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Information, Action and Attitude

The distance from KNOWING to DOING is apparently small. The efforts that every man and society make in order that each of us could bridge the gap are very important. The educational system can offer solutions to cross this gap for the majority of society. However, frequently, the society is not able to offer all of its members the chance to be educated or to self-educate. When entire social groups are discriminated against in terms of education, we risk creating and spreading serious social and economic problems. All too often, we consider and analyze the effects and not causes of failures. We see that on the labor market we have so many unemployed, but when it comes to staff selections there are not enough competent people. The conclusion is clear: the system is not doing its proper job towards the people. If we look from afar we see that there is a gap from DOING to BEING if the problems of KNOWING and DOING were not solved in time.

When we refer to the DOING component we are already talking about the attitudinal component. Real economy works if we work with SKILLS and ATTITUDES. They belong to people that the system educates or, in many cases, leaves them to chance.

This is why policy makers need to responsibly encourage people to pass successively through planes: TO KNOW, TO DO, TO BE.

Future economy will be represented by people who have been coherent and consistent through the three plans.

Otherwise...

Prof. Ph.D. Paul Marinescu

The public spending crisis: a case study of Nigeria public sector

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Abstract: *The objective of this paper is to discuss the differences in the concept and measurement of efficiency between the private and public sectors, stressing that the lessons from the private sector can only be transferred to the public sector if there is a proper awareness of these issues and constraints imposed by considerations of equity. In evaluating policy initiatives, the governments method for all the talk of “rolling back the public sector” and opposition companies of “cuts,” the public expenditure/EDP ration went up steadily during Obasanjo’s first term. However deep the divisions over what ought to be in the public sector, it is of paramount importance to all concerned that the resources are managed effectively. The paper argued that an attempt to instill into the public sector the cost consciousness of the best parts of the private sector is wholly admirable. In conclusion, the severity of the impending budgetary crises will make the search for greater efficiency in the public sector of paramount importance. The paper recommends that the common theme of all these cases in that an appropriate set of relative prices can encourage resources to be minimized. very great care has to be taken when introducing piecemeal charging in order to ensure that this does not have side-effects at odds with programme objectives.*

Keywords: Public spending, public sector, Nigeria, budgetary crises

The public spending crisis

Introduction

The Nigerian public sector is in a state of unprecedented crisis, the immediate cause

being the re-election with a huge majority of the PDP government. The speed with which Prof. Soludo, the then Governor of CBN and Minister of Finance launched their December 2008 salary cuts and the budget

package destroyed any illusions about what the year 2009 holds in store. This year's Public Expenditure Survey, now in progress with the House of Assembly, decisions being taken, will shape not only the government's strategy for its term of office but will also exert a profound influence for the rest of the century.

But there are much deeper, intractable forces at work, notwithstanding the obvious significance of the government's ideological outlook on the public sector. Putting it crudely, the Treasury of the Ministry of finance is being wrecked by a combination of recession and demography. There are more and more people out of employment requiring support from the social security systems, which we do not have in Nigeria. There are more and more old people not just claiming pensions and other benefits but also making disproportionate demands on the federal as well as the local government. So, unless something breaks, public spending is posed to go up and up, despite having in office a government which believes that much public spending is inherently bad.

Faced with this budgetary crisis, the government's approach is to stress the need for improved efficiency in the public sector but simultaneously to canvas a plethora of privatization measures. Without a damaging admission that its monetarist policies bear much responsibilities for the exceptional severity of the Nigerian recession, it is hemmed in on the macro-economic front and is likely to concentrate on reducing benefits rather than numbers unemployed.

But, although its emphasis on improved efficiency is to be welcomed, there are two serious obstacles confronting its achievement.

First, the government's message of 'public bad, private good' inevitably produces

the counter slogan from political opponents, trade unions and interest groups. It thus becomes ever more difficult to command assent for 'better spending', so that increased efficiency and fewer services are not both denounces as 'cuts'.

Second, the government's understanding of the meaning of efficiency in the public sector is seriously defective, witnessed by the way in which it constantly equates 'less spending' and 'fewer public employees' with 'greater efficiency'. It is the purpose of this paper to clarify important public/private sector differences so that a variety of policy initiatives can then be evaluated.

The nature of public/private differences

The exercise of public accountability requires a quantitative element if it is to be effective. Otherwise, it is impossible to answer questions about whether the resources at the disposal of the public sector have been used efficiently and equitably. Systems for recording how public money is spent are well developed. The UK's system of public accounting provides extensive safeguards, not only against fraud but also against money being spent by governments on different purposes from those voted by Parliament.

But it is difficult to draw conclusions about efficiency or equity until there is a specification of objectives and some method of measuring output. For example, the financial link between consumer and producer is breached by the Nigerian Pricing Board by the almost complete absence of prices. Other mechanisms are therefore required to ensure the efficient allocation of resources, both in the sense of not using more than the minimum required inputs and of injecting practical meaning into rhetoric about responding

to needs. If prices are suppressed, there must be devised non-market mechanisms which will allocate resources in the face of competing demands.

Continuing with the example of the Nigerian Pricing Board (NPB), important public/private differences can be established. Complete reliance on private medicine would ensure that those who valued medical care most would receive it. These valuations would be shaped by ability to pay and the resulting distribution of care would bear little relationship to any measure of need. The problem with need as a concept is that, although it has a powerful appeal in such contexts, it is profoundly difficult to produce operational measures.

At an intuitive level, it is impossible to say that the need of a mother for ante-natal care constitutes a higher need than someone's need for cosmetic surgery. Although such stark comparisons are relevant to decisions as to whether medicine should be public or private, the operational choices within the National Health Care, once established, are much more difficult. For example, the claims of potential heart-transplant patients have to be set against those of accident victims, of geriatric and psychiatric patients and of preventive medicine.

The public sector's objectives are therefore far more complex and multi-dimensional than those of the private sector, where profitability is the key objective. Private firms take market prices as given since they determine their revenues and costs. In contrast, governments are also concerned that existing market prices may be a misleading guide to resource allocation decision: for example, because of externalities or of the existence of unemployed factors. The pollution arising from the activities of private firms does

not appear as a cost when they calculate their private profitability. The public sector, however, is concerned about the social profitability of its activities, rather than just the private profitability.

The choice of techniques of measurement is crucial to the evaluation of public sector activities and therefore to the exercise of accountability. To take an extreme example, the cash costs of regional policy are substantial. However, several studies by economists have concluded that regional policy may be a resource-creating, not a resource-consuming policy. If this conclusion is correct, the federal government would be seriously misled if it focused exclusively on the cash costs which appear in the accounts. When the economy is near full employment, regional policy brings into utilization resources which would otherwise be unused by restraining activity in congested areas and redirecting it to those with resources.

This example provides a warning that none of the cash costs may be proper measures of the resources being used. In principle, it is possible to calculate a set of shadow prices which reflect social opportunity costs much more accurately than market prices. There have been attempts to develop systems of shadow prices for implementation but the conceptual and practical difficulties are immense and some of the short cuts adopted in practice are alarming.

Nevertheless, it is clear that some of the activities undertaken by the private sectors which are profitable at market prices may be unprofitable at shadow prices: heavily polluting industries are a possible example. In contrast, some public sector activities which are unprofitable at market prices might be profitable at shadow prices: urban public transport (Danfo) might be an example.

Private profitability can therefore no longer be relied upon as a valid test. Although this conclusion has profound implications for public policy towards the private sector and for the internal control framework for public enterprises, they will not be pursued here. Restricting the focus to public expenditure, the analysis casts doubt on some of the valuation placed upon the inputs.

A major reservation relates to the valuation of labour in circumstances of widespread unemployment. Employing people who would otherwise be unemployed can be resource-creating, though imposing financial costs upon the Ministry of Finance. Even at the level of financial costs, the cash costs of particular programmes can be seriously misleading if there are offsetting savings on other programmes such as unemployment pay.

The measurement of output generates even greater difficulties. In the government's accounts, no attempt is made to evaluate output. In principle, where there are multiple objectives, a weight or shadow price must be placed on each so that multi-dimensional output can be evaluated. However, specifying the objective function to be maximized is a formidable if not utopian task. Nevertheless, such a recognition of practical difficulties does nothing to alter the fundamental point that the measurement issues facing the public sector are far more complex than for the private sector.

It is necessary to provide safeguards so that the public sector cannot explain away all adverse results at market prices with reference to what the position would be if all calculations done at shadow prices. There is a danger that such shadow prices would be calculated with the explicit intention of justifying existing practices! If shadow prices are to influence decisions, they should be

calculated and published ahead of those decisions. Reporting systems need to be designed with care. Decisions are sometimes taken using shadow prices but results are later reported at market prices, thus provoking (possibly unjustified) criticism of the original decision.

Despite the enthusiasm with which Nigerian economists have encouraged developing countries to use project appraisal methods incorporating shadow prices, practice in the Nigeria is relatively under-developed. After some initial enthusiasm for output measurement and shadow pricing, it rapidly waned. As criticism of public expenditure as inherently wasteful has mounted, shadow pricing, which might portray 'inefficiency' at market prices in another light, has become distinctly unfashionable.

The traditional emphasis on inputs rather than outputs must play some part in perpetuating the belief that public expenditure is 'unproductive', a burden upon the market sector. This view reserves the terms 'productive' or 'wealth-creating' for those activities which are profitably marketed, with prices thereby being attached to consumption. It embodies a very narrow view of the nature of wealth, limited to the building up of financial wealth, itself implicitly backed by physical assets. It incorporates many implicit assumptions about the valuation of both inputs and outputs: for example, that the market prices of inputs properly measure opportunity costs and there are no externality or public good characteristics causing output valuation problems.

If a proper framework of analysis is adopted, public services such as the Health Center clearly produce outputs, however difficult to measure and value. There is something obviously false in the proposition that health care is a productive 'wealth-creating'

industry only if private and marketed. Quite apart from any of its other purposes, the Health care center provides medical care for which, under other institutional arrangements, individuals would be willing to pay. Removal from the market eliminates a ready measure of output, though not necessarily the most appropriate one.

Such crucial differences between the public and private sectors make it imperative that the search for improved efficiency is conducted with due regard being paid to them. A government with sufficient political resolve could cut public spending. Whether that improves the efficiency of the public sector, let alone of the economy as a whole is a very different and more complicated matter.

Evaluating policy initiatives

For all the government's talk of 'rolling back the public sector' and opposition complaints of 'cuts', the public expenditure/GDP ratio went up steadily during General Obasanjo's first and second terms. However deep the divisions over what ought to be in the public sector, it is of paramount importance to all concerned that the resources which it consumes are managed effectively. Commitment to the values underlying the welfare state should not preclude a willingness to recognize deficiencies in the public sector.

It is essential that the current presumption of 'public bad, private good' is not rebounded into 'public good, private bad'. Commitment alone is inadequate: the welfare state needs critical friends, not apologists. This is, understandably, a difficult public position to maintain when the government constantly engages in blanket condemnations of the public sector.

Nevertheless, if a coherent counter-strategy to that of retrenchment and wholesale privatization is to be effective, a commitment to efficient public sector management must be one of its bulwarks.

The earlier analysis of public/private differences casts light on a number of contemporary developments. It is vital that managerial initiatives are evaluated on their merits and not dismissed by those sympathetic to public expenditure simply because they have been originated by a government hostile to many public sector activities.

It is becoming increasingly obvious that there are parallel weaknesses in other parts of the public sector, such as the NHS and local government, where costing information is often perfunctory and unreliable.

Attempts to instill into the public sector the cost-consciousness of the best parts of the private sector are wholly admirable. But cutting expenditure is not synonymous with increasing efficiency. If ministers did not appear to value what the President scrutinizes primarily for their ability to generate loudly acclaimed savings (albeit very small in relation to public expenditure) and for contributions to independently chosen targets for reductions in the size of the civil service, it would be possible to give two cheers rather than one.

What is disturbing about the government exercises is that they are not always sensitive to the point at which genuine public/private differences do emerge. Cases which exhibit externality or public good characteristics are approached as if they did not (for example, the government's statistical services and industrial training). The issue of benefit measurement is glossed over, with profitability and efficiency being confused.

Similarly, the requirements of equity are handled loosely and rather unsympathetically without a recognition that governments must often provide facilities in unpromising circumstances, where profitability would indicate otherwise.

There is a clear role for government-type cost-cutting exercises, provided that the subtleties of costs and benefits in the public sector are understood. More permanent and more ambitious evaluation machinery is nevertheless required. But the lesson of government is that nothing will happen without sustained political commitment.

The government's rhetoric, as opposed to the practical steps it has as yet taken, suggests a major extension of the scope of charges for public services, together with a sharp upwards revision of the level of existing charges. The implementation of such an approval would raise a number of important philosophical and economic questions about the purpose, role and structure of the welfare state. These are sidestepped here, with attention focusing on a number of practical consequences.

Proposals for an extended range of charges in the NHS provide excellent illustrations of the issues involved. For example, the Nigeria Medical Association (NMA) proposed to the Federation on the National Health Service that there should be hotel charges for overnight accommodation in hospitals and charges for each visit to a general practitioner. What will worry economists interested in the efficiency of the NHS is that unpriced inputs will now be substituted for these newly priced inputs. This substitution would not be based on true opportunity costs but on the implicit relative prices established by such charging practices.

For example, the introduction of hotel charges would encourage individual doctors and patients to make a greater use of out-patient clinics, ambulance services and local authority residential accommodation.

This would occur even in those cases where the minimization of all relevant costs would be achieved by the use of in-patient facilities. On occasions, reluctance to use such priced facilities would be clinically damaging, perhaps by inducing delays before proper treatment was sought.

Similarly, consultation fees at general practitioners' surgeries would encourage direct approaches to hospitals if these had no comparable charges, requests for much larger prescriptions and delays in seeking attention which might eventually create the need for much more expensive treatment.

The common theme of all these cases is that an inappropriate set of relative prices can encourage resources to be wasted, in the sense that costs are not minimized. If an activity is to remain in the public non-market sector, very great care has to be taken when introducing piecemeal charging in order to ensure that this does not have side-effects at odds with programme objectives.

Conclusion

The severity of the impending budgetary crisis will make the search for greater efficiency in the public sector of paramount importance. In the last resort, it is the supporters – not the detractors – of the welfare state who stand to gain the most from securing such improvements. They cannot afford to concede the cause of efficiency, not least because their opponents often bring to such issues an exceptionally narrow and unsustainable notion of efficiency.

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Nigerian stock exchange and economic development

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Abstract: The need to critically analyze the efficiency of capital market on the Nigerian economy for the period between 1979 and 2008 as a reference point for developing economies is the bedrock of this work. The results indicate that the stock market indeed contributes to economic growth as all variables conformed to expectation. The Nigerian Stock Exchange has not been having the best of times as an aftermath of the global financial crisis after an unprecedented surge in returns on investment which has resulted in a continuous downturn in market capitalization. Multiple regression method of econometric analysis was used for the work. The major findings revealed a negative relationship between the market capitalization and the Gross Domestic Product as well as a negative relationship between the turnover ratio and the Gross Domestic Product while a positive relationship was observed between the all-share index and the Gross Domestic Product. These findings led to some policy formulations aimed at an improved and developed market for potential gain to the benefit of rational investors even across national borders.

Keywords: stock exchange, market capitalization, all-share index, multiple regressions, policy formulation.

1.0 Introduction

The Nigerian Stock Exchange was established in 1960 as the Lagos Stock Exchange.

In 1977 it became The Nigerian Stock Exchange, with branches established in some of the major commercial cities of the country with Lagos as the head office of the Nigerian

Exchange and an office in Abuja. The Exchange started operations in 1961 with 19 securities listed for trading. Today there are 262 securities listed on The Exchange, made up of 11 Government Stocks, 49 Industrial Loan (Debenture/Preference) Stocks and 194 Equity / Ordinary Shares of Companies, all with a total market capitalization of approximately N287.0 billion, as at August 31, 1999. Presently, there are 139 listed equities while the all-share index and market capitalisation stood at 24,807 basis points and 1.973 trillion respectively as at December 3, 2010. (Nigerian Stock Exchange Equities Summary. Most of the listed companies have foreign/multinational affiliations and represent a cross-section the economy, ranging from agriculture through manufacturing to services.

The market has in place a tested network of Stockbrokerage Firms, Issuing Houses (Merchant Banks), practicing corporate law firms and over 50 quality firms of auditors and reporting accountants (most with international links). The Stock Exchange and most of the nation's stock broking firms and issuing houses are staffed with creative financial engineers that can compete anywhere in the World. Therefore, the market has in place a network of intermediating organizations that can effectively and creditably meet the challenges and growing needs of investors in Nigerian. Integrity is the watchword of The Stock Exchange. Market operators subscribe to the code "Our word is our bond". Thus, public trust in the Nigerian stock market has grown tremendously, with about three million individual investors and hundreds of institutional investors (including foreigners who own about 47% of the quoted companies) using the facilities of The Exchange. However, the aftermath of the global

financial meltdown has greatly affected the confidence level of investors. In the interim, the stakeholders are making frantic efforts to return the Exchange to an enviable position.

The call over trading system was in April replaced with the Automated Trading System (ATS), with bids and offers now matched by stockbrokers on the Trading Floors of The Stock Exchange through a network of computers. This is done every business day from 11.00 a.m. till all bids and offers have been executed (about 1.30 p.m. on the average). This time period has been extended by 2 hours recently as a strategic approach to enhanced efficiency in the market. Prices of new issues are determined by issuing houses/stockbrokers; while on the secondary market prices are made by stockbrokers only. The market/quote prices, along with the All-Share Index, are published daily in The Stock Exchange Daily Official List, The Nigerian Stock Exchange CAPNET (an intranet facility), The Nigerian Stock Exchange website ; Newspapers and on the stock market page of the Reuters Electronic Contributor System.

Pricing and other direct controls gave way to indirect controls by the regulatory bodies (Securities and Exchange Commission and The Stock Exchange) following the deregulation of the market in 1993. Deregulation has improved the competitiveness of the market, in addition to making it more investor-friendly. The All-Share Index: The Exchange maintains an All-Share Index formulated in January 1984 (January 3, 1984 = 100). Only common stocks (ordinary shares) are included in the computation of the index. The index is value-relative and is computed daily. Clearing, Delivery and Settlement: Clearing, Settlement and Delivery of transactions on The Exchange are done electronically by the

Central Securities Clearing System Limited (CSCS), a subsidiary of The Stock Exchange. The CSCS Limited ("the Clearing House") was incorporated in 1992 as part of the effort to make the Nigerian stock market more efficient and investor-friendly. Apart from clearing, settlement and delivery, the CSCS Limited offers custodian services. (See the write-up on the Central Securities Clearing System Limited for more about clearing, delivery and settlement on The Exchange.)

Stock Market Legislations: Transactions in the stock market are guided by the following legislations, among others:

- Investments & Securities Decree No. 45, 1999.
- Companies and Allied Matters Decree 1990.
- Nigerian Investment Promotion Commission Decree, 1995.
- Foreign Exchange (Miscellaneous Provisions) Decree, 1995.

Transactions on The Exchange are regulated by The Nigerian Stock Exchange, as a self-regulatory organisation (SRO), and the Securities & Exchange Commission (SEC), which administers the Investments & Securities Decree 1999. Following the deregulation of the capital market in 1993, the Federal Government in 1995 internationalized the capital market, with the abrogation of laws that constrained foreign participation in the Nigerian capital market. Consequent upon the abrogation of the Exchange Control Act 1962 and the Nigerian Enterprise Promotion Decree 1989, foreigners can now participate in the Nigerian capital market both as operators and investors. The Exchange had since June 2, 1987, linked up with the Reuters Electronic Contributor

System for online global dissemination of stock market information - trading statistics, All-Share Index, company investment ratios, and company news (financial statements and corporate actions).

In November, 1996, The Exchange launched its Internet System (CAPNET) as one of the infrastructural support for meeting the challenges of internationalisation and achieving an enhanced service delivery. The Internet System facilitates communication among local and international participants in the market, as subscribers to the system include stockbrokers, quoted companies, issuing houses, etc, who now use the facility to receive and send e-mail, globally and locally. But more importantly, they can, through this medium, access key market information - trading statistics (current and historical), corporate trading results, et cetera.

The Nigerian Capital Market of Nigerian Stock Exchange is a major player in the market for long-term funds. The instruments or securities traded in the capital market are known as capital market instruments. However, the capital market has both securities based segment (i.e. the stock exchange) and non-Securities based segment (market for long term loans). Capital market instruments can be categorized into 3 major groups of securities: preference shares, ordinary shares and debt instruments. Some of the other principal and active market operators in the Nigerian Stock Market include Stockbrokers, Investment Advisers, Issuing houses, Registrars, Fund Managers, Financial Advisers et cetera.

The Nigerian Stock exchange is the center point of the Nigerian Capital Market. It provides a mechanism to mobilize private and public savings as well as making such

funds available for productive purposes. The Nigerian Stock Exchange also assists in the allocation of the nation's capital resources amongst numerous competitive alternatives. The stock exchange can also be a mechanism, which can measure and detect the symptoms of an impending economic boom or decline long before the predicted prosperity or decline actually occurs provided the market is either in the semi-strong or strong form of efficiency level. It is good to distinguish the capital market from the Stock Exchange in the sense that the capital market is much wider and bigger than the Stock Exchange. The Stock Exchange is just a participating institution in the capital market albeit it is the most active of all the participants. The activity of the Stock Exchange in the capital market is reflected by the Stock Exchange, which measures the activities on the capital market.

The main objectives of the Nigerian Stock Exchange as enunciated in the Memorandum of Association of the company is to create an appropriate mechanism for capital formation and provide efficient allocation of resources among competing alternatives. It is also expected to provide special financing strategies for projects with long term gestation periods. In addition, it helps to maintain discipline in the capital market as far as the participants and the investors are concerned and as such, assists to broaden the share ownership in the market by providing the enabling environment and to provide and maintain fair prices for securities. The overriding objective of any financial system is the provision of a conducive atmosphere for the transfer of funds from the surplus sector of the economy to the deficit sector. The Capital Market, in the process of carrying out its function is faced with many challenges such as the effect

of economic trends, financial restructuring and reforms by government, industrialization, and technology etc. the Capital Market is thereby required to adapt to the constantly changing trends in the economy.

The market in Nigeria has been described as being shallow; this is due mainly to the market float that is very small and is measured by the ratio of securities in the market to the total listed securities outstanding. The challenge that lies ahead is to be able to increase and retain as many of our domestic individual and institutional investors as possible and simultaneously attract foreign ones to the Nigerian Capital Market. This can be achieved by being dynamic, innovative, and having an open mind so that new ideas can be absorbed and put productively in use. The market must be in a position to provide a spectrum of investment alternatives, new trading instruments with which investors can hedge their risk, as well as an environment which is honest, has sufficient structures and where policies are flexible enough to accommodate different investment needs.

The Capital market has also been characterized by a number of market failures, one of which is asymmetric information, a situation in which one party to a transaction has less information than the other party. The pervasiveness of this phenomenon greatly undermines the efficiency of financial markets as mechanisms for allocating resources. Because geography and cultural distance complicate the acquisition information, asymmetric information is particularly prevalent internationally. While the revolution in information asymmetric are lessened but not eliminated, therefore they are prone to the sharp investor reactions, unpredictable market movements and financial crisis

that can occur when information is incomplete and financial markets behave erratically (Eichengreen and Musa 1998). Thus, in the absence of complete information, investors tend to rush in and out of the markets on rumour. The purpose of the study is to critically examine and evaluate the impact of the Capital Market on the Nigerian economy efforts would be made to identify and appraise the strengths and weaknesses of the capital Market and attempts made to remedy such. This would be examined from the past, present and forecast into the future. The main objective of this work is to examine the impact of the capital market on the Nigerian economy. The specific objectives are to assess the role of capital market in economic development and to ascertain the success achieved through a viable working model for the Nigerian economy,

Some of the relevant questions in this work are as follows:

- What is the impact of the Capital Market and the Stock Exchange on the Nigerian Economy?
- What is the proposed working model for the Nigerian Economy?
- What is the relationship between the Capital Market and the Stock Exchange?
- Does the performance of the Stock market affect the Nigerian Economy?
- Why has the capital market been unable to mobilize domestic and foreign funds?
- Does the Capital Market and Stock Exchange influence the Nigerian Economy?
- What measures should be taken in order to improve the Nigerian Capital Market in particular and the Nigerian Economy in general?

This study intends to assess the impact of the Nigerian Stock Exchange on the

Nigerian economy. In the light of this, the following hypotheses will be of relevance.

H₀₁: The market capitalization of the Nigerian Stock Exchange does not contribute to the growth of the financial system and the development of the Nigerian Economy.

H₀₂: There is no significant relationship between Capital Market and economic development in Nigeria.

The significance of the study is to analyze critically the financial intermediation role of the capital market in the economy. This is evident in directing idle funds from the surplus economic units to the deficit economic units of the economy. This is expected to lead to sustainable and more socially equitable economic growth and development in the country. The Capital Market with Securities and Exchange Commission as the regulatory body executes out this function through the Nigerian Stock Exchange. This study will enable us to identify challenges prevalent in the Nigerian capital market as it relates to the economy. The need to identify catalyst in the system to jumpstart the economy is of paramount importance. This study would eventually aid in presenting a working model, for the Nigerian Capital Market in relation to the development of the economy. By extension, this work should be able to would pave the way for an improved economy if properly implemented.

2.0 Review of relevant literature and theoretical framework

The possession of industrial capabilities by an economy is considered important for improved economic growth and development. Indeed one of the distinguishing factors between developed and developing

economies is the acquisitions of industrial know – how. The benefits of appropriate industrial base for an economy lies in its combination of sustainable technology, management techniques and other resources in order to move the economy from a traditional and low level of production to a more automated and efficient system of mass processing and manufacture of goods and services. This explains why every economy seeks to acquire appropriate industrial base or to expand it if the economy is already industrialized. Acquisition of industrial capabilities requires the blending of diverse resources of which financial resources constitute a critical factor. Since the availability of such resources is a major influence on developing industrial or other capabilities, every economy seeks avenue to acquire them. One of such avenues is the use of capital market to raise fund. In Nigeria, serious effort is the sources of raising fund for development started in the 1960s and has progressed over the years.

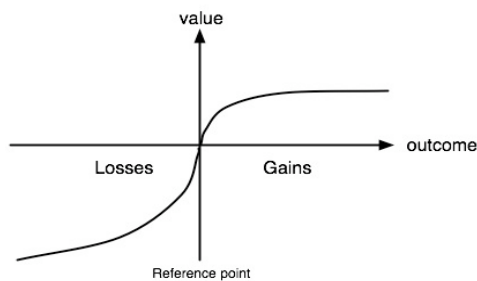
Every economy seeks to promote an effective capital market with the primary objective of mobilizing long-term funds from surplus economic units for the use of the deficit units for investment purposes. They facilitate an efficient allocation of financial resources; the use of capital market reduces over-reliance on the money market, assists in promoting a solvent and competitive financial sector as well as fostering a healthy stock market culture. Finance is the link between the capital market and industrial development. As already noted, the relevance of the capital market to industrial growth of any nation can be seen in the role which capital market plays in the mobilization of funds and their eventual transfer to businesses, the

government and individuals that need those funds for investment. Therefore, the need for an effective capital market stem from the realization that through it, saving can be mobilized and channeled for production investment. Apart from that, the ability to mobilize funds easily and cheaply on the capital market has also been found to be an incentive for enterprises to expand their operations and diversify into large-scale enterprises.

The capital market has demonstrated its ability to provide financial resources, through equity and debt securities, to private sector enterprises (both large and small) and in the process has contributed to the development of the industrial sector. Also, its ability to provide debt financing for various public sector projects, especial infrastructure, has provided a fillip to industrial growth and development. In addition, the stock market has specifically provided opportunity for investment diversification.

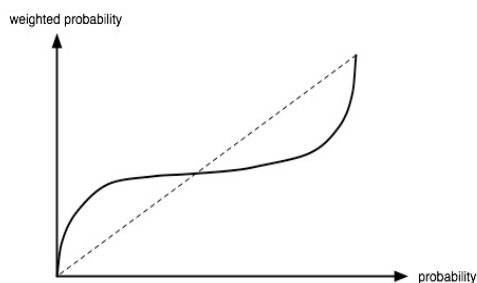
The theoretical framework for this work is based on the following finance theories.

1. Cumulative Prospect Theory (CPT) is a model for descriptive decisions under risk which has been introduced by Amos Tversky and Daniel Kahneman in 1992. It is a further development and variant of prospect theory. The difference from the original version of prospect theory is that weighting is applied to the cumulative probability distribution function, as in rank-dependent expected utility theory, rather than to the probabilities of individual outcomes. In 2002, Daniel Kahneman received the Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel for his contributions to behavioral economics, in particular the development of Cumulative Prospect Theory (CPT).



A typical value function in Prospect Theory and Cumulative Prospect Theory. It assigns values to possible outcomes of a lottery.

overweight extreme, but unlikely events, but underweight “average” events. The last points in contrast to Prospect Theory which



A typical weighting function in Cumulative Prospect Theory. It transforms objective cumulative probabilities into subjective cumulative probabilities.

assumes that people overweight unlikely events, independently of their relative outcomes.

The main observation of CPT (and its predecessor Prospect Theory) is that people tend to think of possible outcomes usually relative to a certain reference point (often the status quo) rather than to the final status, a phenomenon which is called framing effect. Moreover, they have different risk attitudes towards gains (i.e. outcomes above the reference point) and losses (i.e. outcomes below the reference point) and care generally more about potential losses than potential gains (loss aversion). Finally, people tend to

CPT incorporates these observations in a modification of Expected Utility Theory by replacing final wealth with payoffs relative to the reference point, replacing the utility function with a value function that depends on relative payoff, and replacing cumulative probabilities with weighted cumulative probabilities. In the general case, this leads to the following formula for subjective utility of a risky outcome described by probability measure p :

Where; v is the value function (typical form shown in Figure 1), w is the weighting

$$U(p) := \int_{-\infty}^0 v(x) \frac{d}{dx} (w(F(x))) dx + \int_0^{+\infty} v(x) \frac{d}{dx} (-w(1 - F(x))) dx,$$

function (as sketched in Figure 2) and

$$F(x) := \int_{-\infty}^x dp$$

i.e. the integral of the probability measure over all values up to x , is the cumulative probability. This generalizes the original formulation by Tversky and Kahneman from finitely many distinct outcomes to infinite (i.e., continuous) outcomes.

The main modification to Prospect Theory is that, as in rank-dependent expected utility theory, cumulative probabilities are transformed, rather than the probabilities itself. This leads to the aforementioned overweighting of extreme events which occur with small probability, rather than to an overweighting of all small probability events. The modification helps to avoid a violation of first order stochastic dominance and makes the generalization to arbitrary outcome distributions easier. CPT is therefore on theoretical grounds an improvement over Prospect Theory. Cumulative prospect theory has been applied to a diverse range of situations which appear inconsistent with standard economic rationality, in particular the equity premium puzzle, the asset allocation puzzle, the status quo bias, various gambling and betting puzzles, intertemporal consumption and the endowment effect.

2. Alpha is a risk-adjusted measure of the so-called active return on an investment. It is the return in excess of the compensation for the risk borne, and thus commonly used to assess active managers' performances. Often, the return of a benchmark is subtracted in order to consider relative performance, which yields Jensen's alpha. The **alpha coefficient** (α_i) is a parameter in the Capital Asset

Pricing Model (CAPM). It is the intercept of the **security characteristic line** (SCL), that is, the coefficient of the constant in a market model regression.

$$\text{SCL} : R_{i,t} - R_f = \alpha_i + \beta_i (R_{M,t} - R_f) + \epsilon_{i,t}$$

It can be shown that in an efficient market, the expected value of the alpha coefficient is zero. Therefore the **alpha coefficient** indicates how an investment has performed after accounting for the risk it involved:

- $\alpha_i < 0$: the investment has earned too little for its risk (or, was too risky for the return)
- $\alpha_i = 0$: the investment has earned a return adequate for the risk taken
- $\alpha_i > 0$: the investment has a return in excess of the reward for the assumed risk

For instance, although a return of 20% may appear good, the investment can still have a negative alpha if it's involved in an excessively risky position. The concept and focus on Alpha comes from an observation increasingly made during the middle of the twentieth century, that around 75 percent of stock investment managers did not make as much money picking investments as someone who simply invested in every stock in proportion to the weight it occupied in the overall market in terms of market capitalization, or indexing. Many academics felt that this was due to the stock market being "efficient" which means that since so many people were paying attention to the stock market all the time, the prices of stocks rapidly moved to the correct price at any one moment, and that only random variation beyond the control of the manager made it possible for one

manager to achieve better results than another, before fees or taxes were considered. A belief in efficient markets spawned the creation of market capitalization weighted index funds that seek to replicate the performance of investing in an entire market in the weights that each of the equity securities comprises in the overall market. The best examples are the S&P 500 and the Wilshire 5000 which approximately represent the 500 most widely held equities and the largest 5000 securities respectively, accounting for approximately 80%+ and 99%+ of the total market capitalization of the US market as a whole.

In fact, to many investors, this phenomenon created a new standard of performance that must be matched: an investment manager should not only avoid losing money for the client and should make a certain amount of money, but in fact should make more money than the passive strategy of investing in everything equally (since this strategy appeared to be statistically more likely to be successful than the strategy of any one investment manager). The name for the additional return above the expected return of the beta adjusted return of the market is called "Alpha".

Besides an investment manager simply making more money than a passive strategy, there is another issue: Although the strategy of investing in every stock appeared to perform better than 75 percent of investment managers, the price of the stock market as a whole fluctuates up and down, and could be on a downward decline for many years before returning to its previous price. The passive strategy appeared to generate the market-beating return over periods of 10 years or more. This strategy may be risky for those who feel they might need to withdraw

their money before a 10-year holding period, for example. Thus investment managers who employ a strategy which is less likely to lose money in a particular year are often chosen by those investors who feel that they might need to withdraw their money sooner.

The measure of the correlated volatility of an investment (or an investment manager's track record) relative to the entire market is called beta. Note the "correlated" modifier: an investment can be twice as volatile as the total market, but if its correlation with the market is only 0.5, its beta to the market will be 1. Investors can use both alpha and beta to judge a manager's performance. If the manager has had a high alpha, but also a high beta, investors might not find that acceptable, because of the chance they might have to withdraw their money when the investment is doing poorly.

These concepts not only apply to investment managers, but to any kind of investment.

3. The Arrow-Debreu Model, also referred to as the **Arrow-Debreu-McKenzie model** suggests that, should the assumptions made about the conditions under which it works hold (i.e. convexity, perfect competition and demand independence), then there will be a set of prices such that aggregate supplies will equal aggregate demands for every commodity in the economy. The model (ADM model) is the central model in the General (Economic) Equilibrium Theory and often used as a general reference for other microeconomic models. It is named after Kenneth Arrow, Gerard Debreu and Lionel W. McKenzie

Compared to earlier models, the Arrow-Debreu model radically generalized the notion of a commodity, differentiating

commodities by time and place of delivery. So, for example, 'apples in New York in September' and 'apples in Chicago in June' are regarded as distinct commodities. The Arrow-Debreu model applies to economies with maximally complete markets, in which there exists a market for every time period and forward prices for every commodity at all time periods and in all places

The ADM model is one of the most general models of competitive economy and is a crucial part of general equilibrium theory, as it can be used to prove the existence of general equilibrium. Once we can prove the existence of such an equilibrium, it is possible to show that it is unique under certain conditions, but not in general.

The Arrow-Debreu model specifies the conditions of perfectly competitive markets.

In financial economics the term Arrow-Debreu is most commonly used with reference to an Arrow-Debreu security. A canonical Arrow-Debreu security is a security that pays one unit of numeraire if a particular state of the world is reached and zeros otherwise (a so called "state price"). As such, any derivatives contract whose settlement value is a function on an underlying whose value is uncertain at contract date can be decomposed as linear combination of Arrow-Debreu securities.

The concept of Arrow-Debreu security is a good pedagogical tool to understand pricing and hedging issues in derivatives analysis. Its practical use in financial engineering, however, has turned out to be very limited, especially in the multi-period or continuous markets.

The Black Scholes analysis and its extensions, despite their strongly formulated and somewhat questionable assumptions,

have proven more successful in practice and have contributed directly to the exponential growth in the size of the global derivatives industry.

Since the work of Breeden and Lizenberger (1978), a large number of researchers have used options to extract Arrow-Debreu prices for a variety of applications in financial economics.

4. The Equity Premium Puzzle is a term coined in 1985 by economists Edward Prescott and Rajnish Mehra. It is based on the observation that in order to reconcile the much higher return on equity stock compared to government bonds, individuals must have implausibly high risk aversion according to standard economics models. Similar situations prevail in many other industrialized countries. The puzzle has led to an extensive research effort in both macroeconomics and finance. So far a range of useful theoretical tools and several plausible explanations have been presented, but a solution generally accepted by the economics profession remains elusive.

Kocherlakota (1996), Mehra and Prescott (2003) present a detailed analysis of these explanations in financial markets and conclude that the puzzle is real and remains unexplained. Subsequent reviews of the literature have similarly found no agreed resolution. Grant and Quiggin (2006) distinguish several classes of explanation of the puzzle. The most basic explanation is that there is no puzzle to explain: that there is no equity premium. A related criticism is that the apparent equity premium is an artifact of observing stock market bubbles in progress.

Some explanations rely on assumptions about individual behavior and preferences

different from those made by Mehra and Prescott. Examples include the prospect theory model of Benartzi and Thaler (1995) based on loss aversion. A problem for this model is the lack of a general model of portfolio choice and asset valuation for prospect theory.

A second class of explanations is based on relaxation of the optimization assumptions of the standard model. The standard model represents consumers as continuously-optimizing dynamically-consistent expected-utility maximizers. These assumptions provide a tight link between attitudes to risk and attitudes to variations in intertemporal consumption which is crucial in deriving the equity premium puzzle. Solutions of this kind work by weakening the assumption of continuous optimization, for example by supposing that consumers adopt satisficing rules rather than optimizing. An example is info-gap decision theory (Ben-Haim, 2006), based on a non-probabilistic treatment of uncertainty, which leads to the adoption of a robust satisficing approach to asset allocation.

A second class of explanations focuses on characteristics of equity not captured by standard capital market models, but nonetheless consistent with rational optimization by investors in smoothly functioning markets. Writers including Bansal and Coleman (1996), Palomino (1996) and Holmstrom and Tirole (1998) focus on the demand for liquidity.

The magnitude of the equity premium has implications for resource allocation, social welfare, and economic policy. Grant and Quiggin (2005) derive the following implications of the existence of a large equity premium:

- That the macroeconomic variability associated with recessions is very expensive

- That risk to corporate profits robs the stock market of most of its value

- Those corporate executives are under irresistible pressure to make short-sighted, myopic decisions

- That policies—disinflation, costly reform—that promise long-term gains at the expense of short-term pain are much less attractive if their benefits are risky

- That social insurance programs might well benefit from investing their resources in risky portfolios in order to mobilize additional risk-bearing capacity

- That there is a strong case for public investment in long-term projects and corporations, and for policies to reduce the cost of risky capital

- That transaction taxes could be either for good or for ill.

3.0 Method of Analysis

In most developing countries, capital market has so far fallen short of expectations in spite of the great potentials for financing development. These countries have thus resorted to external borrowing that has brought to them very excruciating foreign debt problems and the inability to raise additional funds from international financial markets. The view that capital market has not played the expected role in the financing of development in the emerging economies became a subject of discussion in the early 1990s. The Nigerian capital market in particular could not meet the challenge of mobilizing savings for development because it was lacking in liquidity

The type of data sourced and used in the research was majorly secondary data.

Sources of secondary data are taken from the Central Bank of Nigeria Annual reports and Statistical Bulletin (Various Issues), the Nigerian Stock Exchange Publications and the National Bureau of Statistics and other relevant websites and publications. The variables used are Gross Domestic Product (Y), Market Capitalization (MC), All-share Index (ASI), and Turnover Ratio (TR).

3.1 Model Specification

We specify our model in this form.

$$Y_1 = f(X_1, X_2, \dots, X_n, U) \dots \dots \dots (1)$$

where: Y = Dependent variable, X_1, \dots

X_n = Independent variable, U = Random variable or error term.

A two relationship exists between the economic growth and the financial system, this implies that either the growth of the economy can be driven by the financial system development or the development of the financial system can induce the growth of the economy. There is also a strong inter-relationship between the development of the capital market and the growth of the economy.

Thus the following multiple regression model is formulated as;

$$GDP_t = f(MC_t, TR_t, ASI_t) \dots \dots \dots (2)$$

where: GDP = Gross Domestic Product, MC = Market Capitalization of Nigerian Stock Exchange, TR = Turnover ratio, ASI = All-share index.

The dependent variable is the Economic Growth and Development (GDP) and the independent variables or explanatory variables includes: Market capitalization, All-share index, and Turnover ratio.

Apriori expectation affirms that a positive relationship exists between Growth and All-share index. A negative relationship is

expected to exist between turnover ratio and Growth. And a positive relationship is expected to exist between market capitalization and economic development.

The models can be explicitly stated as;

$$GDP_t = \beta_0 + \beta_1 MC_t + \beta_2 ASI_t + \beta_3 TR_t + e_t \dots \dots (3)$$

3.2 Techniques of estimation

To determine the direction of causal relationship between the various variables, the Ordinary Least Square (OLS) technique will be used to estimate above equations. According to Gujarati (1995) the reasons for using OLS are many. Firstly, the parameter estimates obtained by OLS are optimal in nature. Secondly, the computation procedure is fairly simple as compared with other econometrics techniques. Thirdly, the OLS has been used in a wide range of economics relationship with fairly satisfactory results. Lastly, the technique is simpler to understand. Kelikume (2005) was also quick to point out that the OLS has among other desirable properties the following:

► The parameter estimates obtained by ordinary least squares have some optimal properties

► Ordinary least squares are also very important component of most other econometric techniques.

► The least square method has been used in a wide range of econometric relationships with fairly satisfactory results and despite the improvement of computational equipment and of statistical information which facilitates the use of other more elaborate econometric techniques, ordinary least squares is still one of the most commonly employed methods.

► The computational procedure of ordinary least squares is fairly simple when

compared with other econometric techniques and the data requirements are excessive.

► **Gross Domestic Product:** is the total money of final goods and services produced within the geographical boundaries of a country during a specified period of time, usually a year minus investments in other countries.

► **Market Capitalization:** is the total value of all equity securities listed on the stock exchange. It is a product of the current quoted price of shares and the number of shares outstanding. The term is also used as performance indicator of the capital market.

► **All-share Index:** this measures the daily movement of stock prices, it also indicates investor's confidence in the economy by their buy/sell activities. The greater the activity in the stock market arising from large

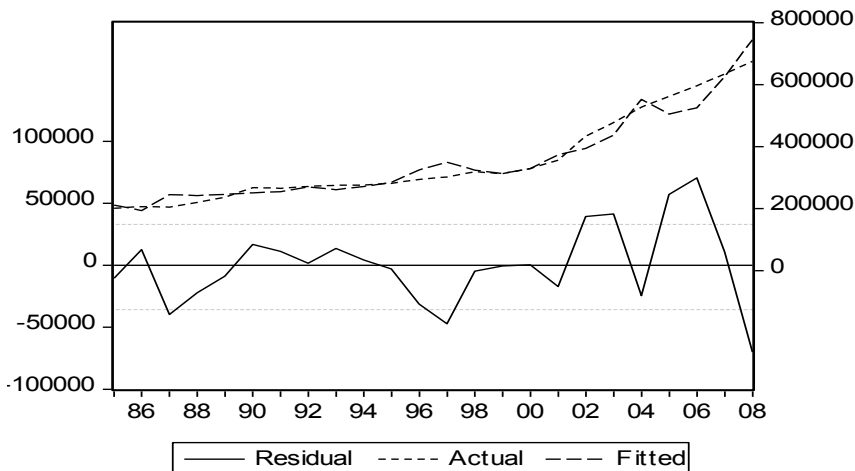
volumes of stock changing hands in the buy/sell transactions, the more positive the performance of the economy.

► **Turnover Ratio:** is used as an index of comparison for market liquidity rating and level of transaction costs. This ratio equals the value of total shares traded divided by market capitalization.

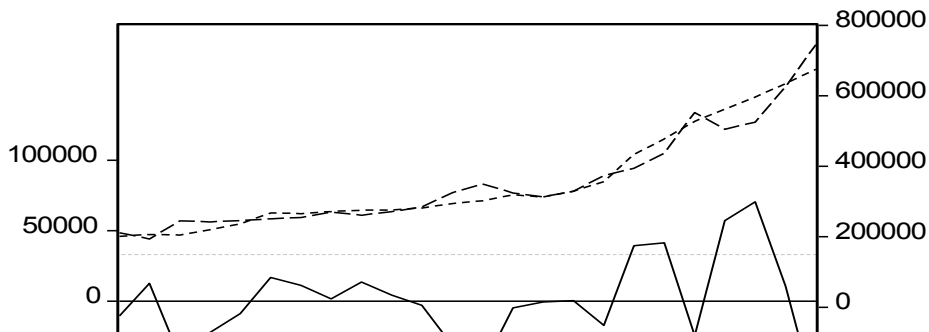
4.0 Presentation of Data and Results of Study

Below is a presentation of the result of the regression analysis that we conducted on GDP and the explanatory variables. Where R-squared is the coefficient of determination; R-Bar-Squared is the adjusted coefficient of determination; F is the F-statistic or the calculated F value and D-W is the Durbin-Watson statistic associated with the result.

Table 2: (in the appendix)



4.1 Model Formulation and Results



The model was estimated using the OLS method of estimation. It can be seen from the result presented in table 1 that the co-efficient of determination is about 95% of the variations of the independent variables are explained by the dependent variable and this connotes an excellent fit in determining the goodness of fit for the model.

The adjusted value of R^2 0.951143 indicates that over 95% systematic variation in the independent variable is explained by the dependent variables. This is surely an excellent fit which is highly significant in this analysis.

The D.W statistics of 1.373014 shows the possible presence of autocorrelation. One implication of the presence of autocorrelation is that the prediction based on OLS

The variables used in this study covers the period between 1979 and 2008. Though, it would have been better to use a longer period for this research, the period is still long enough to allow for good degree of freedom in the analysis. The results obtained from this analysis are reliable and would help us come to useful conclusions, and also make applicable recommendations for further studies in this area of study.

In testing for the hypothesis, the standard error is statistically significant at 5% level of significance while the coefficient of

the regressand is statistically significant at zero level of significance. On the other hand, the F statistics as well as the R-squared is very high. This indicated that the independent variable justified the dependent variable significantly.

The t-statistic computed for the variable Market Capitalization (MC) is lower than the T-table value; this implies that the null hypothesis is accepted while the alternative hypothesis is rejected. All-share index (ASI) has a computed t-value higher than the T-table value; this implies that alternative hypothesis is accepted while the null hypothesis is rejected. Turnover ratio (TR) has a computed which is lower than the T-table value. This implies that the null hypothesis is accepted while the alternative hypothesis is rejected.

This research has been able to identify how the capital market impact on the Nigerian economy as a whole. This brought about the statement of the problem. Other parts of the introductory chapter are the hypothesis to be tested, the scope of the study, the objectives, the significance, the organization, and the research methodology of the study. The definition of the key terms in the study is also included. The review of relevant literature points out statements made by various researchers on the issue of stocks, its market, and its contribution to economic

growth. However, the stock market was introduced and its history briefly discussed, while we went on to review its development, its operations, and the legislations binding the market.

4.2 Findings of Study

The findings from the research work, has pointed out that stock market positively impacts the growth rate of the Nigerian economy. Theoretically, a unit increase in stock market indicators brings about a more than proportionate increase in the GDP because of its capacity to mobilize capital needed by the deficit units of the economy for productive purposes. There is a positive relationship between the market capitalization and the Gross domestic product of the economy. A positive relationship exists between the all-share index and the Gross domestic product. A negative relationship exists between the Turnover ratio and the Gross domestic product.

The major implication of these findings is that stock market is vital to the economic growth of Nigeria and as such all hands must be on deck for the make the Nigerian Stock Market a force to be reckoned with. Thus, the economic potentials of the country will thus be enhanced.

This is a reflection of the structural rigidity prevailing in the economy which makes the stock market interplay of the forces of demand and supply. This even more pronounced in the nonchalant reactions of the stock market index to shocks in the economy contrary to what is obtained in the developed economies.

5.0 Conclusion

From the research conducted, the study examined whether stock market promotes

economic growth in Nigeria or not from the period 1979 – 2008. In this regard, this exercise has demonstrated that there is a positive relationship between the stock market and economic growth. Though the stock market has been greatly criticized, this study has helped promote a greater depth to the workings of, and need for an efficient capital market. Specifically, the study attempted to establish empirically, the link between the Nigerian stock market and economic development. That the stock market promotes economic growth is not in doubt. It serves as an important mechanism for effective and efficient mobilization and allocation of savings, a crucial function, for an economy desirous of growth. This study attempted to place this role in the Nigerian context between the period of 1979 and 2008. By the use of some notable stock market development indicators, the relationship between stock market development and economic growth was found to be positive. This suggests that for a significant growth the focus of policy should be on measures to promote growth in the stock market.

The Nigerian stock market has a bright prospect given the recent policy direction especially the abrogation of all laws that hitherto hamper its effective and efficient functioning. Also, the internationalization, the improvement in the infrastructural facilities in the market in line with what obtains in the developed market and also the present democratic dispensation will all work individually and jointly to ginger the prospect of the stock market.

5.1 Recommendations

The stock market operates in a macro-economic environment, it is therefore necessary that the environment must be an

enabling one in order to realize its full potentials. With the existence of a long run relationship between stock market development and economic growth, it is pertinent to recommend that there should be sustained effort to stimulate productivity in both the public and private sectors.

1. The Nigerian Stock Exchange regulators should work at ensuring that the market capitalization is stable so as to have a resultant positive effect on economic growth.

2. Based on the theory of stock market efficiency integration of the Stock Exchange with other exchanges in Africa will further drive economic growth.

3. The turnover ratio in the NSE as a matter of necessity be high being an indication of low transaction costs. Since a large but inactive market would have a large market capitalization ratio but a small turnover, it is pertinent that the turnover ratio is high so that transaction cost would be low resulting in a favourable liquidity rating and market capitalization ratio. This in turn would improve the economic condition of the nation.

4. The Nigerian Capital Market should strive as well, to build its investors confidence by enforcing integrity, as well as providing them with more products in the market which will aid in diversification of their portfolio investments, in case a certain product fails to perform they will still have another product to fall back on.

5. The findings from this study raise some policy issues and recommendations, which will reinforce the link between the stock market and economic growth in Nigeria.

6. Given that the stock market operate in a macroeconomic environment, it is therefore necessary that the environment must

be an enabling one in order to realize its full potentials.

7. The demand for the services of the stock market is a derived demand. With the existence of a positive relationship between stock market development and economic growth, it is pertinent to recommend that there should be sustained effort to stimulate productivity in both the public and private sectors.

8. The determination of stock prices should be deregulated. Market forces should be allowed to operate without any hindrance. Interference in security pricing is inimical to the growth of the market.

