of companies) and 6 to 10 (38%). The respondents employ mostly in the range of 4-6 (44%) and 1-3 (41%) of technical staff in their organizations.

### 5.1 Management Commitment

A total of 78% of the respondents perceived that top management in their organizations stress on the importance of meeting client's needs. Most respondents (81%) perceived that top management of their organizations stress on the importance of meeting statutory and regulatory obligations.



*Figure 1: Does top management stress importance of meeting statutory and regulatory obligations?*

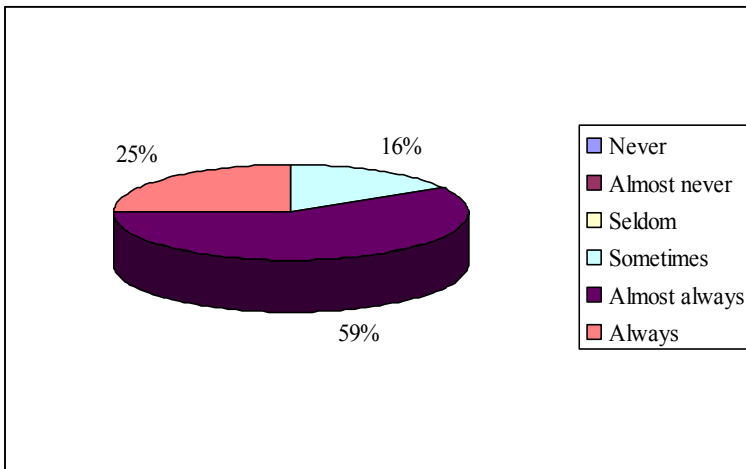
The majority of respondents perceived that their organizations (59%) had established quality policy (Figure 2). However,

about one-fifth (22%) of the respondents believed that their organizations sometimes had established the quality policy.



The majority of respondents (63%) perceived that their organizations had establish company objectives. The majority of respondents (59%) perceived that their organizations conduct management review of the administration of the organization. However,

about one-third (34%) of them conduct management review moderately. A total of 59% of the respondents perceived that their organizations ensure the resources needed to run the business (Figure 3).

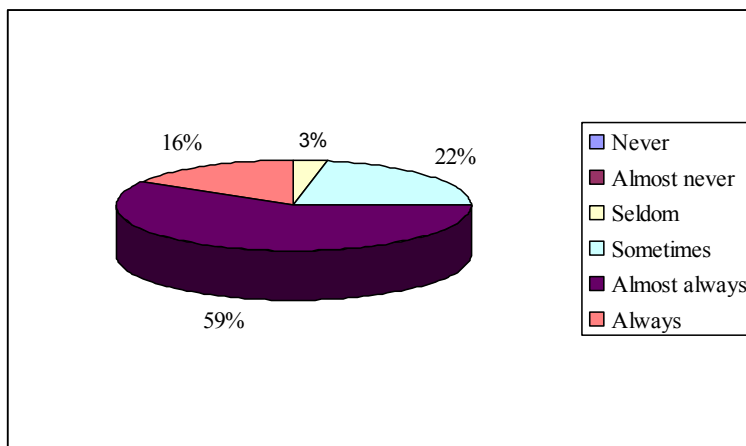


**Figure 3:** Does company ensure resources needed to run the business are available?

## 5.2 Customer Focus

Seventy five percent of respondents felt that at the least almost always the company fulfilled the requirements of contract in all

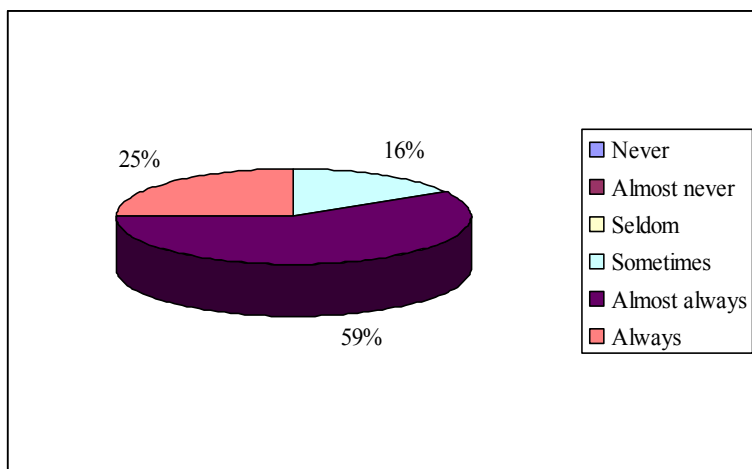
projects. Figure 4 shows that 44% of the respondents answered by "almost always" the companies fulfill the requirements of contracts in all projects .



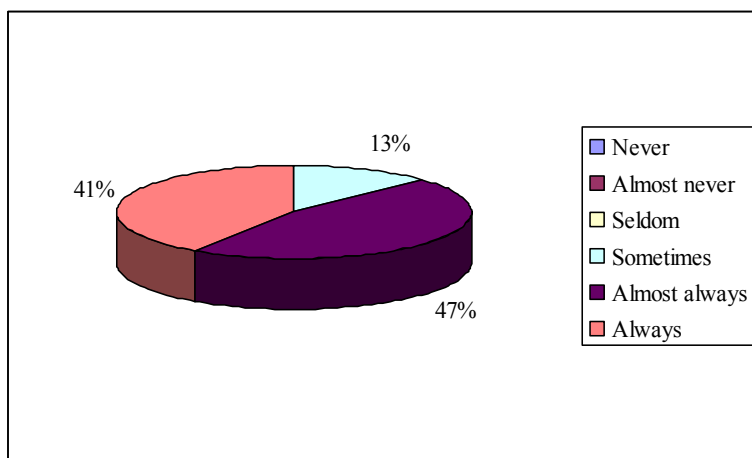
**Figure 4:** Does company fulfill the requirements of contracts in all projects?