9. The stock market is known as a relatively cheap source of funds when, compared to the money market and other sources. The cost of raising funds in the Nigerian market is however regarded to be relatively high. However, the authorities concerned have been responsive towards a systematic downward review. This should ensure enhance its competitiveness and improve the attractiveness as a major source of raising funds.

10. Considering the benefits being enjoyed by the stock market through the internationalization of its operations, there should be not only policy turn-around, but a sincere pursuit of an enhanced policy.

11. Though the recent legislations on the stock market have been hailed in many quarters, one of the best things to happen to the stock market in recent times, there are still some gray areas.

12. Given the present political dispensation, all the tiers of government should be encouraged to fund their realistic developmental programmes through the stock market. This will serve as a leeway to free the resources relevant for use in other spheres of the economy.

5.2 Suggestions for Further Research

This research has looked at the impact of capital market in the growth of the Nigerian economy. Therefore further research is required in the following areas:

1. There is a need for further research to examine and discuss the role of government in increasing the efficiency of the stock market.

2. It is also appropriate to examine the significance of other variables which may affect the market/GDP other than the ones examined in this study.

3. The depth and resilience of the stock market should also be examined and discussed as relatively thin markets causes inefficiency in price determination.

Appendix

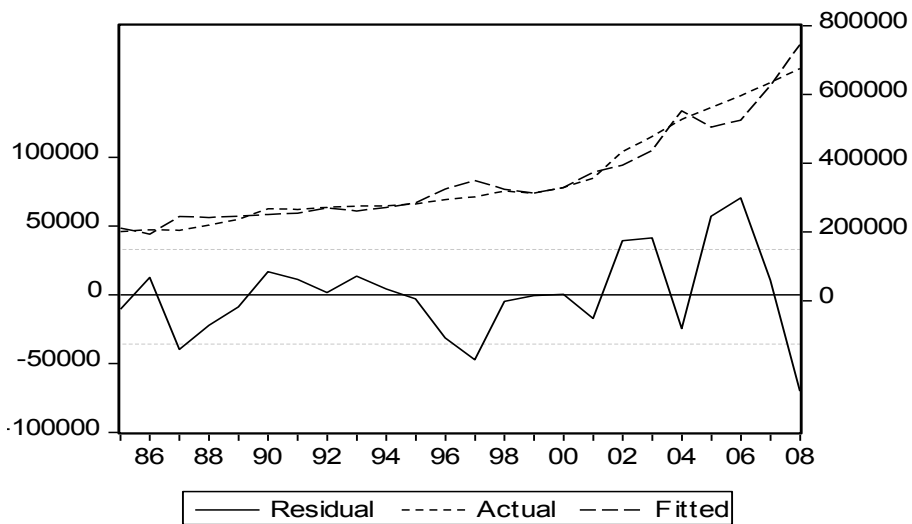
Table 1: Data on variables

YEAR	RGDP	MC	ASI	TR
1979	29,948	N/A	N/A	25.4
1980	31,546	N/A	N/A	38.8
1981	205,222	5.0	N/A	60.9
1982	199,685	5.0	N/A	43.0
1983	185,598	5.70	N/A	6.9
1984	183,563	5.50	N/A	4.6
1985	201,036	6.60	1407.4	4.8
1986	205,971	6.80	1797.8	7.32
1987	204,806	8.20	2123	0.46
1988	219,875	10.00	2529.7	0.85
1989	236,729	12.80	3286.4	0.5
1990	267,550	16.30	5083.9	0.1
1991	265,379	23.10	8059.4	0.1
1992	271,365	31.20	21,140.60	0.16
1993	274,833	47.50	14,748.30	0.17
1994	275,436	66.30	22,958.80	0.15
1995	281,407	180.40	35,594.00	0.10
1996	293,745	285.80	71,461.70	0.25
1997	302,022	281.90	91,663.10	0.37
1998	318,896	262.60	71,542.50	0.52
1999	312,183	300.00	63,170.30	0.47
2000	329,178	472.30	80,414.10	0.59
2001	356,384	662.50	122,220.90	0.87
2002	433,203	764.90	139,582.40	0.7

YEAR	RGDP	MC	ASI	TR
2003	477,533	1,359.30	186,718.70	0.8
2004	527,576	2,112.50	296,863.80	1.0
2005	561,831	2,900.10	274,520.60	0.9
2006	595,821	5,121.00	337,219.00	0.9
2007	634,251	13,294.60	585,279.70	0.8
2008	674,889	9,516.20	610,420	1.76

Source: Central Bank of Nigeria and Nigerian Stock Exchange

Table 2 : Regression Results



Source: EVIEW

Chart 1: Residuals

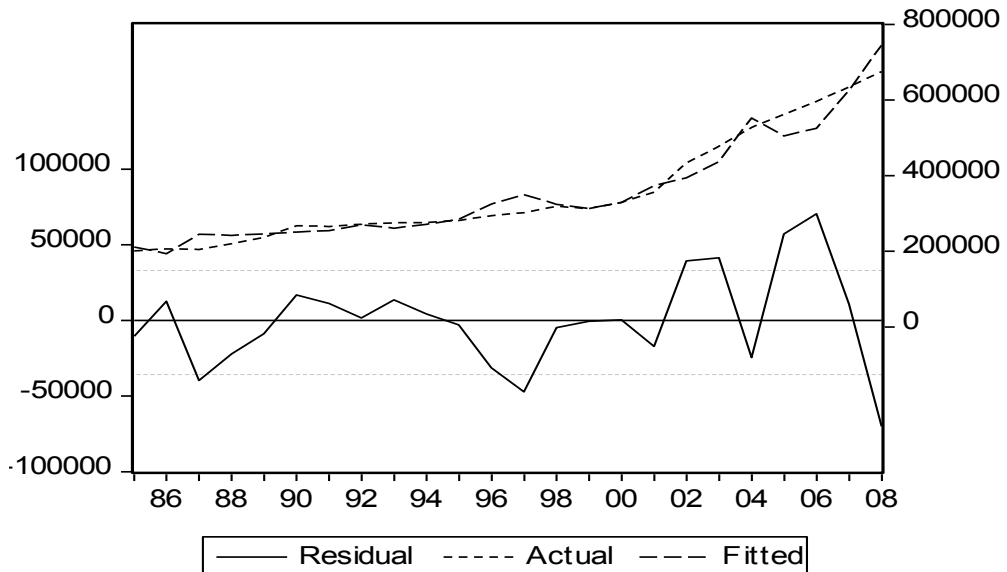
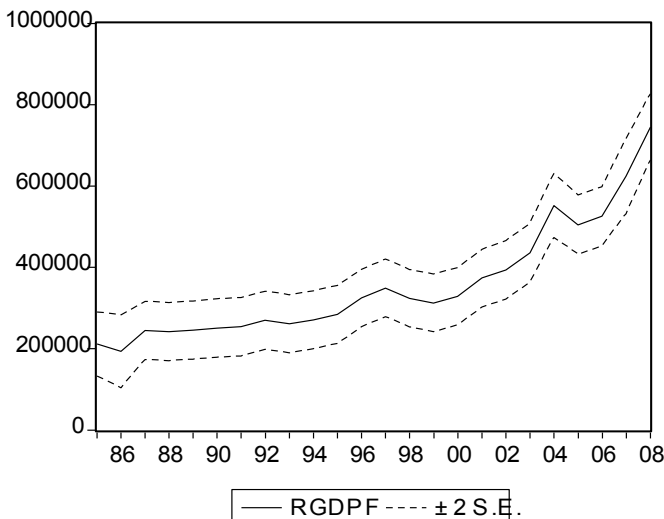


Chart 2: Covariances



Forecast: RGDPF
 Actual: RGDP
 Forecast sample: 1979 2008
 Adjusted sample: 1985 2008
 Included observations: 24

Root Mean Squared Error 81386.91
 Mean Absolute Error 23285.06
 Mean Abs. Percent Error 6.352487
 Theil Inequality Coefficient 0.041107
 Bias Proportion 0.000000
 Variance Proportion 0.012522
 Covariance Proportion 0.987478

Chart 3: Residuals Series

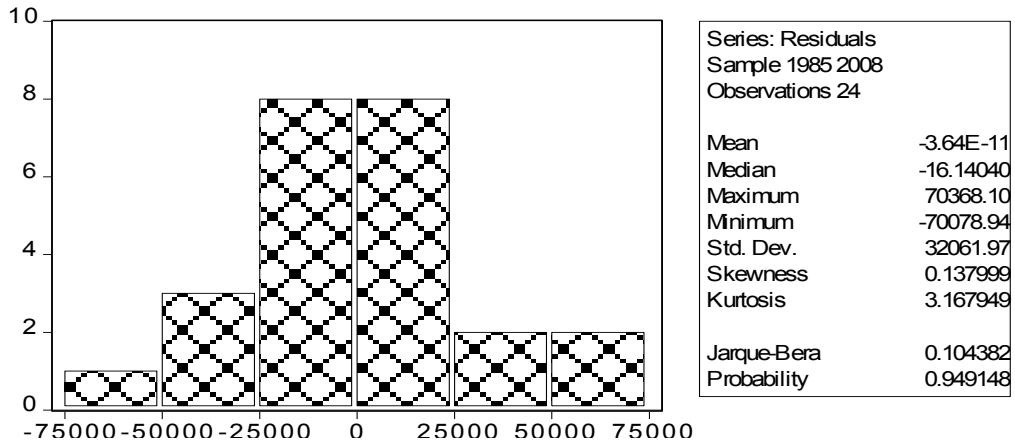


Chart 4: Recursive Residuals

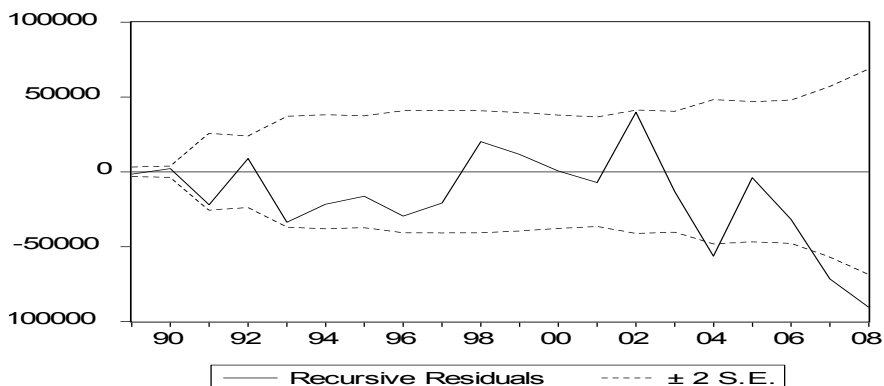
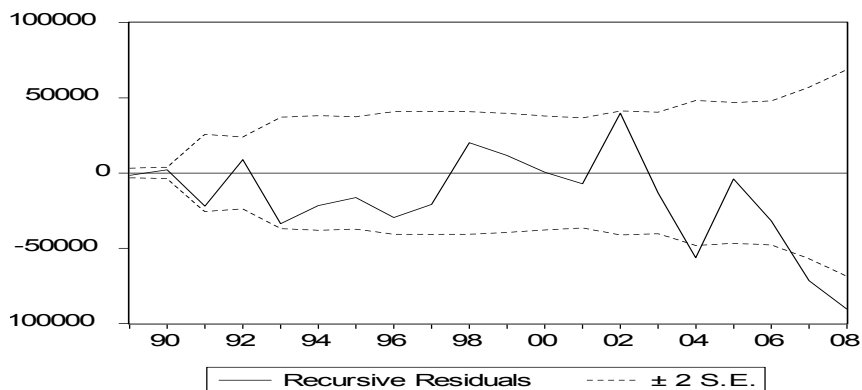


Table 3: Heteroskedasticity Test:

White Heteroskedasticity Test:

F-statistic	11.11743	Probability	0.000044
Obs*R-squared	19.12572	Probability	0.003957

Test Equation:

Dependent Variable: RESID^2

Method: Least Squares

Date: 12/01/10 Time: 19:01

Sample: 1985 2008

Included observations: 24

Variable	Coefficient	Std. Error	t-Statistic	Prob.
	t			
C	4.90E+08	3.21E+08	1.524037	0.1459
ASI	-9829.051	5619.287	-1.749163	0.0983
ASI^2	0.010205	0.008000	1.275583	0.2193
MC	1986460.	541678.1	3.667234	0.0019
MC^2	-137.5655	27.53556	-4.995921	0.0001
TR	-	4.96E+08	-0.166242	0.8699
	82384442			
TR^2	4533788.	70938976	0.063911	0.9498
R-squared	0.796905	Mean dependent var	9.85E+0	
			8	
Adjusted R-squared	0.725224	S.D. dependent var	1.48E+0	
			9	
S.E. of regression	7.77E+08	Akaike info criterion	44.01750	
Sum squared resid	1.03E+19	Schwarz criterion	44.36109	
Log likelihood	-521.2099	F-statistic	11.11743	
Durbin-Watson stat	1.808677	Prob(F-statistic)	0.000044	

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A systemic approach for managing extreme risk events – dynamic financial analysis

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Abstract: Following the Black Swan logic, it often happens that what we do not know becomes more relevant than what we (believe to) know. The management of extreme risks falls under this paradigm in the sense that it cannot be limited to a static approach based only on objective and easily quantifiable variables. Making appeal to the operational tools developed primarily for the insurance industry, the present paper aims to investigate how dynamic financial analysis (DFA) can be used within the framework of extreme risk events.

Key words: dynamic financial analysis, extreme risk events, risk management.

1. Introduction

Most classical economic and managerial theories are built on an analytical structure characterized by isolated analysis of the components, precise mathematical models, change of one variable at a time and so on. Many advances were made by choosing this linear way of action but the evolution of cybernetics and system theory has also revealed other angles of analysis: complex

and expert systems (Matsatsinis et al., 1998), dynamic cognitive networks (Koulouriotis et al., 2005), fuzzy logic in decision making (McIvor et al., 2004) etc. Nowadays, the systemic perspective has found applicability into a vast range of academic and practical segments, among which we will focus on a specific risk management technique - dynamic financial analysis (DFA). The main goal of the paper is to discuss the DFA principles in extreme risks cases, filling the existing gap

between singular case studies and a more solid theoretical background on the subject. The importance of such a demarche resides in the fact that indifferent to what philosophy of risk we prefer, an extreme risk event has an ontological component that reduces the risk management question to a structural response from societies, organizations and individuals (Bostrom, 2002).

Following the introductory section, the literature review is focused on the traits and typologies of extreme events, underlying the need for a more comprehensive managerial approach. The third section discusses the differences between static and dynamic analysis, drawing heavily on the main components of the last category and their fit to the previously described paradigm. The conclusions are restating the benefits of multidisciplinary views on the subject of extreme risk.

2. The particularities of extreme risks events

For a proper understanding of an extreme event it is essential to begin with the theoretical distinction between objective risks - characterized by statistical estimates of the negative impact of the event - and perceived risks - determined by their understanding of the likelihood of negative outcome (Boholm, 1996). Thus, on the one hand, natural sciences identify specific risk using statistical and mathematical device to make assessments of toxicological and epidemiological threats in order to calculate the risks associated with technical systems or those generated by the interaction between individuals and machines. On the other hand, social anthropology research in the area claim that the subjective perception of risk is independent of current exposure (current sense of

the risks perceived by different experts) but is based on institutional attitude typical for a particular social group. Another interesting theory is Niklas Luhmann's (2005) that analyzes risk in relation with time, probability and decision making. The theory is based on a representation of risk as a result of individuals concern with uncertainty looming in the future. In other words, a risk is a way to face potential future problems, nothing else than a time management tool.

Based on these conceptual delimitations, we can further consider the sometimes daily used confused meanings, which are the extreme, catastrophic or unexpected events. Therefore, it is no wonder that so far we can say only that a risk event is a very vague concept receiving a wide range of definitions based on specific cases and contexts (Wyatt, 2009). Ranging from earthquakes to falling stock market, these events can have numerous coordinates that can be taken into account to characterize them. Thus, we can talk about natural or anthropogenic events of various sizes, measured in human lives and monetary costs, etc. Another definition of Bier et al. (1999) is an indication that the attributes inherent in such an event have a very low frequencies and very high impact severity. It should be noted that these features must exist simultaneously for a very rare event and is not necessarily one extreme risk.

2.1 Extreme risk taxonomy

In the context of current problems of economic systems, national and global classification of Wyatt (2009) focused on the risks faced by investment is an important point of departure for the representation showed below:

- extreme financial risk events
- extreme economic risk events

- extreme political risk events

Figure 1 illustrates the extreme risk categories that define extreme events risk

in terms of two dimensions: likelihood and impact.

Figure 1. Extreme risk - likelihood and impact

		Risk				
		Impact	Low	Very low	Very, very low	
Financial	High					Risk Low Could be expected once every 10 years from current conditions
	Medium	Excessive leverage	Banking crisis			Very low Could be expected once every 20 years from current conditions
	Low		Insurance crisis			Very, very low Could be expected once every 100 years from current conditions
Economic	High	Depression	Hyperinflation			Impact High Direct and significant impact on most asset and liability values
	Medium	Currency crisis	Sovereign default			
	Low			End of fiat money		
Political	High		Climate change	End of capitalism		Medium Direct and material impact on some asset and liability values
	Medium	Political crisis	Disunity in Europe	Major war		Low Direct impact on few values, variable significance
	Low	Protectionism		Killer pandemic		

Source: Wyatt, Watson, *Extreme risks*, p. 3

From a different angle we find disasters and their associated risk issues as point of interest for many scientists, politicians, economists, representatives of public institutions which are or may be affected directly or indirectly by the production of such events. Lately, the number of extreme disasters is most likely to occur is highly alarming, as, indeed, it is also their variety. Richard Posner classified disasters into two types: natural disasters and catastrophic human fault.

The category of natural disasters represents, as we shown in the paragraph above, unprovoked extreme events by our peers. The disasters are natural phenomena having destructive geological origin, or illness of a large number of people and animals

suddenly produced as a mass phenomenon. In the category of natural disasters are included: pandemics, asteroids, volcanic eruptions and earthquakes. The second type of disaster is divided into three subcategories: scientific accidents, catastrophes and man-made disaster unintentional and intentional.

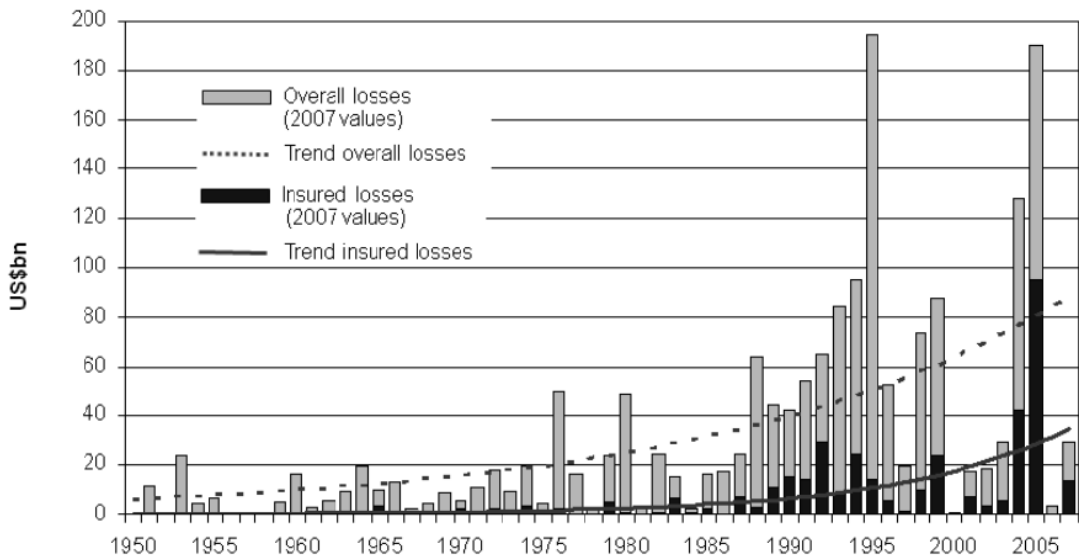
Richard Posner mentions several types of accidents that can cause major scientific human damage. Out of them we should point out: the strangelet scenario, laboratory accidents involving omnivorous nanomachines, genetically modified crops, and artificial intelligence. By the same token, the manmade disasters are: nuclear attack, bioterrorism, cyber-terrorism and digitization.

Research and analysis draws attention to

the changes and their extreme events impact in recent years. Significantly, both for their evidence, and for losses caused by them, is the report by the Wharton Risk Management and Decision Processes Center. The authors report highlights the fact that worldwide economic losses and the insurance companies losses have increased significantly in recent years, as shown in Figure 2 (each vertical bar

represents the total economic losses, the dark bar is the insurance amount). A comparison of these economic losses over time reveals a huge increase: \$ 53.6 billion (1950-1959), \$ 93.3 billion (1960-1969), \$ 161.7 billion (1970-1979), \$ 262.9 billion (1980-1989) and \$ 778.3 billion (1990-1999). In the last decade there is a loss in value of \$ 420.6 billion due mainly to hurricanes which occurred in 2004 and 2005.

Figure 2 The evolution of major natural disasters in the world, 1950-2007. Economic impact on insurance



Source: *Managing large-scale risks in a new era of catastrophes, Insuring, Mitigating and Financing Recovery from Natural Disasters in the United States*

According to research referred above, the catastrophes that have occurred over the past 15 years have had the most devastating impact on the insurance system than in the entire history of the system. Between 1970 and mid-1980s, annual losses caused by natural disasters (including forest fires) were in the range of 3-4 billion dollars. Losses that occurred in Hurricane Hugo (September 1989) exceeded \$ 4 billion. It was the first great natural disaster that caused more than a billion

dollars of losses by the insurance system in the United States of America. A radical increase in loss was recorded in the early 1990s. In 2000 there are marked great damages by the Hurricane Andrew recorded in Florida (\$ 23.7 billion in 2007) and Northridge earthquake in California (\$ 19.6 billion in 2007). The four hurricanes in Florida in 2004 (Charley, Frances, Ivan and Jeanne) totaled about \$ 33 billion loss for the insurance system and once with the Hurricane Katrina events was

a radical change in terms of damages filed by the insurers and reinsurers (about 46 billion). The total losses paid by private insurers as a result of major natural disasters were about 87 billion dollars in 2005. Catastrophic events that caused major loss for insurance system usually occurred in developed countries where activity of the insurance system is high. In developing countries where insurance system is usually absent or is in development, these disasters can cause severe economic and human impact.

3. Static versus dynamic financial analysis

After acknowledging the numerous categories of extreme risks, it is only natural to imagine that an organization dealing with such level of uncertainty has to pay great attention to its financial affairs. Thus, financial analysis becomes a key activity, challenging the traditional assessment of solvency performed through static accounting.

In recent years, non-life insurance companies in the U.S., Canada and Europe have experienced changes that led to finding new methods of analysis and forecasting of their work. Initially, the dynamic financial analysis (DFA) has been developed to serve as a regulatory tool for the authorities concerned to monitor solvency. Nowadays, Casualty Actuarial Society defined DFA as a systematic approach to financial modeling where financial results are designed in accordance with a variety of scenarios that show how the results could be affected by changing internal conditions and / or external (Burkett et al., 2001). Susan Szkoda enriches the definition by pointing out that the financial situation refers to the amount of capital and surplus

of the company to adequately support its operations in a uncertain future (Szkoda, 1995).

In simpler terms, DFA promotes the transition from existing structures designed to evaluate and reward individual pieces of business in a structure that encourages and rewards the evaluation of strategic decisions in a holistic, total company (Blum, 2004).

Among the trends that led to the development of DFA were as follows:

- increased financial risk that began in the 1970s - a period in which inflation and interest rates have become increasingly volatile;
- development of IT technology, a computer powerful enough to accommodate sophisticated mathematical techniques used in the DFA;
- using similar analysis in banks and other financial institutions.

The development of this model was influenced by:

- constraints on regulations and globalization;
- increased competition, aggressive strategies, mergers;
- the emergence of new risks: demographic changes, social and political change risk characteristics (eg liability), the emergence of new, more complicated (in particular financial ones).
- increasing demands of investors;
- growing importance of shareholder-s;
- the emergence of capital losses due to reduced performance;
- the need to manage the full emergence of several types of risks;
- creating new products requiring new methods of analysis.

At present, current models focus more on the strategic planning side, this being one

reason for which we consider them appropriate in handling extreme risk events. DFA models allow managers to test various operational strategies and adopt those that have potential. For this to happen, the situation is modeled, and a large number of possible scenarios are simulated on the computer. These scenarios are used for decision-making processes, facilitating the risk management strategies. The “dynamic” attribute indicates that this approach reflects the uncertainty involved in modeling an insurance company or, in our case, an extreme event. Stochastic variables are used to represent factors that will influence the company. The method leads to a ranking or a distribution of possible outcomes with associated probabilities, leading more than a simple estimate of the outcome. Factors that will affect operations or balance a company can vary more than the singular value estimated from the selected parameters. DFA is dynamic in reflecting the range of possible outcomes in relation to the underlying stochastic variables. On the other hand, the term “financial” guarantee integration and investments reflect variables such as interest rates that affect both values and guaranteed investment returns.

In the random sources of uncertainty in terms of losses, the theory explicitly considers DFA losses from catastrophes (storms, floods, earthquakes, etc.) as a separate category, with losses from other causes, subscription cycles and payment patterns. Modeling the number of disasters can be achieved by several methods, starting either from different distributions binomial or the Poisson distribution type, with an average dispersion m^M and v^M .

m^M = estimated number of disasters, based on historical data

v^M = variance estimated based on historical data

The difference from modeling other types of loss (non-catastrophic) is that they proceed to simulate total loss (and not only that the insurance company concerned must pay) for each catastrophic event and $i \in \{1, \dots, Mt\}$ separately. In practice using different probability distributions, especially GDP (generalized Pareto distribution), proved useful in the theory of extreme values. This theory is itself an effective tool for estimating the risk of catastrophic events, providing relevant ways to characterize the fluctuations of a temporary phenomenon stochastic behavior. Within the theory we find two main classes of models: maximal models (generalized extreme value distribution) and POT models (peaks-over and threshold, with a generalized Pareto distribution). From an operational point of view, the analysis aims to determine the distribution functions of overruns (exceedance distribution function), mean excess function and hazard function type. As a method it is employed the maximum verisimilitude method but also functions and regular variation method of moments. There are also some software characteristic for the extreme values theory to model the available data: Extremes, Xtremes, R, S, R-Plus, S-Plus, etc..

4. Conclusions

The study of extreme risk events assumes a continuous oscillation between normality as a reference point and accidental as a reorganization of the benchmarks. It certainly needs an interdisciplinary approach, because it deals with a remarkably broad category, the risk, but also requires a unified

perspective that can allow the movement from theory to feasible measures implemented in concrete reality.

Dynamic financial analysis provides a clearer and wider vision of the risks and potential benefits of business strategies, than do technical testing scenarios. The perspective given by this analysis focuses both on details and on the big picture, thus meeting multiple

objectives: preventive, operational and strategic ones.

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Role of cooperation in entrepreneurship development and employment in field of new energy

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Abstract: This article studies role of cooperations in creating opportunities for using rich renewable energy sources and also their potential role for entrepreneurship and employment in Iran. The presence of constant, sustainable and economical energy is an essential basis for any economical and social development while it can upgrade life qualities. Iran has a considerable amount of natural resources for modernizing its energy supply and being transited to a sustainable energy system as it has countless opportunities for using rich renewable energy sources. On the other hand, cooperation have been considered as a strategic way to create job opportunities as they are strong organizations which can encounter economical and social side affects caused by quick moderating procedures in structural programs.

Results show convergence between renewable sources development and Iran's economical development through taking a frugal approach in expenses, creating new job opportunities and entrepreneurship in renewable energies.

Keywords: Renewable energy, cooperation, new energy, entrepreneurship.

1. Introduction

It is so much important for under-developing countries to have access to different types of new energy sources. According to the investigations there is a direct relation between the development level of a country

and its energy consumption rate. Regarding the limited reserves of fossil energy and increasing consumption level of energy in current world, it is impossible to rely on present resources. The share of renewable energies in the total energy consumption in OECD countries in 2001 was %5.7 from which %12 was

supplied by solar and wind energies. %22.1 of electrical energy production in Europe will be through new energies by 2010[1]. In U.S.A also any reduction of using fossil energies in comparison with 1990 is about %7 in 2010 and since one of the great sources of producing green house gases is combustion of fossil fuels for producing of electricity, this may cause a reduction- more than %40- of environmental pollution [2]. According to the 4th 5-year state's development plan in Iran, it is necessary to have 500MW of consuming electricity, supplied by renewable energies [3]. In comparison with key goals of sustainable energy systems, there is a constructional shortage in energy system of Iran which may prevent from any modernization process and may cause further considerable economic, social and environmental costs for current and future generations. The mentioned shortage includes , quick development of transportation section in dense cities and its great share in energy consumption for personal transportation in civil environment , The high rate and non-suitable share of families in total electrical and heating energy consumption, increasing share of requests for Oil & gas which have considerable effects on export capacity and currency income of the country , subsidy system and superficial reduction of energy price which may encourage the consumers more , The severity of energy out of mentioned shortage and its higher amount than its average in industrial & under-development countries and so on [4].

2. Challenges of Energy Carriers Consuming Management

Low price of energy carriers great subsidy of government in so that energy sector

in last year was equal to 15% domestic gross production, irregular and non-optimum energy consumption, energy wasting, controlling great section of energy by government, lack of economical index and legal problem in the field of energy are some of the problems of energy in Iran. The process of energy consumption in developing countries indicates that population growth, technical development, political sovereignty, national independence and... has direct relationship with energy consumption [5]. Meanwhile increasing energy consumption and increasing need to energy, limitation of energy reserves, termination of fossil fuel reserves and environmental problems as a result of consuming resources are among important factors that remembers necessity of economizing on energy consumption in human societies. In Iran cheapness of energy carriers and having access to many energy resources has caused that our society will be faced with considerable delay in necessity of optimizing energy consumption. Meanwhile using suitable solutions for preventing from wasting and irregular consumption of energy and correcting consumption pattern is greatly felt in Iran, since preventing from wasting fossil fuels besides having access to sustainable development and keeping resources for future generations, will result in decreasing environmental pollution that is regarded as one of the main problems of societies. Energy carriers are regarded as one of the important items of production and also consumption goods of families play very important role in specifying production costs and expenditure of families. Fluctuation in price of energy carriers will result in fluctuation of production costs, expenditure of consumer and finally inflation. In this way, one of the important

topics for explaining policy of correcting price of energy carriers is studying effects and consequences of executing this policy on macroeconomic variables, so that besides recognizing causative relations among aforesaid variables, the mechanism for offering amendment or supporting policy for decreasing possible negative consequences and moving economy in the path of increasing effectiveness of production factors will be specified. Doubtlessly cheapness of price of energy carriers during previous years was resulted in irregular and excess energy consumption and wasting national resources and intensifying destruction of environment.

3. Sustainable Energy Policy Making

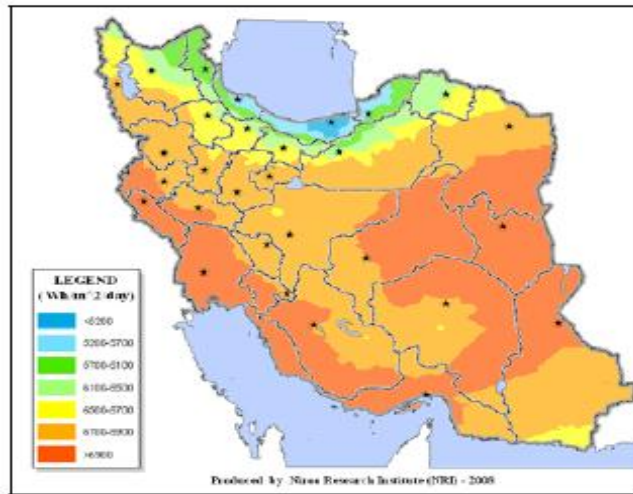
Regarding all international researches in the field of sustainable energy policy making, it is possible to specify four strategic goals as the future policy bases of Iranian Energy including the social acceptance, efficiency of resources, environmental effectiveness and economic efficiency. In comparison with key goals of sustainable energy systems, energy system in Iran has some structural shortages which may prevent from modernization process and cause considerable economic, social and environmental costs for current and future generations. These shortages include quick development of transportation in dense cities with a great share in energy consumption for personal transportation in civil environment, The high rate and non-suitable share of house section in total consumption of electrical and thermal energies, increasing demands for oil and gas which have considerable effects on export capacity and currency income of the country, Subsidy system and superficial reduction of energy

price which may encourage the end-users, High rate of energy out of mentioned shortages with its higher amount than its average rate in industrial & under-developing countries and so on[6].

Since the average world radiation of sun is about 19.23 MJ/m²/day in Iran and with more than 7.7 hours /day in central areas , it is possible to say that solar radiation amount in Iran is one of the greatest around the world. For instance in Germany it is about 800-1000 MJ/m²/year lower than half of the amount in Iran [7]. Regarding the area of Iran which is about 1,648,000 km², then the total radiation amount in Iran is about 3.3 million terawatt hour /year that is 13 times more than total energy consumption in Iran. In spite of natural suitable radiation, any applying of solar energy in Iran is so much little. In order to create a solar heating energy system, we need some tools and equipments including collector, heating carrier fluid, Heating module fluid, storage resource and a control system. There is no more need to an exchange, reserve resource and control system for simple systems. Figure (1) shows total energy radiation on horizontal level in summer on annual basis.

According to the obtained information of this figure, percentage of high/low amounts in annual drawing of total solar energy radiation against the average rat is respectively equal to 0.14 and 0.28 that is a sign of little differences in average rate of this parameter with high rate in country. In other words it shows that there is a suitable solar energy potential in a wide area of Iran [8].

Fig. 1. Total solar energy in summer in Iran



4. Analyzing Economical Patterns of Cooperative and Improving Cooperatives

In spite of having strong theory in the field of cooperative economy, besides that in country it is less attention to this issue, in economical literature a suitable quantitative pattern that can study and calculate effects and consequences of cooperative is less developed. In spite of long record of cooperatives at economical activities of human being, until 1940's there was no official pattern and explaining theory of economical activity of cooperative specially in the section of energy, from 1940's until 1960's most of the theoretical topics of organization insisted on this issue that cooperative is special mode of general merging via institutes. The main question in this period was that are cooperatives really regarded as institute. Emelianoff (1942) was the first researcher that officially and scientifically analyzed behaviour of cooperative. He deducted that since cooperative is always working at the level of cost it does not have benefit or loss, therefore it is not a profit

making unit and cannot be like an institute. This idea was later on developed by Philips (1953) Robotka (1957) and was officially regarded as a pattern for making decision in relation to production and pricing. According to their analysis cooperative cannot have independent entity from member economical units and therefore it is not possible to specify target function and special economical behavior. This status nullifies possibility of using principles of optimization for cooperatives. This deficiency has caused Enke (1954) to define cooperatives as special mode of economical institutes which has analyzed it. His works caused process of making decision to transfer into cooperatives and it will be possible to use economical theories for analyzing behavior of cooperatives. He believed that if manager maximizes sum of excess for producer and consumer, the welfare of cooperative members and the cooperative itself will be optimized. The fundamental problem of this pattern is that it will not result in permanent balance. Maybe the most complete pattern is pattern of Helmberger and Hoos (1962). Their

work lasted 20 years as standard pattern of cooperative theory. On this basis the cooperative behaviour can be patterned by using common tools of neoclassic theory of Investor Owned Firm (IOF). According to their definition, cooperative act based on zero profit and all of the resulted excess will be returned to members. Based on mentioned discussions cooperative has control over production level of its members and its balance point is where the curve of Net Marginal Revenue Product income (NMRP) intersects curve of supplying total members(s). The NMRP curve in fact is curve of demand of cooperative for net product and in accordance with theory of economy, balance is where the demand of institute intersects curve of supplying institute. Therefore cooperative can be described as an institute that is created with the goal of achieving to factors including Ownership, Control and Using Services and conclude that concept of school of cooperative section is the most logical theory for having attention to movement of cooperative in today's modern society via putting the goals of aforesaid 3 groups in same direction. For achieving to maximum power and effectiveness, different cooperatives shall be regarded as separate section inside of economical system of country. Cooperative as part of an economical system intends to observe society within several guild unions in which government with the goal of maximizing public benefit is responsible for arbitration. Therefore cooperative system will have guild union economical nature, but economical system of cooperative is not guild union economical system. The main and strategic motivation in cooperative system is reaching to maximum achievable advantages of other systems besides preventing from disadvantages that are regarded as

nature of these systems. Cooperative system is between free investment system and framed socialism system i.e. in this system in spite of accepting private ownership of productive factors the ownership of human by these tools will be rejected. In this system decisions are specified by humans via cooperatives not via their capitals but due to rejecting personal profit making the private ownership of productive factors cannot be regarded as main index of life of cooperatives[9].

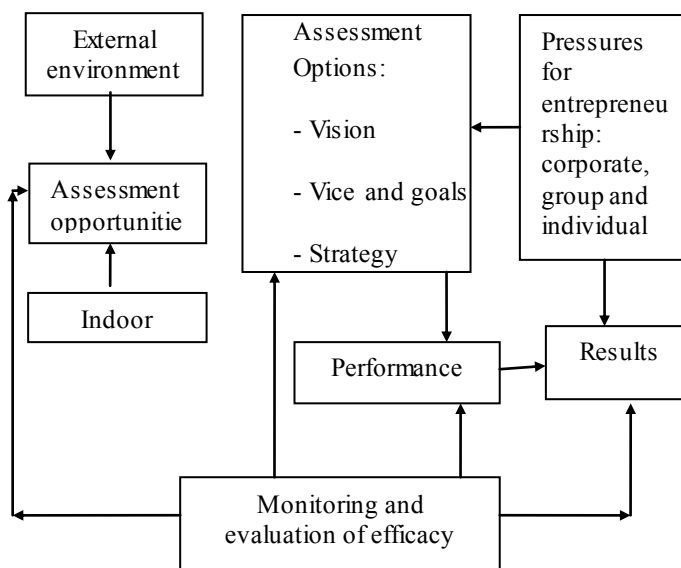
5. Effective Factors on Creating Entrepreneurship Organization

In the present age entrepreneurship is regarded as driving force of economical growth and development and most important factor for creating employment. Therefore most of the governments have accepted entrepreneurship as strategy of national development and have fulfilled many activities for its development. It has been a while that in our country one of the basic policies of government is supporting from entrepreneurship and in laws of economical, social and cultural development there is special attention toward it. In this research in accordance with capacities of section of new energies as solar energy on entrepreneurship, employment and also importance of producing and consuming energy carriers with approach of developing cooperative, it is attempted that besides recognizing effective factors on development, working at this section and specifying and suggesting some strategies to prepare suitable grounds for development of entrepreneurship in the field of new energies as one of the most important factors of permanent development in Iran. Experts believe that human do not have

great difference in relation to level of talent in creativity and entrepreneurship rather it is differences in social environment that result in growth of entrepreneurship income countries i.e. each society in accordance with level of importance and attention to its entrepreneurs will benefit from their effectiveness. Therefore it is governments that by making policies and compiling support laws and generally suitable strategy can create suitable environment of entrepreneurship. By clarifying effect of entrepreneurship on employment and economical growth of countries, different governments all through the world executed several support programs from development of entrepreneurship. Therefore its been a while that one of the macro policies of government in Iran is developing entrepreneurship and at laws of economical, social and cultural development it has received special attention. Other policies including preparing 20 years perspective document, executing principle 44 of the constitution, insisting on decreasing role of government

and delegating activities to private sector have put special attention toward this issue. By passing more than 30 years from birth of concept of Organizational Entrepreneurship, several definitions have been offered about it. In order to develop organizational entrepreneurship several models are offered including model that is introduced by Kornoal and Berleman (figure 2). As it is obvious from figure 2 one of the effective factors on process of executing an entrepreneurship activity inside of organization is inner environment of organization. Researchers have insisted that in order to improve organizational entrepreneurship it is necessary to stabilize indices within inner atmosphere of organization. Of course outer environment is effective on increase or decrease of entrepreneurship activities within organization, but since its parameters are out of control of managers it is less dealt with them. Many researches have certified relationship between efficiency and entrepreneurship in organization.

Fig. 2 Corporate entrepreneurship model



For example some researchers have observed that more efficiency in great organizations is accompanied with higher degree of inner organizational entrepreneurship. Also companies with higher innovation in following and using entrepreneurship opportunities have better efficiency in comparison to other companies [10]. Thus in the organizational entrepreneurship literature there are several items that indicate direct relationship between inner organizational entrepreneurship and improving performance of organization. Based on conducted studies on Iranian companies some of the effective factors on organizational entrepreneurship at these companies are offered in short:

- Flexibility of Manager: It seems that this is the most effective and important factor in path of movement of organization toward entrepreneurship. Flexibility of managers against new ideas and being prepare for facing changes is necessary for these innovative activities
- Riskability of Employees: The second effective factor is having riskability morale in employees
- Humanistic Look of Manager toward Employees: Not looking to employees as tool
- Decreasing Occupational Sequence: In entrepreneurship organizations having simple structural conditions will facilitate work of system
- Freedom of Speech for Ideas: Positive look toward ideas of employees
- Self Selecting Culture: In entrepreneurship organizations generally people themselves specify their work and they are less influenced by organizational obligations
- Decentralization on Organization:

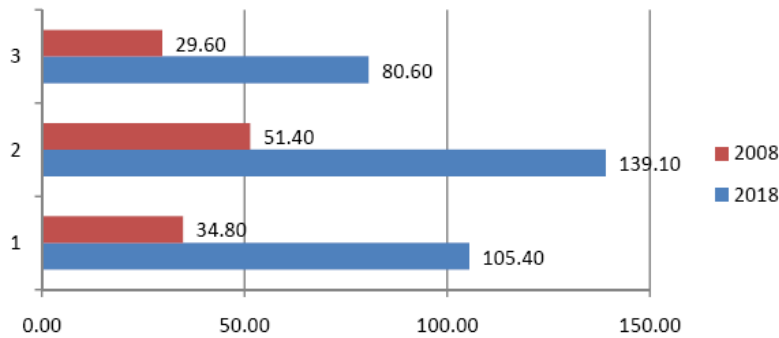
decentralization is regarded as another characteristic of entrepreneurship in Iranian organizations.

6. Importance of Developing Entrepreneurship in the Field of New Energies

In a simple analysis and comparison of numbers in the year 2007 and 2008 all through the world, in spite of economical depression in many countries in the year 2008, companies that were active in the field of developing and growing section of clean energy in world had growth of 53%. Studies that were conducted in relation to increase of income in the year 2008 in comparison to year 2007 indicated that some effective factors have created this growth. Some of these factors include developing system of wind energy in farms and decreasing final price, increasing and developing market, high demand and low supply in this section clean edge institute which is active in the section of developing nanotechnology specially in developing clean energies market in a report in relation to process of income and developing clean energy has offered the following issues:

For the first time income as a result of wind energy in the year 2008 was more than \$50 billion and income as a result of clean energy (solar, wind and bio mass) from \$75.8 billion was increased to \$115.9 billion in comparison to year 2007 to 2008. The newest investment section in solar energy including equipments, supplying financial resources of projects, public markets and development section had a growth of 4,7% from \$148.4 billion in the year 2007 to \$155.4 billion in the year 2008 (figure 3).

Fig. 3 Share of Solar Energy



In 2008 there were 6043407 person working at recyclable energy section all around the world, that in accordance with projects all though the world and future programs

of developed and developing countries, it is expected that in the year 2018 the number of people working at section of clean energies will reach to 2,657,292 (table 1).

Table 1: Renewable Energy contribution

Year 2018	Year 2008	Kind of Energy
1341968	190819	Solar Energy
1315324	413341	Wind Energy
2657292	604341	Total

7. Influence Theory

Influence of technology is a model likes in which at first it will start with very low speed and then it reaches to maturity stage and finally it will decline and descending process will start from this stage. The logic of this chart is that at any technology in accordance with growth and its development in a time, based on limitations in future this growth will be stopped therefore we will have 4 phases including: Learning Stage or Study, Growth, Maturity and Decline. By entrance of a new technology at before maturity stage and recognizing capacity of market and its development it is possible for reaching

from decline stage to ascending stage. In fact this merge of new technology with old technology will enable producer to continue its permanent development and safe himself from decline stage [12]. From view point of consumer there are 5 stages including: Knowledge, Certainty, Making Decision, Supervision and Certification [13]. According to this theory consumer in accordance with knowledge toward old and new technology that in fact is a kind of new mechanism in making decision, shall use a kind of trust toward this new technology that this technology is complete and make suitable decision for buying that. Therefore in case of dissatisfaction of customer it is possible that this innovation will return.

8. Commercialization of Solar Energy

Several definitions have been offered for the term commercialization. Some have defined it as standardization of production operation for offering and transferring knowledge and technology to other people. Some other people have defined commercialization as transferring knowledge and technology from one person to another person or from a group to another group with the goal of using it in process system of a product or method for fulfilling work. In the simplest definition the term commercialization is very close to transferring technology i.e. process of commercialization is the same process of transferring knowledge and technology from research center to available industries or new businesses. In sum commercialization can be defined as reaching an idea or innovation to market by conducting research on market, extracting needs of market, conducting required tests, preparing sample, standardization of process for developing product and managerial arrangement for supplying product to market or applicant. In order for development and commercialization of successful innovation there is need to study influence theory and localization of innovation in different regions, thus defeat of some companies in commercialization and innovations is a result of lack of complete understanding from influence theory and native products and localization of services.

9. Conclusion

Developing new energies has an important role for changing natural resources into energy in which plays an important role in sustainable development of each country.

But in this relation in accordance with commercialization frameworks that are offered in this research the complementary role of cooperative companies especially entrepreneurship cooperatives is creation of companies and innovation. In the present and future atmosphere of global economy simultaneous with obligations of competition, the section of new energies shall respond to necessities of economic competition and this is possible only by improving abilities of new energies. Developing new energies is not created whit the lack of technology and a fundamental revision shall be made. Mechanisms of commercialization of new energies shall receive special attention. In today's world changing technological ideas to projects and useful issues that are accepted by market has the same value of creating new knowledge. Experience of developed countries certifies that there is stable relationship among research and required productions of market. Developing research and development centers in the section of new energies will result in creation of fundamental innovations and independence of this field. Formation and development of entrepreneurship culture and encouraging energy entrepreneurs simultaneous with creating required mechanism can be regarded as effective solutions in the process of commercialization and innovation of new energies.

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World class manufacturing and “Six Sigma”: Their application to SMEs, as well as to services

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Abstract: *The present work starts with the observation of the current international crisis that has not spared the business world, affecting mainly the industrial sector.*

Thus, companies are now more than ever called upon to ensure their competitiveness by meeting some critical success factors that are not only related to quality and product innovation, but also to the production efficiency which can be achieved through minimizing both production and delivery costs.

The difficulty of combining the fulfilment of these objectives which seem to be in contrast with each other, has led companies to experiment different management philosophies to find the most suitable to be adopted in the competitive scene in which they operate, and aimed at ensuring the best business performance in the medium-long term.

As a result, the research aims, first, at investigating whether there are management philosophies that are able to meet these objectives, supported by operational approaches that are compatible with their basic criteria; secondly, it is meant to assess whether these models may cover the whole industrial sector rather than a single sector alone, as well as whether they can be used in both large companies and SMEs (Small and Medium Enterprises) and, finally, whether they can be extended to service companies as well.

Key words: International crisis, Firms, Strategies, WCM, Six Sigma.

1. Introduction

Through analysing the current phase of globalization, it turns out that, like the previous ones, it is characterized by a series of historical events (such as the American

merchant banks' bankruptcy and the recent wars in the Middle East), that are having serious economic, social and financial repercussions on the international markets.

However, unlike earlier phases, it is to be noted that the current one is marked by

its own distinguishing feature, namely the growing importance of the human being in the decision-making process, concerning the product demand and supply. In fact, in modern economies, it is the customer that "leads" the market and that, by his choices, makes a firm either successful or unsuccessful according to the quality and efficiency offered.

Nevertheless, the above two factors of corporate success can be fulfilled solely through better exploiting the role played by man in the firm, since the latter relies on this resource to implement plans aimed at improving the corporate production process in order to ensure increased competitiveness of the firm in the market.

What is described above leads to a consideration on the current industrial scene showing a clear contrast between two main competitive trends, namely those related to the simultaneous maximization of efficiency and effectiveness; the former is achieved through a drastic reduction in the cost of the product from its being conceived until its decline (life cycle cost); the latter is reached through shortened delivery time and increased flexibility to match promptly the changes involving the market which, as it is described above, is increasingly controlled by the final consumer.

As a result, companies are increasingly required to implement management policies that are able to operate with a view to constantly improving not only the product and the production process but also the other business components such as the staff, the management, the executive and operational level control systems, the information system and so on.

Starting from this consideration, the present paper is aimed at investigating first, the management philosophy that companies

are willing to implement to meet the critical success factors mentioned above; such a philosophy seems to have been identified, at least in the automotive sector, in the approach that is known as World Class Manufacturing (WCM), namely an integrated system aimed at preventing production waste.

Obviously, to be successful, this approach should also be supported by an "operational philosophy" preventing both defects and errors; such a philosophy seems to have been identified in "Six Sigma" methodology, pertaining the telecommunications industry.

Thus, starting from the literature on the subject and after introducing the automotive industry competitive context where WCM management philosophy has developed, the principles on which it is based will be discussed later and subsequently compared with those underpinning "Six Sigma" which covers a different sector; then, by examining the production and financial data concerning companies from various industrial sectors, it will be possible to assess the effectiveness of the two approaches in terms of a cost-benefit analysis.

Finally, in the light of the analysis carried out on some Italian firms' case studies, the present paper will also assess whether the above two philosophies can be exploited in other industrial sectors apart from those which are peculiar to them, as well as whether these approaches can be used in service companies besides manufacturing companies; ultimately, the work will investigate whether their use is limited only to large companies or whether, instead, it can also be extended to SMEs (Small and Medium Enterprises).

2. Literature review

The globalization of markets has significantly changed the business strategies aimed

at creating value for the customer (Porter 1993). In fact, in the past, the competitive market was controlled by a few large industrial companies which decided the product to be marketed; besides, the static nature of demand allowed the company, based on the hierarchical-functional model, to produce a standardized product for mass consumption, thus easily yielding both economies of scale and high profits (Butera 1994).

At present, on the contrary, more and more “aggressive” competitors together with negative economic trends are urging increasingly competitive challenges that are paradoxically contrasting in terms of cost, quality and product delivery time (lead time) (Donna 1992), requiring industrial excellence in terms of flexibility, innovation, service level and efficiency, which are likely to be achieved with a flat organizational structure focusing on those processes that can create value for the final consumer who is increasingly going to be master in the market (Arata Andreani and Furlanetto 2002; Jeannet 1994; Merli and Biroli 1996).

For this reason, the only way of reining in such a situation is to reorganize and not only to readjust the company’s logistics and production process in order to make it lean, fast and responsive, with no waste and fully under control (Champy and Hammer 1994; Drucker 1999; Johansson et al. 1994; Mariotti 1994; Ostinelli and Toscano 1993).

In fact, the evolution of markets has led to the change of the primary factors that brought about the “Lean revolution”; such factors can be described as follows:

- the gradual reduction in the life cycle of the product;
- the difficulty of reliably predicting demand for the final product and its components;

- the impossibility of correctly calculating the load input to the production system which, therefore, turns out to be irregular;
- the increased range of final products demanded by the market, needed to satisfy increasingly demanding and prepared customers through increasingly wide and varied supply;
- the growing and overwhelming competition from emerging countries’ competitors that are difficult to be countered both on the cost and on the quality side.

From the above, it is clear that it is no longer possible to focus exclusively on optimizing the processing cycle, but it is necessary “to learn to identify” waste in transfers, handling, stocks, controls, defects, lead time, errors, repairs, etc., which represent the bulk of the costs to be borne without any added value for the customer.

This need is also confirmed by the analysis of the defects concerning different types of companies (Table 1), showing that, especially in recent times, the application of a new management philosophy is more and more necessary in order to reduce the number of defects arising from the production process so that to increase the business competitiveness.

Given the current international situation, a radical reinterpretation of the production process is increasingly needed, in order to meet successfully the new requirements of the market.

In order to achieve this goal, World Class Manufacturing (WCM) (Keegan 2003; Strever 2008) was worked out, which represents a modern evolution of the Japanese model known as the “Toyota Production System”

(Cusumano 1985; Liker 2004) that developed in the automotive industry in the eighties and consists in an Innovative Production System based on such techniques as Lean Production, Total Quality Management (TQM), Total Productive Maintenance (TPM) and Just-in Time (Golhar and Stamm 1991), aimed at a rapid and continuous improvement in the whole logistics and production

cycle of the company, through eliminating any kind of waste and loss (Muda), which can be achieved only by involving the company's human resources at all organisational levels, through the strict application of the suitable standards and methodologies such as "Six Sigma" (Adams et al. 2003; Basu and Wright 2004; Brue 2003; George 2002; Gruppo 2G 2010; Schonberger 1987).

Table 1 - Percentage of defects in certain types of manufacturing companies and services

TYPOLOGY OF PRODUCTION/SERVICE	% defect
<i>Motorcycle – At the end of the assembly line</i>	30%
<i>Aluminium piece working- Reworking and scraps</i>	7%
<i>Tractors - Tractors with some defect</i>	100%
<i>Gas valve – Faulty pieces at the end of the line</i>	15%
<i>Cosmetics – Assembly</i>	20%
<i>Taps and fittings – Pressing</i>	7%
<i>Insurance –Accident policy from brokers</i>	80%
<i>Banks – First level control for credit granting</i>	60%

3. World Class Manufacturing (WCM) management philosophy

What is described above shows that the main purpose of WCM is, therefore, to be successful on the market with high quality products at competitive prices, by meeting customer needs and ensuring maximum flexibility, through the strict application of "zero defects in everything" formula, namely the "nine zeros" on which this management philosophy relies, represented by: zero customer dissatisfaction, zero mismatches, zero bureaucracy, zero shareholders' dissatisfaction, zero waste, zero non-value adding work, zero stops, zero missed opportunities, and zero lost information (Strever 2008).

From a purely strategic point of view, WCM System is based on three meanings

(Bordogna 1994):

- the sense of innovation, meant as the search for a way to do something better than it has ever been done before;
- the sense of achieving quality through constantly pursuing a perfection standard made up of details;
- the sense of efficiency, as a result of reduced waste.

Reducing waste means, therefore:

- eliminating non-quality costs;
- investing in better functioning of the business processes and in human skills;
- delivering value and customer satisfaction, achieving a competitive advantage in the long term.

In order to achieve these goals, the key actions to be pursued when applying this philosophy are thus summarized as follows:

- improving processes;
- avoiding waste and correcting errors;
- detecting errors before they become defects;
- investing the resources saved in Value adding activities for the customer;
- displaying waste through scientific observation and a graphic display of flows.

In this respect, the means to ensure the Rapid Improvement required, to be achieved by the company, are the following:

► The Deployment system consisting in analysing the value chain to detect waste, as well as carrying out the plant Rightsizing showing that about 30% of resources are dedicated to non-value adding activities for the customer;

► The Value Stream Mapping, based on a graphic display of all the actions that are normally required to transform the raw material into the final product for the customer, identifying 30 to 40% waste as well as its causes within a week;

► The Kaizen Week, which is an approach to improvement actions allowing remarkable results to be achieved in just five working days, through shifting from the brainstorming to the trainstorming which allows the improvement ideas to be tested on the spot, as much as possible within a day, by the people involved in the process, that will obviously take the suitable precautions on the matter.

It is to be noted, that before the advent of WCM, it was assumed that production could be managed "in numbers". The numbers were to be used to decide the actions to be taken, the materials to be bought, the people responsible for such actions to be identified.

If, for example, the latest report on costs showed a negative variance for the welding

operation, the task of reducing costs fell on the department head. But how? There were no data on the causes that had led to cost overruns. The department head could, for example, put the staff under pressure to achieve a higher output for the same labour cost but, nevertheless, in this way, he would not have been able to understand what had really happened. Basically, numbers were not able to clear up the causes of this phenomenon, as well as to go back to the real reasons leading to cost overruns.

In most cases, they could not even identify the symptoms of the real problems affecting the balance sheet.

With the introduction of WCM, instead, the first thing to be done is trying to identify the causes that produced those numbers, going back to the "root causes", and then to remove (or at least to minimize) the factors producing them. In this case, numbers indicate the quality of products and services, as well as of the improvements achieved in terms of costs over time.

Briefly, WCM essentially allows the problems to be measured, diagnosed and solved directly within the factory, avoiding learning them afterwards through the reports and the balance sheet, by which time, nothing can be done any longer.

It starts with the elimination of any kind of waste in the factory and then goes even deeper, also focusing on eliminating waste concerning the organizational structure, as well as the management practices. It is focused on customer satisfaction, through a good knowledge of customer needs, on the basis of which it aims at offering a high quality final product at affordable prices.

However, in order that WCM management approach develops properly, it must

first be implemented by the Directorates General that, through a powerful leadership action, are in charge of spreading and applying its principles, leading the company to reach high quality levels at competitive costs.

In fact, history teaches us every day that the greatest resource available to a business is people rather than technology. Focusing on people rather than on technology and giving them a chance to use their potential is the key to “world class” competitiveness.

In short, pursuing excellence means striving for “perfection” with a goal of Continuous Improvement. Such an improvement must be achieved through a “bottom-up” approach, i.e. by fully involving the operational staff taking full care of details.

4. The results that can be achieved through WCM implementation in different kinds of companies

After explaining the principles supporting WCM, it is necessary to assess the validity of this management philosophy, to understand whether it is likely to match the current competitive context and to benefit the companies adopting it, both economically and qualitatively. The analysis carried

out has revealed that WCM is able to achieve significant results such as:

- 100% increased productivity;
- 90% shrinkage in both stock and production time;
- 50% reduction in both errors for the customer and in scraps for the process;
- 50% reduction in Time to Market;
- low extra cost supply of a wider range of products;
- very modest investment.

Besides, once adopted, WCM allows productivity to be doubled, over time, through incremental improvements over two or three years, as well as stock-in-trade, errors and time to be halved over the same space of time.

Waste, namely “non-quality cost”, ranges between 10% and 30% turn-over in most companies and the improvement process may be endless, bordering on perfection.

As for “waste hunting”, consisting in the rapid improvement activities carried out during the Kaizen week, it allows significant results to be achieved, as it is shown by the data below relating to technical features (Table 2), as well as to the rapid improvements attained within some companies covering specific industrial sectors (Table 3).

Table 2 – Business performance improvements through the use of the Kaizen Week

TYPOLOGY OF RESULTS	% result
<i>Increased productivity</i>	<i>from 20 to 60%</i>
<i>Reduced work in progress</i>	<i>from 30 to 70%</i>
<i>Reduced defects</i>	<i>from 20 to 40%</i>
<i>Reduced set-up time</i>	<i>from 50 to 80%</i>
<i>Reduced metres to be covered</i>	<i>from 40 to 80%</i>

Table 2 – Business performance improvements in different kinds of companies

HOUSEHOLD APPLIANCE COMPANY			
Features	Starting	Goal	Result
Space (sq.m.)	75	60	57 (-25%)
Stock	40	10	10 (-75%)
Lead Time (min.)	24	6	6 (-75%)
Cycle Time (cts)	298	240	203 (-32%)
HOUSHOLD ELECTRONICS COMPANY			
Features	Starting	Goal	Result
Production (piece/day)	500	600	600 (+20%)
Team (operators)	5,5	5	5 (-10%)
Stock turnover index	7,6	60	60 (+680%)
Space covered	100 mq.	-50%	50 (-50%)
AID SERVICES AND PERSONALIZED ASSISTANCE TO THE INVOICE PROCESS			
Features	Starting	Goal	Result
Defects	70%	100%	95%
Lead Time	71 days	12 days	12 days (-83%)

5. “Six Sigma” operational methodology

Continuous improvement of the processes underlying WCM management philosophy that has just been examined, the application of which is considered as crucial to ensure the business competitiveness in the current international scene, as it is shown by the data analysed, implies the following actions: redesigning either the product or the service offered, improving the production process effectiveness and efficiency, carefully monitoring costs and margins, reducing defects and errors in supplying products and services, meeting customer needs faster, increasing the employees’ professionalism and so on.

Therefore, given the cross-nature of the possible interventions, the task of improving performance requires a structured approach, a disciplined, coordinated and well

organized “thinking”, as well as appropriate business resources’ involvement.

Among the most developed WCM-based operational methodologies, the so-called “Six Sigma” is worth mentioning; it is a modern and very rigorous approach to running a business, whose aim is pursuing excellence, based on TQM and Continuous Improvement principles.

It is an “operational philosophy” that can be described as an approach to the business improvement, aiming at identifying the critical points and the causes of defects in order to eliminate the most relevant and damaging mistakes, by reducing time and transaction costs, improving productivity and better meeting customer needs.

Introduced in the early eighties from Motorola, a leader in the field of mobile phones, this methodology has gained considerable credibility over time, so that its guidelines have been agreed upon by such

organizations like General Electric, Toyota, Honeywell, and Fiat (the last one has implemented it in its Italian factories as well as abroad, namely in the newly-born plant in Kragujevac, in Serbia) (Scalera 2011), thus certifying worldwide "Six Sigma" approach (Vergnano 2010), as a real philosophy for analysing, measuring, as well as improving the business processes; in addition, Motorola was identified as the international reference for its quality approach.

Starting from the basic idea according to which each process shows some variability due to natural and specific causes that can be potentially identified, controlled as well as eliminated and without going into a highly statistical explanation of the methodology, it is perhaps useful to define the Critical to Quality (CTQ) factors, namely all those features that are peculiar either to a product or a process, that must meet certain criteria (specifications) in order to avoid customer dissatisfaction.

Consequently, the term Process Capability is meant as the quality level of a process that can be defined as the degree according to which the process output meets the specifications (target values) defined for CTQ characteristics.

In order to assess that the characteristics of either goods or services comply with the validity limits imposed by the specifications, it is, therefore, necessary to check the process creating a product/service rather than the product/service in hand. Which means shifting from an investigation into the product obtained to an investigation into the process creating the product, through the use of dedicated techniques.

These include "Six Sigma" among the best, a technique measuring the variance of a process, namely a parameter fluctuation

against its average value (standard deviation); besides, unlike compliance with the ISO 9000 family of standards, "Six Sigma" covers not only quality but also the economic field. "Sigma", as the methodology is known, comes from the Greek letter that is used in statistics to indicate the value of a process variance, namely a parameter fluctuation against its average value (the so-called standard deviation).

The indicator is calculated using a simple algorithm that will define the number of "Defects Per Million Opportunities" (DPMO) using the following formula:

$$DPMO = [D/(N \times O)] \times 1000000$$

where:

D = Defects produced per unit of time.

N = Number of output produced per unit of time.

O = Number of defect opportunities per unit of output.

The sigma scale is an exponential conversion scale associating each DPMO with a sigma value: the lower the DPMO, the higher the sigma value.

The highest quality attainable by applying "Six Sigma" methodology is just equal to "six" and the more this value is approached, the more the process is stable and therefore less subject to the variance.

A "Six Sigma" quality reaches 99.99966% accuracy rate, which means no more than 3.4 defects per million items produced (Brun 2008).

Going further into details, the necessary steps to develop this methodology can be described as follows:

- obtaining support by the top management;
- appointing either the Steering Committee or the Business Quality Council members;

- gathering information through contacts with customers, suppliers and partners;

- training and awakening the management, as well as the employees to the methodology;

- developing the monitoring system by defining objectives, resources and performance indicators (by establishing the project charter);

- creating working groups and selecting the processes to be improved;

- launching the projects with special care to the first measurable results achieved.

The above methodology is very popular for a number of advantages:

- a) simple and easy to be used;

- b) the opportunity to compare processes that are very heterogeneous between them;

- c) helping the company to set ambitious targets to be achieved through Continuous Improvement approach;

- d) spreading and applying the approach aimed at involving both the employees and the management.

However, in order that its application is actually successful, the top management must be convinced of the project effectiveness, invest in the employee's training and spread a corporate culture within the firm, aimed at awakening the employee to taking on responsibility, at decentralizing decision-making as well as at promoting the initiative by the worker. It is clear that this cultural change within companies leads to the creation of a special infrastructure of people who are going to redefine roles within the company's organizational structure.

Among these new professional profiles, five are needed for suitable "Six Sigma" implementation in the business.

- Executive Leadership includes the CEO as well as other key members of the Top

Management. They are responsible for setting up a vision for "Six Sigma" implementation.

They also empower the other role holders with the freedom and resources needed to explore new ideas for improvement..

- Champions are responsible for "Six Sigma" implementation across the various functions in an integrated way and are drawn by the Executive Leadership from upper management.

- Master Black Belts, namely in-house resources that are selected by Champions, acting as experts and coaches for "Six Sigma" implementation. They play this role full-time and besides assisting Champions and guiding Black Belts and Green Belts, they have the task of identifying new projects to be developed, dealing with the integration of projects among the various business functions, as well as ensuring a suitable and rigorous application of the statistical techniques in the ongoing projects.

- Black Belts operate under the guidance of Master Black Belts to apply "Six Sigma" to specific projects, even guiding Green Belts. They play this role full-time and their work is focused on the implementation of projects, while Master Black Belts are primarily oriented towards the identification of new areas for improvement.

- Finally, Green Belts are the employees who, in addition to their specific roles and job responsibilities, devote a part of their time to implementing "Six Sigma" projects.

6. DMAIC as a methodology to improve a process "Sigma"

Among the methodologies aimed at enhancing the Sigma level achieved in a process, the most widespread is DMAIC (the

acronym for the words Define, Measure, Analyze, Improve and Control).

In this general framework, DMAIC is the data and information analysis that is peculiar to "Six Sigma", structured and focused in order to make decisions and test them before actually committing the business resources needed to improve existing processes. The advantage of this decision-making approach does not lie in its phase structure in itself, but rather in the content of each single phase, since this is the factor that makes the method systematic.

To better understand this methodology, it is useful to briefly describe the content of the various phases characterizing it.

► The first phase, corresponding to "Define", aims primarily at describing in a clear and unambiguous way the purpose of the project, the improvements to be achieved and how to measure them, laying the foundations for the development of subsequent phases. In order to be suitably supported by the top management, the improvement project must provide a tangible impact on the strategic business objectives and therefore on the customer satisfaction (either internal or external to the organization), fixing the operation economic return, the sectors involved, the economic and human resources needed and the project schedule.

► The "Measure" phase, instead, aims at measuring, by using descriptive statistics and sampling, the current status of those features which are critical to the quality or the business that are to be modified, as it is described in the "Define" phase. The team must then collect the data concerning the product, service or process to assess the current level of performance and provide a picture of the initial state of the context (often referred to as an as-is situation).

In practice, once the characteristics of the product, service or process have been identified along the "Define" phase, it is necessary to understand and measure both the inputs that may affect them, and the outputs achieved with these input values, by structuring the information that are essential for the subsequent analysis phase.

► In the "Analyze" phase, starting from the data collected, information are gathered that are useful to implement the improvement process by using such tools as the analysis of variance (ANOVA), Pareto histograms, regression, correlation and stratification.

Therefore, this stage is meant to understand how each input in the process and each transformation within itself affects the output, namely the performance; in other words, the "root causes" of the problem tackled are to be detected, as well as the factors to be considered in order to achieve the goals set.

► The "Improve" phase, a systematic search for solutions is carried out through a creative process involving all the team members, to reach a large amount of ideas and proposals through the use of FMEA (Failure Modes and Effects Analysis), DOE (Design of Experiments), as well as a cost-benefit analysis.

Among the intervention opportunities that have been put forward, the most profitable ones must be identified, according to the economic standards or to other parameters that are relevant to the organization, by making a selection of the possible projects.

Once the interventions for improvement have been selected, a pilot project is worked out that confirms their costs and benefits, either testing its impact for a limited space of time, on a limited set of products or working on an partial area of the process.

► In the last phase, the one known as “Control”, the results achieved through the changes made must be confirmed and kept steady over time or their benefits should be widened as much as possible through the following: the planning activity, the control tools and documents that are needed to transfer the knowledge acquired through the project, the implementation and application of the successful solutions found to other business sectors; all these activities will be carried out by using such instruments as the control chart, as well as the quality control plan.

Finally, the last activity should be focused on the evaluation of the work done by the project team, as well as the communication of the possible goals achieved through a public acknowledgement of the results achieved by the working group, the staff's involvement and, basically, the spreading of the improvement culture within the company.

However, in case of new processes that have to be still designed, the earlier phases, though keeping the same meaning, may be changed, leading to the approach indicated by the DMADV acronym. It is characterized by the following:

- Defining the process and identifying its weak points that lead to failing to meet customer expectations;
- Measuring the process and determining whether it meets customer expectations;
- Analysing the options needed to satisfy the customer;
- • Designing changes to the process in order to satisfy the customer;
- Verifying that the changes made have met customer expectations.

7. Italian companies case studies

At this point, starting from the analysis of some case studies, the object of the present study is to assess whether the use of WCM at a management level and of “Six Sigma” at an operational level can be applied successfully to Italian service companies, apart from production companies, as well as whether their use may be extended to SMEs.

Afterwards, the work is intended first to identify the most important critical success factors to be met to implement the methodology in Italian companies and then to compare such factors with the “traditional” cases that emerge from the various publications on the subject.

In particular, for the sake of accuracy, among the twenty companies surveyed, the five most significant cases illustrated below, cover heterogeneous sectors, of various size, that have implemented the methodology both in existing processes and in the new projects.

• The first company to be considered is Leasys and Savarent (Fiat Group Automobiles), which is the long-term renting platform of Fiat Auto Group, that employs about 450 employees and covers about 150,000 vehicles. The implementation of “Six Sigma” has been directed at eliminating waste that, in a service business, leads to such malfunctions as stacked sheets and drawers crammed with papers (Doglio 2009).

The use of the Kaizen week has allowed the introduction of the visual element within the continuous improvement system in order to show the defect, a result that was also achieved through the monthly interview on the customer network.

However, in particular, Value Stream Mapping, namely the mapping of all the

business processes considered as value flow for the customer rather than as an input/output system, developed within a week, has been essential to reduce the process variability and obtain a significant economic return amounting to about 5 million, against advice costs and 100% dedicated resources which resulted in a total investment of 400 million Euros.

- Another service company is Enel, the market leader in Italy in the field of energy networks, that invested about 2.5 million Euros in 2006, to launch an operational excellence project known as "Lean Six Pegasus" aiming at reducing costs of about 700 million Euros (of which only 250 million Euros were made in 2008), spreading the culture of the methodology among about 20,000 people in the department.

The results went far beyond expectations, leading to 20% reduction in the resources used by eliminating 30 non-value adding activities, as well as a set of hierarchical constraints that slowed down decision-making (Doglio 2009).

Finally, the optimization of the stock and materials management process, started in 2009, is expected to ensure 150 million Euros saved over three years, while in the near future, the Lean concept will also apply to suppliers by integrating the entire supply chain, as well as to issues relating to the environmental impact (with the processes of Green Identity and Lean Green Division).

- As regards Box Marche joint-stock company, it is a company operating in the field of graphic as well as paper and cardboard industry, that has set itself an ambitious economically and socially-oriented mission, namely that of achieving excellence on the basis of ethical principles that are able

to promote comfort not only for customers but also for suppliers, employees, partners, the territory and the outside community (Del Baldo 2008).

This result was achieved by introducing "Lean Six Sigma" culture, which led to highly satisfactory results; in fact, stock shrank by 25% and lead time was reduced, on average, by 10% (Greco 2009).

- Among SMEs, Emmevi limited company has successfully implemented "Lean Six Sigma" methodology; the company, dealing with designing and manufacturing small and medium power electric motors, has focused its attention on solving the problem concerning the reduction in the number of orders processed later than the time set by the customer (a week's delay in 30% of cases and over a five days' delay in 25% of cases).

In particular, once the department has been identified, namely the fan department which was the critical quality feature, the application of the methodology made it possible, by a 20% reduction in non-value adding for the customer, to increase the daily productivity of over 1,000 pieces for each work shift thus reducing the order delay (Aggogeri and Sicorello 2009).

- Finally, again among SMEs, Ticinese Service limited company, that is specialized in supplying industrial refrigerating units ordinary and extraordinary maintenance services, had, at the beginning, some difficulties in efficiently managing and supplying its service.

The problem was mostly domestic, since the calls and orders covered ensured that performance targets were met.

In this case, the problem was solved by using DMADV problem solving, since the action was taken on something that did not

exist yet, by designing and implementing a system that was able to manage and measure all the services offered, leading to zero organizational errors, thanks to the creation of a streamlined organizational structure consisting in a team of four operators carrying out maintenance, as well as a staff of three people in charge of marketing, customer management, planning services as well as business management (Aggogeri and Sicorello 2009).

In the light of the cases analyzed and of the satisfactory results achieved through "Six Sigma" application, it can be seen that this methodology is a cross-sector one, as it is the most effective to improve any business area and any kind of performance.

However, it can be seen that the basic principles of Lean Production can be extended to the office context, as well as to services, although in Italy there are still few companies that have gone through this innovative step (Galgano 2005; Sganzerla 2004).

The reasons for this partial development are manifold.

First of all, there is to be noted, in fact, that in offices and services the production flow is less evident and, furthermore, the customer can often cause waste through interfering in the process.

Other reasons are accounted for by the fact that quality and productivity interfere with each other, that in these areas there is a clear human predominance against machinery and materials, and that individuals have little experience in identifying and separating what creates value from what does not create it.

Finally, it is shown that in these sectors, productivity improvements, when turned into economic benefits, negatively affect the redistribution of surplus staff.

8. The success factors of "Six Sigma" implementation in an Italian business

At this point, in order to overcome the difficulties described above in Italian companies, it is useful to identify the most important critical success factors leading to successful implementation of "Lean Six Sigma" methodology in those firms.

The answer is evident by comparing the methodology implementation in a dozen Italian companies and the "traditional" cases worldwide, emerging from various publications on the subject.

In order to carry out this analysis, the answers from Italian and foreign company's managers were analysed, about the most important critical success factors to be met in order to develop the methodology, as it is shown by the results set below, considering that for each factor, the average value (on a scale from 1 to 5), as well as the standard deviation of the results achieved were taken into account (Table 4).

The analysis of the above data shows that successful implementation in Italian SMEs must meet the same critical success factors as international companies, mainly represented by:

- involving the top management as well as entrepreneurs in the improvement project;
- associating cultural change with a "Six Sigma" programme implementation;
- linking the programme made with the aforementioned methodology and the business strategy.

From the above, a series of reflections can be made concerning WCM implementation at management level, as well as "Six Sigma" application at the operational level, in Italian companies.

- In particular, barriers to improvement can be overcome if structured and appropriate action is taken, represented primarily by training on the job aimed at providing all employees with the technical knowledge needed for the proper application of the above methods to those processes that must, sometimes, be reformulated, to ensure their continuous improvement.

- In addition, the effort to be made to carry out "Six Sigma" training programme

decreases with increased length of implementation in the company. This is mainly due to the fact that, as already shown in the first phase of the methodology development within the company, it requires considerable effort on the part of the business to train, first, Black Belts that will, afterwards, have the task of training the rest of the staff so that the latter are receptive to the use of the new method.

Table 4 - Significance of the Critical Success Factors

	Traditional Application		Italian SMEs	
Critical Success Factors	Average	Deviation Standard	Average	Deviation Standard
<i>F1: Management involvement and commitment</i>	4.4	0.31	4.5	0.31
<i>F2: Cultural change</i>	3.9	0.36	4.0	0.51
<i>F3: Communication</i>	4.0	0.64	3.8	0.77
<i>F4: Organisational infrastructure</i>	3.5	0.80	3.4	0.81
<i>F5: Education and Training</i>	3.7	0.60	3.6	0.71
<i>F6: Linking Six Sigma to business strategy</i>	4.1	0.27	4.0	0.55
<i>F7: Linking Six Sigma to customer</i>	3.9	0.45	3.8	0.86
<i>F8: Linking Six Sigma to human resources</i>	3.4	0.86	3.4	1.04
<i>F9: Understanding tools and techniques within Six Sigma</i>	3.7	0.55	3.7	0.49
<i>F10: Linking Six Sigma to suppliers</i>	3.6	0.78	3.3	0.90
<i>F11: Project management skills</i>	3.6	0.57	3.7	0.59
<i>F12: Project prioritisation and selection</i>	3.8	0.55	3.7	0.43

Source: Brun, A. 2008. *From Performance to Decision. Business Intelligence & Business Performance Management for Business Efficiency*. Milan Politecnico and Bergamo Confindustria, July 8, 2008. Accessed March 16, 2011. <http://www.unindustria.bg.it/i/club/qualita/file/8lugli08brun.pdf>

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Later, by the time passing and as the methodology spreads within the company, in a more advanced stage, training will cover

only Green Belts, that, among other things, having a good knowledge of their function processes will be able to maximize the value created by "Six Sigma", devoting only a part of their time to the projects implemented by using this tool, so that to spend the remainder to perform their own duties.

- Besides, it must be pointed out that the application of the methodology requires a significant commitment by companies that sometimes, especially SMEs, are unable to support, due to high training costs, as well as to their exclusively short-term view of the matter. Among other things, training programmes should be extended to all hierarchical levels, providing Black Belts with the use of the latest statistical methods, and Green Belts with less complex ones (Fig. 1).

In particular, Black Belts should work full time, so the high opportunity cost related to the withdrawal from their own membership functions, suggests that small businesses should limit the use of these figures, focusing, instead, on increasingly involving Green Belts.

- It was noted that companies trained in "Six Sigma" at all hierarchical levels implement a greater number of projects based on this methodology, since by approaching the methodology and being in close contact with the processes to be improved, even the operational levels will have a practical and active attitude in solving the problems to be tackled.

- Another point to be discussed concerns the minimum targets for improvement to be set by the companies, in order to approve the launching of a "Six Sigma" project, which is sometimes influenced by the selection of indicators either of a financial nature or not.

In this regard, one of the objectives of “Six Sigma” implementation is, essentially, to work out efficient projects in the economic sense of the term, without neglecting projects directed at improving quality performance, so as to continuously pursue customer satisfaction.

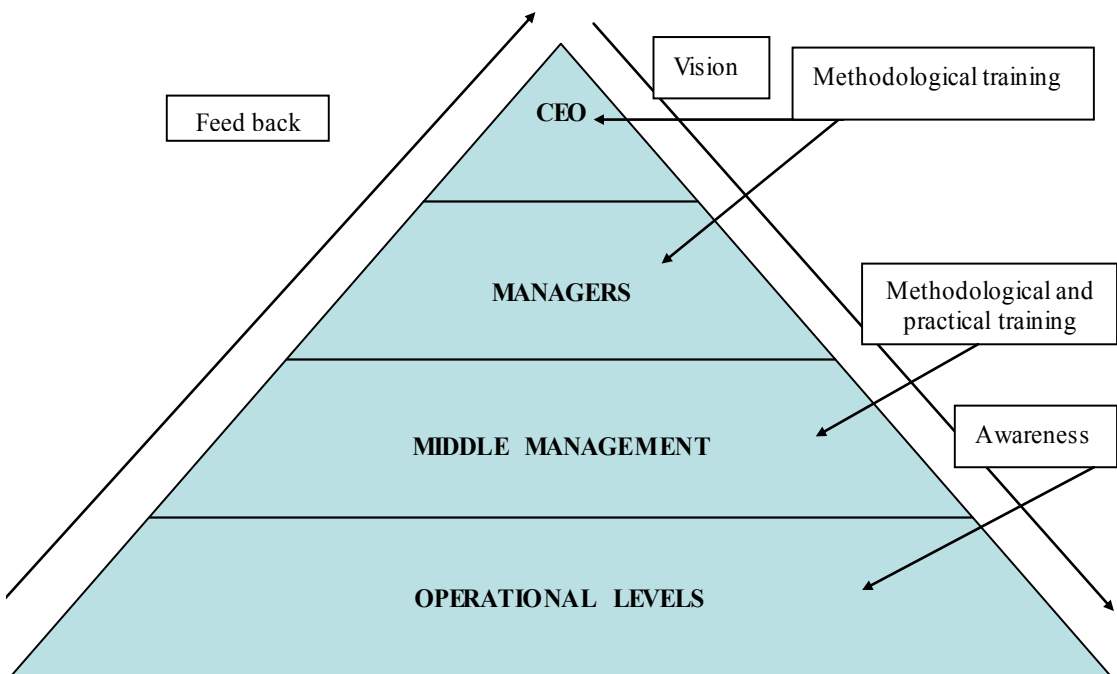
- A final consideration concerns the projects’ quality level and the possible outcomes to be achieved over time.

In fact, it was pointed out that the most suitable approach is to implement, in the early years of the methodology application, simple projects showing a high probability

of success, in order to convey confidence to the staff; afterwards, once the early stages are over, higher minimum targets will be considered to remove the causes of the project’s inefficiency allowing improvements to be made more easily.

Finally, once the methodology implementation has reached its full development stage and processes have been remedied, the quality level achieved should be kept steady; in fact, considering “Six Sigma” in a dynamic perspective, it will reach a saturation level, since it is not actually possible to reach a level of absolute perfection.

Figure 1 - Framework of Reference for Training



Source: Brun, A. 2008. *From Performance to Decision. Business Intelligence & Business Performance Management for Business Efficiency*. Milan Politecnico and Bergamo Confindustria, July 8, 2008. Accessed March 16, 2011. <http://www.unindustria.bg.it/i/club/qualita/file/8lugli08brun.pdf>

9. Conclusions and implications

The present work was intended to identify a managerial philosophy that, properly supported by an operational methodology, enabled companies striving for competitiveness in the current international recession to pursue customer satisfaction, combining goals seemingly in contrast with each other, that is to say, the product quality and innovation on the one hand and production efficiency on the other one, through minimizing production and delivery costs.

The paper has established that these goals can be achieved by applying World Class Manufacturing (WCM) management philosophy to companies, aiming at eliminating defects in all business processes, working with a view to their improvement, that can be achieved by avoiding waste through correcting errors, in order to invest the resources saved in activities creating value for the customer.

The analysis has shown the validity of this philosophy that, if adequately supported by "Six Sigma" operational methodology based on the same principles, can successfully result in the following: 100% increased productivity, 90% reduced stock and production time, as well as 50% shrinkage in such items as Time to Market, errors for the customer and scraps for the process.

At this point, the object of the paper was to answer three questions, namely: understanding whether these approaches could be applied to the Italian context in all productive sectors, whether their validity could be influenced by the company's size, as well as whether their use could also be extended to service companies.

The analysis of the case studies has

shown that the answer is positive to all the three questions.

Indeed, in the light of the satisfactory results achieved by applying "Six Sigma", it can be seen that this methodology is a cross-sector one, as it is the most effective to improve any business area and any kind of performance; besides, it can lead to satisfactory results, regardless of the company size; in fact, some case studies have proved its perfect applicability to SMEs as well, that will need less technical, financial and human resources to implement it (by involving Green Belts).

Moreover, as it was shown by the cases analysed, WCM and its "Six Sigma" operational methodology may contribute economic and quality advantages, even in service industries.

The latter, however, will be likely to have some difficulties related to the Italian political, cultural and social context that, combined with the small-medium sized businesses often based on a hierarchical model, implies objective difficulties for the management, that are mainly related to engaging and motivating the staff at all levels, instilling deep confidence in the method, overcoming the false fear that the "world class" approach cannot be applied to their own context, creating and effectively managing cultural change, going beyond the boundaries of the functional model by working in team aiming at improving the aggregate value flow across all the business functions.

In particular, among the problems to be solved, there is primarily the high variability in quality that does not allow easy control of the same performance to be replicated over time.

Secondly, the value intended as a benefit for the customer, which is considered to

be highly subjective and intangible, can lead to some difficulty in understanding what are the features that are likely to increase value for the customer himself.

In this area, another important element is the time factor, since the availability or not of the service for the customer, at a particular time, determines whether or not value is created for him.

As to some kind of malfunctioning considered as waste in this area, they are different from that concerning the production sector, and are represented by non-completed paperwork within the process on hold, on computers or in the drawers, by missing information and documents, as well as by the

amount of paper that is actually moved from one location to another.

Finally, in my opinion, the present research suggests that easier and successful implementation of the above methodology in the context of Italian companies, in the near future, requires a number of critical success factors to be fulfilled, among which the most important are represented by the following: involving both the top management and entrepreneurs in the improvement project, associating cultural change with "Six Sigma" implementation through the company's training, as well as linking the programme implemented with the above-mentioned methodology and the business strategy used.

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Does J-style “Kaizen” management create the joy of service? -Exploring the Co-creative Human Development Model -

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Abstract: This paper tries to develop a new foundation for the Co-creative Human Development Model (CCHD). CCHD aims at creating a platform for the exercise of freewill, a space that serves as a point of departure to open up the path to Truth and so divert us from the sinful route to self-destruction.

CCHD differs from A. Sen's capability theory of human development, most markedly in its conception of the nature of development; Sen views this as expanding the capability (freedom) to choose, whereas CCHD sees it as awakening and activating the freewill to choose freedom.

Taking our place on the CCHD platform of freewill allows the linkage between practicing Kaizen (J-style continuous improvement) and the joy of service to be captured in visible form and made known to us through our experience. The exercises connected with CCHD shed light on our mind-set, so we can become aware of the true meaning of Kaizen in our working lives and lifestyles as a whole, which can then be linked with the joy of service.

Keywords: co-creative, value judgment, freewill, lifestyle, Kaizen, joy of service

1. Introduction

I would like to share with all of you a new foundation for the Co-Creative Human Development model (CCHD), which gives a theoretical structure to “Gakumon-ryoku”.

First we will discuss the essence of CCHD and why its development is necessary.

Secondly, we will examine how CCHD differs from the prevailing human development model that has its origins in A. Sen's capability theory. Thirdly, we will explore how CCHD allows us to understand the connections between Kaizen (J-style continuous improvement) and two of its possible outcomes, joyful and joyless service.

2. The Essence of the CCHD model

CCHD creates a platform for the exercise of freewill, a space that allows us to practice the discipline of examining systematically the lifestyle and value judgments of homo economicus (the 'rational' economic human being). The concept of the "Co-creative" human being is closer to that of homo reciprocans, (a human being primarily motivated by the desire to be cooperative and to improve its environment).

At the same time, CCHD also provides a practical method to vitalize our general lifestyle by participating in "co-creative" activities. CCHD enables us to question directly our own ways both of thinking and feeling of our own freewill by interacting with others in a real (not virtual) public space. Therefore it allows us to shed light on the stubbornness of self-centered human reasoning and sensibility, and also to connect our intelligence (logic) with our virtue (moral awareness). By standing in a "co-creative" space with an open heart, we can become aware of both the great danger of self-destruction inherent in our lifestyle and also of the enduring life of Truth which will set us free from it.

In the CCHD model, 'lifestyle' is understood in a broad perspective, to include not only our "invisible" attitudes and values but also our "visible" behavior. Even so, the focus is still more on "invisible" factors, because they determine behavior.

This is because, firstly, our value judgments condition our behavioral choices. Secondly, our lack of objectivity and our self-focus lead on to a self-seeking pattern of conduct, which is dangerous. Thirdly, we tend to make decisions based on value judgments without being aware of having other

choices. Fourthly, the choices we make that are constrained by our value judgments may be somewhat unbalanced and inappropriate if our emotional processes are dominated by our rationality or vice versa. Fifthly, we may very often find ourselves acting on value judgments without critical thinking or giving full play to our freewill.

In a place of higher learning like a university, four intangible walls in the classroom, A-B-C-D, can hinder us in our search for our common goal, excluding the freshness of thought that alone can vitalize the learning environment.

The first is "the wall that blocks out Awareness". All those in the classroom, teachers and students alike, lack the "awareness" necessary to discover "problems" and "causes" in matters of real importance. The second is "the wall that blocks out a recognition of different Beliefs and values". We must presume that beliefs and value sets will differ among those in the classroom even when they are discussing the same issue. The problem is, how to make these differences visible so that all present can recognize to what extent they exist. The third is "wall that blocks out the Connection between knowledge and virtue". Those inhabiting the classroom are prevented from perceiving the relationship between these aspects of learning. The fourth is "the wall that impedes Dialogue". This absence of dialogue is not only between teacher and students, but also between one student and another.

The CCHD method demolishes these walls in our mind-set and creates a vitalizing zone both internally (in each individual's mind-set or conscious space) and externally (outside the individual in a vitalizing atmosphere).

How is it possible to realize this transformation? Three types of peaceful 'weapons' are collected for this purpose: the "BALL" as a signpost pointing to Light, Love and Life, the "BOARD" as the mirror of the human mind-set and the "MAGNETS" as that which brings forth the fruits of Joy.

First, the "BALL", which as a signpost indicates visually two codes of conduct for all participants; one is non-violence and the other is a shared goal or common topic for our "visible" lifestyle. Non-violence is indicated by the act of throwing the ball and catching it (as in baseball but definitely NOT as in dodge ball), as a symbol of interacting with one another without violence. It enacts respect for the freewill of all others even if their way of thinking and feeling is totally different from ours. By passing the ball to one another, we gradually come to realize that the real enemy is not the person opposing us, but the one who lives inside us. The second aspect of the "ball" as a signpost is to point to a common goal (a topic or a problem of our "visible" behavior) towards which all participants are heading, something they should focus on and share.

The second 'weapon' is the "BOARD", which acts as the mirror of our mind-set in which common yardsticks are set. These are the "invisible" ones which influence our "visible" style of (economic) behavior. For instance, a particular hair style is a "visible" one and would be outcome of an "invisible" value judgment as reflected on the "BOARD". Why is this important? It is because only once we are on the "BOARD" that we can become objectively aware of our standpoints and so can reconsider things using our freewill and then influence our "visible" behavior or lifestyle.

The "BOARD", therefore, has a unique and effective function in releasing us not only

from the habit of linear thinking, but also from the fixed attitude that "the answer or solution is the only one for a given problem" or "the problem is only one that needs answering". With the former, the habit of linear thinking can be examined by crossing it with other yardsticks, which makes possible a set-thinking or non-linear style of thinking that includes the senses. With the latter, the fixed mind-set is also examined by posing the question using the mathematical equation of $1+1=2(?)$. The left side represents the invisible mind-set whereas the right side reflects our visible behavior. With this equation, the particular visible hair style (behavior) of "2" may not be only possible outcome originating from one option of an invisible yardstick "1", but alternative options may appear from two yardsticks "1+1" on the "BOARD". Suppose one yardstick is the sense of loving and hating. Then, we would say, the particular (visible) hair style is chosen or not chosen, because we either love it or hate it. But this yardstick "1" or "love & hate yardstick" expressed as 1_{LH} may not explain the particular hair style even if it is chosen despite being hated. So another yardstick of, say, "good & bad" (expressed as 1_{GB}) is required. This yardstick along with the "love & hate yardstick" enables us to explain the choice of the particular hair style because it is good despite being hated. Moreover, the two yardsticks, " $1_{LH} + 1_{GB}$ " may not necessarily produce 2, because, for instance, if it is so good, so loving, the particular (visible) hair style would be felt to have a greater value than "2". On the other hand, if it were so bad and hated so much, it would be expressed as a negative value, say 10!

This style of thinking using two yardsticks is what we call co-creative "space"

thinking, which is totally different from the debating style or “straight line” thinking that uses only one yardstick. Debating is good for making clear which side of a line you stand on, either “For” or “Against”. But it also creates gulf between two sides that can never close and allows no exercise of freewill to allow you to reconsider your standpoint using another yardstick. But if we are in the co-creative space, we can resolve this harmful deadlock situation without making excuses.

The third ‘weapon’, the “MAGNETS” that we put on the “BOARD” along with the other participants represents our not only being aware of how different we are, but also bears the fruits of joy. We can expect to gain the following five outcomes from this:

a) It activates the freewill that allows us to think and express our opinions and feelings by choosing our standpoints.

b) It enables us to measure the distance (a problem) of standpoints between ourselves and other participants. This allows us to view our own standpoints objectively by comparing them with those of others.

c) Once all participants know and share their awareness of these distances, we can identify them as problems and move on to analyze possible causes for their occurrence as a matter of common interest. At this stage we can use a so-called fishbone, or cause-and-effect, diagram.

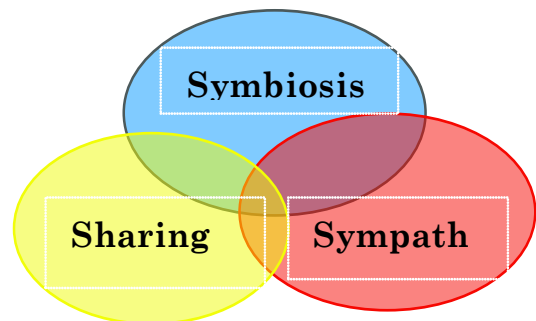
d) Following the common goods rule of CCHD, we may exercise the freewill to forsake our standpoint. This action can be stimulated by hearing the voices of other participants. Once we choose to forsake an action, we can be freed from it and can move on to alternative standpoints with magnets anywhere on the “BOARD”.

e) Through these activities, our co-sharing on the “BOARD” allows us to add new

values to our views and feelings as expressed by the magnets. This creates the possibility for changes in the visible aspects of behavior.

In summary, playing with the “BALL” and using the “MAGNETS” on the “BOARD” is nothing other than practicing the art of giving, which will enlighten and vitalize our lifestyle because the freewill to choose freedoms is activated along with the responsibility to follow the discipline of non-violence and the sharing of common goods. Therefore, in the co-creative space, the three virtues of Symbiosis, Sharing and Sympathy are realized as shown Figure 1. The freewill of both doing and not doing is a very important gift with which we can play when using CCHD. Our freewill consists in choosing to live together with respect (Symbiosis) but not choosing to live alone, to choose to share ideas and products (Sharing) but not to choose to monopolize the fruits of wisdoms, and to choose caring and kindness towards others (Sympathy) but not choosing apathy.

Figure 1 - Experience of 3S at



This experience makes us aware of the essential problem for homo-economicus in terms of human nature. Taking our stand in the co-creative space, we realize that it is a “human” space and each and every one of us as participants clings to our own self

yardstick even as we move anywhere in this space. Holding and sticking to one's own self yardstick is quite obviously human and we take it for granted that it must be so. But in the sight of God, it is an act that means turning away from him. It reflects a self-centered mind-set, which is nothing other than what is called SIN. Judging things to be good or bad, or loving or hating them and so forth using our own yardstick alone is an act of sin. As the Bible says, "We all, like sheep, have gone astray, each of us has turned to his own way" (Isaiah 53-6).

Such sinful human acts may be called "progress", but this is merely an illusion if we progress along the "chain of bondage", which starts from bondage and moves to liberty, from liberty to affluence, from affluence to complacency, from complacency to apathy, and from apathy back again to bondage. The "co-creative space" is, in fact, a platform where we come to realize that our progress along the "chain of bondage" is in fact following the "chain of sin". We awake to the recognition that God's judges our earthly aim of an affluent lifestyle as follows:

I know your deeds, that you are neither cold nor hot. I wish you were either one or the other. So, because you are lukewarm-neither hot nor cold-I am about to spit you out of my mouth. (Bible-NIV, Revelation 3-15 & 16)

An affluent lifestyle is viewed as good by human standards, but in God's sight it is bad because "lukewarm". So we realize that we have freewill, either to ignore God's judgment or accept it and repent. By heeding the words of God, "the wages of sin is death, but the gift of God is eternal life in Christ Jesus our Lord (Romans 6-23) ", we come to know that this is a life or death issue. It leads us to face the ultimate question, "Which is your

choice, Life or Death?" It would be wonderful if we were to realize that we are given the freewill to choose Life.

Thus, the ultimate goal of using CCHD is to become aware of our self-centered mind-set, of so-called "sin" as part of the essence of human nature, and to accept this and repent of it by standing on the Truth. This truth is based on the words of John 8-32 in the New Testament, "Then, you will know the truth, and the truth will set you free".

3. How the CCHD model differs from A. Sen's capability theory

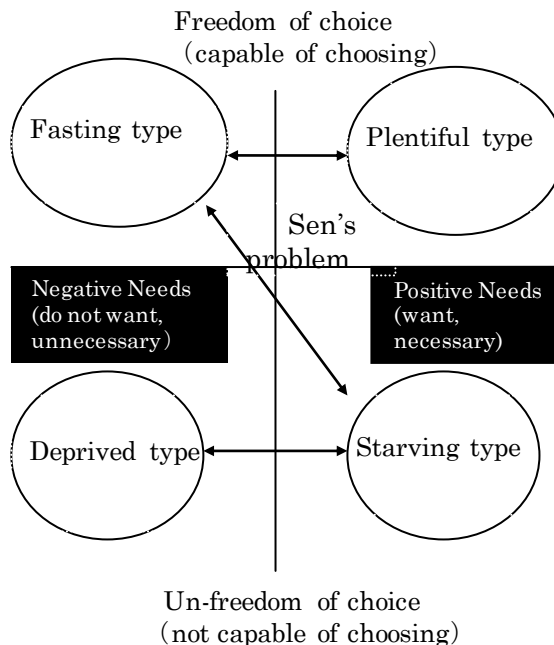
A. Sen views development as a process of expanding the real freedoms that people enjoy (Sen, A. 1999, p.3). He argues that capability is a kind of freedom: the substantive freedom to achieve alternative functioning combinations (or, ...the freedom to achieve various lifestyles). He next tries to show how the problem of capability matters by using the example of the same functioning achievement in terms of eating or nourishment. Despite the behavior of not eating being the same, the capability or freedom of an affluent person to adopt a lifestyle of fasting is higher than (forced) starving lifestyle of a destitute or poor person. This is because the former can choose to eat well and be well nourished in a way, but the latter cannot. Thus this difference in capability explains why fasting is not the same thing as being forced to starve (Sen, A. 1999, p.75,76).

Firstly, however, this capability approach is neither sufficient nor holistic since it excludes other possibilities of different lifestyles (functioning) once the element of human needs (necessity and wants) is included in it. For instance, in Sen's example,

the problem of comparing the fasting of an affluent person with the starving of a poor person is only one problem out of an entire problem set which influences the behavior or visible lifestyle of non-eating as shown in Figure 2. If the needs of two persons are different and totally opposite, one “wants to eat

and/or finds it necessary to eat” and the other “does not want or finds it unnecessary”, even if the capability is at the same level, there still exist problems of distinguishing, say, between a person who is fasting and one who has plenty, or between someone starving and someone who is deprived.

Figure 2 : Four types of lifestyle in the freewill matrix of capability-needs for influencing a non-eating lifestyle



Source: compiled from H.Oba (2009a)

The second issue is much more fundamental and crucial. Sen’s approach does not distinguish between “choice of freedom (freedom to choose)” and “freedom of choice (choosing freedoms)”. More simply, it focuses on the capability (freedom) to choose in the process of choosing stage, but ignores the action stage where freewill functions to choose freedoms once a choice is made.

Assessing the freewill or freedoms of acting out our lifestyle in a specific life stage

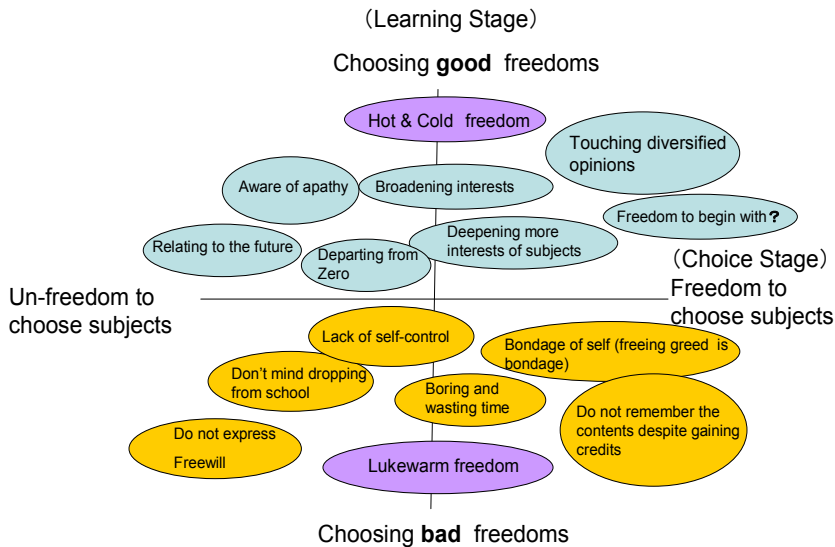
using CCHD is of great importance because we are bound to be unaware of the danger of freedoms enjoyed and very often may not be always clear whether they are good or bad.

In order to examine this hypothesis (freedom to choose \neq choosing freedoms), here is a practical example, the choice of subjects during the registration period of a new semester at a university. This research was carried out at T University, Tokyo, Japan on April 13th, 2011. 36 students participated

in CCHD. We tried to assess both the attitudes of choosing subjects, either compulsory subjects or elective ones in the past and the learning performance after subjects were

chosen. The outcome of this CCHD practice, shown in Figure 3, is remarkable and really eye-opening.

Figure 3 - Outcome of CCHD on freedom to choose subjects and choosing freedoms



This makes us aware of the danger embedded in freedoms and clarifies for us that the students had two diametrically different freedoms: the good and bad, or “hot & cold” type freedom and “lukewarm” type freedom, irrespective of either whether they were choosing elective or compulsory subjects. The freedoms that are good in the “hot & cold” type freedom include touching the diversity of opinions, the freedom to begin with the question (?), broadening and deepening one’s interests in subjects, awareness of apathy, departing from zero knowledge, and relating to the future. On the other hand, opinions expressed on “lukewarm” type freedom include lack of self-control (or addiction), dropping off, boredom and wasting time, not remembering the contents of

subjects even if credits are acquired, bondage of self (freeing greed is bondage).