A total of 81% of the respondents perceived that the workmanships of the projects satisfy their clients. The corresponding figure for satisfying the design consultants is 88%, which is somewhat similar to client's satisfaction (Figure 5). It was found that forty

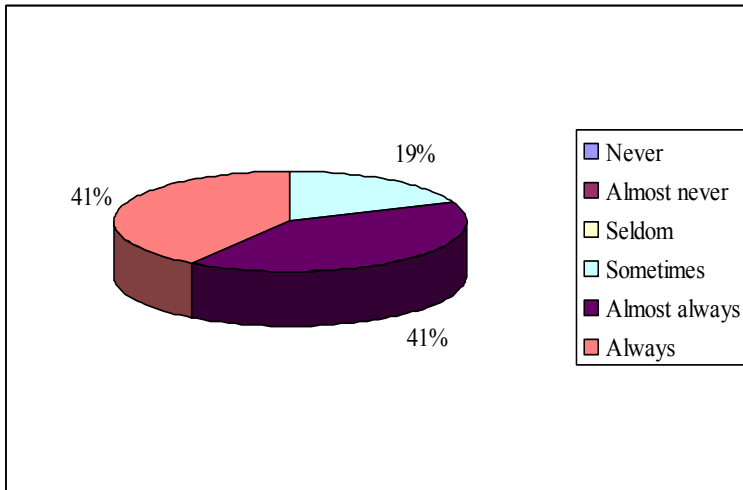
Seven percent of the respondents perceived that almost always satisfy their consultants, 41 % and 13 % perceived sometimes and always respectively (Figure 6) and at least 82% of the respondents perceived that their companies execute the project on time (Figure 7).



*Figure 5: Do the workmanships of the projects satisfy the clients?*



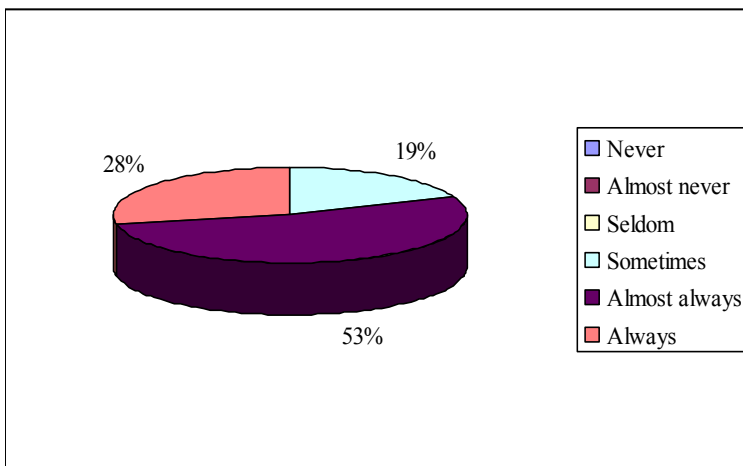
*Figure 6: Do the workmanships of the projects satisfy the design consultants?*



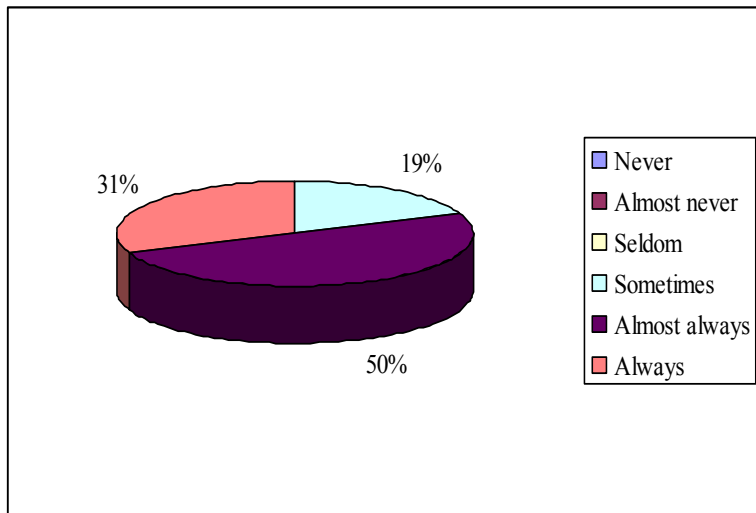
*Figure 7: Does company complete executing projects on time?*

A total of 81% of the respondents perceived that the quality of workmanships on site satisfies the clients (Figure 8). Eighty one percent of the respondents perceived that the quality of workmanship on site satisfy the

design consultants. However, the remaining 19 percent of the respondents perceived that their organizations satisfy their design consultants moderately (Figure 9).



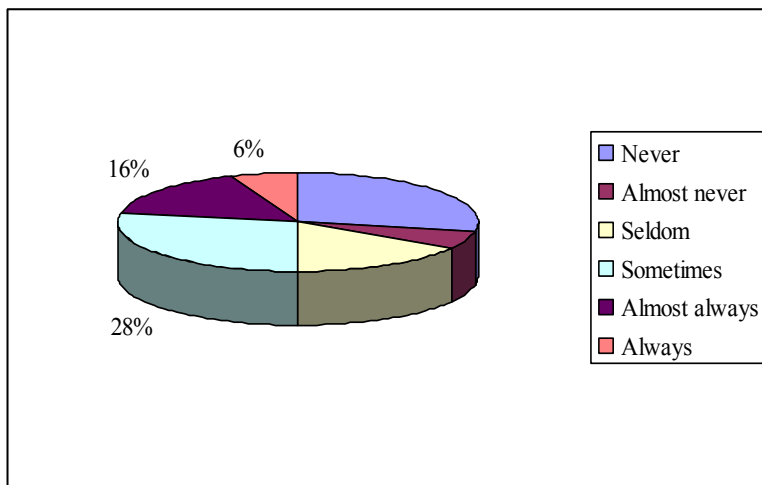
*Figure 8: Does the quality of the workmanships on site satisfy the clients?*



*Figure 9: Does the quality of the workmanships on site satisfy the design consultants?*

This study found an interesting finding that 28% of the respondents responded that their organizations had never committed to any major reworks, remedies etc during the Defect Liability Period (Figure 10). However,

six percent of the respondents responded that their organizations had always committed to rectification works during the Defect Liability Period.



*Figure 10: Are there any major reworks, remedies and rectification works during the defect liability period?*

## 6.0 Discussion of the findings

The main purpose of this study is to identify and evaluate the critical success factors (CSFs) mechanism used by the Kelantanies contractor operating outside Kelantan in running their construction projects. The CSFs concept is very important nowadays in the industry due to higher competition among contractors. All the companies that studied were classified under G07. Majority of companies (91%) were of Bumiputra type. None of the companies had Quality Management System Certification although 31% of the companies were in process of obtaining it. The area of specialization for majority of companies were building (62.5%) followed by civil engineering (25.0%), specialist work (9.4%) and other types (3.1%). Most of the companies were incorporated only in the 2000s. The companies were small with majority of them employ 11 to 15 (44% of companies) staff and 6-10 (38%) staff. The number of technical staff are ranging from 4-6 (44%) and 1-3 (41%).

### 6.1. Management Commitment

This study found that 78 percent of the respondents felt that top management stress importance of meeting client's need. There seems to be reasons why management commitment is becoming a more critical factor in many companies. For instance, top management must demonstrate their commitment to quality and customer satisfaction through deeds, personal involvement in the quality and service programs, and maintaining close contact with those responsible for implementing these programs. In the survey, the results showed that most of the respondents (81%) stated that top management stress

the importance of meeting statutory and regulatory obligations. These imply that by providing good strategies for management commitment; top management will stress on the importance of meeting client's needs. One of the most effective strategies is to improve management commitment is through Total Quality Management (TQM). Furthermore, the majority of the respondent agreed that their company establish company objectives. The results also revealed that the majority of respondents (59%) felt that the company should conducts management review of the administration of the organization to ensure success.

### 6. 2. Customer Focus

The majority of the respondent agreed that their companies fulfill the requirements of contract in all projects, by means of ensuring the workmanship of the projects satisfy the clients. On the other hand, the contractors also need to satisfy the design consultants and ensure client's satisfaction. The contractors seem to agree that their companies execute projects almost on time. In general, the respondent gave the whole range of responses from never to always for if there were any major reworks, remedies etc during the Defect Liability Period. Equal number of respondents (28%) gave the responses 'never' and 'sometimes'. The figures for 'almost always' and 'always' were 16% and 6% respectively. This phenomena seem to happen due to the complexity of projects, size and location.

## 7.0 Conclusion

In conclusion, it can be deduced that the Kelantanies contractors operate outside

Kelantan use CFSs tools in managing the projects although none of the companies are Quality Management System certified companies. Most company obtained success from the completion of project and it differs by individual characteristics. However, these

companies need to manage several success factors such as customer satisfaction; customer focus, management commitment and other related factors in order to make them more successful.

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# Consortialization strategy as a technique for the streamlining of the relationship between education and vocational training and the labour market

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**Abstract:** *The present study aims to examine the variables of the relationship between education and continuous vocational with the labour market in the context of new priorities and regional development dimensions. This approach attempts to provide a new perspective on the streamlining of these relationships by introducing and substantiating a new socio-educational strategy, that of consortialization.*

## I. The european context

Education has always had a strong formative influence on society; however, its tools have taken new dimensions as a result of globalization and the revolution of knowledge. Each long-term strategy to increase

economic competitiveness, of prosperity and social cohesion in the EU is based on education and training. Here are some of the main landmarks of EU policies and programs.

**1. The Stockholm European Council (2001)** – approves the Report on the objectives

of the education and professional training systems in the member countries, noting that “improving basic skills, particularly those regarding the information technology (IT) and digital technology, is a priority for the EU to make European economy the most dynamic and competitive knowledge-based economy.”

## 2. The Barcelona Process (2002) –

During the meetings of the European Council in Barcelona in March 2002, it was established that education and training systems must become reference fields for quality by 2010 and defined a series of targets – “benchmarks”. The five benchmarks in education and training, adopted by the Council in May 2003, still represent a challenge for these systems:

- EU average rate of early school leavers should not exceed 10%;
- functional illiteracy rate for 15-year-olds should drop by at least 20% compared to 2000;
- at least 85% of those aged 22 should have completed at least upper secondary education;
- in 2010 the EU average participation in lifelong learning should be at least 12.5% for the population in the age group 25-64 years;
- number of graduates in mathematics, sciences and technology in the EU should increase by 15% by 2010 and any gender gap in these areas should be eliminated.

## 3. Europe 2020 Strategy –

The European Commission launched on the 3rd of March 2010 a vision for Europe’s social market economy in the next decade which is based on three priority areas, which are intertwined and mutually stimulating:

- Intelligent economic growth, the development of an economy based on knowledge and innovation;
- Sustainable economic growth, promoting a competitive economy, with low-carbon emissions and an efficient use of resources;
- Inclusive economic growth, promoting an economy with a high degree of employment on the labour market, which should generate social and territorial cohesion.

Progress towards these objectives will be measured against five benchmarks representative at the EU level, which the member states will be invited to translate into national benchmarks that reflect the starting points:

- 75 % of the population aged between 20-64 years should be employed;
- 3 % of the EU GDP should be invested in research and development;
- The climate and energy objectives “20/20/20” must be achieved;
- The quota of early school leavers should be below 10%, and at least 40% of the younger generation should have university studies;
- The number of persons at risk of poverty must be reduced by 20 million.

**4. European Human Capital Index, Lisbon Council, 2007** – the landmarks to be taken into account to assess the overall situation are the following:

Table 1 - Landmarks

Landmarks			
Human capital stock	Using the human capital stock	Productivity	Demography
Investment per capita for education and training of the employed population	Occupancy rate	Contribution of the human capital relative to the created added value	Increase or decrease
Composition of human capital depending on the type and level of education	Unemployment rate	Quality of education and professional training	Migratory trends
Health status	Rate of connectedness to multimedia communication networks	Lifelong employability	Calculated impact on the labour market
	Participation in income- or value-producing activities	Investments in research and development	

**5. European Employment Strategy (EES)** – was devised as an essential tool for the necessary guidance and to ensure the coordination of priorities in the field of employment policies, endorsed by all the EU member states. The achievement of an average of the overall occupancy rate of 70% and of the female employment rate of 60% by 2010 were established as global objectives at a European level. As a priority of the European Employment Strategy, an increased investment in human capital and lifelong learning requires:

- ambitious policies for raising human capital to increase investment in research and development and to promote entrepreneurial attitudes and skills through education at all levels;
- shared costs and responsibilities between public authorities, companies and individuals, and reviewing the incentives for increasing investment in human capital and companies;

- reduce school dropout levels and improve training offers in order to increase access to continuing vocational training, especially for those who need it most, namely for the under-skilled and older workers, taking into account the future needs of the labour market;
- develop innovative methods of learning and training (such as via a computer/ electronics) and investing in skills related to information and communication technologies.

## II. National context

**6. Integrated strategy for human resource development from the perspective of lifelong learning 2009-2020 (SIDRU)** – So far there is no database and no organized way of informing the public about adult education programs offers (bidding institutions,

types of programs, certification mode, etc.). All these aspects indicate a need for institutions responsible for adult education, whether those institutions will be an inter-ministry agency, department, or whatever formula may be considered more feasible, but the need for a research institute that provides the scientific argument for educational policy decisions is real. The educational programs offered on the market belonging to adult education institutions has had a chaotic development, with offerings that were not always designed based on quality criteria. Furthermore, training quality is often questionable and the very low percentage of participation shows that the educational offer providers fail in their endeavour to have attractive offer, adapted to adults' needs and interests.