Assessing freedoms as above, we now have the freewill to say “Yes” to the “hot & cold” type freedom and at the same time, say “No” to “lukewarm” type freedom. This practice of choosing subjects is, of course, applicable to our problems of choice in any sort of shared interests, including Romania joining the EU.

4. Joyful Kaizen vs. Joyless Kaizen

Kaizen is understood here as the activity of continuous improvement when making products in the workplace. John A. Yung, former Present and Chief Executive Officer of Hewlett-Packard, was right in stating

that “Kaizen is the opposite of complacency and is a superb source for people seeking to institutionalize an ongoing process of self-renewal in the enterprises they lead”. It originated from QC (Quality Control) activity in production processes, and has become well known as an effective and efficient tool for productivity improvement.

But a problem arises when we pose a question: Does Kaizen bring the joy of service? Our answer is “Yes” and “No”, entirely depending upon whether it is linked with the quality of life (QOL) of the person or group involved in Kaizen activity. The concept of QOL originated and was developed in the field of medicine and health and has been applied widely to welfare economics and human development. It is a subjective assessment of one’s emotional and physical well-being. Joy of service should be understood as the domain of both efficiency and QOL criteria, because the level of QOL might differ between persons or groups even if the level of efficiency after practicing Kaizen is the same among them.

Let us illustrate this problem by using a simple mathematical equation. Two persons or groups, L_A and L_B , are practicing Kaizen while producing a product, Y_A and Y_B . Productivity in term of efficiency criterion can be expressed as $(Y/L)_A$ and $(Y/L)_B$. If the level of productivity is the same between A and B, then it can be shown as $(Y/L)_A = (Y/L)_B$. But is this still true if the QOL of two persons or groups is introduced? Our answer is negative once the QOL criterion is introduced. Namely, L as labor input is not only the function of working hours of labor, L_t , but also that of QOL of labor, $LQOL$. If $LQOL$ is different despite the working time, L_t of two persons or groups being the same,

the true productivity might be different as $(Y/L+LQOL)_A \neq (Y/L_t+LQOL)_B$. This will show us there is a possible case (problem) of joyful Kaizen vis-à-vis joyless Kaizen for persons or groups within the same organization or workplace.

Therefore, the true Kaizen or joy of Kaizen service should be measured by true productivity including QOL. Indicators of measuring QOL in Kaizen may include the worth of doing, aspiration, liveliness, passion and commitment, sense of responsibility, achievement and rewards, pleasure and delight and so forth. Our level of QOL and efficiency or our state of joy in Kaizen service activity can not only be captured, but also improved and uplifted by participating in the CCHD space. This brings us to realize the next very important questions: Is the joy of service in Kaizen the same as happiness in Kaizen activity? Also, what is the end of pursuing the joyful Kaizen? Does it follow the same road as A. Maslow’s needs hierarchy for self-actualization? We will examine these problems as the next step in our exploration of CCHD.

End Notes:

1. In writing this paper, I have benefited from the help of many experts, students, and academics, and especially Prof. Peter A. Luff of Reitaku University. I offer my gratitude and all credit to them. I am deeply indebted to the Hiroike Foundation for financial support.

2. For the concept of “Gakumon-ryoku” and its applications to service and management style, see details Oba, H. 2010, 2009b, 2009c, 2008, 2007.

3. On the nature of Kaizen, please see Imai, M. 1986.

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Evolution of participation of the adult Romanian population to professional education and training in Romania, in comparison with the European Union

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Abstract: Education represents a permanent preoccupation for the Governments of all Member States, but the structure of the education systems differs considerably from a country to another. In this context, the European Union is a useful forum for the exchange of ideas and of good practices. The European Union doesn't have a common policy in the field of professional training, on the contrary, its role is to create a real cooperation system between the Member States by maintaining the right of each Member State to decide upon the contents and organization of the education and training systems.

The European cooperation in the field of education and training for the period up to 2020 should be instituted in the context of a strategic framework that should comprise the systems of education and training as a whole, in the perspective of the lifetime learning. The lifetime learning and the mobility assured through high quality professional education and training are essential for allowing people to acquire the aptitudes that are relevant not only for the labour market, but also for the social inclusion and active citizenship. Presently, adult participation to the "process of continuous learning" varies a lot throughout the Union and is unsatisfactory in many Member States.

Key words: lifetime learning; knowledge triangle; key competences; indicators regarding the participation to continuous professional training

JEL Classification: I21, D83, J64

Introduction

Professional education and training is in the centre of the objectives of the Lisbon

agenda for growth and employment, and represent essential elements for continuing its enforcement in the perspective of the year 2020. The creation of a „knowledge triangle“

made up of education, research, and innovation, which would function accordingly, and would help all the citizens to improve their competences is essential from the point of view of the development and employment, but also of the equal treatment and social inclusion. The economic recession brought even more to light the importance of these challenges on a long term. The public budgets and the private ones are submitted to some important constraints, the existing jobs are being abolished, and the newly created ones seldom demand various competences of a higher level. Consequently, the professional education and training systems should become more open and more relevant for the needs of the citizens, for the demand on the labour market, and for the needs of the society in general. Starting 2002, the cooperation at the European level regarding the politics in the field of professional education and training offered a valuable support to the national reforms in the field of education and contributed to the mobility throughout the entire Europe of pupils, students, and teaching staff.

Bases of this approach and with full respect for the responsibility of the Member States related to their education systems, the Council of the European Union signed, in May 2009, a strategic framework for European cooperation in the field of professional education and training.

A general improvement has been seen in the field of professional education and training within the EU. Nevertheless, the majority of the objectives established for the year 2010 will not be reached in time, while in the case of the essential objective related to teaching reading and writing, regressions have been recorded. Reaching these objectives will

imply adopting some more efficient initiatives at a national level.

The economic recession, together with the demographic challenge, intensify the urgent need of making the reforms, continuing at the same time the investments in the systems of professional education and training in order to face the main economic and social challenges.

Indeed, lifelong learning should be regarded as a fundamental principle for the entire framework which is designed to cover learning in all contexts – be they formal, non-formal, or informal – and at all levels: starting with education for pre-school and school children up to upper education, professional education and training and adults' education. Investments in professional education and training are essential as a solution for getting out of the economic crisis, both as an integrated part of the structural reforms on a long term, and for diminishing its immediate social impact. The role of the education and of professional training within the knowledge triangle (education, research, innovation) has to be consolidated. The innovation and growth would remain at a low level if they lacked a solid base of knowledge, competences and aptitudes necessary to promote the talent and creativity at a young age and be updated along the adult life.

Applying the lifetime learning programme throughout formal, non-formal, and informal education and increasing the mobility remain a challenge. The professional education and training systems, including the universities, should become more open and more appropriate for the demand on the labour market and for the necessities of the society, in general. A special attention should be given to concluding partnerships between

the field of professional education and training and the field of employment.

Key Competences in the Process of Learning

The European framework related to key competences in the process of lifetime learning identifies and defines 8 key competences necessary in order to fulfil on a personal level the active citizenship, social inclusion and the capacity of professional insertion in a knowledge based society:

- 1) communication in the mother-tongue;
- 2) communication in foreign languages;
- 3) competences in the field of mathematics and basic competences in science and technology;
- 4) computer skills;
- 5) the capacity to teach the learning process;
- 6) social and civic competences;
- 7) initiative spirit and entrepreneurship;
- 8) cultural knowledge and expression.

The need of consolidating the key competences within the Professional Education and Training (PET) for adults.

PET is traditionally focused more on the competences than on general education. Nevertheless, the complete range of key competences, as it has been defined in the European framework, is less approached systematically within the PET systems from most of the countries than within the general education. More attention should especially be given to communication in foreign languages and to the complete range of transversal key competences, which become more and more important in the perspective of the evolution of the demand on the labour

market and of the society's needs. The challenge stands within the curriculum, within the teaching and learning methods, and also within the preparation of teaching staff and trainers of professional education and training.

Among the measures meant to support acquiring the key competences for adults is the elaboration and revision of the legislative acts, improvement of teaching and managing training courses, and specific financing measures. According to the Plan of action related to teaching the adults, attention is given to teaching how to read and write, to foreign languages and computer skills especially for adults with a low level of qualification, for unemployed people and immigrants.

Nevertheless, in the case of adult education it is also important that professional education and training for adults cover the whole range of key competences, rather than be focused on individual competences such as teaching how to read and write or professional aptitudes. These should also be addressed to all adults, no matter their level of qualification, including people with a low level of qualification, adults with special needs in as far as education is concerned and the elderly people. The competences of the teaching staff specialized in the adult education should be updated accordingly.

Professional education and training destined for the adults should offer real opportunities for all adults to develop and update their key competences throughout their whole life.

Most of the countries emphasize the importance of an efficient education system for adults. The purpose is to convey to adults competences that are more congruent with the labour market, to favour social integration and preparation for an active aging.

Progresses have been recorded related to the increase of the participation of adults to professional education and training, but these progresses are insufficient to reach the objective of 12.5% established for year 2010. During 2008, 9.6% of the European with ages between 25 and 64 had participated to a professional training course within the four weeks previous to the enquiry, and the

probability that an adult with a high qualification participates at a course of professional training was five times higher than in the case of people with a low level of qualification.

To this effect we will make an analysis related to the participation of adult population with ages between 25-64 to professional education and training by presenting the following statistic data:

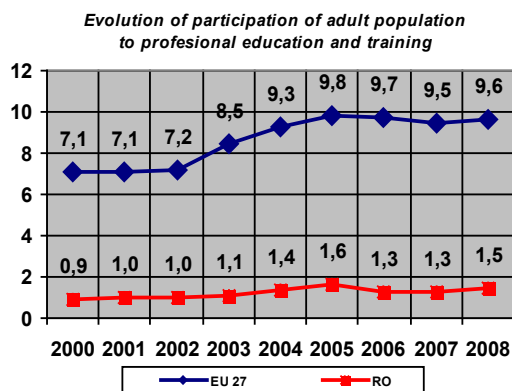
Table 1. Participation of the adult population aged 25-64 in education and training

YEAR	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU 27	7,1	7,1	7,2	8,5	9,3	9,8	9,7	9,5	9,6
RO	0,9	1,0	1,0	1,1	1,4	1,6	1,3	1,3	1,5

Source: EU Labour Force Survey, Annual averages <http://epp.eurostat.ec.europa.eu>

This data has put to light a complete conclusion related to the comparative evolution of the participation of the population aged 25-64 to professional education and training in Romania and the European Union during 2000-2008, conclusion which is also emphasized in graphic no.1 hereafter.

Graphic no. 1 Evolution of participation of adult population aged 25-64 to professional education and training in Romania compared to the European Union during 2000-2008



Source: EUROPEAN COMMISSION, Indicators for monitoring the Employment Guidelines including indicators for additional employment analysis 2009 compendium

Compared to the average of participation of Europeans aged between 25 and 64 to professional training courses, the participation of the adults from Romania in 2008 was of only 1.5%, respectively 6.4 times lower. Out of all European countries, the greatest percentage related to adults' participation to professional training courses during 2008 is held by Denmark with 30.2%, and the lowest percentage is held by Bulgaria with 1.4%.

Currently, at a national level, several categories of indicators are being used, and they can be useful in the process of setting the foundations, elaboration, implementation, monitoring and assessment in the field of employment and professional training.

Next we will analyze only one of these indicators, the remaining indicators will be given other profound analyses in the future:

The degree of covering the registered

unemployed population with professional training courses: the weight of registered unemployed people included in professional training courses out of the total of registered unemployed people, expressed in percentage.

$$Dcu = (Nuipt / Nru) * 100$$

Where:

Dcu – the degree of covering the registered unemployed with professional trainings;

Nuipt – number of registered unemployed included in professional trainings;

Nru – total number of registered unemployed people.

Purpose: the indicator gives important information related to the level of de enforcement of this type of active measure in the context of the whole package of support

measures in the process of reintegration of unemployed people on the labour market.

Interpretation: this indicator reflects both the effort of reintegrating underprivileged people on the labour market made by the Public Service of Employment (ANOFM) and their interest towards this measure which has as a consequence the increase of chances of social reintegration.

Case study: The analysis of the relationship between the total number of unemployed people and the number of unemployed people participating to professional training courses in Romania during 2004 – 2009.

The total number of unemployed people, the total number of unemployed people included in professional training courses, and the number of women included in professional training courses during 2004-2009

YEAR	2004	2005	2006	2007	2008	2009
Total nb. of unemployed	557892	522967	460495	367838	403441	709383
Total nb. of unemployed included in trainings	27475	39932	42565	42234	39448	32329
Women included in trainings	15544	21495	22228	22669	23769	19058

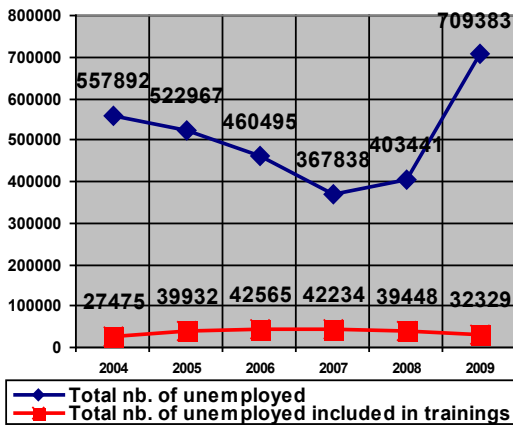
Source: National Agency for Employment (ANOFM)

This data shows that during 2004-2007 the total number of unemployed people in Romania decreased with 51.66%, but with the expansion of the economic crisis their number significantly increased with 75.83%. Regarding the number of unemployed people participating to professional training courses during 2004-2006, an increase has been noticed, and, during 2007-2009, a decrease of 30.63%. If in 2009, because of the economic crisis, the number of unemployed almost doubled compared to 2008, surprisingly the number of unemployed people participating to professional training courses dropped

down. Consequently, the existing measures regarding the professional reorientation and requalification of unemployed people are not given enough publicity in the media and are not efficient enough, thus imposing new legislative measures regarding the stimulation of these activities. In order to exemplify what we have analyzed, we present graphic no. 2.

Analyzing the participation of women in professional training courses, a continuous increase during 2004-2008 can be noticed, with an unfavorable evolution in 2009 of 24.71% when with the expansion of the economical-financial crisis.

Graphic no. 2. Comparative evolution between the number of unemployed included to professional training courses and the total number of unemployed people registered in Romania during 2004-2009.



Source: National Agency for Employment (ANOFM)

Analyzing the participation of women in professional training courses, a continuous increase during 2004-2008 can be noticed, with an unfavorable evolution in 2009 of 24.71% when with the expansion of the economical-financial crisis.

The public expenditures for continuous professional training are also supported, in Romania, from other funds outside the education budget. Therefore, the training of people in search of a job is made out of the unemployment insurance budget. At the level of year 2008, according to the data supplied to the National Agency for Employment (ANOFM), out of the total of public expenditures for the labour market, only 2% represented expenditures for the organization of continuous training courses.

This state of events is explained firstly by the relatively reduced number of unemployed people which benefit from this important active measure of fighting the unemployment compared to the total number

of people in search of a job. The most affected ones remain the categories that are vulnerable on the labour market (young graduates, people belonging to the Romani minority, people registered as having a social-economic underprivileged situation etc.).

Unfortunately there is no data as to the value of contributions coming from the individuals for assuring their own professional training. In this case we suggest that all institutions accredited as suppliers of professional training make up statistic reports after the model of the National Agency for Employment.

Professional training of adults in Romania is regulated by the Government's Ordinance no.129/2000 republished, and is organized by initiation, qualification, requalification, perfecting, and specialization programs, defined as follows:

initiation, represents acquiring one or more competences specific to a qualification according to the occupational or professional training standard;

qualification, respectively the requalification, represents the professional training leading to acquiring a group of professional competences that allow one person to develop specific activities to one or several occupations - perfecting, respectively the specialization, represents the professional training leading to the development or completing the professional knowledge, skills or competences of one person detaining already a qualification, respectively the development of competences within the same qualification, acquiring new competences in the same occupational area or in a new occupational area, acquiring new fundamental/key competences or new technical competences, specific to several occupations.

Conclusions

All Member States of the EU acknowledge lifelong learning as key factor for growth, professional insertion and social inclusion. An important aspect in this way is the level of participation of people aged between 4 and 64 to the professional education and training, this level recording an increase in almost all countries of the European Union.

In most of the countries, explicit lifetime learning strategies have been adopted. Great efforts have been put for elaborating instruments meant to support the flexibility of the teaching ways between different parties of the systems of professional education and training.

The enforcement of the European framework of qualifications enters a new crucial stage. In most of the countries significant progress is recorded related to elaborating the national qualification frameworks to cover all levels and types of professional education and training and related to the compliance of the national frameworks to the European framework of qualifications until 2010. This process is linked to the extended use of the results of learning for defining and describing the qualifications and validating the non-formal and informal education.

Supplementary development measures have also been adopted for the systems of lifetime orientation, especially for adults. However, it is still necessary to have a better coordination of the different systems of orientation in order to help the young finalize their education and training and to facilitate their insertion on the labour market.

Enforcing and developing the lifetime learning strategies remain a major challenge.

The strategies are coherent and wide only in certain cases, and some of these are still axed on certain sectors or target groups rather than on the entire life cycle. In order to be efficient, these strategies have to cover sufficiently long periods of time, to present opportunities for all ages and to be reviewed and developed permanently.

In order to achieve the four strategic objectives within „ET 2020“, identifying the proprietary fields for a certain work cycle should improve the efficiency of the European cooperation in the field of education and training and reflect, at the same time, the individual needs of the Member States, especially in the context of the coming up of new situations and challenges.

If the Member States find it necessary, the activity in the specific priority fields can go on within the following working cycles:

Strategic objective 1: Enforcing the lifetime learning and mobility

Continuing the activity related to:

- Lifetime learning strategies: finalizing the process of enforcing the national lifetime learning strategies, giving a special attention to validating the non-formal and informal education, but also to the orientation.
- The European framework of qualifications: in compliance with the recommendation of the European Parliament and European Council since April 2008, adjustment of all national qualification systems to the European Qualifications Framework (CEC) until 2010 and encouraging the use of an approach based on the results of learning in the matter of standards and qualifications, assessment and validation procedures, transfer of credits, programs of education and Quality Assurance.

Strategic objective 2: Improving the quality and efficiency of education and training

Continuing the activity related to:

- Teaching the foreign languages: allowing the citizens to communicate in two foreign languages besides their mother tongue, in order to promote the teaching of foreign languages, where it is relevant, within the professional and adults' education, and to allow the immigrants to learn the language of their host country.

- Professional evolution of the teaching staff and trainers: concentrating on the quality of the initial education, on the early support in carrier for the new teachers and on growing the quality of possibilities for a continuous professional evolution for teachers, trainers and other teaching staff (for instance those involved in activities of management or orientation).

- Governance and financing: promoting the project of modernizing the upper education (including the curriculum) and the framework for assuring the quality of professional education and training and the development of the offer quality, including the staff, from the sector adults' education. Promoting the politics and practices based on the actual elements, with a special emphasis on elaborating some arguments in the favor of sustainability of public investments and, where it is necessary, of private ones.

Strategic objective 3: Promoting equal treatment, social cohesion and active citizenship

Continuing the activity related to:

- Early school abandonment from the systems of education and training: consolidating preventive approaches, developing a

more tight collaboration in the sector of general education and the professional education and eliminating the barriers out of the way of returning to education and training for young people having abandoned school.

Strategic objective 4: Stimulating innovation and creativity, including the entrepreneurship, at all levels of education and training

- Transversal key-competences: In compliance with the recommendation of the European Parliament and Council from December 2006, taking into consideration, to a greater extent, the transversal key-competences in the curricula, the evaluations and the qualifications.

It will be essential to reach the objectives provisioned by the new strategic framework „Education and training 2020“ and to assure an important role for education and training within the Lisbon Strategy after 2010.

In the phase of a slower pace of the global economic growth, it is essential that Europe uses to the full the potential of each individual and goes on promoting more substantial investments, more efficient and better oriented for a quality education and training. Improving and adapting the knowledge and aptitudes to all citizens are fundamental for preparing our way out of the crisis and for achieving the long-term challenges related to global economical competitiveness, employment, active citizenship and social inclusion.

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An exploratory study of the women entrepreneurial motivation in the south-west Nigeria

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Abstract: Women entrepreneurial motivation is a function of variables that are subject to authors and researchers' opinions and views. These variables can be classified based on their impact on women entrepreneurial performance, behavior and challenges. This paper is therefore focused on examining the factors that affect women entrepreneurial motivation in the South-West Nigeria. The data used for the study was obtained through primary source. The data gathered was analyzed using the model of correlation analysis. Recommendations were made based on the result obtained from the testing of the hypothesis.

Key Words: Entrepreneurship, Women, Entrepreneurial Motivation and Nigeria

Introduction

Different factors are responsible for entrepreneurial motivation irrespective of the gender involved. Researchers have been able to categorize these factors in different ways using different constructs and variables. The make up of these variables is however subject to a number of factors which depend to a great extent the situations and environmental circumstances surrounding the writer or the researcher. These factors may be pull, push,

external, internal, extrinsic or intrinsic. Some findings highlight individual, psychological or personality reasons, while others point to broader on social and economic constraints (Gatewood, 2004; Hughes, 2005).

Reflecting on this, different motivational patterns emphasis a key point of debate concerns the relative role of different industrial sectors and the extent to which women have been "pulled" or "pushed" into entrepreneurship (Brush, 1992; Cliff and Cash, 2005).

In NWBC's (2003) study of the reasons why men and women choose to be self employed instead of being in paid jobs, they found out that women are much more likely to cite necessity as a reason for going into entrepreneurship than men. They reported that 69% of men cited opportunity as their motivation for starting a business, while 31% cited freedom. In comparison, 56% of women cited necessity, while 44% of them cited necessity as their motivation for starting a business. Thus, more than half of the women said that they became entrepreneurs because there were no other options available. The objective of this paper is to examine the factors that motivate women entrepreneurs across different industrial sectors in the South-West Nigeria. This work is divided into five sections. Section one is the introduction, section two is the literature review/conceptual framework, section three is the methodology, section four is the data analysis while section five is conclusion and recommendations.

Literature Review / Conceptual Framework

Several researchers such as Soetan, (1991); Finnegan and Danielsen (1997); Dhaliwal (2000); Ryan and Deci (2002); Barwa (2003); Ogundele and Opeifa (2003); Gelin (2005); Brunstein and Maier (2005); Mansor (2005) have looked at the factors that motivate women into entrepreneurship. Their views and opinions differ greatly. They also used different terms to group these factors. These researchers have been able to link motivation to entrepreneurial performance. The understanding of the factors that motivate women into entrepreneurship indicates their business performance, predicts

the challenges they face in business and their behavioural patterns (Okafor and Amalu, 2010). Hisrich and Peter (1991) classified these factors into antecedent, triggering and enabling factors or positive, negative and supportive factors. While positive factors are those antecedent factors that have to do with desire for entrepreneurial aspirations such as to be one's own boss, independent, desire to achieve a growth etc., negative factors have to do with those triggering tendencies that force women into business such as discrimination in the labour market, lack of alternative job opportunity, divorce, death of spouse and so on. Boyd and Vozikis (1994) in support of this classification included the concept of self-efficacy as an important variable of antecedent factors. Boyd and Vozikis (1994) emphasized that self-efficacy provides insight into efficacy judgments which influences one's behaviour.

Classifying the factors that motivate women into self-employment, Bartol and Martin (1998) identified the following socio-demographic variables as factors that can influence women entrepreneurs; education, age, work history, relative experience, childhood family environment such as birth order and occupations of parents. Kjeldsen and Nielson (2000) classified these factors into personal characteristics, the surroundings, types of enterprise and the entrepreneurial process. Parboteeach (2000) categorized these factors into; (i) the entrepreneur's background, (ii) the entrepreneur's personality, and iii) the environment in which the entrepreneur is operating. Bird (1988) and Jones (2000) also classified these factors as personal and contextual elements. While personal elements include; entrepreneur's experience, abilities, and personality characteristics,

contextual elements include social, political, and economic variables such as changes in markets, displacement and government deregulation.

However, motivational factors are subject to environmental factors (Okafor and Mordi, 2010). Grouping these factors into different classifications is important so as to determine the degree to which each of these factors is capable of motivating women into entrepreneurship. Segal et al. (2005); DeMartino and Barbato (2002); McKay (2001); Hughes (2006) and Marlow (1997); Anna, Chandler, Jansen and Mero (2000) grouped these factors into family influence, education/training, experience, job dissatisfaction and role model. Family has a great influence on women entrepreneurial inclinations especially where there is insufficient family income and the need to supplement their income. Commenting on this, Hughes (2006) and Marlow (1997) emphasized that the intention to improve the financial position of women entrepreneurs and their families can either pull or push them into entrepreneurship. The role of a woman in a family or the position she occupies in her family determines her financial commitment to the family (Soeton, 1991). Hytti et al (2010) looked at the impact of experience and perceived learning on entrepreneurship. Their result showed that intrinsic motivation has a negative effect on women's entrepreneurial experience and their learning outcome while extrinsic motivation had a positive motivation on them. Their work also discovered that there is positive relationship between experience/learning and motivation to do business. Education and training which are learning outcomes have intrinsic effect on one's motivation into entrepreneurship the

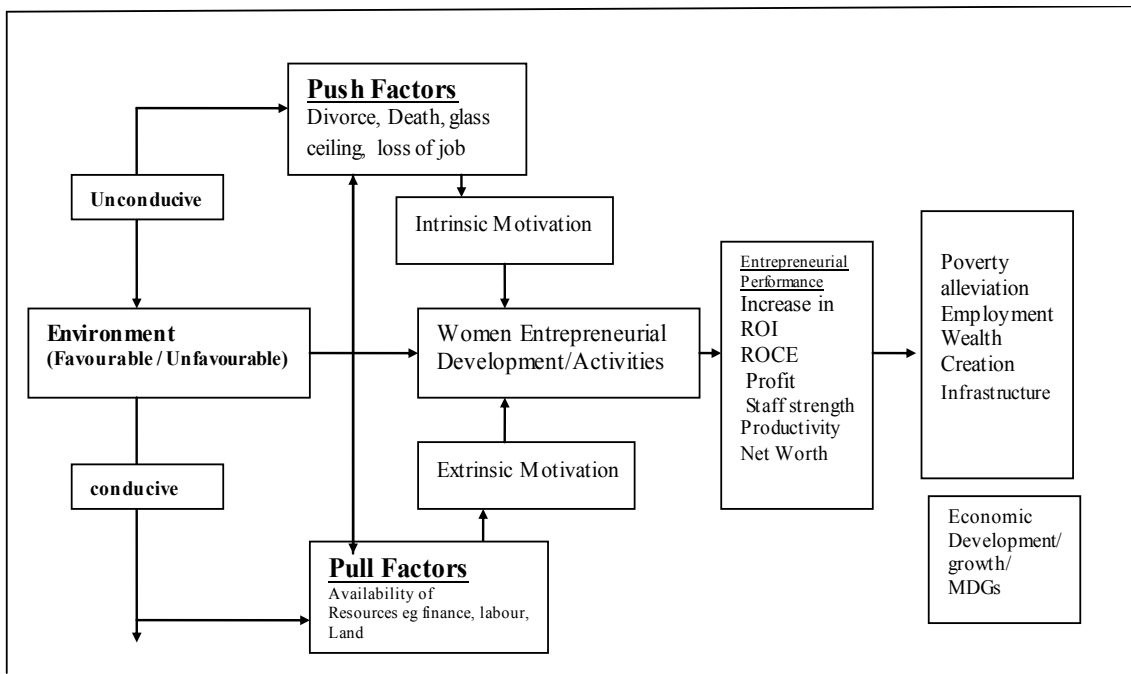
gender notwithstanding (Hytti et al, 2010). Job dissatisfaction and salaried pay was identified by Ghosh and Cheruvalath (2007); Segal et al. (2005); Bradley and Boles (2003); Tanguchi (2002); McKay (2001); DeMartino and Barbato (2002) as another important factor that can motivate women into business. According to Lee-Gosselin and Grisé (1990); Marlow (1997); Catley and Hamilton (1998); Yoskovitz (2007) a women can decide to go into business simply because she is experiencing job or career frustration. Job and career dissatisfaction hence act as push factor to women entrepreneurship. In line with this, Cromie (1987) found that in their motives whether or not to become an entrepreneur, women are less concerned with making money and often choose entrepreneurship as a result of career dissatisfaction. They also see entrepreneurship as a means of simultaneously satisfying their own career needs and those of their children and family.

Involvement in entrepreneurial venture as employees can offer women a good opportunity to gain the experience required for running an enterprise. Experience as a motivator can be acquired through direct or indirect contact. Encouraging women as employees to take ownership of their work will result in better customer service and a stronger enterprise (Levesque, 2007). Women entrepreneurs crave the feeling of starting something new, disrupting the status quo, changing the world, creating value, generating wealth and enhancing their working experience which is an important factor for establishing an entrepreneurial venture (Yoskovitz, 2007). Aside working experience, Yoskovitz, (2007) enlisted passion, being in control of the enterprise, earning of extra money and subordination as reasons starting

one's business by women. Also, the influence of role models such as their parents, family member, friends or leading entrepreneurs in the community can make entrepreneurship

as an attractive prospect or career choice to women as identified by Anna, Chandler, Jansen and Mero (2000).

Model: Different Factors Motivate Women Entrepreneurs across Different Industrial Sectors



Source: Adapted from Mansor (2005) and redesigned by the Researcher (2010)

The model above shows that environment either conducive or unconducive can result in push or pull factors which can either intrinsically or extrinsically motivate women entrepreneurs or affect their performance. The model proposes that triggering situations are important aspects that determine women venturing into business. This implies that certain unconducive situations, such as loss of job, unemployment, death of husband and so on could serve as reasons (push) for women to venture into business. Self will to survive such negative situations drive women to consider certain business as the way

out of their predicament. On the other hand, women could also venture into business out of a desire to utilize certain privileges and resources (money, skill, knowledge, education etc.) available to them. Either push or pull factors as motivational factors starting business will eventually culminate in entrepreneurial development. The model further shows that most women entrepreneurial activities usually lead to increase in return on investment (ROI), return on capital employed (ROCE), profit, staff strength, productivity, net worth etc. Effective entrepreneurial performance results to economic development

and achievement of millennium development goals through revenue generation, job creation, wealth creation and economic vitality.

Methodology

Sample Size

To carry out this study, five hundred and seventy (570) women entrepreneurs were selected from three different states in the South West Nigeria (Lagos, Ogun and Oyo State). These states which were used as the population of the study were purposively selected out of the six states in the south-west Nigeria (Singleton, Straits, and Straits, 1993). A random method was adopted in selecting the women used as the respondents of this study from a list of women entrepreneurs drawn from documents made available by the Nigerian Chamber of Commerce, Industry, Mines and Agriculture (NACCIMA), and other associations of Nigerian Women in business and entrepreneurship.

Measurement of Variables

The activities of women entrepreneurs were captured using some demographic items such as state of origin, age, marital status, nature of their business, business structure and other variables. Questionnaire was used to obtain the necessary data required for this study. The use of questionnaire was necessitated so as to enable the respondents to be objective and precise in responding to the research questions. Structured questions in different sections of about one hundred and thirty five (135) items were asked so as to get information on the profile of the women. A five-point Likert- scale that ranges from strongly agree to strongly disagree of point scale of (5 to 1). A statistical model

of correlation coefficient was used to test the hypothesis of this study. The use of correlation coefficient is important so as to test the relationship between the independent variables with the dependent variable. Variables such as family, psychological, financial and environmental factors were used to capture women entrepreneurial motivation while the nature of the business was used in measuring the business types. Women in business were classified into agriculture, manufacturing, service and trade.

Survey Results

To analyze the survey results of this study, SPSS 12 (SPSS, Inc., 2003) statistical program was used. Descriptive statistics which include percentage distributions, mean and standard deviation were calculated based on the respondent's responses for each item on the demographic information of the respondents which include the marital status of the respondents, their business data, motivation, and their entrepreneurial type. Table 1 depicted that out of the 570 questionnaires distributed, 422 or 91.15% of them were retrieved from the respondents and this forms the sample size of this study.

Table 1 revealed that 138(32.7%) of the women entrepreneurs under the study are from Lagos State, 134(31.7%) of them are from Ogun State and 150 (35.6%) of them are from Oyo State. It was shown that majority of the businesses owned by women entrepreneurs are in the distribution as 127(30%) in agriculture, 122(29%) in trade, 118(28%) in service and 55(13%) in manufacturing sector. Few of the respondents 18(4%) were at the age range of 15-20 when they started business, 155(37 %) were at the age range of 21-26 when they started their business, 174 (41%) were at the

Table 1: Descriptive Statistics of Entrepreneurs by Sectors and Religions n=422,

State of Origin	Freq.	Per. (%)	Sectors	Freq.	Per. (%)
Lagos	138	32.7	Agriculture	127	30
Ogun	134	31.7	Manufacturing	55	13
Oyo	150	35.6	Trade	122	29
			Service	118	28
Structure of Businesses			Marital Status		
Sole ownership	382	91	Single	146	35
Partnership	27	6	Married	263	62
Joint Stock Company	3	0.7	Divorced	7	3
Others eg. Cooperative Society	10	2.4	Widow	6	2
Age			Highest education qualification		
15-20	18	4.26	WASE	344	82
21-26	155	36.72	OND	54	13
31-35	174	41.23	MSc/HND/BSc	21	6
40-45	51	12.08			
46-above	24	5.71			
Number of Children			How did you start your business?		
None			From the scratch	243	58
1	46	11	Purchased	73	17
2	202	48	Inherited	50	12
3	102	24	Joined husband to start the business	56	13
4	48	11			
5 and above	24	6			
Age of Starting Business			How many yrs did you work for someone?		
15-20	18	4	Less than one yr	10	2.4
21-26	155	37	One yr	48	11.3
31-35	174	41	Two yrs	202	47.8
40-45	51	12	Three yrs	136	32.2
46-above	24	6	Four yrs	20	4.7

Source: Field Survey, 2010

age range of 31-35 when they started their business while 51(12%) were between the age of 40 and 45 when their business started while 24(6%) of them were 46 old and above when they started their business. Considering the respondents' educational background, majority of them 344 (82%) have WASE, 54(13%) of them are with OND certificates, while 21(16%) were seen to hold higher degree which range from HND/B.Sc. to M.Sc. certificates.

Factors that Motivated Women to go into Entrepreneurship

The women entrepreneurs interviewed under this study were asked "what are the different factors that motivated them to go into business?". Out of the 422 women entrepreneurs, 88% of them gave different reasons (factors) for their involvement in business. These factors were identified and grouped into five different heading of family influence, educational attainment, experience, personal dissatisfaction, role modeling and finance. Table 2 gives the descriptive statistics of the main variables used in this study. From the data obtained, factors that motivate women to start and grow their business were observed and analyzed;

Family Influence

Family influence as a factor was equally investigated to determine whether the parents of the entrepreneurs were self-employed or not. The researcher investigated the position of the entrepreneurs in the family and other issues as factors that motivate women to start and grow their business. It was discovered that 193 respondents indicated that they were first the child of their parents, representing 45.73%, while 229 (54.26%) said 'no' to the question. However, looking at these

figures, one can deduce that the percentage of being 'the first child' as an entrepreneur is high considering other options such as 'being sacked from someone's place of work', 'being the only child of their parents', 'participating in a family business when they were younger' and education background. Being the only child as motivation for women to start and grow their businesses was cited by 170 participants representing 40.28% while majority of them, 252 (59.72%) reported that they were not their parents' only child. One hundred and twenty or 28.43% of the respondents accepted the fact that their parents were originally self employed. Being the only child, according to this finding was not likely to be the reason why women start and grow their businesses.

Majority of the entrepreneurs, 302 (71.56%) said 'no' to the question 'if their parents were self employed' while 120 representing 28.43% indicated 'yes'. Considering the question 'if their business relate to their family business', 200 (47.39%) of the respondents agreed that the type of business they are into is peculiar to their family business while 222 (52.61%) of them said 'no' to the question. In response to the question 'whether a business is currently running in their family', majority 229 (54.26%) said 'no' while 193 representing 45.73% said 'yes' to the question. Majority of the women entrepreneurs 322 (75.83%) said 'no' to the question whether they participated in their family business when they were younger while 102 indicated 'yes', this represents 124.17%. Majority of the women entrepreneurs under this study, 353 (83.65%) started business because they wanted to be closer to their families while 69 of them indicated 'no' to the question and this represented 16.35% of the respondents.

Education/Training

Education/training as a factor revealed that majority of the entrepreneurs, 293 (69.43%) of the respondents were motivated to start and grow their business as a result of training they received rather than their educational background which is 200 (47.39%). This implies that training is very important to entrepreneurial venturing; meaning that irrespective of someone's educational background, through training, one can acquire the required skills for the success of a business.

Experience

Most of the respondents, about 353 (83.65%) had worked for someone before starting their own businesses while 69 or 16.35% had not had working experience before going into entrepreneurship. Also, many of them, about 303 (71.80%) of them started their businesses immediately they stopped working for someone. This implies that working experience is an important factor that motivates women entrepreneurs into starting and growing their businesses.

Personal Dissatisfaction

Surprisingly, majority of the women entrepreneurs about 353 (83.65 %) of them were dissatisfied working for men. Looking at the circumstances that made the respondents to start their business, 193 (45.73%) of them agreed that they started their entrepreneurial venture because they were dissatisfied with their former place of work, while 229 (54.26%) of them disagreed that they went into business because of dissatisfaction with their former place of work.

Role Model

Role modeling is also another factor that motivates women entrepreneurs. 338

(80.09%) of the women entrepreneurs were encouraged by a role model while 84 (19.91%) were not.

Finance

Table 2 shows that 353 (83.65%) of the respondents agreed that they went into business mainly because they wanted extra income while 69 (16.35%) of them disagreed that they entered into business because of money. Also 303 (71.80%) agreed that they started their business because of their dissatisfaction with their financial status, while 119 (28.20%) disagreed that they went into business because 'they were dissatisfied with their former financial status'.

Using Mansor's (2005) entrepreneurial motivational factors classification, the above items were further grouped as family influence, psychological (personal dissatisfaction and experience), financial and environmental factors (education/training and role model). Each of these motivational factors was considered in turn in light of the prior literature which informs the descriptive analyses and the correlation analysis of this paper. It also forms the basis for the classification of this study's independent variables used for the analysis of the hypothesis of this paper. In emphasizing the factors that motivate women into business, the information obtained from the instrument of the interview can be used to buttress this point more.

Table 2: Statistics on Motivational Factors, Commencement and Business Life Cycle

ITEMS	FREQ	YES	%	NO	%
<i>Are your parents self employed?</i>	422	120	28.43	302	71.56
<i>Is the business you are currently running your family business?</i>	422	193	45.73	229	54.26
<i>Is this type of business peculiar to your family?</i>	422	200	47.39	222	52.61
<i>Did you participated in your family business when you were younger?</i>	422	102	24.17	320	75.83
<i>Did you start your business because you wanted to be closer to your family?</i>	422	353	83.65	69	16.35
<i>Are you the first in your nuclear family?</i>	422	193	45.73	229	54.26
<i>Are you the only child?</i>	422	170	40.28	252	59.72
<i>Does your educational background relate to your Business?</i>	422	200	47.39	222	52.61
<i>Did you received training related to the business before you started your own?</i>	422	293	69.43	129	30.57
<i>Have you worked for someone before?</i>	422	353	83.65	69	16.35
<i>Did you start this business immediately you stopped working for someone?</i>	422	303	71.80	119	28.20
<i>Is your former boss a man?</i>	422	353	83.65	69	16.35
<i>Were you dissatisfied with your former place of work?</i>	422	193	45.73	229	54.26
<i>Is it your desire to earn more or extra income that pushed you into business?</i>	422	353	83.65	69	16.35
<i>Were you sacked from your former place of work?</i>	422	120	45.73	302	54.26
<i>Did you start this business because of dissatisfaction with your former financial status</i>	422	303	71.80	119	28.20
<i>Were you encouraged by a role model?</i>	422	338	80.09	84	19.91

Source: Field Survey, 2010

Testing of Hypothesis

The first hypothesis tested in the study states that different factors do not motivate

women entrepreneurs across different industrial sectors in the South-West Nigeria

Table 1: Summary of Correlation Coefficient between the factors that Motivate Nigerian Women Entrepreneurs Across Different Industrial Sectors of the South-West Nigeria. (n=422)

Variables	1	2	3	4	5	6	7	8
<i>Family</i>	-	0.67*	0.72*	0.58*	0.18	0.72*	0.88*	0.34*
<i>Psychological</i>		-	0.42	0.66*	0.71*	0.59	0.64	0.62
<i>Financial</i>			-	0.61	0.51*	0.96	0.71	0.66
<i>Environmental</i>				-	0.85*	0.79	0.58	0.51
<i>Agricultural</i>					-	0.42	0.48	0.32
<i>Manufacturing</i>						-	0.33	0.21
<i>Trade</i>							-	0.65
<i>Service</i>								-

Table 3 indicates positive relationship among each of the motivational patterns and SMEs sectors of the South-West Nigeria. Among these relationships, eight of them are very high. These are the coefficient relationships between financial factor and manufacturing sector (0.96), family influence and trade sector (0.88), environment factor and agricultural sector (0.85), environmental factor and manufacturing sector (0.79), family and manufacturing sector (0.72), psychological factor and agricultural sector (0.71), financial factor and service sector (0.66) and

psychology factor and service sector (0.62). The result revealed that there is a high positive correlation between the motivational patterns and SMEs sub-sectors, except the factor of family influence, which shows a very low significant relationship with agricultural sector at $r=0.18$. The reason for this might probably be that a lot of women with families see agriculture as not the best type of business that will allow women to show off as their personal achievement since majority of them started business because of their desire for self-achievement.

Table 4: Summary showing the Analysis of Variance between the factors that Motivate Nigerian Women Entrepreneurs across Different Industrial Sectors of the South West Nigeria

Source	SS	Df	MS	F	Significance
Between Groups	4684.44	3	1561.48	21.959	0.015
Within Groups	29794.671	419	71.109		
Total	34479.111	422			

Source: Field Survey, 2010

*significant $P < 0.05$

Keys to Abbreviation: SS- Sums of Square, Df- Degree of freedom, MS- Mean Square, F-F-value

To authenticate the result of the correlation coefficient obtained in Table 3, ANOVA is also used to analysis the hypothesis. The result is presented in Table 4 above. The Table has six columns. Column for: source of variance for Between the mean, Within the mean and Total, Sum of Square; degree of freedom; Mean Square, F-value and Significance. Table 4 shows that the F-value is the Mean Square between (1561.48) divided by the Mean Square within (71.109), yielding $F=21.958$. The p-value associated with this F-value is very small (0.015). These values are used to answer the question "Is there significant difference between the independent variables and dependent variable?" The p-value is compared to the alpha level set at 0.05 and, if

smaller, one can conclude that "Yes, there is a significant difference between the independent variables and dependent variable and if otherwise then the research hypothesis will be retained. The ANOVA result revealed that different motivational patterns exist among women entrepreneurs across different industrial sectors of the South-West Nigeria at $F(3,422) = 21.958$, and 0.05 significant level. The null hypothesis is therefore rejected and the alternative hypothesis is acceptable.

Discussion of the Findings

The discussion is based on the earlier findings of Hisrich and Brush (1986) Aldrich and Zimmer (1986); Soetan, (1991); Finnegan and Danielsen (1997); Dhaliwal (2000); Ryan

and Deci (2002); Barwa (2003); Ogundele and Opeifa (2003); Gelin (2005); Brunstein and Maier (2005); Mansor (2005) as contained in the literature review. The supporting findings were cited as well as contradictory views (Stevenson, 1986; Zellner, 1994; Greenberger and Sexton, 1988; Taylor and Kosarek, 1995). As stated earlier, the discussion of this study followed the hypotheses raised and tested. The result shows that the null hypothesis was rejected. This implies that different motivational patterns exist among women entrepreneurs across different industrial sectors of the South-West Nigeria which was in line with Jasime, (1998); Bartol and Martin, (1998) and Gelin, (2005) arguments that various factors can be linked to women's family needs and wants and these factors differ depending on the industrial sectors involved. This finding corroborates the needs theory (Murray, 1938; Maslow, 1948) which states that entrepreneurial motivation is determined by the biological, psychological and social needs of an individual (Astin, 1984; Atkinson, 1964; Murray, 1938). The reason for the present finding may be anchored on the fact that theories of entrepreneurship that utilize psychology, economic, sociological and innovative processing concepts (Schumpeter, 1934; McClelland, 1961; Knight, 1978; Johnson, 1990 and Reynolds, 1991) at the individual level possess numerous advantages over those that do not. Apart from the position of this theory, many studies have reported related findings in line with the finding of this study. This finding was confirmed by the finding of Brunstein and Maier (2005). Their work revealed that two motives are directly involved in the prediction of entrepreneurial behavioural pattern. These are involvement in entrepreneurship and new venture

creation (implicit and explicit). They also reported that implicit motives are spontaneous impulses to act which is also known as task performances and is aroused through incentives inherent to the task. On the other hand, explicit motives are expressed through deliberate choices and more often stimulated for extrinsic reasons. They concluded that individuals with strong implicit needs to achieve goals set higher internal standards so as to meet up with identified lapses and past failures while others tend to adhere to the societal norms. The finding of the present study also subscribed to the fact that motivation may be expressed in various ways such as pull, push, intrinsic and extrinsic factors and these factors affect the aspirations or behavioural intentions of women for entrepreneurship differently.

Conclusion

Numerous literature demonstrated that the motives of women involvement in entrepreneurial development as most frequently cited was self satisfaction, the search for independence, financial freedom and support to their family. Various factors can be linked to family needs and wants and these factors differ depending on the industrial sectors involved. Among the popular business sectors to be ventured into are services and trading sectors which are to be operated at a micro and small scale enterprise level, requiring low capital investment, minimum labour utilization, a flexible working hours, the priority to the family and fulfilling their leisure time. The results from this research work clearly indicate and opined that psychological, social, financial and supportive environmental factors are most likely to be linked

with the reasons why women venture into entrepreneurial activities especially in small and medium enterprises. It is pertinent therefore to note that financial and psychological factors play important role in women's entrepreneurial development. This finding implies that theories of entrepreneurship that fail to address this notion require further research on.

Recommendations and Policy Implications

Based on the findings of this study, the following recommendations are made.

- (i) The government should formulate policies that will help to encourage more women to go into agricultural business in a mechanized form. This will help to boost their morale and their desire for self-actualization
- (ii) Microfinance Banks should increase their credit facilities allocation to women entrepreneurs so as to improve their accessibility for financial assistance.
- (iii) Feminist theorists and advocates need to conduct more training and workshop programmes for women in business for their empowerment and capacity building.

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The impact of liberalized financial system on savings, investment and growth in Nigeria

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Abstract: For the past twenty years, an enhanced financial sectoral deregulation has been a major economic tool in the agenda of most less developed economies and Nigeria is no exception. The discouraging level of growth with reference to the savings and investment culture of the people and government involvement in these economies has call to question whether financial sector liberalization have an impact on savings and investment in the economy and by extension on the level of growth and development of such economies. This study attempted to take a cursory look at the issue by examining the impact of financial system liberalization on savings and investment and by extension growth and development in Nigeria between 1997 and 2008. Some of the policy recommendations centred on the government creating an enabling environment for private investment to thrive. This will go a long way in helping to promote private investment with significant benefits in the long run for growth and development to the advantage of the citizenry and the economy at large.

Keywords: Financial Sector Deregulation and Liberalization

1. Introduction

Since the mid-1980s, financial liberalization in several African countries has been implemented largely through on-going structural adjustment programmes. As a prerequisite for the financial liberalization

programmes, stabilization policies have been designed to ensure macroeconomic stability, low inflation and reduced budget deficits. The focus has been on liberalizing interest rates, deregulation of the financial sector, strengthening the banking system, introduction of new financial instruments, and

development of securities markets, in particular the stock market. Stock market is viewed as a medium to encourage savings, help channel savings into productive investment, and to improve the efficiency and productivity of investments, (Ali,1995). The emphasis on the growth of stock markets for domestic resource mobilization has also been strengthened by the need to attract foreign capital in non-debt creating forms.

It is an established fact that financial system played an important role in the economic development of any nation. In this instance the financial services industry denotes an important link between the macro economic policies of a country with the rest of the globe and her basic role in this regard is resource mobilization and resource allocation among the productive sectors of the economy via financial intermediation; funds are attracted from the surplus sectors of the economy and channeled to the deficit sectors of the economy for investment purposes. Whenever any financial system is repressed, domestic capital are usually fragmented with adverse impacts on the quality and quantity of accumulation of real capital. The adoption of financial liberalization under any of these situations has been recommended so as to enhance the level of economic growth and development of less developed economies.

The objectives in this regard via the use of stabilization policies as a prerequisite to financial liberalization programmes had been to liberate interest rates, deregulate financial services sector, strengthen the banking system, introduce new financial products and develop the securities market. Adverse economic challenges that faced the Nigerian economy between the tail end of 1985 and 1986 led to the introduction of the Structural Adjustment Programme (SAP) and one of

its major strategies was the adoption of appropriate pricing policies in all sectors with greater reliance on market forces and reduction in complex administrative controls. The deregulation of the financial market therefore led to an enabled market forces in determination of credit costs within the economy. This attracted a number of significant changes in the rules and regulations governing financial operations and these includes;

- Relaxation of controls on interest rates and also on conditions of granting banking licence.
- Abolition of credit ceilings and guidelines
- Complete deregulation of money and capital markets

In the light of the above, and according to the Central Bank of Nigeria Annual Report (various years) this resulted in a tremendous increase in the number of new entrants into the banking industry rising by over 100% from 58 banks in 1985 to 189 in 2004 prior to banking consolidation exercise which reduced the number of banks further to 24 banks. The banks' branches also rose from 1,288 in 1985 to 2,489 in 1993, thus bringing the kilometer per square of 689.4 in 1986 to 356.75 in 1993. The money and capital markets were also affected in one form or the other by the programme and a major development in the money market was the introduction of auction-based system in 1989 on Federal Treasury Bills and Treasury Certificates issuance.

With the post-consolidation situation, the universal banking model is being reviewed and this will definitely portray Nigeria as a country with policy inconsistency since the current policy is less than five years in operation and we are reverting back

to the previous order. It is worthy of note that the current move could be of strong similarity with other less developed economies like Nigeria. In the light of current developments, Nigerian banks are to be categorized into national banks (N25 billion for banks operating in Nigeria only and N100 billion for banks with operations outside Nigeria) and regional banks (N15 billion minimum capital requirement and must have the word "Regional" in its name) (CBN, 2010)¹.

The major aim of financial liberalization is an enhanced economic performance via improved level of competitiveness with a robust efficiency posture within financial markets and with accrued benefits indirectly flowing to the coffers of non-financial sectors of the Nigerian economy. Since the application of the prescribed financial liberation, the Nigerian economy has not been able to experience impressive performances such as an enviable attraction of foreign investment or to checkmate capital flight.