An Integrated Strategy for Human Resource Development from the perspective of lifelong learning cannot ignore the educational aspect of adult education, their personal development, through an exclusive focus only on training issues. Recent developments in the labour market have often pointed out that these extra-professional skills have led to alternative employment solutions when the opportunities to exercise the basic professional training are absent.

Key message: Human resources development will focus on increasing investment in education and training, integration and maintenance on the labour market of as many people as possible, increasing the offer of quality employment, improving adaptability of workers and enterprises, promoting social inclusion of vulnerable groups. In terms of the economic depression, massive intervention of the public power as the "lender of last resort" becomes a prevalent factor; still this has to be undertaken not from outside the

enterprise and the community and not from "beyond the individual", but as a partnership with the enterprise, the community and the individuals. (SIDRU – page 36).

Action Plan on Adult Learning – It is always a good time to learn developed at the European level in 2007, with actions to be undertaken individually until 2010, has a pointed message referring to the achievement of opportunities to learn for adults in order to advance to a level comparable to that of the EQF referential framework.

Developments on the formalized progress axis have occurred in the relevant ministry (MECTS) in order to insure, for instance, a second chance at education, or the extension of the advisory services. The solutions found, however, as the declarative aspects of the documents, which are not very convincing as a concept, seem to be sufficiently functional and tailored to the needs of lifelong learning in adults. Even the second chance at education offered to unskilled adults seems to not be sufficiently tailored to the adults who already have life experience, even if they are (semi-)illiterate. Transforming schools into resources community centre<sup>1</sup>, implies that the instructors will be enabled and authorised to work with adults, not to risk "reschooling".

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<sup>1</sup>The Resource Community Centre is the main source of learning within a community. Any kind of learning can take place in such a centre and the learning here is available for all age groups. Although the activity in the centre continues to be focused primarily on formal and non-formal learning, it can provide for those interested e-learning and self-learning resources. The centre can also provide access to information, advice and guidance services, and access to information and communication technology equipment.

This is why adult education was introduced under the "Education" heading, in order to signal the need to be seen as part of the national education, which needs more consistent solutions (Integrated Strategy for Development of Human Resources, Bucharest, 2008).

An interesting observation is that the increasing of the participation rate in higher education and of the enrolment rate of adults in lifelong learning programs can compensate for the deficit of skilled labour force for a knowledge-based, competitive and sustainable economy. In addition, from a qualitative perspective, it is imperative to substantially improve the quality of compulsory education.

**7. Sectorial Operational Programme for Human Resources Development (POS DRU) 2007 - 2013** – is a document proposed by Romania and approved by the European Commission defining a development strategy; the European Social Fund intervention supports the achievement of the objectives of human resources development. The general objective of SOP HRD is the development of human capital and the increase of its competitiveness, by linking education and lifelong learning in order to increase and ensure the participation of 1.650.000 people in a modern, flexible and inclusive labour market. The general objective of SOP HRD is supported by a series of specific objectives in compliance with the common objectives at European level, regarding the dispositions for an increased participation in the labour market of a highly skilled and adapted workforce. SOP HRD is an important tool in supporting economic development and structural changes. Sustained investment in human capital supported by SOP HRD 2007 - 2013

will complete and confer sustainability in the long run for the productivity growth. Among the specific objectives listed, the following is also included the Promotion of quality education and initial and continuing training, including higher education and research.

*In what follows we will address four major issues that give us an overview of the prospects of developing the Bucharest - Ilfov development region - closely connected to what is happening at a national and European level. The conclusions presented below are based on data from an investigation conducted under Project ACCESS SOPHRD - Continuous training, qualification-requalification - the guarantee of success in the labour market for employees, a national information and awareness campaign on Continuous vocational training and on data from the Regional Action Plan for Education (PRAI) from 2009 to 2013 for the Bucharest - Ilfov Region.*

### Aspects regarding Demography

According to data from the National Institute of Statistics published in the Statistical Yearbook 2009, an ageing process may be observed within the population of the Bucharest - Ilfov Region, a phenomenon similar to what happens at national and European level.

Table 2 – Demographic evolution of population, on 2009, 1 July - Bucharest - Ilfov Region

	Total population on 2009, July 1							
	1990	2002	2003	2004	2005	2006	2007	2008
Romania	23.206.720	21.794.793	21.733.556	21.673.328	21.623.849	21.584.365	21.537.563	21.504.442
<b>Bucharest -Ilfov Region</b>	<b>2.394.284</b>	<b>2.226.457</b>	<b>2.206.479</b>	<b>2.207.596</b>	<b>2.208.368</b>	<b>2.219.532</b>	<b>2.225.932</b>	<b>2.248.026</b>
Bucharest	2.127.194	1.926.334	1.929.615	1.927.559	1.924.959	1.931.236	1.931.838	1.943.981
Ilfov County	267.090	300.123	276.864	280.037	283.409	288.296	294.094	304.045

Source: INS , Anuarul Statistic 2004, 2005, 2006, 2007, 2008, 2009

To realize the evolution of the aging process we can look at variances between the

numbers of persons registered in 2008 and 1990/ 2002, as in the table below:

Table 3 – Differences between 2008 and 1990 / 2002

	Differences between 2008 and 1990		Differences between 2008 and 2002	
	Persons	Percentage	Persons	Percentage
Romania	-1.702.278	-7,34%	-290.351	-1,33%
<b>Bucharest -Ilfov Region</b>	<b>-146.258</b>	<b>-6,11%</b>	<b>21.569</b>	<b>0,97%</b>
Bucharest	-183.213	-8,61%	17.647	0,92%
Ilfov County	36.955	13,84%	3.922	1,31%

The age structure of the population reflects the aging process through a relative and absolute lowering of youth (0-14 years) from 18,3% in 2000 to 15,2% in 2008 and an increase in the proportion of the elderly (65 years and over) from 13,3% in 2000 to 14,9% in 2008. The average age of the population was 38,9 years in early 2007. Population aging is more marked in rural areas, with an average age of 39,7 years; the proportion of people over 65 years is 17,4%, mostly women.

- An economic dependency ratio of inactive people over 60 for every 100 economically active adults (20 - 59 years) was 34, with the prospect of

a dramatic increase in the coming decades.

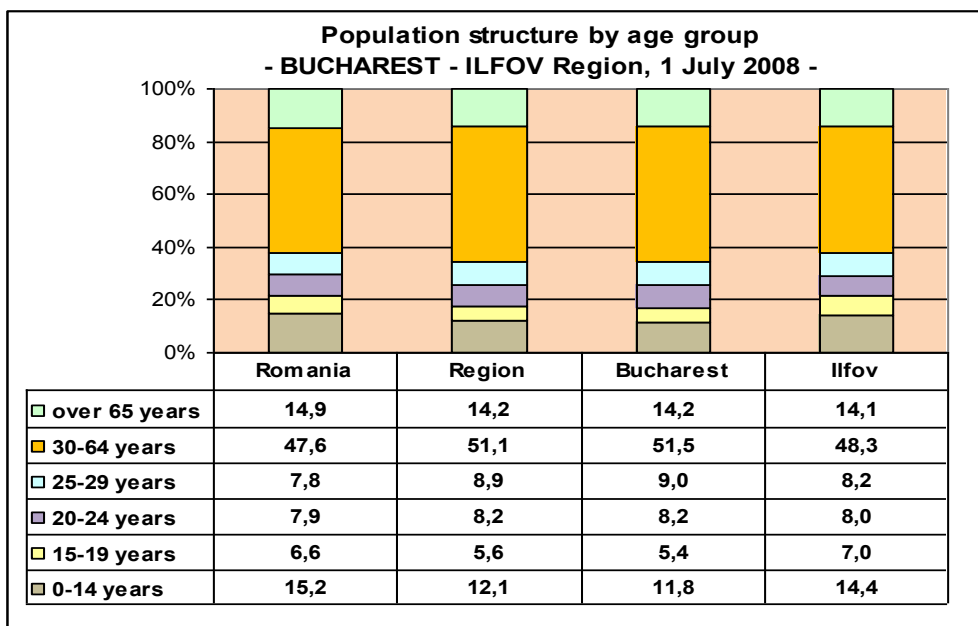
- With a total population of 21.504.442 inhabitants, in 2008 Romania registered a birth rate of 10,2 live births per thousand inhabitants, compared with a mortality rate of 11,8 deaths per thousand inhabitants. During the 1990 - 2008 periods Romania's population decreased by about 1.702.278 people, representing a loss of 7,33% of the human fund, without taking into account the temporary external migration, without change of residence, or migration for work.



- In the 2004 - 2006 periods, life expectancy in Romania was 72,2 years, with significant differences between the male and female population (68,7

years for men and 75,5 years for women) in comparison with the EU - 27 average, which is around 75 years for men and over 80 years for women.

Figure 1



### Aspects regarding the Labour market

In the paper Active Measures on the Labour Market - Employment Policies. Social Security for the Unemployed, Didactic and Pedagogic Publishing House, RA, 2010, authors: professors Eugen Blaga, PhD, and Cristinel Bleadă, PhD, make a very pertinent analysis of labour market structure. After such an analysis a diagnosis is performed regarding state of this social variable. Stagnation, lag, lack of coherence, distortion, and fragmentation are negative marks, according to the authors, and they are due to several factors, among which we may count the following:

- Political involvement. The use of political criteria, rather than the actual

skills of senior civil servants, may create serious distortions in the administrative process;

- Ideological differences. Governing through a coalition may lead to dissension and factually negative effects because of dissensions on specific aspects of implementing various Public Policies;
- Legislative incongruence. Governing requires the formalization of relations, which leads to the development of regulations covering the conduct of business requirements in order to limit arbitrariness. The perverse effect of these rules is a weak convergence capability, a series of legislative acts including provisions contrary to others

already in existence, and this produces confusion and degrades the executive power;

- Limited responsiveness. Due to the structure of political power and the existing division between the legislative, executive and the judicial, the decision is adopted at a rate easily exceeded by the speed with which social space events occur. If this happens under stable circumstances, social conflict outbreaks determine a decrease of the reaction rate of administrative structures, because of the lack of a unified, integrated vision regarding how to solve arising problems;
- Inadequate prioritization. Societal space raises many challenges for any government and this leads to an assumption of a priority list that will be undertaken depending on the limited resources available. The aspect mentioned above becomes relevant from a general point of view (the government adopts a series of wrong priorities in regards to the development objectives and the expectations of the citizens) and from a specific point of view regarding the government structure: ministries may have different work agendas making decisions which need to develop a common view difficult to adopt.

Some diagnosis elements for the labour market situation in Romania, as shown in investigations conducted under Project ACCESS SOPHRD - Continuous training, qualification - requalification, but also based on data from the National Institute of Statistics can be traced in the following:

- In 2007, the labour resources in Romania (population aged 15 - 64

years) were 15.05 million people, having increased by 100,000 from 2002, however a continuous decrease is projected until the labour resources reach 15.01 in 2010, 14.97 in 2013, and 14.87 in 2020.

- The employment rate for the work force was in 2008, 59%, without significant changes to figures of 2002, falling well below the 70% target set by the Lisbon Strategy as an average for 2010 at the EU level . The ratio of persons with higher education in the total employment has increased (from 11% in 2002 to over 14% in 2007) and of those with secondary education (from 62.9% in 2002 to about 65% in 2007), which was reflected in the sustained growth of labour productivity.
- Youth unemployment continues at around 19%. Overall, it is to be noted that Romania has potential untapped labour resources of about 30% of the total population, which creates the potential for short-term partial solution of some of the problems due to labour shortages. There is also a clear trend towards a more efficient use of human capital on the labour market.
- The emergence of the economic crisis prompted a lot of analysis economic-demographic predictions to not correspond anymore.

The existence of potential untapped labour resources is in a percentage of about 30%.

### Aspects regarding Education and training

The analysis of the education and training situation was initiated in 2007 taking into consideration Romania's comparatively to the Lisbon Strategy indicators:

Table 4 - Lisbon strategy indicators

Lisbon strategy indicators <sup>2</sup>	Romania	EU Average
Early leavers of the education system *	19,2%	14,8%
Proportion of population aged 22 to have graduated from the upper secondary education level	77,4%	78,1%
Ration of students aged 15 who fail to meet even the lowest level of performance (PISA 2006)	53,5%	24,1%
Annual growth rate of the number of graduates in the fields of mathematics, sciences and technology (2000-2006)	5,5%	4,4%
Participation of adults in lifelong learning	1,3%	9,7%

Observation: \* The indicator refers to the population ages 18-24 which has only graduated from the lower secondary education (or less) and which does not attend any other form of education or professional training.