The study is intended to critically assess the impacts of liberalization of the financial system on savings and investment and by extension on growth and development in the Nigerian economy over the period of 11 years between covering 1997 and 2008. Emphasis will therefore centre on the macroeconomic indicators of gross domestic product, inflation rates, and savings as well as investment variables in the economy.

The objectives of the study are:

1. To examine the nature and challenges of the financial systems.
2. To analyse and assess the concept

of financial liberalization in the content and context of legal and institutional framework.

The study will proffer probable policy recommendations on the identified flaws in the financial system liberalization for the benefit of the economy. This will lead to an enhanced standard of living and by extension the desired economic growth and development will become achievable.

The study will also reveal how effective the various reforms in the financial services sector have been and thereby illuminate on areas requiring effective controls. The remaining part of the study is structured as follows: next is the literature review, followed by the theoretical framework. Methodology and analysis are in section IV. Discussion of findings, recommendations and conclusion is in the last section.

2. Review of literature

Financial liberalization in Nigeria commenced as an effort towards participation in the globalization of the world economies. The United Nations via International Monetary Fund (IMF) tends to achieve a union in the world economy and therefore launched a programme aimed at achieving a turn-around on the economic situation faced by many of the less developed economies. The programme was named Structural Adjustment Programme (SAP). Several objectives expected of the programme to be achieved include the following according to Central Bank of Nigeria (CBN, 2004)².

- Market liberalization to promote efficient resource allocation

¹ Central Bank of Nigeria (CBN), 2010. Review of Universal Banking Model. www.cenbank.org (accessed on 24th April, 2010).

² Central Bank of Nigeria (CBN), 2004. Statistical Bulletin.

- Expansion of savings mobilization base
- Promotion of investment and growth through market-based interest rates
- Foster healthy competition in the provision of services
- Laying the basis for inflation control and economic growth

Most developing countries liberalized their financial sector in an attempt to integrate globally by removing government interventions and restrictions. The reason behind the shift to financial liberalization is based purely on a straightforward implication of the following economic principles: financial markets allow proper allocation of savings to productive investments which accelerates economic growth. Generally, nations' wish to have a smooth consumption pattern over time and in the course of achieving this, financial liberalization allows them a smoother consumption pattern via international risk sharing.

They are less constrained by domestic endowments due to their ability to borrow from global financial markets by avoiding substantial falls in national consumption in case of dramatic decrease in output. Soyibo (1994)³ observes that the reforms in Nigeria were carried out under conditions of severe macroeconomic imbalances and instability in the financial system. Financial systems liberalization came into being because it is believed that a well functioning system pro-

vides adequate support for economic development while its poor functioning causes more problems for development.

2.1 Financial liberalization

The basic programme of financial liberalization contains two main components:

1. Removal of ceilings on interest rates to allow for market determined ones.

2. Reduction in quantitative controls to allow financial intermediaries greater control over the use of their liabilities. (Levine, 1996)⁴. Financial restructuring of the banking sector constitutes other aspects of financial sector reforms. These include the following as enunciated by World Bank, (1989)⁵ report:

1. Causes of bank insolvency and restructuring or closing down of insolvent firms.

2. Improved management of banks.

3. Increased competition in the banking sector as well as the development of a more diverse range of financial institutions such as insurance and pension firms, development finance institutions et cetera.

4. Removal of entry barriers to private sector financial institutions.

5. Improved legal controls and powers that are of benefit to lenders.

6. Improved government supervision.

7. Reduction of taxation either directly or indirectly via large reserve requirements. Development of money and capital markets.

³Soyibo, A. 1994. Conceptual and Theoretical issues in the Study of Informal Finance", pp. 82-94 in E.U. Olisadebi and Ajakaiye Olu.(eds.), Conceptual and Methodological Framework for Informal Sector Research in Nigeria, Ibadan: New World Press Statistics, Vol. 52, (May), pp. 169 – 210.

⁴Levine, R. (1996). Foreign Banks, Financial Development and Economic Growth. International Financial Markets: Harmonization versus Competition, pp. 224-54, Washington D.C.: AEI Press.

⁵World Bank, 1989. Private Capital Flows to Developing Countries: The Road to Financial Integration. New York: Oxford University Press.

2.2 Legal and institutional framework for financial liberalization

a. Legal Framework

Liberalized financial systems cannot be effective without sound legal and institutional framework. Evolutionary and proactive strategies are possible approaches to financial system development, (Obstfeld and Taylor, 2004)⁶. In the evolutionary strategy, financial markets are allowed to develop gradually with the economy.

As major distortions or bottlenecks emerge, government intervenes through improvements or changes in laws or regulations. In this strategy, financial deepening and financial system development are basically market driven within an adaptable legal, regulatory and prudential framework. Sander and Kleimeier (2006)⁷ see this as the appropriate strategy for African and other developing countries for three main reasons:

- Inadequate neutral incentive environment and market forces that is insufficiently strong for financial markets to develop by themselves.
- Lack of institution-building capacity to determine the pace and strength of financial markets development.
- Need for flexibility to allow for the use of the most efficient institutional set-up, required training infrastructure and choice of technology that is most suited to the local conditions and level of development.

The proactive approach suggested by Sander and Kleimeier seem to agree with the views of the World Bank (1989)⁸, which sees the legal and institutional framework of most developing countries as inadequate to support modern financial processes.

b. Institutional Framework

The legal, regulatory and prudential framework discussed in the preceding section is essential for fostering financial market functions and promoting and anchoring its institutional framework. The ultimate function of financial markets, as earlier indicated, is to mobilize and allocate resources through financial intermediation in order to accelerate the process of economic growth. The function is performed through two distinct but interrelated components (the money and capital markets). The money market and the capital market are inter-related. First, the development of the money market usually precedes capital market development. Second, the same institutions may operate actively in both markets. Hence, the money market serves as a source of liquidity for the long-term investment needs of operators in the capital market. Bloch and Tang (2003)⁹ has argued that in order to develop and achieve the objective of supporting economic growth, the capital market requires environment in which government policies are generally favourable to economic growth. In such environment, resources are allocated in accordance with market forces rather than government directives.

⁶Obstfeld, M. and Taylor, A. M. 2004. *Global Capital Markets: Integration, Crisis, and Growth*. New York: Cambridge University Press

⁷Sander, H. and S. Kleimeier, 2006. "Interest Rate Pass-Through in the Common Monetary Area of the SACU Countries", *South African Journal of Economics*, Vol. 74, No. 2. pp. 215- 229.

⁸World Bank, 1989. *Op. Cit.*

⁹Bloch, H. and S. H. K. Tang, 2003. "The Role of Financial Development in Economic Growth," *Progress in Development Studies*, Vol. 3, No. 3, pp. 243-251.

During the period 1970–1985, Nigeria's financial sector was characterized by financial repression, macroeconomic imbalances and instability (Soyibo 1994)¹⁰.

Prior to 1970, banking regulations were largely prudential, aimed mainly at ensuring sound banking practices and protection. From the early 1970s, the aims remained broadly the same as in the previous years, but the control instruments became rather restrictive. The system was so regulated that by the mid-1970s, the Central Bank could stipulate what loans and advances each commercial bank should make to each of the sixteen different priority sectors of the economy, as well as maximum interest ceilings for agricultural and other priority areas (King and Levine, 1993)¹¹. Government controlled 60 percent of commercial bank share capital while the Central Bank controlled 33 percent of the financial assets. Prior to the implementation of financial liberalization, government took no serious measures to establish appropriate legal framework under which the financial system would operate. No appropriate safety nets were established to safeguard against liquidity crises and no adequate regulatory and monitoring framework to prevent collusion and excessive risk-taking was put in place.

2.3 Financial liberalization and the informal sector

Financial liberalization acts directly on the formal sector financial system, through

the removal of interest rate and other controls. As noted, however, the majority of small scale borrowers, particularly women, gain access to financial services through the informal sector.

For this reason, it is important to look at the indirect effects of financial liberalization on the informal sector, to see how the provision of, access to and use of financial services by women relative to men might change under liberalization. Few studies to date focus on the impact of liberalization on the informal financial sector. In terms of predictions, this depends to some extent on the view taken regarding dualism. There are competing views as to why Less Developed Countries (LDC) financial markets are characterized by segmentation, fragmentation, or dualism and thus about the nature of relations between the different segments and how these are likely to evolve (Nielsen et al, 2005)¹².

The theory of financial repression sees the development of informal sector finance as linked to distortions in financial markets caused by government controls, leading to the creation of parallel markets, to serve those crowded out of regulated markets by rationing. In this view, the informal sector should recede in favour of the formal sector, with interest rates converging, as liberalization proceeds. Savings will increase and move into the formal sector as interest rates rise, increasing the funds available for loan and investment. Informal sector operators may move into the formal sector as entry barriers, controls and taxes on the formal sector are removed or reduced.

¹⁰Soyibo, A. 1994. Op. cit.

¹¹King, R. G, and R. Levine, 1993. "Financial Intermediation and Economic Development", in Mayer, C. and Vives, X. (Eds), *Capital Markets and Financial Intermediation*, London: Center for Economic Policy Research

¹²Nielsen, H., Unguta, E. and S. Ikhida, 2005. "Financial Integration in the Common Monetary Area", *South African Journal of Economics*, Vol. 73, No. 4, December, pp. 710-721.

An alternative view is that problems of imperfect information are the main cause of market segmentation and fragmentation, i.e. that high information and transactions costs lead to market failure and lack of institutional development (Nielsen et al, 2005)¹³. In this view, credit rationing persists even with liberalization, so that the need for the informal sector persists, or possibly expands, as demand for financial services grows under adjustment. To a large extent, the effects will depend on the degree of market integration prior to liberalization. They find little evidence of market integration between formal and informal sectors in four Sub-Saharan African countries including Nigeria. Some informal intermediaries place deposits with banks, mainly for security, since these are short-term and rarely interest bearing. Formal financial institutions are reluctant to lend to informal operators who on-lend.

3. Theoretical framework

Most developing economies implemented financial reforms as part of a larger market-oriented reforms since 1980s and in the light of this, several versions of the financial liberalization hypothesis exists (Aziakpono, 1999)¹⁴, but the one mostly adopted particularly by less developed economies is the orthodox approach of McKinnon and Shaw.

The orthodox approach in this instance suggests that financial liberalization increases both savings and investments and thus leads to enhance and efficient investment as posited by Shaw (1973)¹⁵. With the elimination of controls on interest rates, credit ceilings and direct credit allocation, financial liberalization is expected to lead to the establishment of positive interest rates on deposit loans. In such instance, it makes both savers and investors appreciate the scarcity of capital, leading to a reduced dispersion in profit rates amongst varying economic sectors, improved allocative efficiency and higher output growth, (Villanueva and Mirakhor, 1990)¹⁶. Though the financial liberalization theory places more emphasis on the desirable effects of raising interest towards equilibrium, it also postulates that the effect of a change in interest rate depends on whether the actual interest rate is below or above equilibrium. If below the equilibrium, investment is constrained by savings. An increase in the interest rate towards equilibrium will increase savings and investment. Therefore as long as the equilibrium interest rate is not reached, investment is positively related to the interest rate. Beyond the equilibrium however, increase in interest rate will have a negative effect on investment as the economy moves along the negatively-sloped investment demand curve, (Gourinchas and Jeanne, 2003)¹⁷.

¹³Nielsen, H., Uanguta, E. and S. Ikhide, 2005. Op. Cit

¹⁴Aziakpono, J. M. 1999. Effects of Financial Integration on Financial Development and Economic Performance of the SACU Countries World Bank (1997) Private Capital Flows to Developing Countries: The Road to Financial Integration. New York: Oxford University Press.

¹⁵Shaw, E., 1973. Financial Deepening on Economic Development, New York, Oxford University Press.

¹⁶Villanueva D. and A. Mirakhor, 1990. Strategies for Financial Reforms. IMF Staff Papers, Vol. 37, No. 3, pp. 509-536.

¹⁷Gourinchas, P. and O. Jeanne, (2003). The Elusive Gains from International Financial Integration, Working Paper Series No 9684, National Bureau of Economic Research.

This implies that as financial savings and the rate of interest are positively related, interest rate may also have a positive effect on investment through the process of financial deepening as well as the provision of credit to the private sector while it could be negative since an upward swing in the price of credit adjusted for inflation is expected to discourage investment spending in the economy. The net effect of interest rate on investment therefore will depend on the relative strength of its negative effect through the cost of investment and its positive effect through the provision of credit, (Eatwell, 1997)¹⁸.

The Harrod-Domar Growth Model on the other hand posits that every economy must save a certain proportion of its national income if only to replace worn-out or impaired capital goods. However and in order to grow, new investments representing net additions to the capital stock are very necessary, (Esen, 2000)¹⁹. Therefore the variables that could stimulate the rate of savings in an economy apart from income, as well as how savings and capital formation (investment) could generate the required level of growth and by extension economic development in the developing economies like Nigeria become imperative as reflected in the formular below. It implies income (Y) as a function of the stated variables:

$$Y = f(S, GCF, NBB, INF)$$

Where

Y = Income or GDP

S = Savings

GCF = Gross Capital Formation or Investment

NBB= Number of Bank Branches

INF = Inflation

Description of Variables

Gross Domestic Product (GDP) data at current market prices. This is the Gross Domestic Product at current factor cost plus indirect taxes net of subsidies. It is the GDP valued at the market prices which purchasers pay for the goods and services they acquire or use.

Aggregate Savings (S) is the part of the national income that would not be spent on consumer goods. Klein (2005)²⁰ defined savings as “abstinence from consumption, an exchange of present income against an equal amount of income in the future or against the security accompanying a store of wealth”. In this instance, savings is not hoarding since it involves the productive use of funds not spent on present consumption.

Gross Capital Formation (GCF) This is also known as Gross Domestic Investment and it connotes the total change in the value of fixed assets plus changes in stocks.

Number of Bank Branches (NBB) is the total number of branches per bank operating in the country at a particular period of time.

Inflation (INF) is a deceleration of economic growth and a massive disequilibrium of international payments.

Hypothesis of the study

The following hypothesis is formulated

¹⁸Eatwell, J. (1997). “International Financial Liberalization: The Impact on World Development”. Discussion Paper Series 12. New York: United Nations Development Programme.

¹⁹Esen, O. 2000. Financial Openness in Turkey, International Review of Applied Economics, Vol. 14, No. 1. pp. 5-23.

²⁰Klein, M. W. 2005. Capital Account Liberalization, Institutional Quality and Economic Growth: Theory and Evidence. Working Paper Series No 11112, National Bureau of Economic Research

in order to find answer to the problem of the study as stated above:

Ho: There is no significant difference on the impact of liberalized financial system on savings, investment, growth and development.

4. Method of analysis

The sources of relevant data utilized for this empirical work were collected from

economic journals, internet sources, Central Bank of Nigeria Statistical Bulletins and Annual Reports, World Bank Reports, United Nations Development Programme (UNDP) Annual reports and other relevant periodicals. This study adopted the One- way Anova method of data analysis using Microsoft Excel Analytical tool to justify the study so as to be able to capture the impact of the study on the economy.

Data analysis and results

Table: Relevant Data on the Required Variables of Study

YEAR	GDP	SAVINGS	GCF	NBB	INFLATION
1997	2,801,973	177,648	205,553	2,551	10.67
1998	2,708,430	200,065	192,984	2,298	7.86
1999	3,194,015	277,667	175,736	2,298	6.62
2000	4,512,127	385,191	268,895	2,444	6.94
2001	4,725,086	488,045	371,898	2,994	18.87
2002	6,912,381	592,094	438,115	3,018	12.89
2003	8,487,031	655,739	429,230	3,247	14.03
2004	11,411,067	797,517	456,970	3,492	15.01
2005	14,572,239	1,316,957	*804,400	3,492	17.85
2006	18,564,595	N/A	*1,546,525	3,004	8.24
2007	20,657,251	2,693,554	*1,917,000	3,897	5.38
2008	23,842,126	4,118,172	*2,283,050	3,897	11.60

Source: National Bureau of Statistics; * United Nations Statistics; CBN

Test of hypothesis

Anova

SUMMARY

Groups	Count	Sum	Average	Variance
Column 1	12	1.22E+08	101990275	6.5E+13
Column 2	12	11702649	975220.8	1.5E+12
Column 3	12	9090356	757529.7	5.41E+11
Column 4	12	36632	3052.667	328890.1
Column 5	12	135.96	11.33	20.14402

ANOVA

<i>Source of Variation</i>	<i>SS</i>	<i>Df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	9.25E+14 4		2.31E+14	19.72899	4.05E-10	2.539689
Within Groups	6.44E+14 55		1.17E+13			
Total	1.57E+15 59					

Analysis of results

From the above analysis the F-ratio of 19.7 is greater than the F-critical value of 2.53. The null hypothesis is rejected. We conclude that there is significant difference on the impact of liberalized financial system on savings, investment, growth and development in Nigeria.

5. Discussion of findings and recommendations

Based on the outcome of the study the following recommendations were of relevance:

1. Financial liberalization should be well coordinated with policies that encourages growth and stability of the economy and thus enhances credit worthiness of borrowers via prudent economic policies of great importance to achieve desired success.

2. Financial liberalization as it were stimulates investment better than it will stimulate national aggregate savings and the implication is that foreign borrowing will increase. In this instance, capital inflows require stringent regulations most importantly short term capital inflows to ensuring that activities of export industries are not in any way disrupted. However, it must be noted that capital inflow could not be objected to if such do not result to a foreign debt problem.

3. The government should focus more on the creation of conducive atmosphere that will make private investment interesting and attractive. Such conditions could include but not limited to stable macroeconomic environment, provision of adequate property rights such as adequate access to credit, imported inputs by investors, stable and reliable energy supply, good and decent road network, improved telecommunication services as well as the provision of adequate and consistent security.

4. Financial liberalization policies should promote private investment with significant benefits for long term level of growth and improved standard of living.

5. Enhanced growth and development becomes achievable where financial institutions channel available funds to the productive sectors of the economy like the industrial sector and not for consumption purposes that violates the economy. The effect of this is being felt via the global financial crisis due to the poor quality of credit granted courtesy of the sub-prime credit saga in the United States of America.

6. Conclusion

The main objective of this study is to determine the impact of financial system liberalization on savings, investment and growth

in the Nigerian economy. The study focuses on the provision of evidences from the economy with regards to the performances of the Nigerian financial system on the liberalization exercise.

A major aspect of the reform has to do with the financial sector restructure as well as the liberalization of the regulations concerning financial institutions and markets. In this study an improvement in financial intermediation was considered as a necessary ingredient for stimulating investment, improving

capacity building and fostering economic growth and development. The McKinnon and Shaw hypothesis on financial liberalization was adopted because of its relevance to developing economies like Nigeria. The basis of the hypothesis is that financial markets in developing economies are somehow fragmented and in that instance, the repressed nature of the financial systems in these economies tends to vitiate on the efficient allocation of resources which eventually leads to poor investment quality.

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Investigating the potentials of fast track in mitigating project abandonment: case studies

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Abstract: *The construction industry plays a very role in the fixed capital formation of any economy. Thus, the activities of construction in any economy, mirrors its general performance; a healthy economy usually experiences an upward swing in construction activities and a depressed economy indicates the reverse. But, project abandonment has been posing a threat to so many countries in their march towards the achievement of the above economic independence and greater civilization, and Nigeria is no exception. We have road and other construction projects that have taken ages in building, whose completion date is only in the imagination of the gods. Governments succeed governments and waste many months reviewing contracts and on-going projects, and re-awarding contracts. The ritual has come to stay and public funds are sunk into projects whose viability, usefulness, and urgency remain doubtful; then they are abandonment. However, majority of project abandonment could be traced to longer project duration. This is because the longer the duration of a project the more additional costs to the project through variations, inflations, and other expenses associated with time (time related to expenses). Time consumed by project directly influence the cost incurred on a project. When these traditional costs are too much, they lead to the client's budget for the project to be exceeded. And when clients can no longer entertain those additional costs, it becomes a subject of disputes, and eventually the project is abandoned. As such, there is the need for the construction industry participants to embrace an efficient and effective means of minimizing projects' duration in order to minimize the occurrences of project abandonment; and Fast Track procurement method is one good project management tool that have been in used to meet these challenges of time and cost.*

Keyword: Fast track, Mitigation, Project Abandonment, Nigeria

1. Introduction

The construction industry significantly contributes to the development process of both developed and developing countries. The finished construction products also provide necessary public and private infrastructure needed for other equally necessary activities such as commerce, health, education and so on. The industry is not only important for its finished product, but it also employs a large number of people (directly or indirectly) and therefore has an effect on the economy of a country/region during the actual construction process. Unfortunately however, project abandonment have been mitigating against the attainment of these infrastructural and economic excellence. Shilgba (2007), once observed that, *Abandoned private and public projects litter the land. A man begins to build a house in Nigeria without counting the cost; he brings the project to a certain level and then abandons it indefinitely. We therefore have projects that have taken ages and whose completion date is only in the imagination of God. Public funds are sunk into projects whose viability, usefulness and urgency remain doubtful. If one should undertake the task of estimating the billions of Naira that have been wasted on projects that have been abandoned, and which would cost many times more to complete after such long periods of abandonment, the amount will be mind-boggling and in some cases the beauty of the environment has been destroyed by the unpleasant sight of those abandoned projects; and in some cases they poses danger to life. Moreover, the world at large has been suffering from economic depression. As a result cost escalation especially in building projects has become eminent. Also the rate, at which the population is continuously rising with the attendant need for housing,*

and the technological complexities of modern time requiring vast investment for the sake of providing building as well as other infrastructure, surely calls for proper project management to avoid the harmful effect of project abandonment. The main aim is to investigate the potentials of fast track construction method as management tool that can be used to ensure that projects are completed within the shortest possible time. The scope of this survey is the Federal Capital Territory of Nigeria, Abuja and Kano State (one of the thirty-six states of Nigeria), all of which are located within the northern part of Nigeria.

Figure 1. Shows Nigerian map



2. Research methodology

A qualitative approach was selected to carry out this study. Two targets areas are Kano State and the Federal Capital Territory (FCT), Abuja. Abuja was chosen because of its high level of construction activities, thus it has a fair representation of all categories of indigenous contractors (even foreign

contractors). While Kano State was chosen because it was the place where the genesis of the research concept was first conceived. The method used for the data collection for the study was field work involving discussions with the parties to the projects, references to other similar publication and other personal observation of the work process. A visit to Abuja site was first made and since work is on progress, an observation and discussion were made at the site. However, for Magwan Water Restaurant, after visiting the abandoned site and had some inspection, a visit was made to Kano State Ministry of Works and Housing (which is a custodian of the entire public owned project in the state). Discussions were held with some senior officers of the ministry in connection with the abandoned project and the likely resumption of works on site. A discussion about the Liaison office in Abuja was equally discussed. A total of 16 most important points were eventually drawn upon which analysis of the two projects was conducted. The analysis eventually provided a basis for conclusion and recommendation. These information consisted (though not limited to) of the followings (Brief description of the project; project's name; project's initial cost; project's duration/date of commencement, stage at which the project was abandoned, reasons for project abandonment, year of re-award of the project, revised completion cost/project duration, subsequent contractor (if different from above), client's commitment to the successful completion of the project, honoring of certificate by the client, contractor's plan/schedule of work, contractor's policy with respect to resource scheduling, contractor's Policy with respect to resource leveling, contractor's adherence to Plan of work/updating

it as work progresses, eventual completion date of the project; and general economic evaluation of the two projects).

3. Data analysis and presentation

The data obtained from the two projects under study were deeply explained in this section, comparing the method of project execution under the traditional procurement method which is used in the execution of the two projects under study and thus comparing it with an alternative procurement method, Fast Track, and then identifying and highlighting the benefits, dis-benefits, time and financial losses and savings derived from the use of Fast Track. Even though the completion of one of the projects, that is Magwan Water Restaurant, is yet to take-off, yet the circumstances surrounding its abandonment and the financial losses suffered from the abandonment is examined and analysed.

3.1 Project A – Proposed Kano State Liaison Office at Central Area of Abuja

3.1.1 Brief description of the project

The project is a four storey building with an underground basement on a rectangular site (approximately 200 x 100m). It consists of offices that are meant to be used by the liaison officers of Kano State Government that are in the Federal Capital City (i.e. Abuja). It also has additional let table offices that are meant to be rented to big organization and corporations. There exists as well a two storey building with 2N0 3-Bedroom apartments in each floor, which is to be used as residential apartment to the staffs. While the revenue generated from the table offices is intended to be used for maintaining the building over its useful life.

3.1.1.1 Projects name: the project's name is proposed Kano State Liason Office. The project is situated in Central Area, Federal Capital Territory (FCT), Abuja.

3.1.1.2 Project's initial cost: the project was awarded in 1980 at an initial cost of N120,000,000.00 (One Hundred and Twenty Million Naira).

3.1.1.3 Project's duration/date of commencement: the duration of the project is 2years and it commences in February 1986 and is thus intended to be completed and handed over in March 1988.

3.1.1.4 Stage at which the project was abandoned: the project was abandoned after all substructure work including basement works were successfully completed (but without finishing), and structural frames and floors casted (but excluding roof floors).

3.1.2 Date at which the project was abandoned

The date at which the project was abandonment is February, 1989. Considering the date at which the project was abandoned in relation to the total project's initial duration and the remaining items of works which are yet to be executed, it becomes evident that even if the project was not abandoned, it would not have been completed within the initial stipulated duration of the project. In other words, the execution of the project was not in conformity with the project schedule, or the execution of the project is slow, or it is behind the schedule.

3.1.3 Reasons for project abandonment

The reason for the abandonment of the project is non-payment of outstanding payment (i.e., non-honouring of certificates of payment due to the contractor by the client). But, Fisk (2000) stated that "there is no moral

justification for a competent contractor being driven out of business by delayed compensation for services rendered". Even though non-payment is not a ground for project abandonment as outlined by The Joint Contract Tribunal conditions (JCT, 1980 Ed.), yet it can be argued that the amount of money owed by the client to the contractor is such that performance by the contractor is practically impossible, as also observed by Hinze (2001), "The construction industry is unique in regard to payment. While most payments in other industries are made at the time of delivery, in the construction industry periodic payments are typical". To worsen the situation, a change of administration occurred in which the subsequent administration never paid attention to the project in question because of differences in policies and political association, justifying the earlier statement by Shilgba (2007), 'Abandoned projects litters the land'. Years passed by without the project being attended to by the subsequent administrations and even those that tried to rescue the project failed to do so because of the accumulation of so many claims by the contractor and the effect of fluctuation which all together sky-rocketed the completion cost of the project to an amount much higher than the initial total cost of the project also as observed by Fisk 2000, "Inflation is one of the world's realities". This also further justifies the earlier statement by Giwa (1998), 'Non completion of a project on time will have adverse consequences on the overall cost of the project'. Had the project been fast tracked, even though it may be expensive, yet it may possibly have been completed long ago.

3.1.4 Year of re-award

The project was re-awarded in the year 2007; unfortunately, the bureaucracy of

obtaining approvals of continuation of the project from the relevant authorities further delayed the actual take-off of the project till early 2008. Even after the take-off, work remain in slow pace due to breakages/demolitions occasioned by changes in design/taste and the testing and removal of structurally defective elements coupled with the need to invite the relevant authorities to acknowledge such removal and subsequent changes, functionally and structurally.

3.1.5 Revised completion cost/ project duration

The revised completion cost of the project is to the tune of N945,000,000.00 (Nine Hundred and Fourty Five Million Naira) while the project duration is two years (i.e. 2007-2009). Comparing the completion cost of the project to the initial project cost, it can be seen that the completion cost has doubled the initial total cost of the project by almost seven times (i.e. 787.50% increase in the total cost of the project). Even though it may be argued by critics that the completion cost is inclusive of the cost of additional modification and changes in the project, which is as a result of change in fashion and usage, all the same the argument may be baseless because had the project been fast tracked and completed and thus put to usage, the revenue generated from the rentals would have been sufficient to undertake the renovation and modification of the structure to the current taste especially if the revenue generated was invested. Thus the huge amount of money being used to complete the project would have been put to other usage especially when there are so many unattended responsibilities by the government to its citizens.

3.1.6 Subsequent contractor (if different from initial contractor)

The subsequent contractor to the project was Messrs Afdin Engineering Ltd, a successful contractor of proven competence. However, notwithstanding the experience and competence of the contractor, the fact remains that completing a work started by someone else has never been without some difficulties and caution, this is because the degree of adherence to certain laid down rules and regulations by the earlier contractor cannot be ascertained. For example, during the completion of the project, care and caution is always taken in respect to dead loads even when they are necessary. This is because even though a strength test was carried out on all the structural elements before proceeding with the project, yet information about the foundation, sizes and number of column bases and the like, cannot be established with certainty. For example during the construction of the roof, smaller sections of steel trusses had to be used as against the prescribed sizes due to the weight of earlier prescribed sizes and the fear/uncertainty associated with the foundation. If the project was to be completed by the earlier contractor, all those problems may not arise. However one of the major problems associated with project abandonment is that, more often than not, the earlier contractor is not awarded the completion either because he is not known (or Close) to the subsequent client or even if he is known, likely at the time of the project completion, he lacks the competitive advantages (i.e. there are other contractors at the time of the completion who have better capabilities and other competitive advantages). Even in cases where he is known and is still competitive in the market, there is a fear that

the contractor will submit claims accruing to him throughout the duration of the abandonment, as noted by Fisk (2000), 'majority of all claims involve at least some elements of delay even if the primary issue is one of the other categories'. And when the claims cannot be paid, he will be willing to incorporate them in his tender and thus making his tender unnecessarily exorbitant (comparatively) just as unsuccessful tenderers always cleverly build their cost of abortive tenders in their subsequent tenders. Had the project been fast tracked, all these problems would have become avoidable.

3.1.7 Client commitment to complete the project/honouring of certificates

A commitment by the parties to a project (i.e. client and contractor) always determines the success or otherwise of a project. However experience has shown that (especially in under-developed and developing nations) clients, especially in public projects, lacks the willingness to be totally committed to the completion of projects started by previous administrations mainly due to difference in priorities and political groups or fear and jealousy of the initiator of the project to be associated (in history) with the credit of executing or founding the project. And thus, even in instances where an abandoned public project is completed by subsequent administration, sometimes it is only because it became necessary. For example, the Kano state liaison office is situated in a prestigious area in the Federal Capital (Abuja). More over all the liaison offices belonging to other states which are situated adjacent to it, have been developed and even put to usage. As such the liaison office has been causing unpleasant sight in the area especially to the completed

structures. Added to that, the uncompleted building has remained an accommodation for jobless individuals, criminals, and hustlers, thus causing security threat to all the building adjacent to it (again, this justifies Shilgba's earlier assertion). Added to this, the then minister of the Federal capital Territory (Abuja), have issued a revocation notice to the state government should it fail to complete its liaison office (land being vested in the authority of the FCT minister and thus within his Jurisdiction to revoke any land that was not put to the usage it was given for). Commendable though the good effect of Kano state in completing the project, yet the commitment shown in the completion especially in honouring certificates due to the contractor may not be comparable to other priority projects especially those initiated by the present state government. These reasons have therefore led to a slag in an attempt to meet the completion deadline. It is for this same reason that there still exist so many uncompleted projects especially by the federal government that are yet to be attended to.

3.1.7 Contractor's plan/schedule of work

As discussed in the literature review, plans are steps taken towards the achievement of desired goals. And therefore contractor's plan of work constitute a systematic breakdown of all the activities to be undertaken in a project and the time it will be undertaken and how long it will take to undertake it. In other words, it gives a graphical representation of all the activities to be undertaken towards the achievement or completion of the project and the total duration of all the activities, thus giving the project duration. Control measures can therefore

be taken from the plan to put back any deviation from the original plan back on track. Schedule on the other hand gives more detailed information than programme of work, in that it shows the amount of money needed to execute the activities and the various paths in undertaking the activity or project. Thus from the schedules the consequences of delaying an activity can be seen in respect to the total completion period of the project and the financial implication associated with that delay. The schedule also show the critical path, that is the longest path in the execution of an activity along which any delay in it will cause a delay in the project completion and at the same time it is a path along which the activity duration can be shortened in order to reduce the total project duration. The plan of work and the schedule therefore serves as a guide in controlling a project's total duration. However, in the course of project execution by the traditional method (not Fast tracked), there is no serious compulsion attached to completion time and thus in many cases the programme of work and schedules (even if there are) are only unnecessary documents to the contractor. This explain why, on entering a project site, it can easily be noticed that materials available (on ground) and the gang of work is not tallying with an intended level of achievement of work over a period of time, because there is no compulsion with respect to time. In the same respect and reference to the programme of work by Messrs Afdin (the contractor handling the completion of Kano State Liaison Office), it can be seen that the programme of work indicated that the project is going to be completed in one year, but even a year after the initial completion date, the project is not completed and there is hardly any genuine explanation for

such a delay. On the other hand there are no schedules even to guide the adherence to the programme of work and thus it is difficult to identify the activity that actually delayed the completion process and which path or way is to be taken to bring the project back on track. Little wonder then, even though there was never a time work stopped on the site, yet the completion of the project is far behind schedule. The reason remains no plans and schedules were prepared, even when they were, they were not adhered to and thus there is no performance measure and control which is the fundamental characteristic of Fast Track.

3.1.8 Contractor's policy with respect to resources scheduling

The eventual success of a project depends directly upon each activity being executed on schedule. And for this to be achieved, all the resources for each tasks should be on-site by the task's Earliest Start Time, or at worst they must be there by its Latest Start Time. If any resource is delivered after the task's LST, time is lost and the project's finishing date slips. Tasks on the Critical Path must start as scheduled, because they do not have float to absorb lost time from late deliveries. To ensure all resources are accounted for, all of them must be identified: the construction materials, the equipment needed, the workers (skilled and unskilled). And the whole process of ensuring that the correct resources are on-site and on-time for each task is called procurement. It begins with the contractor identifying each resource, writing its specification, selecting a supplier, and ordering it. On the other hand, the suppliers prepares a working drawing for the supply and make a prototype and have it inspected to agree on the time it should be supplied.

The contractor should not ignore procurement process after orders have been placed. A project manager may appoint someone to make continual contacts with all the suppliers, this person is called an expeditor and his or her job is to monitor the suppliers at important milestone during the procurement process. A planner should prepare a schedule for each resource needed for the project. When all these small schedules are arranged together, the collection is called a 'tickler sheet'. Because the scheduled time for each milestone triggers a phone call to a supplier, it acts as a tickle to the expeditors' and suppliers' memory- hence the name. In complex situations and in particular when disappointment with regard to the supplies are encountered, it is necessary to be updating both the schedule and the tickler sheet, and thus the new procurement schedule becomes the schedule upon which the expeditor monitor the supply. Unfortunately, in the execution of projects by so many construction companies, the compliance with the above guiding principle is not adhered to strictly. This explains why during the completion of Kano State Liaison Office the on-time execution of some aspects of the works suffered a major delay, because the materials were not supplied as at when due. Even though disappointments are sometimes inevitable in the dear-life, yet through careful planning and the anticipation of the fact that things may go wrong and thus preparing a remediable action, the impact of such disappointment to the eventual completion of the project may be minimised. In the same vein, if the contractor handling this project has thought about a likely disappointment from the supplier and sub-contractors, and thus made an alternative arrangement with other subcontractors

and suppliers, the delay encountered during the execution of these works may have been avoided or reduced to a minimum.

3.1.9 Contractor's policy with respect to resource leveling

In developing a most up-to-date schedule, it is unconsciously assumed that there is unlimited supply of all the resources needed for the tasks, but the real world situation may be very different. The single crane available and thus budgeted, may be needed for two construction tasks at the same time; or the carpentry crew may be required to work on two or more different tasks at the same time; or the painting crew will not be allowed to work alongside the electricians in a confine space. As such, other than resolving resource clashes, the wide swings in the daily application of certain resources, especially work crews, must be smooth. For example, the carpentry crew might be assigned work on four-day task and then be left idle for the three days, which would disrupts its working momentum, decrease its efficiency and complicate management of the job. Management's objective is to achieve a steadily working crew by rescheduling certain tasks by altering or adding precedence links into the network. These adjustments tend to complicate the network and lengthen the project though. When schedule shows two tasks requiring the same piece of equipment at the same time, the manager decides which tasks should use it first by comparing the total floats of both tasks. Their floats determine the priorities. Another type of constraint relates to separating tasks that can confuse progress if allowed to occur together. For example, laying foundation, laying the under slab services and the development of road beds may all be schedule

to start on the same day in the network. The PM may want the foundation to proceed unimpeded, therefore the other two tasks may be required to start afterwards. The delays may not be a problem because perhaps the total float on the other two tasks can absorb it and thus no major schedule disruptions are caused. Equally, in cases where several tasks are competing for the use of a piece of equipment, such use is rarely 100% allocated to any task over its whole duration. Its use might be shared among all the competing tasks, thereby reducing or eliminating any loss of time. A crane for example, is often needed for a short time at the beginning of a task to place materials, after which it will be free for other applications. Such shorter use of periods would be sequenced. Because of the rescheduling, the net work diagram should also be updated to record a consistent set of data. Each task from the task order should be checked and compared with the original net work making corrections and additions where necessary. However, these procedures and systematic work planning are only features of Fast track projects. The use of schedules/net works and its eventual strict adherence to, is very limited with traditional construction methods. Even in situations where resource levelling is practicable, as it must to a certain extent, the problem lies in management putting the usage of the resources in the form of networks and thus identifying the floats and financial consequences of prioritising resources; and the completion of Kano State Liason Office is no exception.

3.1.10 Contractor's adherence to plan of work/ updating it as work progresses

While plans are steps to ensuring the achievement of a desired goal, control on the other side is an attempt in making sure those

plans are adhered to, and where they cannot be adhered to, then separate plans are taken and incorporated into the original plan, together they become the new plan. It should be remembered that plan and control are inseparable (in fact Harold Koontz, 1995 referred to them as Siamese twins). It therefore follows that plan is next to nothing without control and vice versa. Referring to the completion of Kano state liaison office still, it has already been established that plans and schedules are not strictly prepared and adhered to and therefore updating does not even arise. This explains why projects run this way take a longer completion period. Even the running of private life may hardly yield any meaningful success without some form of planning and control to make sure that the plans are adhered to. On the other hand, in fast track projects, the preparation of plan of work and schedules is what even makes a project, to be a fast tracked project. And thus, right at the onset there is a clear understanding of where to go, when to go, how to go, how expensive is it to go, and what is the price of failing to go at a particular time. All these factors are what guides a fast track project and thus eventually leading to an on-time completion of project and thus making Fast Track Project stand a shoulder higher than the conventional methods of project execution.

3.1.11 Eventual completion date of the project

Even though the future is seldom predicted with certainty, yet with careful plans and control, there could be a higher degree of reliability in the predictions. But when projects are run without strict adherence to plans and schedules, it will be hard (if not

completely impossible) to predict when a certain milestone will be reached not even to talk of completion of the project. In the same vein, even though work is still going on in the site, yet completion date cannot be stated with certainty. Several periods were fixed for the completion, but it was not achievable (even though in fairness all works are almost completed). Had the project been fast tracked, it will be easy for a completion date to be known. This is because plans and schedules which depicts the start and completion period are already in existence and are being adhered to. Should there be any hindrance to the adherence to the plans and schedules, and plans and schedules are prepared in accordance with the intended completion date. And equally should there be any delay in the execution of any activity, it can be shown from the path whether the delay is capable of delaying and thus extending the completion date (i.e. along the critical path) or not. When it is capable of delaying the completion date, more resources are added to the path in order to shorten its duration (fast tracked), and when it does not have any adverse effect on the completion period, life becomes easy.

3.2 Project B – Proposed Completion of Magwan Water Restaurant – Kano

3.2.1 Brief description of the project

The project comprises of a 5-star hotel located in the most prestigious areas within the city of Kano. It was constructed during the then civilian governor of Kano State, Late Alhaji Muhammad Abubakar Rimi. The hotel attracted a lot of customers especially tourist because of its strategic location and its scenery view. This is what informed the decision of the subsequent government to expand it and add more structures and recreational

facilities. The project is intended to comprise of additional hotel accommodation and guest chalets, Banquet hall, night club, sporting facilities, a bigger and well landscaped parking lot. The extension work was started in 1986. Unfortunately no sooner had it started than it was abandoned.

3.2.1.1 Projects name

The project's name is proposed Extension of Magwan Water Restaurant. It is situated along Audu Bako Way, in Nassarawa area of Kano city.

3.2.1.2 Project's initial cost

The project was awarded in 1985 at an initial cost of N65, 000,000.00 (Sixty Five Million Naira).

3.2.1.3 Project's duration/date of commencement

The proposed duration of the project was 2years and it commenced in June 1985 and is thus intended to be completed and handed over in July, 1987.

3.2.1.4 Stage at which the project was abandoned

The project was abandoned after all sub-structure work including basement works were successfully completed (but without finishing), and structural frames and floors casted (but excluding roof floors).

3.2.1.5 Date at which the project was abandoned

The project was abandonment after one year from its commencement, that is 1986. But considering the date at which the project was abandoned in relation to the total project's initial duration and the remaining items of works which are yet to be executed, it become evident that even if the project was not abandoned, it would not have been completed within the initial stipulated duration

of the project. In other words, the execution of the project was not in conformity with the project schedule, or the execution of the project is slow, or it is behind the schedule.

3.2.2 Reasons for project abandonment

The reason for the abandonment of the project was that, there was a coup by the military which ousted the then civilian/democratic government. Unfortunately the project did not receive any attention from the successive government. However, considering the inflation rate in Nigeria, especially over a long duration, and couple with the fact that during the completion of the project, so many elements of the building (especially the structural elements) will not be functional both structurally and aesthetically, and thus there will have to be the need to remove and replace thus defective elements, and also due to the fact that some elements of the building would have been vandalized, the completion cost will be mind boggling in comparison with the initial cost of the project. Years passed by without the project being attended to by the subsequent administrations and even those that tried to rescue the project failed to do so because of the accumulation of so many claims by the contractor and the effect of fluctuation which all together skyrocketed the completion cost of the project to an amount much higher than the initial total cost of the project, which further justifies the earlier statement by Giwa (1988). Had the project been fast tracked, even though it may be expensive, yet it may possibly have been completed long ago.

3.2.3 Year of re-award

As at the time of this data collection, the project is yet to be re-awarded, but is on the process of re-award. It was learnt that so

many investors have shown interest in the completion of the project, and have even forwarded a proposal for the completion of the project, but the state government is yet to reach a compromise with a single investor. But it was gathered that any moment from the date of this data collection, the successful bidder will be on site to proceed with the completion of the project.

3.2.4 General economic evaluation of the two projects

The success or otherwise of a project is determined by the 3 project constraints also known as the Triple Project Constraints; Time, Cost and Quality. When a project is conceived, executed and completed within an agreed time (or any other such time reasonably adjusted), it is said to be a successful project. This is because it gives the client the opportunity to start recouping his investment apart from the simple feeling of discharge of responsibility and in which case attention can be shifted to another endeavour in life. If however, a project lasted for a longer period than necessary, the initial amount of money sunk into the project represents an amount of money that is unnecessarily tied down and thereby losing value. The money should have been used in providing other social services by the government, in which case the revenue generated from the services, or if it is non-profit oriented, the satisfaction to be derived from such projects, will be worth more than the initial amount tied down. In the same vein, when project duration is elongated, project's cost also increases. Mogbo (2003), stated that 'time and cost are inseparably linked and if, for example, the duration of a particular part of the project, or the programme as a whole change,

then in the majority of cases, the cost of doing the work must also change. It is therefore almost impossible to control the cost of carrying out work unless the time performance is also closely linked to it and concurrently controlled'. Also Preliminary items (or indirect cost and especially time-related items) will keep increasing in proportion to the extent of delay, and in which case eventual completion cost might be mind boggling. Hinze (2008), stated that 'the added costs associated with increasing the project duration consist of the direct costs (loss of worker morale, reduced productivity, material spoilage, etc.), indirect costs (managerial salaries, job site utilities, liquidated damages, etc.), and market losses (lost revenues when the facility is not put into use, other similar facilities completed ahead of the project in question, etc. Even though quality might not be directly affected by the length of time the project took, the actual problem lies in the ability to secure the funds needed to meet the earlier intended quality because inflation and other issues have made the attainment of such quality very expensive and sometimes not affordable. Hinze (2008) further stated that 'as the duration is extended further, a point will ultimately be reached where the owner will probably terminate the contract'. On the other hand even though it may be arguable, that fast track projects are usually expensive, yet it may be defensible that the benefits to be derived from fast Track Projects have by far outweigh the difference in the amount of money that exist between the traditional method of project execution and Fast track. Even though Magwan Water Restaurant is a profit oriented service or project, and thus it is possible to invite private investors to complete the project and own it in order to

recoup back what they invested, thus saving the government from using its money for the completion of the project, the loss to the client is usually in the number of years it will take in the possession of the private investors who will be collecting the revenue generated from the project. The regrettable aspect is that in profit oriented projects, before the project is returned to the client, in most cases, the project or the service, becomes out of fashion to the public due to changes in taste and fashion which is occasioned by the passage of time, or may be as a result of the availability of similar but better service from the market competitors. But perhaps the most regrettable situations in this kind of concession, is where revenue projection over the concession period falls below expectation, since the future is seldom predicted with certainty. Instances like this usually bring about unnecessary crisis in the form of re-negotiation of the concession period which sometimes leads to disputes between the parties. Another problem with this arrangement is that, usually toward the end of the concession period, most investors lacks the willingness to maintain the property as agreed by the parties, especially when the revenue generated by the private investors falls short of their expectation. This eventually leads to the client collecting back a dilapidated property and in some cases this also leads to acrimonious disagreement and disputes. On the other hand, Kano state Liaison Office is not a fully profit oriented project. Even though, there exist in the structure some lettable spaces, but principally the structure is intended to be a power base for Kano State Government within the Federal Capital City. Thus, it is difficult for the completion of the building to be given to a private investor, because as a power base of

the state it cannot be put to a commercial use completely even though a section of it can be let out. Hence the only likely way to complete the project is for the government to use its own money for the completion, and this in many cases constitutes a heavy financial outlay and sometimes a misplacement of priority, while if the project is left unattended to, equally it remains a monument of loss. If the two projects were Fast Tracked and completed, then the client (Kano State Government) would have been saved from the problem of project abandonment.

4. Conclusion

From the result of the analysis, it is evident that there exist significant areas of concern regarding the trend of projects' abandonment especially in public projects. Public funds are sunk into aspirations that are never realised when it should have been realised in spite of the insatiable need for the funds. With reference to the first research question, which seeks to find out the financial implication of project abandonment, it has been fully explained in the data analysis that project abandonment constitute a significant loss to both the client, the contractor and in general, the economy of a nation.

i) Loss to the Client

A client who sink his money toward the attainment of a particular project and to which the project got abandoned before completion, the client's money is said to be tied down. This is because the money cannot generate revenue and to make matters worse it will keep losing value until such a day when the project is completed. He is faced with the problem of a foregone alternative of

investing his money elsewhere, which would have enabled him to a return on his investment. The eventual completion of the project will undoubtedly be much higher than the initial cost, as observed by Giwa (1998), further worsening the financial losses of the client.

ii) Loss to the Contractor

Project abandonment in most instances has been more detrimental to contractors than even the clients and in many cases it has lead to bankruptcy of contractors. This is because after the project abandonment, a contractor is faced with debt settlement to suppliers, sub-contractors and workmen on site. He is also faced with the additional expenditures such as demobilisation of plants and equipment to other site (if engage somewhere) and maintenance/ security of work done and all other plants and equipment. Even though all these expenses are to be borne by the client especially if the abandonment is due to a fault by the client, the crux of the matter is that all the above expenses will have to be borne by the contractor pending when the project resume and thus when the client pay the contractor. That is to say all the expenses must be settled by the contractor whether the project continues or is abandoned. And in cases where it is not settled, the contractor may faced been charged to court for failure to settle debt. The situation is even worse when bank loan is involved because it will be accumulating interest to the detriment of the contractor and it may even lead to the loaner bank auctioning the contractor's property in order to redeem its loaned money. The most difficult situation of all is that when the project is eventually awarded to another contractor upon resumption of works on site. This usually happens

when at the time of the resumption of works on site, the contractor is competitively out of the market, or the contractor has already been declared bankrupt or when the client at that material time has decided to favour any other contractor for political reasons.

iii) Economy of a nation

It has already been established in the literature review that the construction industry plays a very important role in the economy of any nation. This is because it determines the level of civilisation of any nation and it creates wealth and employment more than any other industry. It therefore follows that, with project abandonment, a country's march towards civilisation is derailed, employment, and thus spending power is hampered, this in turn affect the general economic activity of a nation negatively. With regard to the research question (can Fast Track be used in mitigating late project's delivery), it has already been established with diagrammatical illustrations that project durations can be reduced by Crashing or Fast Tracking the activities involved in the project. Crashing a project means adding more resources to an activity in order to reduce its duration, while Fast tracking involve merging activities that would have ordinarily been done one after the other, with a view to reduce the total duration of the activities as illustrated in chapter two. Referring to research question (is the application of Fast Track beneficial to the client), the application of Fast have been proved in the data analysis beyond reasonable doubt that it is beneficial to the client principally because it reduces project duration and give a client the opportunity of having an early return on his investment. It should be noted that by reducing project duration,

market long- term uncertainties are avoided. The additional expenses associated with long time project duration is also avoided. Hinze (2008), stated that 'time consumed by projects directly influence the cost incurred on a project. The adage of "time is money" is not only true but applicable on construction projects'. Even though the potentials of Fast Track in saving extra costs by reducing project duration have been fully established, there are other factors which tend to make its application difficult and sometimes, practically impossible. These factors may include but not limited to the followings:

a) Poor adaptation to new innovations

Not many contractors are willing to forego their traditional and perhaps more conversant way of carrying out their project and thus adapt to new innovations of carrying out projects. This may be due to the fear of risk associated with trying new ideas.

b) Knowledge and expertise

In carrying out Fast Track procurement method of construction, the knowledge and expertise of planning techniques is essential. But many contractors do not have the knowledge and expertise in preparing schedules and thus using the schedules to monitor project's duration. Even the few ones that have the knowledge and thus prepare the schedules, in most cases they don't keep to the schedules which is as good as they do not have it. Hinze (2008) stated that 'it is important to have schedules, but it is more important to use it'.

c) Fraud

Fraud is a link with any act that is intended for deceit and trickery leading to the other party been deceived, cheated. In this regard, investigations has shown that there

are projects which are conceived and started but with a deceitful intention to the public by public office holders. A large amount of money is paid to the contractor (usually a fraudulent or a proxy of the client) who start work on site and soon abandon the project. In many cases the contractor's where about becomes enshrouded in mystery and even his office cannot even be traced.

d) Bribery

'Bribery can be explained as paying a person to do what they should ordinarily do in order to expedite matters, or paying a person to use his power or influence over others to get something done by those others, or compelling a person (extortion) through threats of what will occur if the payment is not made', (Pearl et al, 2005). Even though the research work did not come across a situation where this problem exactly happen, yet it is a common knowledge that contractors are sometimes compelled to give kick-backs for a contract awarded in their favour. And in most cases, the kick-back becomes detrimental to the contractors' financial ability to continue the project, and so they abandoned the work. In other instances, the contractors are not compelled to give out the kick-back, but they maliciously give to greedy public office holders and the eventual consequences is that they cannot be instructed or controlled, true to the adage ; 'you cannot eat your cake and have it'. In situations like these, contractors carry out works in their own pace, leading to longer project duration and sometimes eventual project abandonment as a result of inflation and claims occasioned by longer durations.

e) Political reasons

Changes in political administrations have in many instances led to projects started

by previous administrations to be abandoned by subsequent administrations especially if there is a difference in political group/association. This usually happens because of the differences in policies and priorities.