**Aspects arising from the investigations conducted within the framework of the ACCESS project** – Continuous vocational training, qualification-requalification:

- Average school life expectancy was in Romania (in 2006) of 15.6 years versus 17.2 years in the EU -27 and the proportion of the population between 15 and 64 contained in the educational system at all levels was 47.5% of the total population. Gross enrolment rate in primary and secondary education registered an upward trend, by 4% of the total population in 2005/2006 compared to the 2002/2003 school year, however maintaining a significant gap (14% of the total population) between urban and rural areas.
- The significant discrepancy between urban and rural areas. If in urban areas nearly 80% of students finalize their compulsory education by pro-

- moting the 10 grades of final exams, in rural areas the proportion is below 50% of the total population. In 2006, only 2.9% of the total active rural population had higher education compared by 21.0% in urban areas.
- The enrolment rate in education (ISCED1-5) of the population between 15 and 24 years increased from 37.3% in 1999/ 2000 to 46.1% in 2003/ 2004, but the rate of early school leaving remains alarming, namely 19.2% in 2007, well above the EU -27 average of 14.8% and of the target goal of less than 10% for applying the Lisbon Strategy objectives.
- The proportion of upper secondary education graduates in the age group 20-24 years was 77.4% in 2007 compared to the EU benchmark of 85% for 2010. Participation for early childhood education in 2006 was 75.8% compared to the 90% benchmark EU target for 2010.
- The participation rate of secondary education graduates to higher education increased from 27.7% in 2000/ 2001 to

<sup>2</sup>see "Working paper of the European Commission, Progress towards the goals of the Lisbon Strategy regarding the fields of Education and Training. Indicators and Targets, 2008" - SEC(2008) 2293

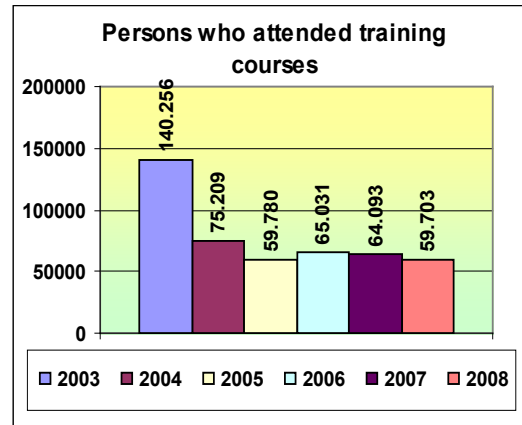
44.8% in 2005/ 2006, but the fact that only 11.7% of adults in the age group between 25 and of 64 are graduates (compared to 27.7% in the U.S., 16.4% in the UK and 15.4% in France) places Romania at a disadvantage regarding the requirements necessary to adjust to a knowledge based society.

- 2007 - 2008, 818.200 students were enrolled, of which 522.600 in public schools and 295.600 in private schools, with an increase of 11% in comparison with the previous year, mainly on account of the entries in the open and distance education system in the private sector (representing 15% of the total students).
- Curricular guidelines were still pointing to the university faculties (31.4% in the public sector and 26.3% in the private sector), economic (23.9% public and 44.3% private), legal (24, 6% in the private sector) and technical 28.1% (public sector).
- The participation rate of adults between 25 and 64 years in educational programs has been since 2007 at the extremely low level of 1.3% compared to the EU-27 average of 9.7% in the public sector and in comparison to the target of 12.5% in the public sector for 2010. Also, this level continues to be still far below the national target of 7% set for 2010 in the short and medium term strategy for professional development, 2005 - 2010.

The 2008 Statistical Yearbook provided by the National Institute of Statistics shows the situation of people participating in vocational training courses. It can be seen from the graph that their number has dropped

significantly from 140.256 in 2003 to 53.703 in 2008. Of the total the unemployed represent a substantial whose numbers has recorded an increasing rate of participation in these courses amounting from 29.992 in 2003 to 55.931 in 2006 then falling to 50.622 in 2008.

Figure 2



### III. Lifelong education and professional training

In 2007, the Ministry of Labour, Social Solidarity and Family initiated through the Department of Work Force Programs and Strategies, the study "Evolution of Occupations in the labour market in Romania for 2010", which was conducted by the National Research Institute for Labour and Social Protection with the support of the Centre of Urban and Regional Sociology - CURS SA.

Centralized data show that the development of Continuous vocational training to fit the labour market needs and a knowledge-based economy requires relevant information on the evolution of trades and professions, the labour market trends, the companies' needs regarding skills and qualifications, the

degree of correlation between the workforce demand and supply and the identification of gaps, the supply of programs by vocational training providers and its appropriateness for the needs of the applicants.

European Employment Strategy sets as a target the following: In the European Union the average participation rate in lifelong learning should be at least 12.5% in the public sector for working age adults (age group 24-64 years). In this sense, the short and medium term strategy for lifelong vocational training 2005 - 2010, approved by GD. 875/ 2005, aims to develop a structured, transparent and flexible Continuous vocational training system, with the support of adequate funding and stronger involvement of social partners to ensure increased employability, adaptability and mobility of labour and to meet the companies' needs regarding the skilled labour force, taking into account future economic restructuring and alignment to the European market.

The progress recorded places Romania in 2008<sup>3</sup> at a significant distance from the Lisbon objectives for 2010, namely: the overall employment rate for working age population (15 - 64 years) is of 59.7% still 10.3 percentage points away from the 70% objective; the employment rate for women is at 53.1%, 6.9 percentage points away from the 60% target; the employment rate for the 55-64 years age group amounting to 43.6% still has 6.4 percentage points to go until it reaches the 50% target for the public sector. Distribution of employment divided by national economy activities has increased in 2007 showing that 29,5% of the total employed individuals were

concentrated in the agriculture, 31.4% in the industry and constructions and 39,1% in services in services amounting to a balanced structure different structure from the EU - 25 as well as to a great extent from the structure of the new Member States (NMS-10).<sup>4</sup> 6591 thousand were employed in agricultural activities which amounts to an impressive share being held by those operating in manufacturing (29,9%) and trade (17,5%). Compared with 2006, the number of those operating in construction (+21,7%), trade (+9,7%), financial intermediation, banking and insurance (+5,6%) and in activities of real estate, renting and business services (+0,2%) has increased. The number of people employed in activities in the field of electricity, gas and water (-10,9%), mining and quarrying (-8,8%) and public administration (-7,7%) has decreased significantly.

The highest employment rate for people of working age was in the higher education graduates (85,8%). As the level of education decreases, so does employment. Thus, 63,9% of people with medium level of education were employed and only 40,3% of those with low education.

Employees still have the largest share (66,2%) of the total employed population, their number being 30,000 higher than last year. In 2007 the self-employed and unpaid family workers accounted for 32,3% of the employed population. International Labour Office unemployment rate in the second quarter 2008<sup>5</sup> was 5,6%, a level that has

<sup>3</sup>The National Institute of Statistics, Employment and Unemployment in the Second Trimester 2008, No. 198 from 3.10.2008, Statistical research on the workforce in households (AMIGO).

<sup>4</sup>The National Institute of Statistics, Employment and Unemployment in 2007, No. 149 from 30.07.2008, Statistical research on the workforce in households (AMIGO).

<sup>5</sup> In conformity with the International Labour Office criteria.

declined as compared to the first quarter 2008 (6,3%) and compared with the second quarter 2007 (6,5%). The gender gap in unemployment rates between the two was 1.9 percentage points (6,5% for men versus 4,6% for women), and residually, 2.7 percentage points (6,9 % for urban areas, compared to 4,2% for rural areas). The unemployment rate was the highest (17,4%) among young people (15-24 years).

International Labour Office long-term unemployment rate (unemployed for a year and over) was 3,2% in 2007. International Labour Office long-term unemployment incidence (ratio of persons who have been unemployed for a year or exceeding a year compared to the total number of unemployed) was 50,0%. Long-term unemployment was observed to approximately the same extent by sex (49,9% for men and 50,1% for women), but also residually (49,4% and 50,3% in rural areas in comparison to urban areas). Youth (15 - 24 years) long-term unemployment rate (unemployed for six months and more) was 13.3% and the incidence of long-term unemployment among the youth amounted to 66,1%.

There are several strategies relating, directly or indirectly to human resource development through education and training. As long as they are applied in a legislative framework which undergoes, at least once a year, cosmetic changes imposed by different circumstances and not a restructuring that would harmonize the laws by integration into a comprehensive vision, the results of the external analyses targeting different performance factors or participation rates in education and vocational training will be the same.

A critical analysis of the provisions governing education and vocational training, and primarily of the proposed texts for the

new National Education Law, highlights the fact that the content of education and vocational training are approached as an end in them, and not as a moral, professional and civic development tool for the individual. Practitioners pointed out that attention is focused on the system and the institutional structure endorsing it, rather than focus on the individual and society as a beneficiary of human, moral and professional qualities of the individual.

"By comparison, it should be noted that all Romanian legal provisions relating to initial or lifelong education and vocational training are concerned explicitly and unilaterally with regulating the system and with its institutional construction rather than the moral, intellectual and professional development of the person, the citizen". We emphasize this because it can be defined as a symptom that alters the perception of those who must implement the law, moving the focus from personal development, to institution and system regulation. Confusion regarding the definition of the main objectives of the normative acts, confusion over term itself, inconsistency during a legislative act, but also from one act to the next, are all related to a mentality which does not encourage the voluntary participation in adult training and with real financial difficulties both for the individual and the employing institution, and all these factors become barriers in participation in learning and lead to the impression that Romanians have a very low interest in training and education. (Integrated Strategy for Human Resources Development)

### **Social Inclusion**

Another aspect of the field is the nation's social inclusion situation. Analyses



performed on the labour market reveal the existence of significant gender disparities. Thus, the employment rate of women in age group 15 - 64 years is 11,5%, lower than that for men, the same gap is maintained for the main age groups: 7.7% (pp) for 15 - 24 years, 12,6% (pp) for 25 - 54 years and 11,7% (pp) for the 55 - 64 age group. Women's wages in Romania (taking into account the female population employed in all branches of the national economy) accounted for between 82% and 86% of those earned by men for the period. An analysis of the distribution of employees based on gross salary groups for 2003 by economic sector shows that 72,9% of employed women had a salary lower than the gross average wage, this situation is determined by two factors: women are occupied especially in industries with low added value and the number of women is higher in lower paying jobs.

### **Actions to be undertaken**

In the paper *Active Steps on the Labour market- Employment Policies. Social Security for the Unemployed*, Didactic and Pedagogical Publishing House, R.A., 2010, (page 193), the authors, professors Eugen Blaga, PhD, and Cristinel Bleanda, PhD, propose a series of steps to strengthen the institutional and partnership structures in EFPC. The actions the two experts propose to be undertaken could be the following:

- a definition of institutional roles and responsibilities for all functions and structures of lifelong vocational training at all levels of the decision making process, taking into account among other things the avoidance of conflicts of interest;
- a gradual establishment of sectorial committees, for all sectors of activity;
- an improvement of representation and specialization in the field of Lifelong vocational training of the persons designated by the social partners in the social dialogue structures in the field, in conjunction with their roles and responsibilities;
- improvement of institutional communication and of the partnership between the institutions with roles and responsibilities in the field of Continuous Vocational Training;
- strengthening of the planning and implementation of European Structural Funds as an important tool in the development of the labour market and of employment;
- strengthening of the structure of the National Council for Adult Vocational Training to act as a National Qualifications Authority (NCA). The structure must be defined at a central and regional level, determining the responsibilities regarding the authorization and monitoring procedures of the providers of training, qualifications development and quality assurance of training;
- strengthening of the administrative capacity of the National Agency for Workforce Employment (ANOFM) regarding Continuous Vocational Training;
- assisting existing and potential training providers for developing a CVT offer relevant for the training needs identified;
- training of people working in the human resources departments in order to develop skills for identifying

demand and supply of CVT in the companies, for substantiating, drafting and implementing of training plans, assessing the impact of CVT, improving learning environment within the organization.

In this segment our proposal is directed towards a very modern and flexible solution: consortialization as a technique to streamline the relationship between continuous vocational training and education with the labor market.

#### IV. The concept of ... Consortialization

In the Bucharest - Ilfov Development Region we are currently implementing the project "Strengthening of the institutional capacity of the Regional Consortium of the Bucharest - Ilfov Development Region (CRBI), funded by the European Social Fund Priority Axis 3: Increasing adaptability of workers and enterprises, Key Area of intervention 3.3: Development of partnerships and encouraging initiatives of social partners and civil society.