5. Recommendation

'Success of project actualisation is a pre-indicator of development in any economy, while abandoned projects (among many other project ills), are undoubtedly vestiges of economic crunch which represents a nation's losses', Aliyu (1999). Therefore in order to avoid longer projects durations, which in many cases lead to project abandonment, the study recommends the followings:

5.1 Training

There should be regular trainings, workshops, etc with a view to educate and enlighten all the parties involved in the construction industry, especially the contractors, about the potentials and advantages of Fast Track procurement techniques as a means of reducing project duration which eventually lead to cost reduction of projects.

5.2 Enactment of laws against project abandonment

Government should enact laws containing stiffer regulations on project abandonment with a view to discouraging project abandonment. This may include banning political office holders from starting new projects without completing earlier started ones by previous administrations even if they belong to different political groups.

5.3 Penalties

Probe panels should be constituted for any project abandoned with a view to finding out what happen and who is responsible for the project abandonment between the

client and the contractor. If the contractor is responsible, he should be charged liquidated and ascertain damages for all the days extended above the due completion date. If the client is responsible, the nature and reason for the client's action or inaction should be investigated. If it becomes necessary, he should be charged to court for embezzling public funds and possibly be banned from

holding any political office in the future.

5.4 Flexibility in policies to adapt to new innovation

Policies should be dynamic and not static, and therefore they should be flexible enough to suit varying changes and situations including being progressive to adapt to modern techniques and strategies.

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Trust as a context for knowledge flows in co-opetition

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Abstract: Market circumstances related to changes of business environment resulted in the need to find new ways to engage in competitive struggle by companies. This has led to the emergence of cases of establishing cooperation between competitors, the so-called co-opetition. Such cooperation is consistent with the network approach, and one of its key problems are flows of knowledge within it. The aim of this paper is therefore an attempt to establish, basing on critical analysis of literature, theoretical framework of conditions for forming a frame of basic conditions for exchange of knowledge in the case of co-operation of competitors.

Key words: co-opetition, knowledge, trust, network, value.

1. Introduction

The flows of knowledge between the cooperating partners are an essential element for successful realization of their common goal. This common goal is expressed in the benefits achieved in cooperation. Discussion of this problem in the context of the cooperation of competitors is justified for the following reasons:

- sharing knowledge is a key aspect of the cooperation of partners, allowing to generate the expected value for the

participants of the network, and for the final beneficiaries of this value (customers);

- co-opetition is a special case of networking in which there are flows of knowledge; discussion of conditions that provide the context of knowledge transfer in this system is important for this reason, that in this case does not have to deal with representatives of complementary resources, but with competitors;

- literature allows the author to trace the threads in issue of knowledge sharing between cooperating partners, description of the nature of co-opetition, and, therefore, to draw certain generalizations at the interface between these subject areas;
- literature in most cases discusses major issues of networking organizations independently of co-opetition.

It can be also specified that in the case of co-opetition the type of relationship constitutes expressed confidence between partners as a major determinant of knowledge sharing between them. This factor substantially, as it seems, influences the ability to create value in the system (Osarenkhoe 2010, 202). So this issue affects also the problem of continuation of cooperation between competitors. Gained experience with this type of cooperation will affect on the possibility of concluding a new agreement in the future.

2. Literature review

As indicated in the introduction, the problem discussed is located at the cross-roads of several major theoretical areas. The first main group of problems is the subject of network organizations. World literature in this theme focuses on several threads. It points to a possible approach to understanding the concept of the network. This phenomenon can be interpreted in terms of behavioral and strategic issues, or in the context of adaptability and flexibility (Alstynne 1997, 90).

Especially discussing the network organization according to the criterion of strategic management makes problems in interpretation of this concept. Researchers in many

ways define the nature of cooperation between partners. Once it is defined by a long-term or short time relations, sometimes, in turn, as, for example, by formal or non-formal relations. The diversity of characteristics of partners cooperation has led to distinctions in network organizations of special case: virtual organizations. They are characterized by short-term horizon of cooperation, primarily related to the realization of a particular purpose, and the low degree of formalization of cooperation (Walters and Buchanan 2001, 818-834). Today, as defined virtual organizations is also associated with a high level of using IT tools (Symon 2000, 389-414).

Addition authors indicate the possibility of interpreting the network as structure, processes and objectives and emphasize the role of the so-called network agents/ participants (Bernecker 2004, 77-78). This in turn leads to discuss issues of maintaining the autonomy within the network by partners and problems of opportunities to participate in value creation in the network (Child and others 2003, 25).

Networking is discussed also in the problem of knowledge management. This issue is referenced primarily to the principles of cooperation agreed between the partners, indicating that high levels of centralization and formalization of cooperation impede the knowledge flows within network (Mudambi and Navarra 2004, 387).

Issue integrating problems of network structure and knowledge management within it is problem of its architecture. Location of operators (central or at the edge of the network), the effect of autonomy within it, the effect of structural equivalence and network density affect flows of knowledge in the organizational structure (Gnyawali and Madhavan 2001, 431-445).

The second major problem is a matter of co-opetition. Its essence is discussed on the basis of the cooperation of competitors (Le Tourneau 2004, 81-83, and S. Ganguli 2007, 6-16).

Nature of the relationship maintained between the cooperating partners is, in turn, the object of further analysis of the literature (Kenworthy 1996, 51-58), also pointing to the benefits generated by this collaboration (Walley 2007, 11-31). Descriptions of cooperation between competitors in the literature seem to emphasize similar aspects of the issues discussed at the case of network organizations created by companies with complementary resources. However, it is emphasized in case of co-opetition the role of trust between partners (Padula and Dagnino 2007, 32-52).

Another problem with the cooperation between competitors, which can be found in the literature is a question of the nature of the relationship between them. Reference is made to present not only the cases of direct relationships, but indirect relationships between competitors as well. In this context relates to the cooperation of producers of hardware (mechanical and electronic computer components). Each individual works with the same producers of software (software). This situation means that there is no direct cooperation between competitors in the market for hardware and software. At the same time working with companies offering complementary goods in both markets and implemented specific solutions. Enterprises allowing and persistence in this type of relationship indicates that they are probably benefit from it, also trust that none of the partners in this complex system will not change the rules of the game (Zineldin 2004, 780-790).

Same problem of trust in the management literature is more than ten years one of the major issues associated with many aspects of the organization. It is discussed in the context of the ability to achieve the desired objectives, organizational behavior, organizational commitment, or satisfaction with the cooperation achieved between the partners (Palanski and others 2011, 204-205). In this way, the problem of the trust is a part of a wider problem of network organizations, emphasizing the relationships between the partners and their objectives.

Issue of trust is particularly important in the case of business cooperation (business networks). As part of this collaboration comes to the exchange of knowledge between organizations, which is used for creating new resources, and is used in innovative activity in enterprises. Therefore the partners perceive each other as a potential source of knowledge. This makes the need to be developed within a cooperation a framework for the exchange of knowledge, giving partners a sense of interests security (Cantner and Joel 2011, 37-39).

3. Problems of trust and knowledge spread in case of co-opetition.

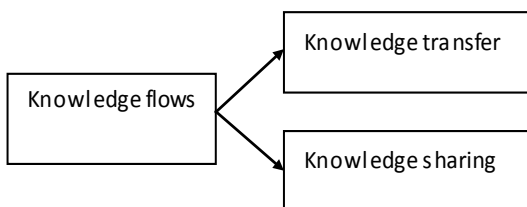
Sharing of knowledge can be understood as planned, formalized and directional process of knowledge flow. This means, that specified in this movement is who to whom and in what order shares specific knowledge (and hence is also defined what is the area of knowledge.) This type of knowledge transfer is also referred to the transfer.

Thus, the transfer of knowledge can be defined as the intentional communication of knowledge between individuals, groups,

organizations, resulting in understanding knowledge in an appropriate manner, the ability to exploit and use it. This definition indicates that the transfer is to use the knowledge transmitted by the receiving entity.

The opposite of knowledge transfer is the sharing of knowledge. It is the flow of knowledge, uninitialized for a specific purpose, and therefore runs in many directions and is informal (Lindsey 2006, 498). This informal nature of knowledge sharing is also apparent from the assumption that it is a process which takes place between people, and thus remaining in close connection with social relations. The transfer of knowledge may also take place between groups and between the organization and its environment, and an important element of knowledge transfer is to create a knowledge base for product s/ services, or ongoing processes (McKinnell Jacobson 2006, 507).

Figure 1. Types of knowledge flows.



Considering the conditions of knowledge transfer, we can point to three main groups. These are factors related to the essence of knowledge, motivational factors and factors related to the process of communication. Among the first group (knowledge-related factors) indicate the nature of the relationship between the parties to the transfer (if they are close and frequent it will support the same transfer); understanding

by both partners as the knowledge was exactly created, what is its meaning and how it is used, in turn, it affects on reducing potential confusion and misunderstanding in the transfer of knowledge; similarity shared by both sides of transfer values, norms, professed philosophy, problem-solving approach is also favored protection to the transfer; the so-called level of observability of knowledge (expressed in ease of perception and understanding of different aspects related to its use) - the higher the better from the standpoint of its possible transfer, as well as the ability to acquire knowledge by the person receiving it, which has been linked to assessment of the value of knowledge and its sources. The second group of factors affecting the transfer of knowledge related to internal and external motivation in the transfer process; internal motivation is associated with a feeling players transfer their own benefit, and external motivation is associated with the linkage results of the transfer of mines. with the appropriate choice of employees in this process, or a system of awards within the organization, whether the assessment work. Group of factors related to the process of communicating involves a number of determinants of this process, but come to the fore the problems with the assessment of the reliability of sources of knowledge, or competence in decoding received messages (the process of assimilation and understanding of their content) (King 2006, 539-540).

In case of transfer of knowledge between enterprises is reflected also the problem of dissemination of knowledge that can be used by another organization contrary to the intentions of the transfer. This problem, moreover, also applies to the dissemination of knowledge in the products / services and

organizational solutions. Expressed knowledge in such way may be subject to imitation by competitors and its employees, or can go with employees to the competition (Bishara 2006, 287). But relations between the organization and its environment are crucial for its success on the market, so the transfer of knowledge in this approach is attractive, even taking into account all the risks.

However, in order to minimize the risks there are taken various attempts to protecting key resources of knowledge in the organization.

The companies therefore often takes the appropriate action on the part of knowledge, which should according to the operator to be protected. These activities may have various goals, among them stands out above all: protect its own interests, the fight against competitors, or raise the company's reputation. The reference to the problem of knowledge to be protected due to criterion of its availability and identify opportunities to use it. In this case, we can distinguish the following types of knowledge: fully accessible (ie free), explicit protected; classified knowledge (not available) (Kotarba 2001).

Free knowledge is a concept that does not require special discussion. It is this knowledge that is widely available in all kinds of publications, a general or specific, which may be used by any entity interested in using it. Explicit knowledge protected and classified knowledge are a group of protected knowledge in the enterprise, the proportion of their resources is closely related (for example, patent is related to know-how). Explicit knowledge is protected by the knowledge that at the time and in a given territory shall be subject to legal protection for a specific organization. Itself of its content is accessible to

others, however, the possibility of its possible use in order to economically dependent on obtaining consent. Knowledge is concealed, in turn, undisclosed information to the environment concerning the technologies, technical and organizational solutions, or trade secret information. Their use is under strict confidentiality procedures, and any manifestation thereof requires the approval of key decision-makers (Kotarba 2001).

Actions taken in the sphere of knowledge in the company are derived from the current strategy of the organization. This in turn depends on the company's market position and how to implement the competitive struggle. You can include recall of knowledge management strategies for offensive(characteristic, they are primarily for market leading companies that have extensive research and development base, and applying broad knowledge of security tools); defensive strategy to protect the knowledge (specific to companies who follow the market leader, it is focused on protecting their own knowledge, but also includes obstruction of competition to protect its knowledge); or imitation strategy (the company waits until a competitor enters the protected knowledge of the time in the knowledge-free, and you can use it) (Żurawowicz 2009).

It should also be noted that the knowledge of the protected businesses may contribute to increase the profitability of the organization and its development (Gupta and Govindarahan 2011, 473). Knowledge itself can be protected form as the subject of the license granted to another entity, or a major contributory factor to bind to each other suppliers. You can also say that a specific procedure to take action to protect the legal level of knowledge can lead to competitive

advantage and in this context, eliminating the cost of a possible fight market. So it is a way to protect the benefits that the company will be achieved with the use of this knowledge (Kluczevska-Strojny and Strojny 2008).

Implementation of protection of knowledge in the enterprise may also be associated with many other benefits. The company with the knowledge of the protected reaches a certain stabilization of the market, which translates to, *inter alia*, the possibility of pricing. This is because the conclusion of the unique features of the product allows an organization to create a niche market and clinging to its portfolio of clients. Such conduct also affects the public relations company and its products. Applying for legal protection of the solutions worked out also makes the company becomes known in the domestic market and foreign, which also has a bearing on its visibility, but also the potential for expansion into other geographic markets through collaboration with entities that are interested in using the protected intellectual property of the company (Kotarba 2008).

The issues of knowledge flows and its protection are dependent on the structure of the system of cooperating companies. In the case of co-opetition there are mainly two competitors, and these issues can be considered only in relation between them. However, this problem can be considered in assumption that each of them also works with its cooperators. In this case the system is complicated, and the same problem of knowledge flows between the actors is also more complex.

Describing the problem, therefore, the diffusion of knowledge in the network it can not pass by parameters of that structure. Referring to the issue there can be proposed a description of this phenomenon based on

the so-called effects created for the flow of knowledge by distinguishing features of the network structure: centralization of the network effect, the effect of structural autonomy, the effect of structural equivalence and the effect of network density (Gnyawali and Madhavan, 431-445).

The effect of the level of centralization of the network means the extent to which a key participant in the network has a strategic position in the system with important links with other. Its position allows him access to external assets such as technology, money, skilled staff, which acquires by and from related organizations. Organization with a central position in the network system can also gain thanks to links with other actors information that comes to him faster than to other network participants with a more peripheral position in the network of relationships between companies. Centrally located in the system network also translates into the possibility of using the occasion (including the rapid acquisition of information and access to resources), therefore, an organization having such status it benefits from the asymmetry of resources (Weerts 2005, 25) (specifically with the informational asymmetry) (Szumilak, 2009, 9-15).

The effects of structural autonomy and structural equivalence is based on the characteristics of the organization's architecture links with other participants in the network. The first of these is expressed in the absence of direct links between two network operators, that are related only indirectly through a third entity with which each of them has direct relationships. This situation is called a structural hole, from which an intermediate organization between two other derives from the fact that the benefits. These benefits are

deposited on the more effective and efficient movement of assets and information from the network in relation to the intermediary actor, at the same time, this translates into his status in the network (due to the emerging asymmetry of resources). Thanks to its position intermediate organization can control the flow of resources, to have faster access to information and have access to a broad base of assets (Gnyawali and Madhavan, 431-445). The effect of structural equivalence is, in turn, the existence of the network operators that have a similar architecture of relationships with other actors, though not themselves be related. Therefore, any network profiles of these entities are very similar, and this is due to two reasons. From the standpoint of socialization processes, we can conclude that these entities interact with similar actors in a similar way, which translates into similar attitudes and behavior of participants in these relationships and use resources. There is a symbolic explanation, arguing for the fact that operators in terms of equivalent positions in the structure of networks imitate each other. Since they have access to similar assets, information, and have a similar position in the network, it can be indicated, therefore, the symmetry of their profiles and the symmetry of the resources (Straub and others 2008).

The effect of network density is expressed in the extent of links between network participants. High network density is conducive to facilitating the flow of knowledge and other resources through many connections between the actors and drawn up routine in this field. It also allows for easier developing networks of trust among actors, shared norms, patterns of behavior. It is also easier to draw the consequences to entities

that do not apply to disseminate the functioning of the network. It should also go out that due to the high density of the network it will be neutralized the effect of the asymmetry resulting from the centralization of resource networks, enhances the effect of structural autonomy (the company benefiting from this effect will continue to receive them, or even expand these benefits, as it will be able to direct part of the existing relationship for the intermediate - without losing what it achieves through-opt for direct relationships with new actors). Finally, the high density of the network will increase cohesion (representing the network operators are preventing their separation) - finally, the high density of the network will increase cohesion (representing the network operators are preventing their separation) (Gnyawali and Madhavan, 431-445).

Transfer of knowledge, in accordance with what has been said, manifested in changes in knowledge or performance of the beneficiary of this process. Scientific publications in this field clearly shows that organizations implementing the transfer of knowledge to function more effectively and more efficiently than the actors do not participate in the process, or from those members of the network who are in that respect ill-prepared (Kagami 2006, 87-106).

Researchers suggest that a key problem for knowledge transfer in the network structure is the issue of social capital (Tallman and others 2004, 259). Social capital is defined as the totality of resources available through the network of relationships between individuals or organizations (Bratnicki 1999, 14-16). It should be noted that social capital is based on formal agreements between them and mutual trust created in time. Social capital in this

sense can be characterized by three dimensions (Kagami 2006, 87-106):

- structural design including the relationship between the participants in the network, and that this dimension can be described in terms of three perspectives: relationships, configuration and stability; issue of the relationship refers to way of the links between network participants, which are regarded as the basis for creating an exchange between actors (Singh 2005, 757); network configuration refers to issues related to the form of structure - whether it is a intracorporation network or network of independent organizations (In the second case the transfer of knowledge may be hindered by existing organizational boundaries); stability of the network, in turn, affects the possibility of development of social capital between organizations: the network is more stable, that is, they are less likely to exchange warehouse operators forming it, the stronger bonds are formed over time between them;

- cognitive dimension, which refers to a common understanding of certain issues between the participants in the network; it is described by the shared goals among the network operators and network culture; issue of cognitive dimension relate to the problem so as the transfer of knowledge between network operators can point to success of the entire system (Lin and Chen 2006, 160);
- relational dimension, based on the role of direct links between network participants and outcomes for individual participants in the network; this dimension is described by the level of identification of the applicant under these relations, standards, and

above all trust, understood as a critical factor in the transfer of knowledge between the actors of the network; must also be noted that trust in the network has its own institutional reference: the fact that an organization is part of the network, means for the other participants in this network that he is worthy of trust.

In this way, in this paper were sketched out the main determinants of the flow of knowledge in business cooperation. Now it will focus on trust as a foundation of knowledge sharing between cooperating competitors.

Co-opetition requires the involvement of partners, it is therefore not easy to decide to participate in this kind of interorganizational relationship. This is because the exchange in that the system and the satisfaction achieved with the implementation of pursued objectives must be bilateral / multilateral. Therefore, it can be distinguished a necessary condition, whose fulfillment is necessary for the establishment of the connection between companies and proper functioning of the system: reference expected benefits by all cooperating partners (Zineldin 2004, 780). This can be achieved if the partners believe that they are trustworthy to each other, and in cooperation (Krishnan and others 2006, 894-917):

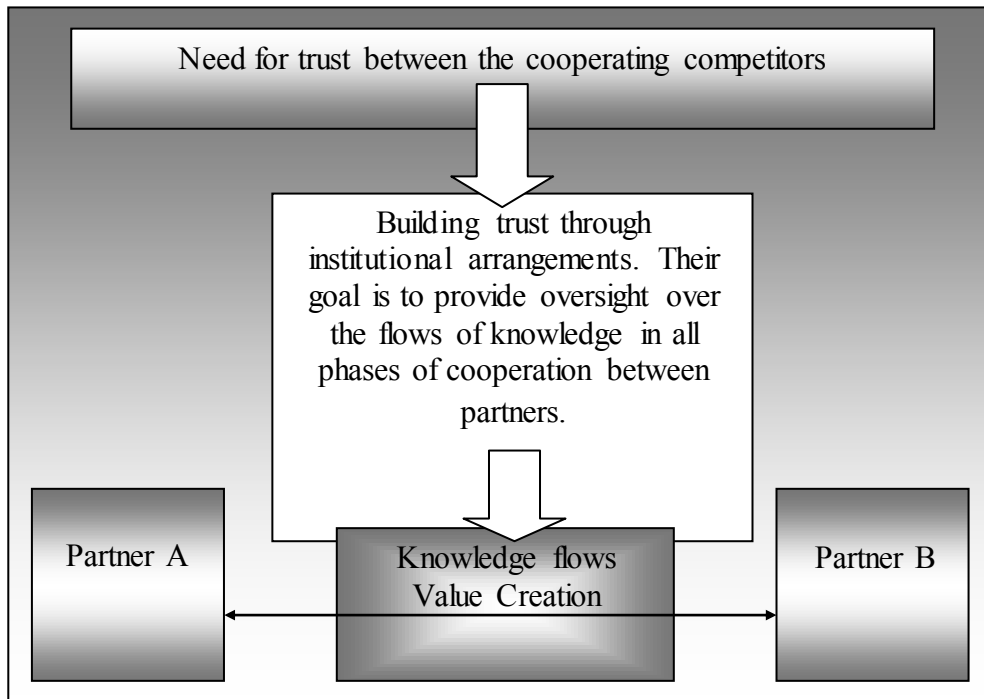
- carry out the promise;
- act with integrity;
- show good will to each other.

This guideline suggests that companies seeking to socialize such type of cooperation should meet two requirements. First, it should have appropriate incentives; and secondly, to plan in detail all aspects of functioning in these conditions. Such arrangements

between the partners is often achieved through arduous and lengthy negotiations, which aim is the basis for determining the

functioning of competitor's relationship (Le Tourneau 2004, 81).

Figure 2. Background to the problem of trust for the knowledge flows in co-opetition



When the co-operation between competitors is taken, it becomes important to control the exchange process, that each partner has a guarantee to achieve the agreed terms. The most important is the question of achieving the overall settlement of a synergistic effect (fulfill the purpose for which the cooperation was established, and whose the partner alone would not be able to achieve, while, as already mentioned, there is the individual satisfaction of partners) (Martinez-Sanchez and others 2010, s. 6).

Another important factor in the success of co-opetition (in addition to the preparation and control) is a question of partnership, which should characterize a true

commitment.

Evaluation of this partnership can be made by examining aspects such as (Zineldin 2004, 780):

- the ability to share knowledge,
- the existing system of communication between partners,
- functioning, or problem-solving mechanisms.

The main problem in co-operation of market competitors is therefore their level of mutual

trust, which covers the operating principles described above in that system. The fear that one partner uses the other is natural, however, should not be a guiding force for

cooperation. The problem of cheating partner may involve the use of acquired knowledge in a particular area from a second one (it would mean that only one of the partners would benefit significantly).

Creating a trust between the cooperating competitors is therefore a process, which begins when the decision on cooperation is taken. The most important aspect here is to agree the principles on which the companies will cooperate. From this point of view, it's important to specify at the beginning of cooperation all potentially problematic issues, especially those that can give rise to much controversy.

The dosage is, therefore, set the dimensions of cooperation to support trust between partners. These include reliability (reflecting the promises made by the partners); openness (promoting innovation and fair action); competences (the abilities of partners to make the right decisions and proper operation); and care (lack of detriment to a partner and show good will) (Mishra 1996, 261-287).

In a next step, the formation of trust takes place in the process of the implementation of cooperation and its control. Confidence is the belief that cooperation will be well-arranged and will be successful. So it is a sensation associated primarily with certain degree of certainty that the partners do not use their weaknesses (Dyer and Chu 2000, 259-285).

This does not mean that the problems that may arise during the implementation of projects can be omitted. It becomes necessary therefore to create a security system, to prevent potential fraud committed by partner, preferably already at the stage of resolving the current dispute. Such approach to functioning in the conditions of cooperation

will help prevent the spread of the core competencies and achieving network success (Swaminathan and Moorman 2009, s. 52).

Such a dynamic approach to the development of trust makes it also indicates the attributes of the relationship formed the basis for it. Stands out in this case, a presumption of good faith, that feeling of being involved in activities that lead to benefits and minimize risks; belief in the competence of partner (expressing a feeling that the partner is able to fulfill the promises made); credibility, which is continuous interaction between the partners that allow them to feel confident about maintaining the goodwill and competence of partner (Dervitsiotis 2006, 795-810).

4. Conclusions and implications

Building trust in a co-opetition is a dynamic process, associated with the entire duration of this type of network cooperation. It is expressed by framework for the exchange of knowledge between partners (Dabouob 2002, 40-42). The main anxiety of cooperating partners, and therefore the main task that they face in the process of creating trust, is to provide conditions to achieve the intended benefits. This means that they maintain their position in the system of cooperation based on assets held by them, particularly those of an intangible.

Making these assumptions it can be said, that essential issue for the flows of knowledge in co-opetition becomes a matter of institutionalized mechanisms to create trust between partners. It turns out that they need to formalize from the very beginning. In accordance with the existing research, high level of formalization in systems of cooperating enterprises makes difficult the diffusion

of knowledge between partners (Inkpen and Tang 2005, 150).

It seems that future research should focus on the relationship between the level of formalization and the efficiency of knowledge spread in situation of co-opetition in the context of achieving the desired benefits

for the partners. It is very important issue, because in the case of cooperating competitors there will always be formal restrictions to allow the surveillance of selected areas of cooperation and will appear the problem of its effectiveness.

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Lack of infrastructure as a challenge to the actualization of vision 2020 in Nigeria

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Abstract: The study highlighted the importance of required infrastructures such as energy as a panacea to the realization of the objectives and goals of Vision 2020 in Nigeria. With the dearth of infrastructures, the move towards stability and consolidation in the polity may not be feasible. In the light of these, the importance of vision 20:2020 as a catalyst to the industrial development of the country and the placement of the nation in a central location within the comity of nations becomes imperative. It is in this instance that the millennium development goals (mdg) become realizable and of relevance in the achievement of the macro- economic objectives of government. Consequently, the need to be well positioned in the provision of social amenities for the benefit of the citizens becomes a - must do for managers at all levels of governance and this determines to a reasonable extent the way forward for economic and technological breakthrough of the less developed economies such as Nigeria.

Keywords: Panacea, catalyst, vision, amenities, technological

Introduction

To achieve industrial breakthrough via vision 2020 is a task that must be done and all hands must be on deck towards this laudable achievement. However there quite a number of obstacles which could militate against this

achievement and one of such is the uninterrupted provision of energy which is believed could stand as a viable catalyst to the realization this lofty idea. The economic wellbeing of the citizenry is of paramount importance and prosperity as a basis for sustainable development is ideal. It is on record that 70%

of our population lives on less than one dollar per day. It therefore becomes evident and realizable for us to plan towards achieving a breakthrough particularly in the threshold of thousand dollars per capital as fallout of vision 2020 in this regard. The aspiration to position Nigeria as one of the twenty biggest economy in the year 2020 and this calls for a serious reflection particularly on the various challenges militating against the realization of this lofty idea should critically assessed for positive results.

Statement of Problem

Nigeria as the giant of Africa is a land flowing with milk and honey. A country blessed with huge resources of both human and material resources and yet stagnated in the first forty years as a nation with only 2.8% growth in GDP in the 1990s and an all high 70% poverty level in 1999 coupled with energy challenges among others. To achieve industrial breakthrough in 2020 a comprehensive and efficient reform programmes should be put in place and for the purpose of this study an ideal energy structure is required to jumpstart the economy. the right time is now for us to tackle headlong this energy challenge. The largest black nation as well as the 8th largest producer of oil and 6th largest deposit of gas coupled with 34 solid minerals and 44 exportable commodities in addition to huge arable farm lands implies that this country could not settle for less.

Purpose of Study

In the light of the above mentioned attributes and challenges facing Nigeria as a nation towards the achievement of vision 2020, it becomes not negotiable therefore to

uncover the problems associated with this tall order and suggest strategies that will enable us as a nation benefit from the modalities put in place to achieve this vision and put the nation at the pedestal of economic boom and prosperity among the comity of nations.

Scope of Study

The study focuses on the energy situation in Nigeria as a panacea to the achievement of the gals assigned to vision 2020 in all ramifications. This will highlight the energy generation, distribution and consumption patterns as well as the required capacity needed in this economy. The study will cover the period between 1996 and 2008.

Significance of Study

The results of this study will provide the basis for developing appropriate strategies towards the achievement of vision 2020 and thereby place Nigeria in the global map of technological breakthrough and advancement.

This study will also reveal the extent to which the various stakeholders have gone in the actualization of this laudable vision and the level of awareness generated and required to achieving the ideal .

Objectives of Study

The broad objective of this study is to determine the truism on lack of infrastructure particularly energy sector as a challenge to the achievement of vision 2020 in Nigeria. To meet the general objective therefore, the following specific objectives is of the essence.

- 1) to identify the causes of energy challenges in Nigeria
- 2) to determine the level of sabotage in the energy challenge

- 3) to ascertain the efforts of government and other stakeholders in this regard
- 4) to classify the causal factors with regards the government and other stakeholders level of involvement
- 5) to proffer probable solution to tame these challenges

Research Questions

- What are the likely and identifiable causes of energy challenges in Nigeria?
- Are there likelihood of sabotage in the energy challenge?
- What are the realistic efforts of government and other stakeholders to arrest this scourge?
- How do we classify the identified causal factors within the government and other stakeholders?
- What are the probable solutions available for Nigeria in the actualization of vision 2020?

Research Hypothesis

Ho: There is no significant difference in energy as a relevant infrastructure to the actualization of Nigeria becoming a fully developed economy by year 2020.

Theoretical Framework and Literature Review

Between 1999 and 2007 when the Obasanjo administration was in place, a twin reform approach came on board as opined by Soludo (2007). The two phases of reforms took the form of socio-political reconstruction (demilitarization of the state and reconstructing

the military) ; due process solely for accountability and transparency; strengthening institutions for democratic governance such as ICPC, DMO, the judiciary, legislature as well as the executive; the reintegration of Nigeria into the global community of nations and the foundation for private sector take off with the introduction of GSM services, privatization, infrastructure provision, security with special reference to an efficient military and police formations. All these manifested during the first phase of the Obasanjo administration between 1999 and 2003.

During the second phase which ran from 2003 through 2007, the National Economic Empowerment and Development Strategy tagged NEEDS came up with main objectives of wealth creation, employment generation, poverty reduction, and value reorientation. In the light of this , fiscal and monetary as well as exchange rates reforms, banking and insurance reforms, presidential initiatives on policy positions, deregulation of the downstream sector of the oil industry became the focal point for NEEDS in this instance.

All these reforms are expected to prepare the economy to becoming one of the top twenty economies by year 2020. What are the probable outcomes of these reforms therefore.. the CBN Statistical Data revealed an average GDP growth of 7% since 2003 (2.8% in 1990s) with non-oil sectors growth above 8% since 2004 with agriculture taking the lead. The external reserves grew from 4billion USD in 1999 to 43.5 billion USD in 2006 even after paying off the Paris Club debt of 14billion USD. The country experienced an improved foreign investment of over 3billion USD in 2006 which was negative in the 1990s while unemployment rates moved from 18% in 1990s to 5.3% in 2006.

Infrastructural challenges or deficiencies constitute matters arising in this instance for the objective of vision 2020 to be realizable and the energy challenge is a key factor.

Concept Paper for Development of Vision 2020

Nigeria's economic potential is well recognized. It is the biggest economy in the West African sub region. Given the country's considerable resource endowment and coastal location there is potential for strong growth. Yet Nigeria has realized very little of this potential. Previous efforts at planning and visioning were not sustained. The history of economic stagnation, declining welfare and social instability, has undermined development for most of the past 30 years.

But in recent years, Nigeria has been experiencing a growth turnaround and conditions seem right for launching onto a path of sustained and rapid growth, justifying its ranking amongst the N11 countries. These are the countries identified by Goldman Sachs to have the potential for attaining global competitiveness based on their economic and demographic settings and the foundation for reforms already laid.

The previous administration had declared the intention to pursue the vision of placing Nigeria among the 20 largest economies in the world by 2020 and the current administration is committed to the attainment of this vision.

Concept for Vision 2020

A vision is a clear mental picture of the future which must represent a significant improvement on the current state. It however must be supported by a clear and realistic

path to its realization and requires consistent and sustained effort for its achievement.

Key Goals for Vision 2020 - Vision Statement

"By 2020 Nigeria will be one of the 20 largest economies in the world able to consolidate its leadership role in Africa and establish itself as a significant player in the global economic and political arena." (www.nv2020.org)

The News Magazine of February 23, 2009 reported that President Umar Musa Yar'Adua at the inauguration of the Business Support Group, BSG, for Vision 2020 in Abuja said that the country is targeting Gross Domestic Product of \$900 billion from its present \$294.8 billion, Per Capita Income of \$4,000 and a Growth Rate of 300 per cent in order to realise its Vision 2020 dream.

The President who was represented at the occasion by Vice-President Goodluck Jonathan noted that these targets must be met for Nigeria to move from its 40th position in the world's economy and the third in Africa to rank among the top 20 countries and first in Africa in 2020, despite the global economic crunch. The President remarked that the system of production and innovation must change radically to ensure meaningful growth in key sectors.

According to the President, Nigeria needs a sound, stable and globally competitive economy with a Gross Domestic Product, GDP, of not less than \$900 and per capita income of \$4000. President Yar'Adua believes that with a vibrant and globally competitive manufacturing sector that could contribute significantly to the GDP, say with a manufacturing value added of not less than 40 per cent, Vision 2020 is possible.

Determined to ensure its success, a nine-month time frame had been set for the completion and production of the Vision's document. The document would be ready by September this year, the President posited.

The President wants the country to improve her education and health delivery systems in order to build an effective human capital that will drive development. The 300 per cent growth rate was based on the key parameters for ranking global economies - a high and growing GDP level, investment level of not less than 40-60 per cent of GDP, per capita income of not less than \$10,000 and unemployment level of less than 10 per cent.

Others include a high and balanced education, high technological development, high capacity utilization in manufacturing of not less than 75 per cent, among others. The BSG is the private sector initiative towards the actualization of the Vision 2020. The private sector is expected to contribute actively in the envisioning process for the future of the country.

The major organs of the developmental and implementation framework of vision 2020 plan has the national council on vision 2020 at the apex and the process is solely based on a bottom-up strategic planning approach which ensures ownership by all stakeholders.

National Steering Committee

The National Steering Committee (NSC) shall consist of about 70 persons to develop the V2020 implementation guidelines and Monitoring and Evaluation (M&E) strategy ensuring a bottom-up approach by which all key agencies, Ministries, Departments and Agencies (MDAs) as well as State, Local Government Areas (LGAs) etc

are encouraged to prepare and implement their "component of the V2020" in line with the national priorities. The NSC will also develop a template for preparing the V2020 strategic plan and annual Communication on Progress (COP), and will collate same to prepare the annual performance report for the National Council.

The NSC will have its membership drawn from the Public and Private Sectors, including other national institutions as follows.

Secretariat of the National Steering Committee

The National Steering Committee will be anchored by the National Planning Commission (NPC) which shall serve as the Secretariat. It shall also be chaired by the Minister and Deputy Chairman NPC with the Secretary to NPC as its Secretary. The Secretary to the NSC is closely assisted by three Deputy Secretaries. In order to allow for inclusiveness, the private sector is actively involved in the process. In this regard, the Director General of NESG has been engaged to serve as one of the Deputy Secretaries.

National Technical Working Group for V2020

The National Steering Committee shall be supported by the National Technical Working Groups (NTWGs). The NTWGV2020 will comprise of about 20-25 groups of experts for the identified thematic areas drawn from both public and private practitioners with responsibility, expertise and passion for the area. They may also be assisted by consultants where necessary to undertake specific studies or research work to provide the data necessary for the working groups

report. The National Technical Working Groups shall also work closely with and assist the stakeholder groups in preparing their vision 2020 documents .

Stakeholder V2020 Development Committees

The V2020 would be a bottom-up strategic plan in which each major stakeholder group will prepare its V2020 document based on the guidelines approved by the National Council in line with the national goals and priorities. It is intended to have about 20-25 stakeholder committees. Stakeholders will include State Governments, MDAs and other key institutions.

While the MDAs and other Stakeholder Development Committees are expected to provide information that will feed into the NV2020 Plan, the State Development Committees will generate information that will feed into the State V2020 documents using the Federal Guidelines.

Economic Management Team

The Economic Management Team will serve as Think-Tank to drive the visioning process. The Chairman and Vice Chairman of the EMT are members of the National Council and National Steering Committee on Vision 2020 as well as provide the vital link and feedback from both directions between the National Council and the National Steering Committee. They will therefore provide the vital link and feedback from both bodies.

Methodology and Data Analysis

This study involved the collation and analysis of data to ascertain the sort of challenges militating against the realization of vision 2020. The study is empirical in nature and the anova statistical method of analysis was adopted for this study to determine the level of significant difference of the identified variables.

Percentage distribution of households by type of electricity facilities

Percent

Type of Electricity	1999	2000	2001	2002	2003	2004	2005	2006
Public Only	41.36	44.00	47.56	47.16	39.40	35.30	43.60	39.45
Public/Private	0.17	0.60	2.39	1.65	3.20	3.23	4.30	2.15
Private Only	0.76	0.30	6.99	8.05	1.80	0.20	3.40	1.80
Others	57.71	50.60	43.06	43.14	55.60	64.50	48.70	56.60
Total	100.01	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: National Bureau of Statistics

Percentage distribution of dwelling units by type of water supply

Percent

Type of Water	1999	2000	2001	2002	2003	2004	2005	2006
Pipe borne Water	24.38	45.90	55.07	23.38	15.78	14.50	16.20	15.35
Borehold Water	11.83	16.60	0.68	17.02	22.04	17.60	24.00	20.80
Well Water	28.27	2.30	14.31	26.76	27.83	36.00	25.10	30.55
Streams/Pond	33.82	33.60	29.94	32.08	33.00	31.50	33.50	32.50
Tanker/truck/Van	1.70	1.70	-	0.85	1.35	0.40	1.20	0.80
Total	100.01	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: National Bureau of Statistics

Electricity generation

'000 KWH

POWER STATION	1980	1990	2000	2001	2002	2003	2004
HYDRO:	2,953,95	2,803,138.0	6,441,603.0	6,193,533.0	6,390,486.0	7,752,670.0	8,086,884.4
2.0							
Kainji	2,953,95	1,151,374.0	6,441,603.0	1,587,309.0	2,104,322.0	2,642,795.0	2,960,184.5
2.0							
Jebba	0.0	1,651,764.0	-	1,930,978.0	2,087,220.0	2,571,041.0	2,703,745.0
Shiroro	0.0	-	-	2,675,246.0	2,198,944.0	2,538,834.0	2,422,954.9
THERMAL:	4,389,23	8,510,996.0	8,217,776.0	10,760,676.04	13,210,010.8	15,015,458.0	16,122,036.7
8.0							
Ijora	150,710.	14,353.0	8,217,776.0	7,087.0	1,594.0	4.0	54.0
0							
Calabar	1,453.0	281.0	-	-	661.0	786.2	838.2
Afam	784,521.	1,107,010.0	-	340,195.0	1,733,567.0	2,090,538.3	1,247,712.4
0							
Delta	1,049,27	1,097,380.0	-	2,141,890.0	3,429,194.0	3,451,996.0	3,933,905.3
1.0							

Sapele	2,306,12	1,145,700.0	-	1,328,813.0	1,167,021.0	904,640.0	1,025,775.0
	2.0						
Lagos (Egbin)	0.0	4,719,919.0	-	6,941,105.0	6,876,965.3	6,810,113.7	7,958,727.8
Ajaokuta	0.0		325,988.0	-	-	-	-
Others	69,533.0		8,076.0	-	-	-	-
PURCHASE		27,628.0	92,289.0	-	1,586.0	1,669.5	1,757,379.7
Total		7,343,19	11,314,1	14,659,3	16,954,	19,600,496.	22,768,127.9
		0.0	34.0	79.0	209.0	8	

Source: Power Holding Company of Nigeria

YEAR	TOTAL CAPAC- ITY	TOTAL GENER- ATED	TOTAL CON- SUMED	% of TOTAL GENERATED
1996	4,549	1,854	1,033	55.7
1997	4,549	1,840	1,010	54.9
1998	4,549	1,725	973	56.4
1999	5,580	1,860	884	47.5
2000	5,580	1,738	1,017	58.5
2001	6,180	1,690	1,105	65.4
2002	6,180	2,237	1,272	56.8
2003	6,130	6,180	1,520	63.4
2004	6,130	2,764	1,826	66.1
2005	6,862	2,779	1,873	67.4
2006	6,862	N/A	N/A	N/A
2007	6,862	N/A	N/A	N/A
2008	N/A	N/A	N/A	N/A

Source: Power Holding Company of Nigeria

(Note: The researcher assumed the figures for 2005 from all indicators to be relevant through 2008 for data analysis.)

Anova: Single Factor

SUMMARY

<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>
Column 1	13	76875	5913.461538	803535.3
Column 2	13	33004	2538.769231	1422748
Column 3	13	18132	1394.769231	172992.4
Column 4	13	794.3	61.1	42.28667

ANOVA

<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	244671434.7	3	81557144.88	135.9672	1.83E-23	2.798061
Within Groups	28791813.29	48	599829.4435			
Total	273463247.9	51				

From the result of data analysis above, the calculated F-ratio of 135.96 is greater than the critical F-value of 2.79 at 0.05 level of significance. The null hypothesis is therefore rejected. We conclude that there is a significant difference in energy as a key infrastructural facility to the actualization of Nigeria becoming a fully developed economy by year 2020.

Recommendations

1. To actualize vision 2020 the level of unemployment especially urban youths should be positively controlled.

2. It is a fact that high rate of urbanization is associated with crime as well as putting pressure on urban infrastructures and

most especially housing and to minimize the negative impact on Nigeria becoming a fully developed economy by year 2020, this has to be addressed.

3. The states should be development oriented in order to stem the rural urban drift and in such situation the onus will be on the government to provide basic amenities to be able to checkmate the drift to enhance even development.

4. Security of lives and properties is imperative to put at bay the concept of brain drain which is a serious challenge to achieving economic development.

5. Political stability coupled with clear vision, effective planning and implementation should be accorded high priority.

6. In this part of the world, the energy sector is most ideal to empower the citizens and help turn the growth indices in the economy to developmental prospects.

7. In the light of the above, the achievement of the desired macro-economic objectives in the economy will not be a mirage and by extension the prospective plan of vision 2020 on Nigeria as a nation. This business plan with the noble intention to make Nigeria a fully developed economy by year 2020 will become a reality and all hands must be on deck towards achieving this feat.

8. The private participation particularly in the area of renewable energy such as solar and wind energy should be put in place with the complete backing and encouragement from the government.

9. Our overdependence on imported materials will spell doom for our economic since it will definitely create a flaw on our industrial sector and our infant industry, hence the high level of unemployment in the economy while we have succeeded in creating jobs in the foreign economies.

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The impact of leadership qualities on quality management improvement

~ Dr. Eng. **Radosław Wolniak** (Faculty of Organisation and Management, Silesian Technical University, Poland)

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.

Table. 1. Autocratic and democratic leadership practices

Autocratic practices	Democratic practices
<ul style="list-style-type: none"> • being authoritarian, giving orders, forcing • the use of power and making decisions independently by a leader • putting pressure on the realization of aims • task –and result orientation 	<ul style="list-style-type: none"> • taking into account other team members' opinions and feelings • counsels • people and human-relationship –orientation • taking decisions by a group • facilitating contacts • sharing with knowledge and control

Source: Author's own study.

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).

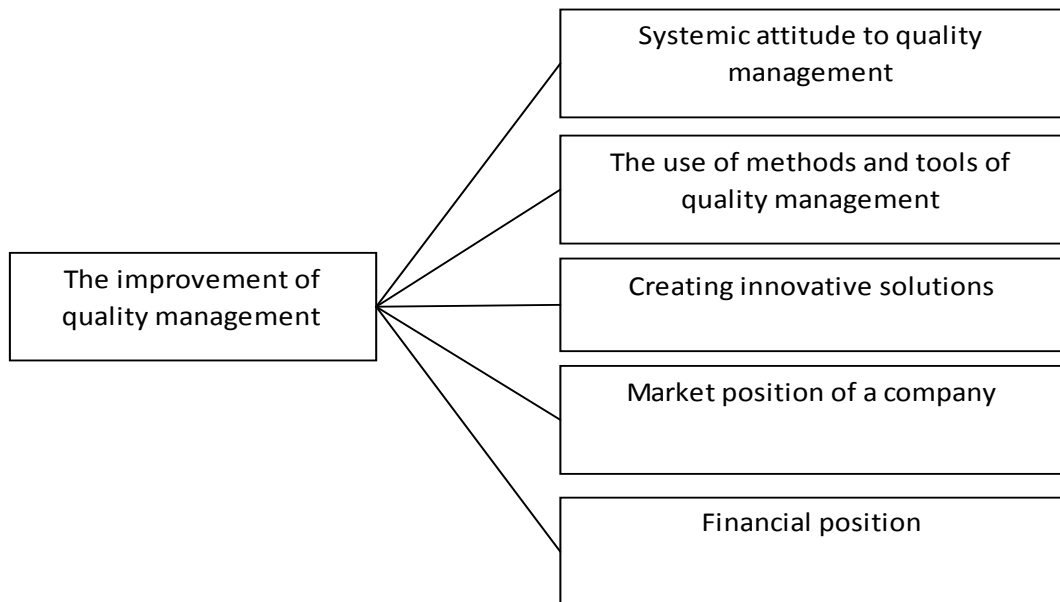
The leadership qualities decide, to a large extent, if a person is a good and successful leader. The contemporary studies suggest (Vires et al. 2009, Faris et al. 2009) that a good leader should have not only charisma but most of all, should have communication skills as communication with his subordinates, 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 taken into consideration in the research, were chosen by means of the analysis of literature and an expert-like method.

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

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),¹

- 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.

¹The following tools and methods were used in the studies: QFD, FMEA, seven old tools of quality management, seven new tools of quality management, Servqual, Six-sigma, statistical methods, brain-storming, quality cost analysis, Kaizen and other.

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.

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 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, 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: physical appearance, interpersonal communication skills, vigour, planning and action organizing skills, courage, resistance to stress, persuasion, truthfulness, being consistent in action-taking.

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"> • achieving measurable results • ability to assess others' work • self-assessment skills • fulfilling promises

Category	Leadership qualities
Important	<ul style="list-style-type: none"> • <i>timing at a constant development</i> • <i>innovation</i> • <i>diplomatic skills</i> • <i>open-minded action taking</i> • <i>discretion</i>
Useful	<ul style="list-style-type: none"> • <i>physical appearance</i> • <i>interpersonal communication skills</i> • <i>vigour</i> • <i>planing and action organizaing skills</i> • <i>courage</i> • <i>resistance to stress</i> • <i>persuasion</i> • <i>truthfulness</i> • <i>being consistent in action-taking</i>

Source: Author's own study.

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 date 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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Diversification of economy and the development of infrastructure: Vectors of development for the rural area and for improving the quality of life of rural population

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Abstract: The purpose of the paper is the analysis of socio-economical structures which are: rural economy and rural infrastructure, regarding their contribution to the development of the rural area and to the improvement of the quality of life for the rural population.

We emphasize the diversification and the economical development in the Romanian and European rural area, by analyzing employment and gross value added. Also, we emphasize the development of rural infrastructure through the analysis of tourism and Internet infrastructures, as well as social infrastructure (through education).

Key words: predominantly rural regions, intermediate regions, predominantly urban regions, diversification of rural economy, rural infrastructure

Introduction

The economical and social development of rural area and the improvement of the quality of life of rural population, through the diversification of rural economy and the development (through modernization and expansion) of the infrastructure in rural area.

For a society to aim for economical and social balance and to reach a sustainable socio-economical development throughout the

national territory, efforts must be carried out to maintain and develop sustainable and dynamic rural communities. In Romania, the maintenance and development of sustainable and dynamic rural communities involves the diminishing of socio-economical differences between rural and urban communities, which can be done mainly through economical diversification and infrastructure development in rural area (we consider the physical, social, financial, market specific infrastructure).

The integration of the Romanian rural area in the European one, requires, on the one hand, the modernization of Romanian agriculture and, on the other hand, making compatible the social, economical and environmental Romanian structures and processes with the European ones. This process assumes, *inter alia*, the diversification and development of rural economy and infrastructure.

Today, agriculture is the defining activity of the Romanian rural area. To have a positive contribution to the national economic balance and to have an important role in ensuring an income for farmers, that is comparable with other socio-economical categories, it is necessary to enhance the competitiveness of agriculture (especially through investments), in the context of solving the structural problems the Romanian rural area is facing.

The need to make compatible the social and economical Romanian structures and processes with the European ones, including through methods of diversifying the rural economy, comes from the economical reality of the Romanian rural area, namely from the predominance of agricultural activities in the rural economy, because the modernization of agriculture cannot provide enough possibilities of employment and income for the entire population living in the rural area, which will provide a wealthy life and from the European rural area which is represented by a strong development of secondary and tertiary sectors.

Because there is a direct relationship between the degree of diversification and development of the rural economy and the employment structure by sectors of rural economy activities, namely the income level of farmers, we believe that the modernization of agriculture (the primary sector) simultaneously with the diversification of rural

economy (development of secondary and tertiary sectors) creates the conditions for a better rate of employment, which allows the diversification and improvement of income sources for the population, this being guarantors of better living conditions in the rural area.

As the income is the basis of the living standard and, therefore, of the quality of life, we consider that, for the diversification and increase of the source of income, it is necessary, on the one hand, the diversification of rural economy, namely the development of secondary and tertiary sectors, which „takes” people from the population employed in the primary sector and contributes to the increase of the gross value added and, on the other hand, it is necessary for the modernization of the Romanian agriculture.

After the income of the population (household), the quality of life in rural areas is influenced by the existing infrastructure (the physical, social, financial, market specific infrastructure) and its quality. In the context of the present economical crisis, social infrastructure (social services), especially education and health, are undergoing profound „changes” in the Romanian rural area.

As training is a resource for the quality of labor, as a result of the relationship between education level and occupation, we consider that it is necessary to correlate both the modernization of the agricultural sector and the development of the non-agriculture sector in the rural area with the development of the human potential.

A key factor of the economic and social development in Romanian rural area and of the improvement of living conditions of rural population is the modernization of tourism and Internet infrastructures, by attracting

tourists and investors, increasing the employment level and, hence, the income of population.

The analysis of rural economy and rural infrastructure allows the identification of the positive and negative structural conditions existing at the macro economical level, which affects the development/breaking of the Romanian rural area and, therefore, the national and the European area and, on the other hand, allows people to identify the possibilities to have a higher level of the quality of life. Diversification and development of the economy and the development of infrastructure in rural area are essential for both the economical, social and environmental development of rural area, as well as for a balanced regional development.

We are researching the development of the rural area and the quality of life of rural population by analyzing the economical and social infrastructure (education), as well as by analyzing the tourism and Internet infrastructure. Therefore, we will analyze: the diversification of rural economy (based on the gross value added and employment by sector of activity and by types of regions, and the relationship between these indicators), the development of the rural economy and the standard of living of rural population (based on the gross domestic product per capita and disposable income of households per capita), social infrastructure (based on the participation of population to education and training) and the tourism and Internet infrastructures.

The analysis of the structures represented by the rural economy infrastructure and of the social and economical processes represented by the diversification and the development of these structures is carried out in rural regions compared with those in urban regions and intermediate regions, in Romania and in

other Member States. This comparative analysis allows, on the one hand, highlighting the gaps which our country recorded regarding some economical and social indicators, in rural area compared to urban area, as well as those registered by our country compared to other EU-27 Member States and, on the other hand, allows highlighting the efforts that need to be done to reduce the difference of development between the analyzed regions, at national and European scale, and the compatibility of Romanian structures and processes with the European ones.

In this research, we have done a comparative analysis of indicators in Romania and other EU-27 Member States, at NUTS 3 county level, by types of regions ("predominantly rural regions" - PR, "intermediate regions" - IR and "predominantly urban regions" - PU), which are based on a revised urban-rural typology. In 2010, the European Commission agreed on a new European Union typology of predominantly rural, intermediate and predominantly urban regions, thus "the new typology builds on a simple two-step approach to identify population in urban areas: a population density threshold (300 inhabitants per km²) applied to grid cells of 1 km² and a minimum size threshold (5000 inhabitants) applied to grouped grid cells above the density threshold. The population living in rural areas is the population living outside the urban areas identified through the method described above. To determine the population size, the grid cells are grouped based on contiguity (including the diagonals)" A revised urban-rural typology. Eurostat regional yearbook 2010 (Eurostat, 2010).

The research theme represented by the diversification of the economy and the development of infrastructure in rural area

can be found in documents, reports, studies and analysis of the specialized bodies from Romania and the European Union and in the specialized literature regarding rural development and the quality of life.

One of the two pillars of the Common Agricultural Policy is the quality of life in rural areas and promoting diversification of economic activities through measures which target the agricultural sector and other sectors in rural areas, and one of the principles of the Common Agricultural Policy refers to guaranteeing an equitable level of life for the population in rural area. The Treaty of Lisbon also supports the new opportunities for the diversification of rural economy and the new sources of income for the rural population.

The improvement of the quality of life in the Romanian rural area is provided under the National Rural Development Programme 2007 - 2013 Axis III: „Improving the quality of life in rural areas and diversification of rural economy”.

The necessity for the diversification of rural economy is emphasized, on the one hand, by the overall situation of the quality of life in the Romanian rural area (characterized by: poor infrastructure, poor services, undiversified economy, the need for retraining and improvement of employment, potential for rural tourism) and, on the other hand, the reality of the European rural economy, which shows that the industry and the services have replaced agriculture as dominant activity in rural areas.

Literature review

Starting with the EU accession, Romania follows, regarding agriculture and rural development, the principles of the Common

Agricultural Policy (CAP), one of these principles being represented by ensuring an equitable standard of living for the rural population.

At the EU level three major objectives of the rural policy development (Pillar 2 of CAP) have been established, one of which is represented by the „improvement of the quality of life in rural areas and encouraging diversification of economic activities through measures, which target the agriculture and other sectors in rural areas”; another objective aims at „increasing the competitiveness of the agricultural sector through support for restructuring” and the third objective is „improving the environment and the rural areas through support for land management” European Union Council, Regulation no. 1698 on support for rural development by European Agricultural Fund for Rural Development (Brussels, 2005).

In the context of the Lisbon and Göteborg agenda, the European Union provides that a strong economy will lead to the creation of jobs alongside the social and environmental priorities, to ensure the sustainable development and social inclusion. In this regard, a key element is the exploitation of the opportunities for growth and job creation in the rural area. Since June 2001, at Göteborg, the European Council concluded that the rural development policy will increase less the marketing aspects of agriculture and support will be more focused on ensuring the welfare of people, animals and plants, environmental preservation, the care for nature and the insurance of a healthy nutrition.

Art. 39 of the Treaty of Lisbon sustains creating new opportunities of diversification for the rural economy and for the new sources of income of the rural population through a different argument represented by the

specificity of the agricultural sector, which suffers from long production cycle and different types of risk (from the exposure to natural disasters to market risks).

The most important national document that refers to improving the quality of life in the Romanian rural area is the National Rural Development Programme 2007-2013. In this document, the „picture” of the Romanian rural area is outlined by the following aspects: economical dependence to agriculture of the rural population, rising unemployment as a cause for the structural problems of agricultural farms, low diversification of the activities in small enterprises and their orientation to the primary sector, low income, low employment rate among women, social instability caused by migration, untapped potential of rural tourism, poor infrastructure at all levels, poor entrepreneurship.

The efforts that need to be made for the diversification of the Romanian rural economy and for infrastructure development, leading to the improvement of the quality of life is also reflected in the studies conducted by the European Commission through the Romanian representatives. Thus, the Romanian rural area is characterized by „poor infrastructure (33% water, 10% sewage, 10% adequate roads), poor services (health, education, finance, social), undiversified economy (64% of rural employment in agriculture), the need for retraining and improving employment, potential for rural tourism” Dumitru Mihail, Rural Development in Romania (Bruxelles, 2009).

The necessity of development of the non-agricultural economy in Romanian rural area, through the development of the secondary and tertiary sectors, in such a way as to increase their contribution to providing of

the gross value added and of employment is emphasized by the model of development of the European village. Today, „in European countries, industry, and more particularly, services have replaced agriculture and livestock as the long dominant activities” and the „European village model is far from the traditional rural once represented” Voicu M. and Voicu B., The Romanian village on the road to Europe (Bucharest, 2006).

In the developed societies, „closeness of the village to the city, in terms of comfort and housing, has become so great that the traditional perception of the rural area as an underdeveloped area has lost its significance” Mărginean Ioan, Living conditions in the rural area (Bucharest, 2005).

Improving the quality of life of rural population is a result of the effort to develop and modernize the rural area, as only „a developed society is characterized by a high quality of life” Mărginean I. and Precupețu I. Quality of life and sustainable development. Policies of strengthening the social cohesion (Bucharest, 2008). In this context, improving the quality of life in rural area is strongly connected to the diversification and development of the economy in terms of economic efficiency, mainly through the generated effects of these regarding employment and income.

In this statement, we consider the positive effects of employment on the quality of life, which are highlighted through the work factor as a major source of income, thus “work is fundamentally important as a source of income, as a mechanism of social integration, and as a basis for structuring workers’ lives (the unemployment, the involuntary lack of work, has been shown to have extremely negative effects on a number of dimensions

of well-being (poverty, deprivation, social exclusion, and dissatisfaction with life)" Alber J. and Fahey T., *Perceptions of living conditions in an enlarged Europe* (Berlin, 2004).

The development of infrastructure (in all its aspects: physical, social, financial, market specific) is a key factor in improving the quality of life in rural area, through the generated effects for the population and for the community (attraction of investors, creation of entrepreneurship).

The necessity of developing the Romanian rural area, through economical development in terms of economic efficiency and through the development of infrastructure, is determined, on the one hand, by the causal relationship between the development potential of the rural area and the level of quality of life in this area and, on the other hand, the recovery of the economic and the social gaps which our country has compared to other EU Member States.

The causality relationship between the development potential of the rural area and the level of quality of life in this area is determined by the past, present and future level of development and the distribution model of direct access (through their own work) of the population to goods and services, namely the mechanism of distribution of generated income, which transform the macroeconomic output into household income. Thus, "by comparing the macro (GDP per capita) and micro (household income) data (between the two acceding countries and six low income EU countries) an interesting finding emerges (Bulgaria and Romania differ less from the six low income EU countries in relation to GDP per capita, than they do with regard to household income)" Mărginean I. and Beleva I., *First European Quality of Life Survey:*

quality of life in Bulgaria and Romania (Luxembourg, 2006).

Regarding the development of rural area, it can be boosted by an integrated approach of structures and economical and social processes: solving the structural problems, modernizing the agricultural sector, diversifying and increase in the economic efficiency conditions of the rural economy, development (through modernization and expansion) of infrastructure (physical, social, financial, market specific).

Paper Content

1. The diversification and development of rural economy

The analysis of socio-economical processes in the rural area, represented by the diversification and development of rural economy, allows us to see to what extent these processes offer the possibility of development of the rural area and creates opportunities for the rural population to reach a level of quality of life comparable to that in the urban area.

The causality relationship between these processes and the quality of life in rural area is subdued to the requirements of the correlation between the efforts that need to be made and the social and economic effects generated in the Romanian rural area and, by extension, in the national and European area. To highlight this relationship, we analyze the structure of the gross value added and employment by sectors of activity, as there is a direct relationship between them and the degree of diversification and development of non-agricultural rural economy and the income levels of the rural population.

a. gross value added and employment in the primary sector

The comparative analysis of the gross value added and employment as well as of the report between these indicators, in the primary sector, highlights the following aspects: the share of employment (30%) has a considerably higher percentage than the share of gross value added (7%), which means a report gross value added/employment, in terms of economic efficiency, unfavorable (subunit) (Table no. 1).

This report shows that the high level of employment in the primary sector is not reflected properly in the level of gross value added, consequently the report of gross value added/employment is sub unitary, which equals to a lower level of efficiency compared to the other Member States EU. In these conditions, the gross added value produced is distributed to a larger number of people, increases the share of production for own

consumption and reduces the share for the market, which influences the money income and capacity to invest.

From an economic perspective, a greater share of employment than that of the gross value added in the primary sector (a report in favor of the workforce) is a situation that proves, in terms of economic efficiency, poor productivity in the agricultural sector which effects the national productivity. From a social perspective, such a gap warns us of the likelihood to appear differences in income and consequently, in quality of life between farmers and other social categories. In this statement we see an „economic truth”, namely: there is a close connection between the contribution from a sector of activity to the formation of gross value added and the distributed part for consumption to those who operate within this sector.

Table no. 1 Gross value added and employment of the primary sector, in Romania, 2007 year*

Indicators	Value
1.Share of employment in the primary sector	30%
2.Share of gross value added in the primary sector	6,5%
3.Report gross value added/employment in the primary sector	2533 (eur/person)
- gross value added in the primary sector	7193.4 (million euro)
- employment in the primary sector	2840 (thousands persons)

Source: European Commission Directorate – General for Agriculture and Rural Development, Rural Development in the European Union, Statistical and Economic Information, Report 2010.

* primary sector covers the branches A (agriculture, hunting and forestry) & B (fishing)

The comparative analysis of the share of employment and the share of gross value added in the primary sector, in Romania and in other Member States EU-27, highlights the following aspects (Annex no 1):

- Romania has the highest share of gross value added and the highest share of employment in the primary sector of the EU-27. Thus, we see that in EU-27, the share of employment in the primary sector varies: from 1.6% in Luxembourg to 30.3% in Romania and the gross value in the primary sector added varies from 0.4% in Luxembourg to 6.5% % in Romania;

- the gross value added/employment report, in terms of economic efficiency, is in Romania one of the lowest in the EU-27 (2533 eur/person), only Bulgaria has a lower value.

Romania has the highest share of gross value added and employment in the primary sector of the EU-27. This situation has economical and social effects (at the level and structure of farms' and farmers' income) and is necessary to reduce the share of gross value added and employment in the primary sector and their development in the non-agricultural sector.

What distinguishes us fundamentally from other EU countries is, on the one hand, the high percentage of population employed in the primary sector and, on the other hand, the much lower report of the gross value added/employment. Such a gap, in terms of economic efficiency, expresses a poorly modernized agriculture and a poorly diversified and developed economy, a situation that is a handicap, in terms of productivity, for farmers in our country compared to the European ones. Therefore, we consider that the reduction of people employed in the primary sector and their involvement in non-agricultural activities, concurrent with modernization of

the agricultural sector, are decisive factors for increasing the efficiency of economic activity in this sector and, this way, for the reduction of the economical and social disparities compared to other Member States.

b. gross value added and employment in the non-agricultural sector

In Romania, the share of gross value added in the non-agricultural sector (expressed as percentage of total GVA) is higher than the share of employment in the non-agricultural sector (expressed as percentage of total employment) in all types of regions (PR, IR and PU), which expresses a favorable situation from an economically viewpoint (the report gross value added/employment in non-agricultural sector, expressed in relative terms, ranges from 1.5 in predominantly rural regions (PR) to 1 in predominantly urban regions (PU)).

Although, in all types of regions (PR, IR and PU), the gross value added is higher than the employment in the non-agricultural sector, the gross value added/employment report, expressed in absolute terms (11.025 thousand euro per person), is one of the lowest values of the EU-27 (only Bulgaria has a lower value, respectively 6.524 thousand euro per person) (Table no 2).

The comparative analysis of the share of employment and the share of gross value added in the non-agricultural sector, in Romania and in other Member States, by types of regions, highlights the following aspects: Romania has one of the lowest share of the gross value added in the non-agricultural sector of the EU-27 (the gross value added in the Romanian non-agricultural sector varies from 89% in PR and 94% in IR to 100% in PU); for this indicator only Bulgaria records

a lower level compared to that in our country, in predominantly rural regions (PR) and Bulgaria and Latvia in intermediate regions (IR). Also, our country records the lowest share of employment in the non-agricultural

sector of the EU-27 in predominantly rural regions (PR) and in predominantly urban regions (PU) (the employment in Romanian non-agricultural sector varies from 61% in PR and 70% in IR to 99% in PU) (Annex no 2).

Table no 2. *Gross value added and employment of the non-agricultural sector* in Romania, 2007 year*

Indicators/Types of regions	PR	IR	PU
1. Share of gross value added of the non-agricultural sector (% total GVA)	88.8%	93.9%	99.7%
2. Share of employment of the non-agricultural sector (% total Employment)	61.1%	70.4%	98.9%
3. Report gross value added/employment of the non-agricultural sector	11.025 (EUR/person)		
- gross value added of the non-agricultural sector	103.248 (million EUR)		
- employment of the non-agricultural sector	9.365 (thousands persons)		

Source:

- European Commission Directorate – General for Agriculture and Rural Development, (2010). *Rural Development in the European Union, Statistical and Economic Information. Report 2010*;
- Eurostat, (2010). *A revised urban-rural typology. Eurostat regional yearbook 2010*.

*non-agricultural sector = secondary sector and tertiary sector

Note:

- Types of regions are: PR - Predominantly Rural Regions, IR - Intermediate Regions, PU - Predominantly Urban Regions;
- Statistical data are appropriate to NUTS 3 (county level) and are determined on the basis of a revised typology rural - urban area.

Romania has, in EU-27, one of the lowest shares of gross value added and the lowest share of employment in the non-agricultural sector (in PR and in PU), therefore, our country registered one of the smallest values of the report of gross value added/employment (expressed in relative and absolute terms). In

this context, we consider that, for the development of the rural area, the improvement of the report of gross value added/employment and of the report work offer and actual employment possibilities is needed, in conditions of marginally acceptable productivity, the economical processes which involve the

coexistence of secondary and tertiary sectors with the primary sector in rural areas.

c. gross value added and employment by branch (primary sector, secondary sector and tertiary sector)

Also, the comparative analysis of the gross value added and employment by branch (primary sector, secondary sector and tertiary sector) in Romania, shows that, the report of gross value added/employment in

the primary sector is lower in comparison to the non-agricultural sector (the secondary sector and the tertiary sector) one in all types of regions (PR, IR and PU). The largest share of gross added value is in the tertiary sector, in all regions (PR, IR, PU) and the highest share of employment is recorded in the primary sector, in predominantly rural regions (PR) (Table 3).

Table no 3. Gross value added and employment by branch and types of regions in Romania, 2007 year

Types of regions	PR			IR			PU		
Indicators/Branch	P	S	T	P	S	T	P	S	T
Gross Value Added	11.2	37.7	51.0	6.1	41.7	52.2	0.3	30.5	69.2
Employment	38.9	29.0	32.1	29.6	32.9	37.5	1.1	29.6	69.2
Report: gross value added/employment	0.3	1.3	1.6	0.2	1.3	1.4	0.3	1.0	1.0

Source:

- European Commission Directorate – General for Agriculture and Rural Development, (2010). *Rural Development in the European Union, Statistical and Economic Information. Report 2010*;
- Eurostat, (2010). *A revised urban-rural typology. Eurostat regional yearbook 2010*.

Note:

- Types of regions are: PR - Predominantly Rural Regions, IR - Intermediate Regions, PU - Predominantly Urban Regions;
- Branch are: P – Primary sector (covers the branches A (agriculture, hunting and forestry) & B (fishing)); S - Secondary sector (covers the branches C to F (Mining and quarrying, Manufacturing, Electricity, gas and water supply, Construction)); T - Tertiary sector (covers the branches G to P (private and public services)).
- Statistical data are appropriate to NUTS 3 (county level) and are determined on the basis of a revised typology rural - urban area.

The comparative analysis of the gross value added and employment in rural area, by branch, in Romania and in other EU-27 Member States, according to the data from Annex no. 3, allows us the following assessments:

- in the national rural regions (predominantly rural regions - PR): the tertiary

sector has one of the lowest share of gross value added of the EU-27 and the primary sector has one of the largest share of the gross value added of the EU-27 (only Bulgaria has a higher share); in the tertiary sector, our country has the lowest share of rural employment and in the rural primary sector it has the largest share of employment of the

EU-27. Consequently, in terms of economic efficiency, the primary sector is characterized by the sub unitary report gross value added/employment (the largest share of employment (39%) and the lowest share of gross value added (11%) in the EU-27), and the secondary and tertiary sectors are characterized by the supraunitary report gross value added/employment, but significantly lower than the EU-27 Member States;

- in the European rural regions (predominantly rural regions - PR): the share of employment is the highest in the tertiary sector (it varies from 32% in Romania to 73% in Belgium) and it is the lowest in the primary sector (it varies from 4% in Sweden to 39% in Romania) and the share of gross value added is the highest in the tertiary sector (it varies from 46% in Netherlands to 71% in Belgium) and it is the lowest in the primary sector (it varies from 2% in Denmark to 13% in Bulgaria).

The analysis of gross value added and employment in rural area (predominantly rural regions - PR) reveals the following conclusions: Romania records, in the tertiary sector, the lowest share of employment and one of the lowest shares of gross value added of the EU-27 and in the primary sector it recorded the highest share of employment and one of the lowest shares of gross value added of EU-27. This situation signifies a poorly diversified economy and a poorly modernized agriculture, both aspects reflecting the dependence of the development of rural area and of the population by the agriculture (primary sector) and expressed the necessity of growing of the employment and the gross value added in the non-agricultural sector.

Considering the important contribution of the tertiary sector to the formation of gross value added and to the provision

of employment in most Member States and the important contribution of the primary sector to the formation of gross value added and to the provision of employment in Romanian rural area (predominantly rural regions - PR), we consider that the balanced development of the rural area through development of secondary and tertiary sectors and through modernization of the primary sector is necessary.

d. gross domestic product/capita (GDP/capita) and income of households/capita

We analyze the development of rural economy, at macroeconomic level, based on the „gross domestic product per capita” (GDP/capita) indicator and the standard of living of the population, at the household level, based on the „real adjusted gross disposable income of household /capita” indicator , as there is a strong correlation, on the one hand, between the diversification and the development of rural economy, and, on the other hand, between the development of rural economy and the level of quality of life for people in rural areas.

Romania (with Bulgaria) records in the rural area (predominantly rural regions - PR), the lowest level of GDP per capita, respectively 28% of the EU average. Also, Romania (with Bulgaria) records the lowest level of real adjusted gross disposable income of households per capita of the EU (Romania records 44% for this indicator and Bulgaria only 30% of the EU).

The „GDP per capita” indicator records the highest values in the Netherlands, Ireland, Denmark, Sweden, Finland Germany, Finland, Austria, Italy, France, Spain and the lowest values in Romania,

Bulgaria, Latvia, Poland, Lithuania, Estonia, Hungary, Slovakia, the Czech Republic, Portugal. The „real adjusted gross disposable income of households per capita” indicator records the highest values in Germany, Austria, France, United Kingdom, Belgium, Netherlands, Sweden, Finland, Ireland, Italy and the lowest values in Romania, Bulgaria, Latvia, Estonia, Hungary, Lithuania, Poland, Slovakia, the Czech Republic, Portugal. Therefore, we see that the highest values of “GDP per capita” correspond to the highest values of the “real adjusted gross disposable income of households per capita” and that the lowest values of “GDP per capita” correspond to the lowest values of the “real adjusted gross disposable income of households per capita” indicator (except for Denmark and the United Kingdom, Belgium, Spain) (Annex no 4).

Romania and Bulgaria have in the rural area (predominantly rural regions (PR)), in terms of development of the economy, the lowest level of GDP per capita of the EU-27 and record, in terms of living standards, the lowest level of real adjusted gross disposable income of households per capita in the EU.

2. The rural infrastructure

After the income of population (household), the quality of life in the rural area is influenced by the existing infrastructure (physical, social, financial, market specific infrastructure) and its quality. From this perspective, we analyze the social infrastructure (by the dimension of education) and tourism and Internet infrastructure, in the rural area. Also, we analyze the internet take-up by the population.

a. tourism and internet infrastructure

We believe that, the tourism and internet infrastructure and the Internet take-up

may be factors in the development of the non-agricultural sector (by attracting tourists and investors) and in improving the quality of life of the rural population (by better living conditions and by better possibilities of employment and income).

In Romania, the tourism and Internet infrastructure, the Internet take-up, by types of regions, presents the following aspects.

► tourism infrastructure (the number of bed places in hotels, camping, holiday dwelling) ranges between 26% in predominantly rural regions (PR) and 68% in intermediate regions (IR) to 6% in predominantly urban regions (PU);

► the broadband internet infrastructure (DSL coverage) ranges between 45% in rural regions (R) to 97% in urban regions (U) and the Internet take-up (the population having subscribed to DSL Internet) ranges between 2,8% in rural regions (R) to 3,9% in urban regions (U).

The comparative analysis of tourism and internet infrastructure, the internet take-up in Romania and in other Member States reveals the important differences, according to the data mentioned in the Annex no 5. Thus, Romania presents the following aspects:

► has one of the lowest shares of tourism infrastructure of the EU-27 in predominantly rural regions (PR) and in predominantly urban regions (PU) (this indicator records shares lower than our country in six countries in (PR) and one country in (PU));

► has one of the lowest shares of broadband Internet infrastructure of the EU-27 in rural regions (R) and in urban regions (U) (this indicator records shares lower than Bulgaria and Romania only in Cyprus in

rural regions (R) and in Poland, in urban regions (U));

► has the lowest shares of population having subscribed to DSL internet of the EU-27 in rural regions (R) (3%) and in sub-urban regions (S) (4%) (in rural regions, only Bulgaria, Cyprus and Lithuania register a lower value than the Romanian ones).

Given that, in the rural area, on a scale from the lowest to the highest value, our country has the seventh rank from EU-27, regarding tourism infrastructure, we consider that, this space has a untapped potential of economical and social development. In our country, the broadband Internet infrastructure, in rural regions, is significantly lower than that in urban regions and the share of population having subscribed to DSL has a significantly lower rate than that of other Member States in the rural regions, aspect which reflects unfavorably upon the living conditions of the population.

b. the social infrastructure – educational dimension

We analyze the social infrastructure because, in social terms, its' degree of development (we refer mainly to health services and education) influences people's decision to stay or to migrate from rural areas. In economical terms, we think that both the modernization of agricultural sector and the diversification and the development of the non-agricultural sector, in rural area, must be related to social infrastructure, including through education. In this context, we analyze the „educational attainment” and the „life-long learning „indicators by types of regions in Romania and in other European countries.

In Romania, the share of adults with high or medium educational attainment has

the lowest share (73%) in predominantly rural regions (PR) and the highest share (87%) in predominantly urban regions (PU); the share of adults who participate in education and training records only 1% in all types of regions (PR, IR, PU). If in our country the share of adults with high or medium educational attainment has a good share in comparison with other Member States, the share of adults which participate in education and training records the lowest share of the EU-27, in all types of regions (Annex no. 6).

Even though the acquisition of knowledge, skills and competencies is a key to economic and social progress, as it allows gaining better skills and, therefore, the possibilities to obtain a better income, in our country, the adults who participate in education and training records the lowest share of the EU-27.

Conclusions

1. The necessity of diversification of rural economy, through the development of the non-agricultural sector is highlighted, on the one hand, by the gaps of economical and social development by types of regions (PR, IR and PU) and, on the other hand, by the gaps between Romania and other EU-27 Member States. Romania records in the rural tertiary sector the lowest share of employment and one of the lowest shares of gross value added of the EU-27 and, in the primary sector, our country records the largest share of employment and one of the smallest share of gross value added in EU-27. This situation signifies a poorly diversified economy and a poorly modernized agriculture, both aspects reflecting the dependence of the population from the rural area to agriculture and expresses

the necessity to increase the gross value added and employment in the non-agricultural sector.

2. We consider that in the Romanian rural area a transfer of employment from agriculture in the non-agricultural sector is necessary on the basis of the acceleration of the modernization of agriculture and development of the secondary and tertiary sectors, due to the following aspects:

- the important contribution of the tertiary sector to the formation of gross value added and to the provision of employment in most European countries and the important contribution of the primary sector to the formation of gross value added and to the provision of employment in our country;

- the occupational structure in our country, by branch (sector of activity), is asymmetric compared with that of the EC countries (we refer to the modest capacity of the secondary sector and the tertiary sector to create jobs and a high share of number of people employed in the primary sector).

The mentioned aspects induce the increased necessity of employment in non-agricultural activities, by creating economical opportunities, so that the rural areas can become attractive, including for women and the younger generations. In this context, we must find ways to attract young people in rural areas and to stimulate them to develop activities of agricultural and non-agricultural production profile (e.g. granting loans on favorable terms for production and investment, the acquisition of land in favorable terms, training courses to complement the skills and professional competence, granting financial and fiscal facilities).

The dynamics of the development of the activities with agricultural and

non-agricultural profile can be realized through the acceleration of the implementation of the measures from the the "National Program of Rural Development".

3. Considering the modest position that our country has in terms of rural tourism infrastructure, we consider that the rural area has an untapped potential of economical and social development. Also, the significantly lower level of the broadband Internet infrastructure in the rural area than in the urban area and the significantly lower proportion of the population having subscribed to DSL in our country compared to that recorded in other Member States in rural regions, great efforts are necessary to reduce the disparities between regions and those existing between our country and other Member States.

4. Even though the acquisition of knowledge, skills and competencies is a key to economical and social progress, as it allows improving skills and, therefore, the possibilities to obtain a better income, in our country, the adults who participate in education and training records the lowest share of the EU-27, making necessary the concentration of the efforts to reduce the gaps registered by our country in comparison to EU countries.

We consider that, the acquisition of knowledge, skills and competencies by adults, which may consist of continuous education is necessary to represent, on the one hand, a landmark of economical and social policies and, on the other hand, it is necessary to be a target for those who participate in the labor market and those who wish to enter on this market. In other words, for the training to become a resource of quality of work life, the educational policies which stimulate it must account not only for already trained people, but for all the participants in the

labor market (we consider the relationship between the level of education, on the one hand and employment, on the other hand).

5. The belated application of the mechanisms that encourage the diversification and the development of the non-agricultural rural economy generates effects in the rate of employment and in the level of income of rural population and in the level of national productivity. Also, an underdeveloped infrastructure affects the development of the non-agricultural sector (the lack of attractiveness for tourists and investors) and the quality of life for rural population (living conditions and

the possibilities for employment and income).

6. A non-modernized agricultural sector and a poorly developed non-agricultural sector is reflected in the Romanian trade deficit, in the quality and prices of food products and in the lower level of quality of life in the rural area compared to the one in the urban area. Only through the diminishing of the economic and social gaps to the EU-27 Member States and through sustainable efforts of economic development, our country can become competitive in the EU market and can ensure an improvement of the living conditions of the population.

Annex no 1. Gross value added și employment of the primary sector, 2007 year*

Indicators Countries/	Employment		Gross value added		Raport VAB/Employment	
	thousands persons	%	million euro	%	eur/person	%
Romania	2.840	30.3	7.193.4	6.5	2.533	0.2
Austria	218	5.4	4.332.5	1.8	19.847	0.3
Belgium	81	1.9	2.637.7	0.9	32.484	0.5
Bulgaria	729	19.6	1.547.5	6.0	2.122	0.3
Cyprus	18	4.5	309.0	2.2	17.657	0.5
Czech Republic	188	3.6	2.819.6	2.5	15.030	0.7
Denmark	81	2.8	2.255.5	1.2	27.846	0.4
Estonia	30	4.7	439.4	3.2	14.647	0.7
Finland	123	4.9	4.723.0	3.0	38.398	0.6
France	855	3.3	37.476.0	2.2	43.857	0.7
Germany	850	2.1	20.940.0	1.0	24.635	0.4
Greece	542	11.3	6.871.1	3.5	12.682	0.3
Hungary	316	7.6	3.425.3	4.0	10.846	0.5
Ireland	117	5.5	2.380.7	1.4	20.348	0.3
Italy	1.014	4.0	28.480.6	2.1	28.093	0.5
Latvia	109	9.7	667.9	3.6	6.156	0.4
Lithuania	158	10.3	1.009.0	3.9	6.394	0.4
Luxembourg	5	1.6	134.9	0.4	25.942	0.3

Indicators Countries/	Employment		Gross value added		Raport VAB/Employment	
	thousands persons	%	million euro	%	eur/person	%
Malta	4	2.4	116.6	2.5	30.684	1.0
Netherlands	259	3.0	10.548.0	2.1	40.757	0.7
Poland	2.236	14.7	11.775.0	4.3	5.265	0.3
Portugal	575	11.2	3.583.3	2.6	6.231	0.2
Slovakia	80	3.7	1.741.1	3.5	21.818	1.0
Slovenia	87	9.0	760.7	2.5	8.744	0.3
Spain	925	4.5	27.201.0	2.9	29.397	0.6
Sweden	95	2.1	5.078.5	1.7	53.290	0.8
United Kingdom	487	1.7	13.598.6	0.8	27.923	0.5

Source:

- European Commission Directorate – General for Agriculture and Rural Development, (2010).

Rural Development in the European Union, Statistical and Economic Information. Report 2010;

-Eurostat, (2010). A revised urban-rural typology. Eurostat regional yearbook 2010.

*primary sector covers the branches A (agriculture, hunting and forestry) & B (fishing).

Note:

- the statistical data refers to the share of employment in primary sector and to the share of gross value added in primary sector.

Annex no 2. Employment and Gross value added of the non-agricultural sector, 2007 year*

Indicators Types of regions/ Countries	Employment** (%)			Gross value added*** (%)			Raport Gross value added/ Em- ployment (eur /person)
	PR	IR	PU	PR	IR	PU	
Romania	61.1	70.4	98.9	88.8	93.9	99.7	11.025
Austria	n.a.	n.a.	n.a.	96.0	98.8	99.5	59.754
Belgium	94.5	97.0	98.8	96.8	98.4	99.5	67.567
Bulgaria	71.2	78.5	97.7	87.3	92.6	99.7	6.524
Cyprus	n.a.	95.5	n.a.	n.a.	97.8	n.a.	36.008
Czech Republic	94.4	96.8	98.1	95.5	97.7	98.9	21.371
Denmark	95.5	97.2	99.6	97.9	98.8	99.9	65.202
Estonia	90.9	98.7	n.a.	91.8	99.0	n.a.	20.896

Indicators Types of regions/ Countries	Employment** (%)			Gross value added*** (%)			Report Gross value added/ Em- ployment (eur /person)
	PR	IR	PU	PR	IR	PU	
<i>Finland</i>	91.4	95.5	99.4	93.8	97.0	99.6	61.234
<i>France</i>	93.9	96.7	98.8	95.5	97.1	99.4	64.555
<i>Germany</i>	95.4	97.4	99.1	97.8	98.8	99.7	54.370
<i>Greece</i>	76.4	86.8	98.9	90.8	94.4	99.4	40.060
<i>Hungary</i>	88.8	91.2	99.4	92.8	95.1	99.8	19.875
<i>Ireland</i>	92.1	<i>n.a.</i>	99.5	97.5	<i>n.a.</i>	99.9	77.207
<i>Italy</i>	92.1	95.4	98.7	96.3	97.4	99.3	53.772
<i>Latvia</i>	83.8	85.6	95.9	90.8	93.5	98.8	16.097
<i>Lithuania</i>	83.0	92.3	96.7	92.1	96.6	98.7	16.089
<i>Luxembourg</i>	<i>n.a.</i>	98.3	<i>n.a.</i>	<i>n.a.</i>	99.6	<i>n.a.</i>	101.119
<i>Malta</i>	<i>n.a.</i>	<i>n.a.</i>	97.7	<i>n.a.</i>	<i>n.a.</i>	97.5	29.001
<i>Netherlands</i>	94.8	94.7	97.7	97.0	96.6	98.4	57.764
<i>Poland</i>	72.6	88.0	96.2	90.2	96.2	99.0	17.154
<i>Portugal</i>	76.8	86.7	97.3	94.6	96.4	99.3	27.736
<i>Slovakia</i>	94.6	97.0	99.0	94.2	97.2	99.1	21.934
<i>Slovenia</i>	86.5	93.9	<i>n.a.</i>	95.9	98.4	<i>n.a.</i>	30.740
<i>Spain</i>	88.1	94.1	98.3	91.7	96.3	99.0	44.483
<i>Sweden</i>	96.2	97.6	99.6	96.9	98.5	99.9	64.222
<i>United Kingdom</i>	92.9	97.6	99.3	95.2	98.2	99.6	62.148

Source:

- European Commission Directorate – General for Agriculture and Rural Development, (2010). *Rural Development in the European Union, Statistical and Economic Information. Report 2010*;
- Eurostat, (2010). *A revised urban-rural typology. Eurostat regional yearbook 2010*.

*non-agricultural sector = secondary and tertiary sector;

**share of employment in secondary and tertiary sectors (% total employment);

*** share of GVA in secondary and tertiary sectors (% total GVA).

Note:

- Types of regions are: PR - Predominantly Rural Regions, IR - Intermediate Regions, PU - Predominantly Urban Regions;
- Statistical data are appropriate to NUTS 3 (county level) and are determined on the basis of a revised typology rural - urban area;
- n.a. – not available data

Annex no 3. Gross value added and employment by branch in rural regions, 2007 year

Indicators	Employment* (%)			Gross Value Added** (%)		
	P	S	T	P	S	T
Romania	38.9	29.0	32.1	11.2	37.7	51.0
Austria	n.a.	n.a.	n.a.	4.0	37.2	58.8
Belgium	5.6	21.6	72.7	3.2	25.6	71.2
Bulgaria	28.8	29.7	41.4	12.7	39.0	48.3
Cyprus	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Czech Republic	5.6	43.7	50.7	4.5	45.3	50.2
Denmark	4.6	26.8	68.6	2.1	30.3	67.7
Estonia	9.0	34.7	56.2	8.2	33.3	58.5
Finland	8.6	27.8	63.6	6.2	36.6	57.1
France	6.1	25.5	68.5	4.5	24.9	70.6
Germany	4.6	31.7	63.7	2.2	35.0	62.8
Greece	23.6	18.9	57.4	9.2	24.7	66.0
Hungary	11.2	35.9	52.9	7.2	36.8	56.0
Ireland	7.9	31.1	61.0	2.5	41.9	55.6
Italy	7.9	29.2	62.8	3.7	27.9	68.4
Latvia	16.2	27.6	56.1	9.2	24.8	66.0
Lithuania	17.0	30.9	52.1	7.9	38.2	53.9
Luxembourg	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Malta	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Netherlands	5.3	27.3	67.5	3.1	50.9	46.0
Poland	27.4	28.7	43.9	9.8	32.8	57.4
Portugal	23.2	24.3	52.4	5.4	26.1	68.4
Slovakia	5.4	36.1	58.5	5.8	44.2	50.0
Slovenia	13.4	41.8	44.8	4.1	44.7	51.2
Spain	11.9	28.8	59.3	8.3	29.2	62.6
Sweden	3.8	25.9	70.3	3.1	34.1	62.8
United Kingdom	7.1	21.6	71.3	4.8	28.4	66.8

Source:

- European Commission Directorate – General for Agriculture and Rural Development, (2010). Rural Development in the European Union, Statistical and Economic Information. Report 2010;

-Eurostat, (2010). A revised urban-rural typology. Eurostat regional yearbook 2010.

* employment = the share of employment by branch;

**gross value added = the share of gross value added by branch.

Note:

- rural regions are predominantly rural regions (PR) as according a revised typology rural
- urban area; Statistical data are appropriate to NUTS 3 (county level);
- branch are: P - Primary sector covers the branches A (Agriculture, hunting and forestry) & B (fishing); S - Secondary sector covers the branches C to F (Mining and quarrying, Manufacturing, Electricity, gas and water supply, Construction); T - Tertiary sector covers the branches G to P (private and public services);
- n.a. – not available data.

Annex no 4. Gross domestic product/capita and Gross disposable income of households/capita, 2009 year

Indicators/ Countries	Gross domestic product per capita (GDP pc) in rural regions GDP(pps) / capita (EU27=100) - "2006"	Adjusted gross disposable income in pps per capita*	Adjusted gross disposable income in pps per capita* (EU=100)
Romania	28	8500	44
Austria	96	22200	117
Belgium	74	21100	111
Bulgaria	28	5600	30
Cyprus	n.a.	19000	100
Czech Republic	65	13300	70
Denmark	111	18800	99
Estonia	44	10600	56
Finland	96	20200	106
France	87	22100	116
Germany	97	22700	120
Greece	70	18200	96
Hungary	46	11000	58
Ireland	120	19700	104
Italy	93	19400	102
Latvia	29	9100	48
Lithuania	39	11400	60
Luxembourg	:	:	:
Malta	:	:	:
Netherlands	153	20900	110
Poland	38	11500	61

Indicators/ Countries	Gross domestic product per capita (GDP pc) in rural regions GDP(pps) / capita (EU27=100) - "2006"	Adjusted gross disposable income in pps per capita*	Adjusted gross disposable income in pps per capita* (EU=100)
Portugal	67	15600	82
Slovakia	51	13000	68
Slovenia	74	16000	85
Spain	83	19100	101
Sweden	108	20800	110
United Kingdom	81	21800	115

Source:

- European Commission Directorate – General for Agriculture and Rural Development, (2010). *Rural Development in the European Union, Statistical and Economic Information. Report 2010*;
- Eurostat, (2010). *A revised urban-rural typology. Eurostat regional yearbook 2010*;
- Eurostat, (2011). *Economy and finance population and social conditions, Statistics in focus 16/2011, p. 4.*

Note:

- rural regions are predominantly rural regions (PR) as according a revised typology rural - urban area; Statistical data are appropriate to NUTS 3 (county level);
- Pps - Purchasing power standards;
- "2006" – refers to the average of the years 2005, 2006, 2007;
- statistical data refers to 2009 year, for Bulgaria is 2007 year and for Romania is 2008 year;
- : missing data;
- n.a. – not available data;
- Gross disposable income reflects the net resources, earned during the period, which are available for consumption and/or saving and is the result of all current transactions before consumption (it excludes exceptional resources/uses such as capital transfers, holding gains/losses and the consequences of natural disasters);
- Adjusted gross disposable income additionally includes the flows corresponding to the use of individual services which households receive free of charge from the government (it excludes collective services that are provided simultaneously to all members of the community, such as security and defence, legislation and regulation). These services, called "social transfers in kind", mainly include education, health and social security services, although other kind of services such as housing, cultural and recreational services are also frequently provided;
- Adjusted gross disposable income (AGDI) of households in PPS per capita is calculated by dividing AGDI at current prices by the purchasing power parities (PPP) of the actual individual consumption of households and by the total resident population. Purchasing power standard (PPS) is an artificial currency unit that would allow the purchase of the same basket of goods and services in different countries (PPS offsets differences in price levels across countries and thus allows "real" income to be compared).

Annex no 5. Tourism's and internet's infrastructure and internet take- up, by types of regions

Indicators	Tourism Infrastructure* 2008 year			Internet Infrastructure** 2009 year			Internet take- up*** 2009 year		
	PR	IR	PU	R	S	U	R	S	U
<i>Countries /Types of regions (areas)</i>									
<i>Romania</i>	26.1	67.5	6.4	45.0	0.0	97.0	2.8	<i>n.a.</i>	3.9
<i>Austria</i>	68.4	17.9	13.7	83.0	99.2	100.0	13.6	15.9	16.6
<i>Belgium</i>	24.5	31.4	44.1	100.0	100.0	100.0	30.3	14.3	18.6
<i>Bulgaria</i>	20.8	75.9	3.3	18.0	73.0	100.0	0.9	<i>n.a.</i>	5.6
<i>Cyprus</i>		100.0		30.0	96.0	100.0	2.0	12.9	24.9
<i>Czech Republic</i>	33.9	41.9	24.3	85.0	93.0	99.0	7.2	5.4	12.4
<i>Denmark</i>	64.9	27.2	7.9	100.0	100.0	100.0	11.2	26.5	29.2
<i>Estonia</i>	55.6	44.4		80.0	<i>n.a.</i>	100.0	10.2	<i>n.a.</i>	10.0
<i>Finland</i>	63.0	21.8	15.2	90.0	98.0	99.0	20.8	22.7	22.9
<i>France</i>	47.5	35.0	17.5	100.0	100.0	100.0	26.2	27.5	30.3
<i>Germany</i>	27.5	48.1	24.4	89.9	95.9	99.4	18.5	29.1	27.7
<i>Greece</i>	72.5	17.2	10.3	60.0	100.0	100.0	11.6	12.9	19.9
<i>Hungary</i>	61.5	25.2	13.3	82.2	98.6	100.0	6.9	7.2	10.6
<i>Ireland</i>	79.1		20.9	82.0	99.0	100.0	11.3	18.5	19.3
<i>Italy</i>	32.1	48.3	19.6	85.0	95.0	99.0	17.4	17.9	21.9
<i>Latvia</i>	19.6	15.0	65.5	67.0	85.0	99.3	9.4	6.7	7.9
<i>Lithuania</i>	26.8	43.1	30.1	68.5	96.7	99.0	2.8	10.2	8.8
<i>Luxembourg</i>		100.0		100.0	100.0	100.0	27.8	27.9	26.5
<i>Malta</i>			100.0			99.0	<i>n.a.</i>	<i>n.a.</i>	12.9
<i>Netherlands</i>	2.4	49.4	48.2	99.0	99.0	99.0	20.5	20.5	21.0
<i>Poland</i>	32.7	50.3	17.0	52.2	76.8	94.1	2.8	20.0	9.4
<i>Portugal</i>	57.5	8.7	33.8	89.0	100.0	100.0	6.3	7.8	14.3
<i>Slovakia</i>	45.0	43.0	12.0	53.6	88.0	99.8	4.3	7.2	8.5
<i>Slovenia</i>	39.8	60.2		83.0	97.0	99.0	15.9	13.3	12.5
<i>Spain</i>	13.1	58.6	28.3	99.0	99.0	99.0	15.0	15.8	17.5
<i>Sweden</i>	41.0	49.5	9.4	91.0	99.0	100.0	15.8	12.0	25.0
<i>United Kingdom</i>	12.7	40.5	46.8	99.6	100.0	100.0	24.3	25.0	22.6

Source:

- European Commission Directorate – General for Agriculture and Rural Development, (2010). *Rural Development in the European Union, Statistical and Economic Information. Report 2010*;

-Eurostat, (2010). *A revised urban-rural typology. Eurostat regional yearbook 2010.*

*total number of bedplaces (in hotels, campings, holiday dwelling);

** DSL coverage (Digital Subscriber Line (DSL) is a family of technologies that provides digital data transmission over the wires of a local telephone network);

*** % population having subscribed to DSL Internet.

Note:

- Types of regions are: PR - Predominantly Rural Regions, IR - Intermediate Regions, PU - Predominantly Urban Regions;

- Typologies of areas are: R - Rural (< 100 hab./km²), S - Suburban (100 to 500 hab./km²) and U - Urban (> 500 hab./km²);

- n.a. – not available data;

- Statistical data are appropriate to NUTS 3 (county level) and are determined on the basis of a revised typology rural - urban area.

Annex no 6. Educational attainment and life-long learning by types of regions, 2009 year

Indicators	Educational attainment*			Life-long learning **		
	PR	IR	PU	PR	IR	PU
Countries/ Types of regions						
<i>Romania</i>	73.3	72.9	86.9	1.4	1.4	1.5
<i>Austria</i>	83.4	84.7	82.1	12.2	14.0	16.6
<i>Belgium</i>	69.1	70.7	70.9	5.5	5.9	7.6
<i>Bulgaria</i>	75.4	78.7	89.6	1.0	1.5	3.1
<i>Cyprus</i>	<i>n.a.</i>	73.3	<i>n.a.</i>	<i>n.a.</i>	7.8	<i>n.a.</i>
<i>Czech Republic</i>	92.2	89.2	94.1	6.3	6.1	8.7
<i>Denmark</i>	74.4	73.0	79.7	30.4	29.9	35.5
<i>Estonia</i>	90.3	87.0	<i>n.a.</i>	11.6	9.2	<i>n.a.</i>
<i>Finland</i>	81.3	82.7	82.9	20.6	23.6	23.7
<i>France</i>	69.4	70.2	71.8	5.5	6.4	6.2
<i>Germany</i>	86.9	86.6	82.8	7.7	7.7	8.2
<i>Greece</i>	57.3	60.1	73.6	2.6	2.6	4.3
<i>Hungary</i>	77.6	84.8	77.7	2.2	3.5	2.2
<i>Ireland</i>	69.4	<i>n.a.</i>	70.6	6.4	<i>n.a.</i>	6.2
<i>Italy</i>	55.6	53.5	56.9	6.2	5.8	6.0
<i>Latvia</i>	87.1	94.1	83.3	5.3	6.1	5.0

Indicators	Educational attainment*			Life-long learning **		
	PR	IR	PU	PR	IR	PU
Lithuania	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Luxembourg	n.a.	81.6	n.a.	n.a.	13.4	n.a.
Malta	n.a.	n.a.	28.2	n.a.	n.a.	5.8
Netherlands	69.9	71.8	70.8	16.0	16.0	16.6
Poland	87.0	87.9	89.8	4.3	5.2	4.7
Portugal	25.8	21.9	36.6	6.5	6.5	5.7
Slovakia	91.3	89.6	94.2	2.2	2.1	7.4
Slovenia	82.3	84.7	n.a.	14.2	15.2	n.a.
Spain	48.3	49.9	57.6	10.3	10.2	10.9
Sweden	84.6	84.1	88.5	20.0	23.5	22.6
United Kingdom	83.0	87.6	85.6	18.0	19.6	20.4

Source:

- European Commission Directorate – General for Agriculture and Rural Development, (2010). *Rural Development in the European Union, Statistical and Economic Information. Report 2010*;

-Eurostat, (2010). *A revised urban-rural typology. Eurostat regional yearbook 2010*.

*% of adults with medium or high educational attainment

**% of adults participating in education and training

Note:

- Types of regions are: PR - Predominantly Rural Regions, IR - Intermediate Regions, PU - Predominantly Urban Regions;

- Statistical data are appropriate to NUTS 3 (county level) and are determined on the basis of a revised typology rural - urban area;

- n.a. – not available data.

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The management of evaluating the European programs and policies implemented in Romania¹

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Abstract: Starting with the reform and modernization of the public administration in Romania in the mid 1990s, an important element of this process being the development of the management process, respectively of planning and managing public policies, the Romanian government started also a process of developing the capacity for evaluating public programs and policies, both the ones with European or foreign financing and the ones with domestic financing. Up-to-date analyses and studies have showed, however, that at the level of the national public sector there is a major discrepancy between the progress made in the evaluation of European programs or the ones with foreign financing and the programs financed from public funds, namely that there is a consolidated evaluation practice as regards the first types of programs, which is virtually inexistent as regards programs financed from the public budget. This paper intends to identify the progress made at the level of the Romanian public administration as regards the management of evaluating programs with European financing, to see the characteristics of building the evaluation capacity within the national system of these programs and the motivation stimulating such approaches. The first part of this paper shall contain a presentation of the background of the current evaluation system, including both the legislative framework and the institutional framework with duties of management and evaluation of European programs; further, I shall analyze the evolution of this system in order to be able to draw conclusions regarding the evaluation capacity of Romania.

Keywords: management, evaluation, structural funds, European Union, the capacity for evaluation

Introduction

The practices of evaluating the programs with European financing implemented in Romania appeared in the pre-accession period and were performed for programs such as PHARE, ISPA and SAPARD, based on well-established evaluation mechanisms. The requirements of the European Union and the conditioning of our country to perform such evaluations in order to have access to European funds are the arguments and impetuses for the development of this practice and of the legislative and institutional framework for performing the evaluation activity in Romania. Transposing in the national legislation the requirements and the European legislation in the field of public policies is a process called Europeanization, which has witnessed a rapid pace of development, especially after Romania became a European member state.

The Europeanization of public policies is a relatively recent concept, which emerged as a consequence of the influence and impact of the European Union on the politics and public policies in the member states.

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³This is the conclusion of several research studies in the field and of some reports reviewing the current evaluation system that I shall present on detail in this chapter.

For construction purposes, Europeanization means: '1. building processes, 2. dissemination and 3. institutionalization of formal and informal rules, of procedures, paradigms of public policies, of acting styles and modes, of shared convictions and norms which are for the first time defined and consolidated at a European level, then incorporated in the logic of speeches, identities, political structures and public policies on a national level.⁴

Analysis of the background of the current management and evaluation system

Standard regulations

The evaluation of the programs supported by European funds is mandatory, being a prerequisite for obtaining financing, and is set forth in European regulations.⁵

One of the most important European documents providing for financial management and stipulating as mandatory the function of evaluating structural instruments is the Council Regulation (EC, Euratom) no. 1605/2002 of 25th June 2002 on the Financial

⁴Radaelli, Claudio M. (2009): 'Europeanization', in Boussaguet, Laurie, Jacquot, Sophie, Ravinet, Pauline (coord.): Dictionary of public policies, Polirom Publishing House, Iasi, p.108b

⁵See the Council Regulation (EC, Euratom) No. 1605/2002 of 25th June 2002 on the Financial regulation applicable to the general budget of the European Communities, the (EC) REGULATION NO. 1653/2004 OF THE COMMISSION of 21st September 2004 on establishing the standard financial regulation for executive agencies based on the (EC) Regulation no. 58/2003 of the Council on establishing the status of executive agencies which are to be assigned certain tasks regarding the management of community programs.

regulation applicable to the general budget of the European Communities. The financial regulation specifies and sets rules for all the programs and activities involving significant expenses, required to be evaluated before and after implementation.