Through its general objective the project aims to correlate the training offer in the Technical and Vocational Education (VET) and Higher Education (HE) with Labour market demand (LMD) in order to increase employment and ensure economic and social cohesion.

Project activities aim to develop the skills for collective action in order to increase group cohesion and efficiency, strategic planning capacity, strengthening of inter-and intra-institutional communication skills as well as consolidation of social partnership between relevant stakeholders at the regional level.

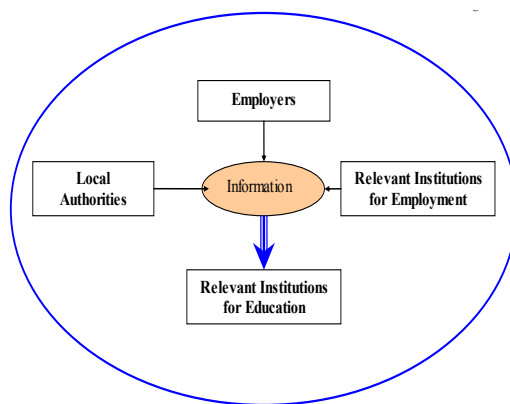
The project activities have conducted to closer connections between the project's

target group members and of the discussions held showed the need to implement a new concept, namely: consortialization as a technique to streamline the relationship between continuous vocational training and education with the labour market.

In order to correlate initial and continuous education and vocational training with the labour market demands we can use existing structures at the regional level which take as their main target the abovementioned aspect. The proposed concept meets a requirement of the population of the Bucharest - Ilfov Development Region to be informed as quickly and efficiently as possible on:

- qualifications/specializations needed in the region;
- vacancies regarding jobs and the necessary skills for occupying them;
- adult training programs conducted in the region;
- institutions providing these programs;
- locations where the programs are conducted.

Figure 3



## V. Structures responsible of implementing the concept

In the Bucharest - Ilfov Region a partnership management structure called the Bucharest - Ilfov Regional Consortium (CRBI) is operating on a voluntary basis as an interface between the Regional Development Council (RDC) and the institutions of Bucharest / Ilfov County and this consortium is responsible for human resources development.

The Bucharest - Ilfov Regional Consortium (CRBI) comprises representatives of the following institutions:

- Regional Development Agency Bucharest - Ilfov Regional Consortium (ADRBI)
- Employment Agencies for the City of Bucharest and Ilfov County (AMOFM and AJOFM Ilfov)
- School Inspectorate: Municipality of Bucharest and Ilfov County
- Universities
- Local Committees for the Development of Social Partnership (CLDPS)
- Consultative Councils of AMOFM/AJOFM
- Municipalities
- Bucharest Prefecture
- Ilfov County Council
- National Centre for the Development of Professional and Technical Education (CNDIPT)
- Chamber of Commerce and Industry of Bucharest
- Alliance of Romanian Employers' Confederations

The Bucharest - Ilfov Regional Consortium (CRBI), as a consultative

structure at a regional level, takes as its objectives:

- 1) Identification of priority areas for vocational training by correlating the training offer in the Vocational and Technical Education (VTE) and Higher Education (HE) with the demand of the Labour Market (DLM), in order to increase the employment and to ensure social and economic cohesion in the Bucharest - Ilfov Region. CRBI must identify the priority areas of vocational training through vocational and technical education and the higher education under the provisions of the relevant documents to determine the potential for regional growth and regional development forecasts, for the medium and long term. The priority areas associated with professional qualifications can be made available to all key actors in the region, considering the importance given to the relevance of training for the regional development.
- 2) Identifying the Integrated Measures for Education and Vocational Training in the context of regional development that will serve to organize and implement of the policies for education and the annual drafting of the Action Plan. CRBI must identify how to provide specific vocational training programs to ensure the necessary human resource to fill vacancies in the region. At the same time, it is necessary to involve all the institutions in the Consortium in order to ensure the optimal conditions for the implementation of these

programs (the location of establishments where you can conduct the programs, providing the materials, if required, etc.).

## VI. Current activities of the Bucharest-Ilfov regional consortium structure

In order to achieve the objectives and fulfil their responsibilities, CRBI is involved in data collection and interpretation, and as a result of these activities CRBI members make recommendations to develop education according to the development directions of the region mentioned in the PRAI document by the relevant actors at a regional level.

Upon completion of the action plan designed to achieve these objectives, CRBI members participate in monitoring the implementation of actions proposed through PRAI.

Systematically, the main activities of CRBI are the following:

- Developing recommendations regarding the direction of education based on the regional development directions;
- Updating, implementing and monitoring the implementation of the Regional Action Plan for Education (PRAI) in the Bucharest – Ilfov Region;
- Monitoring the implementation of the Local Action Plans for Education (PLAI) in the city of Bucharest and Ilfov county;
- Assisting School Inspectorates and CLDPS in the development and implementation of PLAIs.

## VII. Necessary tools for the implementation of the concept

In order implement the consortialization concept as a technique to streamline the relations between continuous education and vocational training with the labour market we may use a tool that is already well-established in the field, namely the Regional Education Action Plan (PRAI). Regional decision factors are very important in implementing this concept because by implementing an integrated system for knowing the development potential of the region we may achieve the expected result. The concept is fairly simple:

- By dialoguing with representatives of the Municipality of Bucharest, of Bucharest Prefecture and of Ilfov county, district mayors, the Regional Development Agency, Ilfov County Council we may specify any projects to be undertaken in the region;
- by dialoguing with representatives of the Bucharest Chamber of Commerce and of the employers we may be able to identify the requirements of the employers (in terms of vacancies, of skills expected from prospective employees, training programs required for their own employees );
- by dialoguing with representatives of employment agencies we may be able to prevent issues affecting employment rates in the region and various negative issues that may arise in the field of employment and social inclusion;
- by dialoguing with representatives of the Inspectorates we may be able to plan where to conduct vocational training programs and what skills are

needed to optimize the rate of insertion in the labour market after completion of the courses;

- by dialoguing with representatives of the National Centre for Vocational Education and Training we may be able to make detailed proposals in order to improve the correlation of vocational education with Labour market requirements.

### VIII. Instead of conclusions – why is the implementation of this concept necessary?

Using this concept within CRBI we may be able to identify areas of intervention in order to develop new projects aimed

at increasing investment in the human capital, social inclusion of vulnerable groups, increasing the adaptability of the workforce to the changes in the labour market, social economic development, modernizing the public employment service and sustainable development.

### Acknowledgment

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We have no conflict of interest.

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