According to the regulation, the evaluation is necessary and mandatory in order to ensure the observance of the good management principle. The evaluation is imposed according to the provisions at the beginning of the Regulation, art. 11 setting forth that: 'institutions should proceed to ex ante and ex post evaluations, according to the guidelines set by the Commission'. According to art. 11, 'the good financial management principle should be defined depending on the principles of economy, efficiency and efficaciousness, and the observance of these principles should be ensured by following some performance indicators established for every activity and measurable so that to be able to evaluate the results obtained.'

The evaluation of structural instruments is a mandatory stage. The European Commission imposed the evaluation through the Council Regulation (EC) no. 1083/2006, whereby it requests one to perform ex-ante evaluations, intermediate (ongoing) evaluations and ex-post evaluations as regards Operational Programs.

The evaluation is the heading of chapter I under the title 'Efficiency' and includes general regulations, sets forth the responsibilities of member states and the responsibilities of the European Commission. The regulations set forth the scope, nature and types of evaluation. The evaluations have as their main goal: 'the improvement of quality, efficiency and coherence of the intervention from Funds' (art. 47(1)) and may be strategic

in character, 'in order to track the evolution of a program or of a group of programs in relation to community and national priorities' or operational in character 'in order to support monitoring an operational program' (art. 47(2)). Both types of evaluations represent ex-ante, ongoing and ex-post planning.

Member states have the required means for making evaluations and may develop an evaluation plan. At the same time, member states make an ex-ante evaluation of every operational program (art. 48). The European Commission may perform strategic evaluations and performs an ex-post evaluation of every objective (art. 49). The evaluation system of the European Commission is decentralized, but its coordination is performed at a central level by the General Secretariat. Each General Directorate (GD) evaluates the activities it coordinates and is responsible for the conclusions and recommendations of the evaluations made as regards new policy initiatives. The General Secretariat ensures the general evaluation framework and supports the evaluations made by General Directorates.

The European dispositions were transposed into the Romanian legislation. The requirements of the Council Regulation (EC) no. 1083/2006 may be found in the Governmental Resolution no. 457/2008 on the institutional framework for the coordination and management of structural instruments, where the coordinating institutions and their evaluation duties are designated.

GR no. 457/2008 designates as a coordinating institution the Authority for coordination of structural instruments, called ACIS, which, among other powers and duties, 'coordinates the process of evaluating structural instruments'.

The European dispositions and the obligation to observe them are included also in other national laws and documents, among which the National Reference Strategic Framework (CSNR) and in the standard documents of implementation of every operational program.

CSNR 2007-2013 sets forth that every member state has the obligation to evaluate the expenses from structural funds in order to ensure the efficient use, according to the community acquis and required policies. Based on the EC Regulation, CSNR specifies the types of independent evaluations that every member state should make, namely:⁶

1. Ex-ante evaluations, which should identify differences and the development potential. These shall be used for setting the objectives to be reached, the results considered and for ensuring the coherence of programs.

2. Evaluations of the monitoring – aiming at carrying out the projects according to the objectives set. If some differences appear, these shall be reported and then removed.

3. Thematic evaluations – as regards every such evaluation, one shall set the objectives, results expected, questions and evaluation methodologies.

Performing the evaluations according to European requirements and standards, as well as to the guidelines developed by the European Commission is the task of the Evaluation Units within every Management Authority. Using the evaluations and capitalizing on the information provided by them is the responsibility of the Management Authorities. I shall present in detail the mode

of operation and the duties of these authorities in the following sub-chapter, called ‘institutions with responsibilities of management and evaluation of European programs and projects’.

Institutions with responsibilities of management and evaluation of European programs and projects

For the period 2007-2013, in Romania were built the bases of a consolidated national system of coordination and evaluation of European programs. In 2007, one set up the system of evaluation of structural instruments (SIES), whose central management is ensured by the Authority for Coordination of Structural Instruments (ACIS). From an institutional point of view, SIES includes several institutions, actors and procedures in the field of program evaluation.

The Authority for the Coordination of Structural Instruments (ACIS) is the central institution with responsibilities of evaluating the use of non-reimbursable European funds. ‘The institution coordinates the preparation and operation of the legislative, institutional and procedural framework for the management of structural instruments and, on the other hand, it plans, coordinates, monitors and evaluates the use of non-reimbursable financial assistance’, according to the information published on the website of the Ministry of Public Finances. The institution with a coordination role was set up in March 2004 based on the Governmental Resolution no. 403/2004 on the amendment of the Governmental resolution no. 1574/2003 on the restructuring and operation of the Ministry of Public Finances and of the National Agency for fFiscal Administration

⁶The Romanian Government, 2006, the National Reference Strategic framework 2007-2013. Draft, PDF format.

as a structure within the Ministry of Public Finances called the Management Authority for the Community Support Framework (AMCSC). In March 2007, AMCSC became the Authority for the Coordination of Structural Instruments (ACIS), based on the Governmental Resolution no. 386/2007 on the organization and operation of the Ministry of Economy and Finances. Through the Emergency Ordinance no. 26 of 17th March 2011 on establishing some organizational measures at the level of the working structure of the Government and of some ministries, as well on establishing some financial-budgetary measures, ACIS was restructured as a department which is now a legal entity subordinated to the prime-minister, being taken over by the Ministry of Public Finances within SGG, being managed by a department head in the position of a secretary of state.

The Central Evaluation Unit (UCE) is one of the main institutions coordinating the evaluation in Romania. The main duties of UCE were developed in connection with the evaluation of programs financed from European funds. UCE as the main institution coordinating the evaluation has a double role:

1. on the one hand, it has duties regarding planning, design and implementation of evaluations;
2. on the other hand, UCE has the role to ensure that the results of evaluation are used and capitalized on.

The Central Evaluation Unit is organized at the level of the Authority for the Coordination of the Structural Instruments and fulfills two main functions:

► evaluating the National Reference Strategic Framework and the Operational

Program of Technical Assistance;

► coordinating the evaluation of structural instruments in Romania, including the development of evaluation capacity⁷.

UCE was set up in order to perform ex-ante evaluation of the PHARE program before 2007. From 2005 to 2007 UCE had developed the documents required for performing the ex-ante evaluation of structural instruments, and in January 2007 this reported on the mode in which it prepared itself for evaluating structural instruments. In 2007, Romania set up a system evaluating structural instruments called the System of Evaluating Structural Instruments (SIES). Until 2007, the evaluations were performed by the DGE within the European Commission and persons and not structures were designated for evaluations. In March 2007, UCE concluded an evaluation contract for PHARE.

• In April 2011, through the Governmental Emergency Ordinance no. 26/2011, the Authority for the Coordination of Structural Instruments was transferred from the Ministry of Finances under the subordination of the Prime-minister, in the composition of the working structure of the Government, respectively within SGG. An argument for making this decision was the discontent of the Government as regards acquiring quite a small number of European funds available to Romania.

• Management authorities (AM) are bodies coordinating the implementation of operational programs, as well as the implementation of the recommendations of

⁷The website of the Working Group for Evaluation, <http://www.evaluare-structurale.ro/index.php/ro/unitatea-central-evaluare/functioni>

evaluations. Every Management Authority has an Evaluation Unit and a Committee Coordinating the Evaluations. The duties of the Management Authority are regulated through the GR no. 457/2008, the most important being:⁸

- ensuring the fulfillment of the duties arising from the functions set forth under art. 60 in the (EC) Regulation no. 1.083/2006 of the Council;

- develops the evaluation and selection criteria for the projects of the operational program managed and submits for the approval of the monitoring committee the selection criteria;

- provides ACIS the information requested for ex-ante checking, annual monitoring and ex-post checking the observance of the additionality principle according to the provisions of art. 15 in the (EC) Regulation no. 1.083/2006 of the Council Evaluation Unit.

- Develops and implements the Multi-annual evaluation plan and makes sure this is used as a strategic and management instrument during the implementation of the operational program;

- Informs the monitoring committee about the results of evaluations and about the ways proposed for their implementation.

The Evaluation Units are evaluation structures within the Management Authorities. The evaluators within the evaluation units in every AM form the public network of evaluators managing the evaluation of structural instruments.

The Committee for Coordinating the Evaluation (CCE) is the main coordinator of

evaluation activities as well as of the results of evaluating operational programs. The exception is POS DRU, where CCE has only a consultative role, given that it grants support for making the evaluations but it does not have the role of approving them. The most recent review of the evaluation system shows that, although the role of this institution in coordinating evaluation activities is very important, in point of fact, this institution does not operate at maximum capacity⁹. Experts consider as normal the fact that the CCE performance is not at the standards set forth in the regulations in force, given that: 'up to the present, CCE had a limited number of opportunities to exercise its function' because a small number of evaluations were performed¹⁰. In their opinion, the performance deficiencies are 'just inherent elements requiring further adjusting', while performing evaluations. Experts recommend conducting a basic training course for all the CCE members so that their contribution to evaluations becomes significant.

Intermediary Bodies (OI)/ joint technical secretariats are those structures supporting Management Authorities, being governed by

⁹Following interviews with persons in the AM management, with members of evaluation units and contractors conducted within the project: 'Developing the capacity for evaluation of evaluation units within the Management Authorities and ACIS', experts identified different opinions regarding the operation of CCE. Some actors considered that the role of the institution is rather a formal one, that actually the institution does not really support the evaluation process, this being done by the evaluation units.

¹⁰The Romanian Government, (2011): Draft Report on reviewing the current evaluation system (provided) in PDF format, p.21

⁸Government Resolution no. 457 of 21st April 2008 on the institutional framework of coordination and management of structural instruments.

the Governmental Resolution no. 457/2008 and by the Governmental Emergency Ordinance no. 26/2011, laws defining the institutional framework of the management and coordination of Structural instruments.

The OI duties in implementing the appropriate operational program are delegated by the AM within which they operate, the responsibility for fulfilling these duties staying with AM.

The public network of evaluators of structural instruments			
Management Authority	Structural Operational Program	Evaluation Unit	Number of persons employed ¹¹
	CSNR	UCE	6
	POAT	UCE	
UCE	Community Support Framework, the Ministry of Public Finances		5
The Ministry of Administration and the Interior	POS-DCA	UCE	2, of whom one works in UCE and the other one works temporarily in Brussels
The Ministry of European Integration	POR	Evaluation Unit	4
The Ministry of the Environment and Water Management	POS ENVIRONMENT	Planning and Evaluation	2
The Ministry of Economy and Commerce	POS CCE Competitive-ness	Monitoring and Evaluation Unit	5
The Ministry of Transport, Constructions and Tourism	POS Transport	Evaluation and communication	1
The Ministry of Labor, Social Solidarity and the Family	POS DRU	The Planning and Evaluation Unit	3 employees per evaluation

The fulfillment of the objectives of every Operational program and its observance of the European and national legislation are supervised by a Monitoring Committee, a body with important duties in the evaluation field. The duties of the Monitoring Committee are set forth in the General Regulations no. 1083/2006, art. 65, among which being also to periodically evaluate the progress made for fulfilling the specific objectives of the operational program based on the documents presented by the Management Authority".

The Monitoring Committee is the institution that approves the multi-annual plans and the evaluation annual plans but also the recommendations arising from evaluation and has the responsibility to implement these recommendations. If the situation requires so, the Monitoring Committee may request the performance of ad-hoc evaluations.

¹¹As resulting from the Romanian Government, (2011): Draft Report on reviewing the current evaluation system (provided), PDF format

The Evaluation Working Group (GLE) was set up in 2006 and is formed of the members of the evaluation units, being managed by the general manager of ACIS. GLE operates under a mandate¹², to end after the implementation of the programs 2007-2013, to be renewed afterward according to the new requirements and progresses made. GLE meets monthly. UCE ensures the GLE secretariat. The purpose of GLE meetings is to improve evaluation processes, to make recommendations to this effect, to review the evaluation procedures and systems of operational programs. The GLE contribution to the evaluation of structural instruments is a significant one, among the most important results being¹³:

- the development of some standards for the function of evaluation of structural instruments
- the development of a model of evaluation of structural instruments
- establishing some general evaluation procedures
- establishing a framework of development of multi-annual and annual evaluation plans
- developing some guidelines regarding intermediate evaluation in 2009
- delivering evaluation training and other training.

¹²The Romanian Government, 'The mandate of the Evaluation Working Group – draft version', 2006, available on the website of the Evaluation Working Group, http://www.evaluate-structurale.ro/images/stories/Documente/mandat_glewn.pdf, English version.

¹³The website of the evaluation workshop, <http://www.evaluate-structurale.ro/index.php/ro/grupul-de-lucru-evalua-re/prezentare/30-rezultatele-grupului-de-lucru-pentru-evalua-re>

The Evaluation of programs and policies financed by the European Union

Period 1997 – 2007

We have chosen the period 1997-2007 for the following reasons:

1. The reform of public administration in Romania started in the mid 1990's, 1997 being a reference year because it is the time when the European Union became a significant financier of reform projects through the PHARE program;

2. 2007 is the year when Romania joined the European Union, a process that led to substantial modifications with a view to accelerate the process of reforming public administration in Romania, one of the arguments being the preparation of our country for accessing and implementing programs with European financing.

Romania received European funds for the pre-accession period and the period of joining the European Union, through pre-accession instruments such as PHARE, ISPA and SAPARD. The evaluations performed on these programs may be considered a beginning in building the capacity for evaluating the system, even if, as the analyses of data will show hereinafter, 2007 represented a turning point, most of the practices developed during this period not being used any longer after accession. The evaluations of these programs did not end all in 2007, the completion term of many of the projects developed within them going beyond 2007.

In order to evaluate them, the European Commission and the PHARE Coordination Department made an annual list of programs. The Delegation of the European Commission and the competent Ministry made the evaluation. The first evaluations were made at the request of the European Commission,

initially the only beneficiary of such evaluations – the European Commission – not only requesting the evaluations of programs but also making such evaluations itself.

Until 2007, the evaluations were made by the European Commission, through a Delegation of the European Commission and by the evaluation authority in Romania. Later, the national authority had undergone a series of restructuring changes. Starting from 2005, the evaluation of programs was no longer performed by the European Commission but by representatives in Romania, the Commission receiving only the reports.

The period 2007 – up to the present

2007 represented a turning point as regards the evaluation of structural instruments. Two essential aspects resulted from the analysis of data and the discussions with experts in the field;

1. by restructuring or liquidating some institutions dealing with the coordination of programs and their evaluation, one lost a significant part of the experience gained within

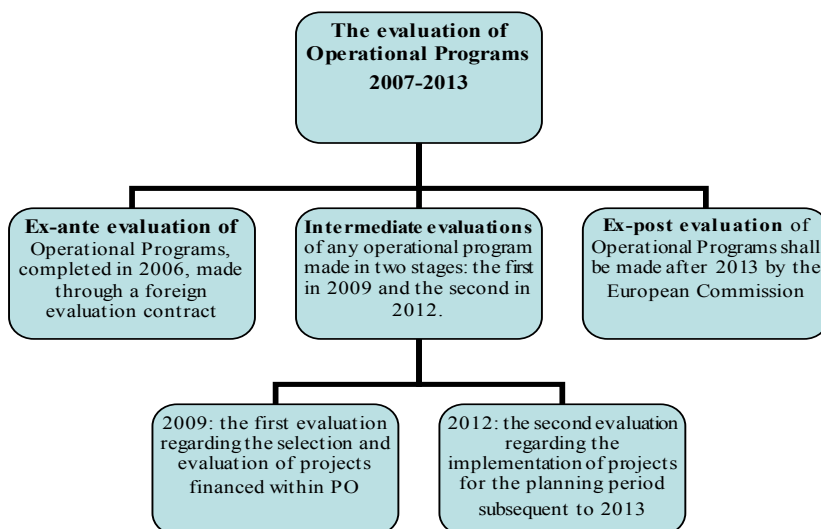
them and implicitly the expertise in the field

2. secondly, in 2007 exactly the system of evaluating structural elements changed. A significant modification was that initially the evaluation was performed by another entity than the evaluated one, but from 2007 the evaluated is also the one paying for the evaluation. Through this process, one changed the way of performing evaluations, the principle of impartiality and objectivity being clearly affected. Another essential modification is that after 2007 evaluations have been made by an institutional system.

The accession of Romania to the European Union means that our country is a beneficiary of Structural Instruments, respectively Structural Funds 2007-2013 and of the Cohesion Fund. The preparation for this financial opportunity consisted of making ex-ante evaluations of Operational Programs, completed in 2006 following a foreign evaluation contract.

The plan of the evaluations of programs with European financing implemented in Romania may be illustrated as follows¹⁴.

Figure 3: the Evaluation of Operational Programs 2007-2013



During the planning period 2007-2013 Romania is being granted by the European Union through structural instruments Euro 19.67 billion plus a national co-financing estimated as being Euro 5.6 billion. Of this amount, Euro 19.2 billion is allocated for the objective "Convergence" within the National Reference Strategic Framework, by means of seven Operational Programs.

Most of the activities carried out by UCE are performed via the implementation of some projects financed from European funds that I shall present in the following paragraphs.

The first project was performed through the project PHARE 2003 RO 2003/005-551.03.03.04 'Technical Assistance for Planning, Monitoring and Evaluation' and took place in the period 2004-2006. The main purpose of this project was to prepare the Central Evaluation Unit for taking over the evaluation of the PHARE programs and for creating a system of evaluation of structural instruments. The Project implemented a series of measures for reaching the objectives proposed, namely the implementation of the Action Plan for taking over intermediate evaluations by the UCE of the PHARE program, of the Action Plan for raising awareness regarding the importance and necessity of evaluation and for developing evaluation locally, through its decentralization. For this purpose, several activities were carried out, among which meetings for the development of the capacity for evaluating the market. A series of six seminars took place attended by 298 persons that were presented and explained the importance of evaluation. Other 34 students attended a session of evaluation training for training consultants, authorized by the National University of Ireland, with

duration of 3 months. Within this program was also developed the National Evaluation Strategy¹⁵, proposing a joint integrated approach to all public interventions, both the ones financed from European funds and the ones financed from the state budget.

A second project significantly contributing to the institutional development of evaluation in Romania, coordinated by the Central Evaluation Unit, is the Project for 'the Development of a Professional Evaluation Community in Romania', taking place during the period 2007-2009, financed through PHARE RO/2005/017-553.05.03.02. The results of this project are significant steps in the development of the capacity for evaluating structural instruments in Romania. By means of this program, one developed important documents for the evaluation practice and for evaluators as well.

Another extremely important contribution was brought by the project in the development of the evaluation field academically. Within the project 'The Development of a Professional Evaluation Community' one developed 'the Grid of competences for the master degree in evaluation', a draft establishing the curricula for the master program 'The evaluation of European Public policies and programs', conducted by the Department of International Relations and European Integration within the National School for Political and Administrative Studies of Bucharest. The third project carried out and coordinated by the Evaluation Unit in the period 2007-2009 is 'the

¹⁵ I shall present the National Evaluation Strategy 2007-13 in chapter III, the sub-chapter emphasizing the contributions this brought in the field of evaluating programs and policies financed from the national budget

evaluation facility' through which it encouraged and attracted the public institutions in Romania to make their own evaluations of public interventions which are not financed by the European Union, provided them technical assistance and financed their evaluations. Ten evaluation projects were developed by mixed teams, including foreign and Romanian evaluators. The exchange of experience was useful and necessary, especially for a better training of Romanian evaluators. 'The evaluation facility' was the instrument through which the evaluation funds were granted within the PHARE program /2005/017-553.05.03 'the implementation of the national evaluation strategy'. By using this instrument, the Central Evaluation Unit tried again to make the public institutions to become aware of the importance and usefulness of evaluation¹⁶.

The latest project carried out by the Central Evaluation Unit is the project: 'the development of the capacity for evaluation of the evaluation units within Management Authorities and ACIS', co-financed from the Operational Program Technical assistance 2007-2013. The objective of this project is to ensure a common level of experience and knowledge in the evaluation field within institutions and other stakeholders.

The current evaluation system of the European Union

The process of evaluating structural instruments

The report of analyzing the current evaluation system, the final draft from August 2011 considers that the evolution of the system is good, positive and: 'at present, SIES has all the elements required from an

organizational, financial human resources point of view, and a first set of evaluations has been already made'¹⁷.

According to the report, the evaluation process includes five stages:

1. planning the evaluation
2. Evaluation design
3. implementation of evaluation
4. Using recommendations
5. Learning

I shall detail further each of the stages in the evaluation process listed above, with its particularities and specific activities carried out at each of these moments.

Planning the evaluation is a stage regulated by the European norms, through the EC regulation 1083/2006 and transposed and set forth also in the national legislation through the Governmental Resolution no. 457/2008, specifying the institutions responsible in this stage. The multi-annual evaluation plans are developed by the Authority for the Coordination of Structural Instruments and by Management Authorities.

Planning the evaluation of the European programs implemented in Romania considers the horizon 2007-2013, the objectives addressed being time, budget, resources, the identification of the purpose of evaluations. The planning results from the Multi-annual Evaluation Plans (PME) and the Annual Evaluation Plans (PAE) developed for each of the seven Operational Programs, inclusively for the Romania-Bulgaria Cross-Border

¹⁶ The list of projects evaluated within this program is available on the website of the Ministry of Public Finances, at the address <http://www.mfinante.ro/facilitate.html?pagina=evaluare>

¹⁷The Romanian Government (2011): Report on analysis of the current evaluation system, p.9

Cooperation and the IPA Program of Romania-Serbia Cross-Border Cooperation as well as at the level of the National Reference Strategic Framework. The evaluation is planned by the Central Evaluation Unit, in collaboration with the Evaluation Coordination Committees, and are approved by the Monitoring Committee, respectively by the National Coordination Committee.

The drafts of the Annual Evaluation Plans should be completed by February every year, are approved by the end of spring and the monitoring report regarding their implementation should be developed by the fall of the same year. The experts analyzing the current evaluation system of the European Union noticed that the evaluation is planned at a general level, where evaluation titles and themes are indicated and recommend to persons in charge with evaluation to consider detailing the Multi-annual Evaluation Plan, by presenting in detail the themes proposed and their terms and budgets.

The evaluation design is the second stage identified by experts in the evaluation process of programs with European financing. The purpose of this stage is to develop the Reference Terms meeting the needs of the operational program evaluated. The experts in the field defined the evaluation design as being the stage that 'starts with a brief presentation of what is to be evaluated according to the Annual Evaluation Plans, the development of the Reference Terms detailing the purpose of evaluation, its scope, criteria and evaluation questions, the methodology that is to be used, the budget and human resources required, the results expected.'¹⁸

¹⁸The Romanian Government (2011): draft Report on analysis of the current evaluation system (provided), PDF format

It also pertains to the evaluation design according to the Evaluation Report the 'application for obtaining financing through the Priority Axis of Technical Assistance, the development of awarding documentation, publishing the awarding documentation and the Reference Terms and the end of the period of requests for clarification until the selection of the bidder and signing the contract'.

The implementation of evaluation is the process for which the evaluation units within every operational program and within the Central Evaluation Unit are in charge. The results of evaluations and the recommendations developed on their behalf are later sent to the Monitoring Committees and as regards cross-border cooperation programs, the Joint Monitoring Committees and the Evaluation Workshop.

Using the evaluation results is actually the stage of capitalization on and implementation of the recommendations made based on the evaluations performed. Experts identified differences between the ways in which Management Authorities implement the recommendations of evaluations and this because not all the Management Authorities have a complete plan in this respect. In this stage one develops the action plans for implementing the recommendations, which are monitored and implemented by the evaluation units. The difficulties noticed by experts in this stage refer to the way in which one perceives the quality of the recommendations "which results in their partial acceptance" and the fact that the implementation of certain recommendations presupposes the involvement of several institutions. Experts underline that recommendations are just 'recommendations', that is they are not firm managerial decisions to be implemented and

specify that maybe the greatest difficulty faced in this stage is that this requires the most 'brainstorming and systematic thinking abilities'. Another conclusion drawn from the Report on analysis is that 'decision-making factors within the Management Authority should be aware of the evaluation and its usefulness in order to be able to 'assimilate' the recommendations of evaluations for owning them and understanding the benefits of their impact – if they are implemented'.

The last stage in the evaluation process is the learning stage, whereby experts mean 'the process during which the results of all the evaluations are collected for being used in the following planning stage'.

Conclusions regarding the capacity for evaluation of structural instruments

The experience as regards the evaluation of programs and policies financed from foreign sources, especially the ones from European funds indicates that the process of building the capacity for the evaluations of a public system is a difficult and lengthy process.

If in the pre-accession period one made the first steps in the field, the first evaluation approaches in Romania being witnessed, the development of the evaluation process in the post-accession period has known a spectacular dynamics. The adjustment of the national legislation to European requirements and even the introduction in the national legislation of some European provisions has continued, the Romanian government making some permanent legislative amendments in order to improve the institutional and procedural framework for accessing European funds.

The capacity for evaluating the national public system continues to develop. Following the analysis of the legislative and institutional framework of evaluation, I consider that there are several elements defining the process of building the evaluation capacity. In this chapter I shall present the components of this process breaking it down into the evaluation capacity in the pre-accession period and the evaluation capacity in the post-accession period¹⁹.

From my point of view, the evaluation capacity before 2007 consisted of:

- minimal requirements of the European Commission regarding the evaluation which transformed subsequently into
- working procedures (consolidated by gaining experience, testing and following numerous discussions and debates)
- human resources, namely consultants performing the evaluation and creating thus the expertise required
- the institutions coordinating evaluation
- ensuring the European funds required for development

In the post-accession period, the evaluation capacity consisted of:

- procedures, regulations, manuals, guides
- legislation
- institutions – performing evaluations
- human resources
- European funds – financial resources required for improving the evaluation

¹⁹In this chapter I shall simply review the elements defining the capacity for evaluating European programs and policies, the concept being further developed in the last chapter of the paper being based also on the analysis of evaluating public policies financed from the national budget.

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16. European Commission, EVALSED - is an online information resource providing a guide regarding the evaluation of socio-economic development, available at http://ec.europa.eu/regional_policy/sources/docgener/evaluation/evalsed/index_en.htm
17. <http://www.evaluate-structurale.ro/> is the website of the Evaluation Workshop
18. <http://www.fonduri-ue.ro> is the Page of Structural and Cohesion Funds in Romania

19. <http://www.mfinante.ro/dezvoltare.html?pagina=evaluare> is the page on the website of the Ministry of Public Finances including relevant information about non-reimbursable financial support and the evaluation of structural instruments
20. www.sgg.ro is the site of the General Secretariat of the Government and includes public information about the role, duties and activity of the Directorate for Public Policies, as well as other official documents regarding the evaluation of public policies.



Entrepreneurship in times of economic and financial crises, methods of adaptation and survival

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Abstract: This paper shows the main results of a research activity conducted in the South – East region of Romania during November 2009, over 117 small and medium-sized enterprises. The results help to better explain some of the social problems that have been generated in the region as a snow ball effect, due to the economic and financial crisis. The research has revealed the following:

The majority of the employees of the companies that were interviewed do not participate in training courses related to project management and personal development. However, company administrators consider that such courses are useful to increase competitiveness in times of economic and financial crises. Personnel under 40 years of age suffer from a lack of professional training and dedication to job requirements. Companies have expressed an interest in accessing European Union funding. However, they do not have complete information that would allow them to start a project and finalize it. This lack of information is mainly due to lack of access to specialists who would write the projects and submit them. The majority of entrepreneurs consider they cannot write the projects themselves but on the other hand they do not have access to consulting companies or other organizations that could help them. Their main information source is the mass-media.

As a result, companies have adjusted to the effects of the economic crisis, diminishing their activity and laying off people, decreasing the running expenses and stopping investing in their development.

Key words: entrepreneurship, economic crisis, investment, development, survival methods.

1. Introduction

The small and medium-sized enterprises (SMEs) form the most numerous and important form of entrepreneurial association. They perform economical, technical and social functions by generating the greatest part of the Gross Domestic Product in every country, usually between 55-95 percent. They also offer jobs to the majority of the occupied population, generate a great part of the technological innovation and have a high level of dynamism in the market economy given by the evolution of their number, the volume of turnout, and the labor they employ. SMEs manufacture products and services at more reduced costs than bigger companies, due to advantages like smaller operational costs, higher intensity of labor and greater motivation of employees. They benefit from a faster decision-making process from the entrepreneurs, giving them greater flexibility in the changing market mechanisms and making them generate one of the most important sources of income to the state budget.

However, SMEs have weaknesses. According to Professor Alexandru Maniu from the Romanian Academy of Economic Sciences, these include limited resources, excessive dependence upon one person—the entrepreneur and lower technical endowment compared to big companies.

At a European level, SMEs form the majority of the European private companies, accounting for 99.8 percent. Big companies alone, with over 250 employees, account for only 0.2 percent of the total number of companies. SMEs have over 67 percent of the employees from the private sector. From all SMEs, the micro companies—having one to nine employees—represent 91.5 percent, the

small companies—having 10 to 49 employees—represent 7.3 percent, and the medium companies—having 50 to 249 employees—represent 1.1 percent. Considering the employees of the entire private sector, the micro companies account for 29.6 percent, the small companies for 20.6 percent, the medium-sized companies have a share of 16.8 percent, while the big companies have 32.9 percent of the total number of employees.

According to the Romanian National Institute for Statistics, the company structure in the Romanian economy in December 31, 2007 included the following:

- 110 autonomous companies (former publicly-owned companies).
- Approximately 32,600 shares corporations.
- Approximately 1,187,100 limited liabilities companies.
- Approximately 39,300 other types of companies.

This paper shows the main results of the research activity that was conducted within six counties that together form the South – East region of Romania. The counties are Galati, Braila, Buzau, Vrancea, Tulcea, and Constanta. According to the 2009 White Paper of the SME sector from Romania, there are over 2.9 million people in this region, with a density of 80 people per square kilometer. The overall country average is 91 people per square kilometer. Galati has the highest density, with 139 people per square kilometer, while Tulcea, with its Danube Delta has only 30 people per square kilometer. Cities have 55.5 percent of the total population of the region. Constanta is the biggest city, with a little over 300,000 people, while Tulcea has approximately 93,000 people. In 2007, approximately 71,442 SMEs were active in the

South – East region of Romania. This is a 45 percent increase from 2001. The dynamics of the SMEs given the number of employees is shown in Table 1.

Table 1: Number of SMEs during 2001 - 2007, South - East Region of Romania				
Year	0-9 employees	10-49 employees	50-249 employees	Total
2001	49,664	3,279	750	53,723
2003	54,324	3,669	831	58,824
2007	64,994	5,383	1,065	71,442
Source: White Paper of the Romanian SMEs - 2009 Edition, CNIPMMR				

The density of companies for 1,000 inhabitants in the South – East region has had a steady increase from nearly 18 in 2001, to 21 in 2003 and 25 in 2007. However, the county distribution is disproportionate. Constanta, which is the most important Romanian harbor at the Black Sea, has the highest density, with 36 companies per 1,000 inhabitants, while Vrancea has the lowest density, with only 20 companies per 1,000 inhabitants. This shows a big difference between the levels of development of the SME sector among the counties of the region. The turnover of the 71,442 SMEs was 40 billion Lei in 2007 (approximately 11.8 billion euros), which is almost an 8.5 percent share from the total turnover of the SMEs from Romania. The mean turnover of the companies in the South – East region is 555,619 Lei, or approximately 163,000 euros.

The profit generated by the companies is an important indicator that shows the evolution of the SME sector and the domains that need some sort of support. Region-wide, the 2007 situation shows that there were 31,069 profitable micro companies, 4,298 profitable small companies, and 915 profitable medium companies. One can see that from a total of

71,442 SMEs in the region, only 52 percent of them generated profit. A total of 27,520 companies had losses, while 6,940 had zero accounting turnovers. The lowest rate of profitability occurs within micro companies, with 48 percent, while the same rate is much higher for medium-sized enterprises, with 86 percent. The net benefit of the SMEs in the South – East region was of 2.7 billion Lei, or approximately 0.9 billion euros.

The research in the South – East region of Romania was done according to scheduled visits to SMEs in each of the six counties. A survey was applied directly at the visited companies and also through phone calls and emails. Many of the companies that were visited asked for a short period of time to fill in the survey form and then sent it back. The 117 companies that were contacted have together 574 employees, or almost 5 persons per company. The findings of this research offer grass roots examples of entrepreneurial behavior with implications in the social life of the local communities they serve. The study is important to prepare local communities to better tackle the social problems that are generated from the business environment, during an economic crisis. The public opinion needs to be aware of the measures that small businesses are taking in order to survive and the social tradeoffs that accompany these measures.

2. Literature review

There is probably no other person so greatly identified with the financial crisis than Richard S. Fuld, Manager of Lehman Brothers. Until the autumn of 2008, he was perceived as a hero on Wall Street, but after that date his name has been associated with

all the errors of the crisis. An article in "The Globe and Mail" cited Fuld when referring to the reasons of the financial melt down: uncontrollable forces of the market and rumors that Lehman Brothers does not have sufficient capital to sustain its investment. Lehman Brothers could have survived had the American Government helped the company the same way it did with Goldman Sachs. As a result, the confidence in the company went down, which later severely affected its credibility. The fall of the mortgage market in 2007 generated greater effects in other sectors of the financial markets than it was initially estimated. Lehman proposed the Government to take measures that would help the company and the trust in the financial markets. Their proposals were refused, but they were later put in practice for other banks, after the bankruptcy of Lehman.

The most important thing that an entrepreneur wishes for during holidays, is a healthy economy, according to a Columbia Business Times article. If this macroeconomic stability is months away, the question becomes how can entrepreneurs create better economic perspectives through means they can control? The article is citing research made by Kauffman Foundation in 2008. Americans reported they believe that entrepreneurship is the solution to the current financial crisis. Over 70 percent said that the economy is dependant upon the success of the entrepreneurs and 80 percent want the Government to use its resources and encourage the development of the entrepreneurial potential in the United States. Entrepreneurs are good at solving problems and are looking for ways to turn the economic crisis into opportunities. When times are difficult, people tend to find partnerships and negotiate

almost everything. People become more creative in managing their finances and maintaining a good credit record because loans are more difficult to obtain. Entrepreneurs rely more on friends, families and other private funding sources for their investment projects. The times of recession offer the possibility to rethink the business, to revisit the business plan, to rethink the marketing strategy and the relationship with the clients. Also, it is now when new applications are invented and young people are stimulated to become entrepreneurs and find new markets for products and services. Now it is the time to be aggressive on the market, to develop the online presence and to find social marketing opportunities. It is also advisable to work with small business partners because governments are more likely to help them.

In today's worsening economy, one of the most important measures that governments, business people and civic organizations may consider, are related to the development of the entrepreneurial spirit. Monitor Group, one of the biggest consulting companies from the United States, published the study "Paths to Prosperity; Promoting Entrepreneurship in the 21st Century." The study is interviewing entrepreneurs from 22 countries to determine the attitudes and policies needed to develop entrepreneurship in different regions around the world. The main conclusions are:

- The existence of an entrepreneurial conscience among the population, defined by values like individualism.
- Legitimacy of entrepreneurship as a career choice and the capacity to recover quickly from failure.
- Funding strategies like public listings, spin-offs or buy-outs, form an efficient source to develop the business.

- Reduction of the income tax, increasing deductions and offering incentives to benefit from the results of research and development are seen to have greater impact than business incubators or reducing bureaucracy.

- Teaching entrepreneurship at all levels of formal education has great impact on the development of the pro-active spirit around the globe.

The business environment in times of economic crisis is like the economic Darwinism, where the most adaptive manage to survive. The relevant question here is how can the entrepreneur survive and be ready to develop his business when the market recovers. Experts from the U.S. Small Business Administration, as well as financial institutions offer advice: manage money well, evaluate creditors and debtors, consider other business options, identify new clients, and take initiative to adapt to the market in due time.

John Paul DeJoria explains in the book, "The Worst-Case Scenario Business Survival Guide," what are the 11 measures that could help a business survive crises. First, the company stops hiring and freezes expenses with salaries, entertainment, travels, and other costs that do not directly affect its profitability. Then, the entrepreneur has to think of the beginning of the business when he did not have employees and solid financial resources. A third measure that could be considered is laying off the people who are not productive enough. The entrepreneur has to identify those expenses that seem to be exaggerated and usually related to communication, consumables, printing, cleaning, mailing, insurance, bank commissions, and leasing. Also, everything is negotiable, even if it was previously

negotiated, so research about competitors providing the same services is important. If prices can not be negotiated, then payment dates and types may be. The manager may also relocate into a cheaper office or partner with another company to benefit from group discounts. Another measure that could be applied is for the entrepreneur to engage employees in identifying the measures needed to reduce costs and in making the budgets for the company's projects. Communication in times of recession is also vital. It has to be clear, honest and open to employees, suppliers and clients. Another essential aspect is the ability to ask for help.

Frances Hesselbein and Rob Johnson strengthen in the book, "On Mission and Leadership," that what really matters is the present: what is important in reinventing the company is the way labor is organized in the present, given the demand from the market and the technology available. The way people and companies interacted in the past do not matter in the present. However, if you want to develop good imagination for the future, it is good to appreciate the past. As a result, the two authors introduced the notion of „quite management." The quite manager is an inspiration for the others, is attached to the company, makes changes in a slower pace, and takes initiative. Instead of "cutting the problem from its roots," quite managers spend a great deal of time preventing problems. They also tend to know the activity of the company from the bottom-up.

In the book, "Visionary Leadership. Creating a Compelling Sense of Direction for Your Organization," Burt Nanus is analyzing the behavior and the measures taken by Microsoft to constantly adapt to the changing market conditions. Bill Gates, the

founder of the company, managed to make five billion dollars by the time he was 35 years old, quitting Harvard and without having an MBA. His secret lies in the fact that he created a 21st century company in the 20th century and is managing it with a strong visionary leadership. In order to adapt better to times of recession and even to anticipate them, companies need to be aware of the major forces that are influencing the markets and the economic activity in general: technologic advances in computer science, genetics, space, and engineering; the dominance of postindustrial economies; the globalization of businesses, policies, cultures, and of the environmental problems; restructuring of the national economies due to increased competition and the gradual transition from military dominance to economic dominance; a general decrease of confidence in all institutions, including government and church; an increase of economic stress due to the level of borrowing, global competition, vulnerable banking systems, and outdated infrastructure; demographic changes; relative abundance of goods and the decrease of values like job security or time spent in the family. Burt Nanus is also showcasing the main characteristics of the 21st century companies. They have highly qualified labor, products and services that incorporate science, global development perspectives, and complex organization. Moreover, the activities in such companies unfold in many locations, meeting various needs and having many objectives. The 21st century companies are not just economic organizations, or social organizations, or political, artistic, or environmental. They are a mix of all these areas. Microsoft is conducting its activity mainly to provide qualitative and innovative products to its clients.

On the other hand, the company is providing for its employees' needs like education, leaves, athletics, or social events. Nanus also argues that a company, regardless of its size, can not do everything alone to accomplish its mission. Even big companies need partners. Microsoft has such close ties with its partners that one would not know if he is working in a place owned by the company or by a partner.

Ali Quazi and Majharul Talukder argue that innovation is a solution to adapt and survive times of economic and financial crises. In the paper, "Innovation as a survival strategy during the global financial crisis: The Bangladesh case," the two authors are analyzing four key fields of activity that may be improved through innovation: management, marketing, human resources, and funding. Innovation in management may be classified as administrative and technical innovation, product innovation, process innovation, and radical innovation. Technical innovations include products and technologies used to manufacture the products and provide the core services of the company. The administrative innovations are related to the organizational structure of the company and its administrative processes. Product innovations are benefits introduced to employees and clients, while process innovations refer more to product delivery. The two authors are analyzing largely the administrative and management innovations because they are more likely to generate efficiency and productivity. The entrepreneur may consider the following actions: developing management abilities through training courses, because managing financial crises needs knowledge and adequate competences; improving the efficiency of labor because this is essential to every challenge the company is facing,

including economic crises. For example, the efficiency of the managers in the public sector may be improved through seminars and symposia where financial and management experts offer precious hints regarding ways to overcome crises.

In the book, "Entrepreneurship and SMEs in Southeast Asia," Denis Hew and Wee Nee Loi are analyzing the major transformations that affect SMEs in times of recession and economic boom. As a result of their research, when the economy is developing, companies are employing new labor. At the same time, small companies tend to close down their activity and the pressure to establish new companies is low. During recessions however, companies stop hiring people, diminish their activity and even face bankruptcy. As a result, the reduced opportunities in the economy determine people to start their own businesses, even if they generate little revenue. The authors also mention that smaller companies are more flexible than bigger companies when having to adapt to new market conditions. Moreover, companies tend to associate in groups of companies and benefit from economies of scale in terms of production costs and marketing expenses. The microcompanies for example, having less than five employees, developed during the Asian crisis and offered jobs to people laid off from the big companies.

3. Theoretical Background

Research for this paper was conducted in the six counties forming the South – East region of Romania: Galati, Braila, Buzau, Vrancea, Tulcea, and Constanta. Overall, 117 SMEs were interviewed, using a survey that was applied using direct visits at their

headquarters, phone interviews and email notifications.

4. Paper Content

4.1 SME Staff Training

SMEs in the South – East region of Romania have very poor participation in training courses. The majority of the companies have never sent a single employee to such programs. The managers of the companies that were interviewed offered the following reasons for this situation:

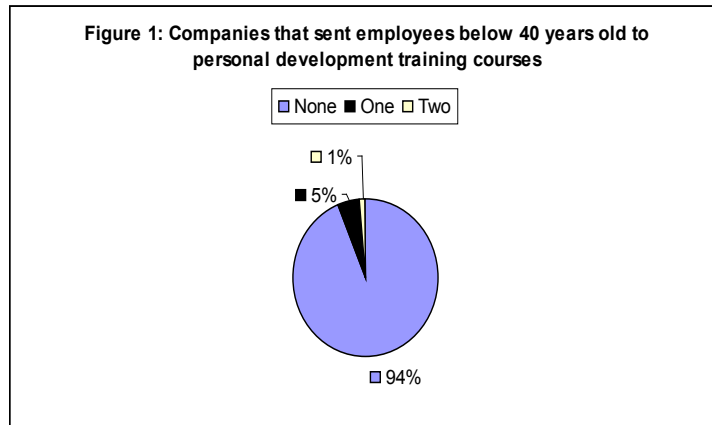
- They have never been contacted to attend such training programs. When they were indeed contacted, the costs were too high for the company or the employees, to attend.
- The company does not need to develop the types of skills that were mentioned in the questionnaire.
- Lack of time.
- Lack of trust in such training programs.

A majority of the managers acknowledged that they have never been interested in training courses for their employees and admitted that they would not think of that in the future, due to other priorities. Figure 1 shows that only five percent of the companies have sent employees under 40 years old to one training course.

When asked if they felt an improvement of the efficiency of their employees as a result of a training course of personal development, over 90 percent of the managers admitted that they were pleased with the added value of their employees. When asked if the courses had some utility for their company, only 48 percent of the managers admitted that the training courses may have been useful.

We could observe greater distrust within the firms from the rural areas. They are almost ignoring to develop the competences of their employees and sometimes they do not understand its advantages. The decision to attend training courses and to develop the

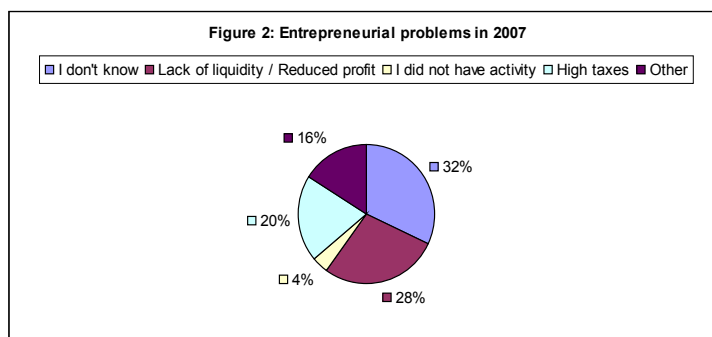
personal competences of their employees depend on the duration of the course, whether the course is scheduled in weekends or during periods of slower activity for the company, the costs, and the type of diploma to be awarded.



4.2 Problems that the companies from the South – East region of Romania are facing

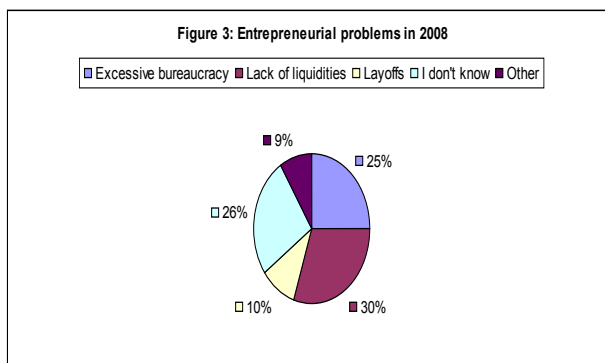
The problems of the South – Eastern SMEs from Romania are very much the same as the ones of the rest of the country. Prior to 2009, they confronted high bureaucracy and lack of liquidities. In 2007, the lack of liquidities and the high level of taxes were the major

problems. In 2009, the effects of the global financial and economic crisis were mentioned as the biggest problem. A good number of companies that were interviewed were established after 2007. Some managers even responded that one of the problems in their line of work is that they are not members of the right political party. Figure 2 shows the problems that managers confronted in 2007.



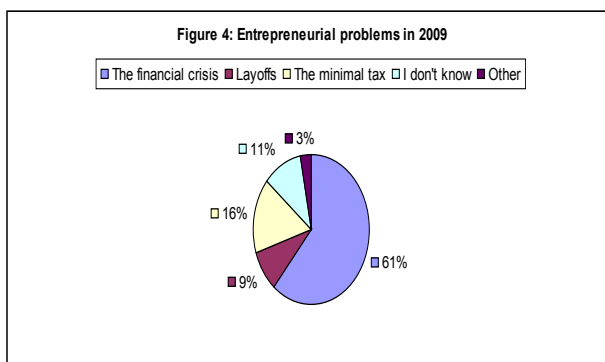
In 2008, companies faced major problems regarding excessive bureaucracy, net losses, and layoffs, as shown in Figure 3. The

problem of liquidities persisted due to the development needs that come as activity grows.



The year 2009 was indeed a major crisis year for the companies from the South – East region of Romania. Over 60 percent of them mentioned that they were hit by the effects of the crisis. As a result, the Romanian Government imposed a new tax called the “minimal tax” that makes it compulsory for

companies that have no or little income, to pay a certain amount of tax to the state budget. This measure was mentioned as the second most important problem that companies were facing. Layoffs also played a major role, as shown in Figure 4.



The managers of the companies were also asked about the general problems of the area. In their vision, the activity of their companies is greatly affected by excessive bureaucracy, high taxes, and negative externalities like poor public infrastructure and a lack of overall development prospects and vision. However, given the type of business they are conducting, some entrepreneurs

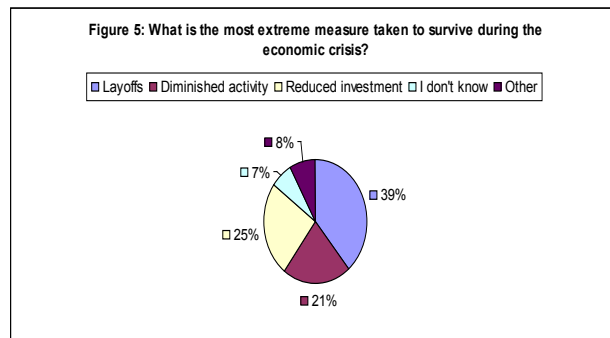
expressed concerns about the lack of interest of the local administration for the business sector and corruption.

4.3 SMEs From South – East Romania In the Context of the Economic Crisis

The National Council for the Small and Medium-Sized Enterprises from Romania conducted a survey in all of the eight

development regions from Romania. The results show that almost 24 percent of the companies have been affected at a devastating level and for 26 percent the negative effects have been very high. Nevertheless, 36 percent of the SMEs admitted little impact of the new economic and financial environment upon their activity and 12 percent declared that their business has suffered just a little. The most important measures that

companies took in order to face the challenges of the economic crisis consisted mainly in reducing their costs by laying off people, diminishing the activity and reducing investment. The SMEs from the South – East region of Romania have adopted the same strategy to maintain business. Some of them even reduced their other fields of activity. Figure 5 shows the most extreme measures that companies have taken so far.



One can notice that layoffs are at the top of the measures with 39 percent of the managers having taken that initiative, followed by diminishing the activity of the company. Together, the two measures generate a snow ball that is closely followed by an increased rate of unemployment, higher burden on the state and local budget, and social problems. Almost 10 percent of the companies that were initially contacted suspended their activity during 2009, due to the great effects of the crisis. The entrepreneurs were skeptical when referring to the time that the crisis will last. Most of them consider that the prospects of recovery will be felt after at least two more years.

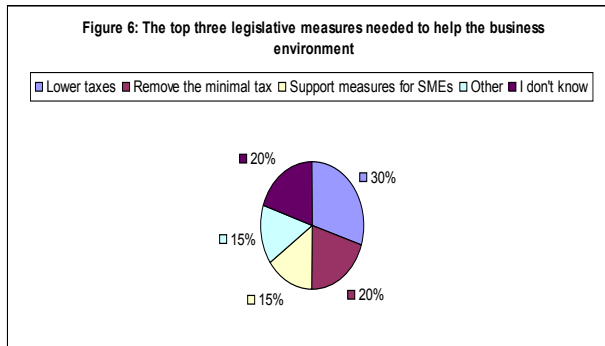
European funding for various investment projects is a source of income that many entrepreneurs are aware of. The ones that were questioned have thought about this option out of the crisis, but haven't made

projects and haven't applied, due to various reasons. They either haven't found reliable sources of information, or haven't contacted a consulting company for guidance. SMEs from the rural areas did not think of such possibilities. When asked if they would apply for EU funding if they had support to write a project, entrepreneurs said they would consider this option. However, one could notice a widespread lack of information regarding the institutions that are managing EU funds and their development role. Among the 117 companies that were questioned, only one obtained EU funding, which counts for a very small percentage.

When asked about the solutions that the governmental institutions could take to help the business environment, entrepreneurs gave various answers, based on their vision and knowledge of the legislative and

executive sectors. The general pattern showed a desire to decrease taxes, remove the minimal tax for companies, and specific support

measures for SMEs, as shown in Figure 6. The firms from the rural areas were more reluctant to give a specific answer.



5. Conclusions and implications

As a result of the research conducted over 117 SMEs from the South – East region of Romania, the great majority of the companies that responded to the survey have never sent employees to training courses of personal development and project management. However, when asked if they would attend such programs, entrepreneurs declare themselves willing to train their personnel, considering them useful to improve the activity of their company during the economic crisis that Romania is facing. There is a big difference between the rural and urban entrepreneurial behavior. The companies from the urban places are much more open towards vocational training opportunities because they have access to better information resources. Managers from the urban areas seem to have understood better the important role that training may play in their company future development.

The main problems that companies are facing in their activity include the level of taxes, the new minimal tax, excessive

bureaucracy, and the effects of the economic crisis. Personnel under 40 years old suffer from a lack of vocational training and commitment in fulfilling work assignments.

Entrepreneurs have basic ideas for changes in the legislation that is directly affecting their line of work. In order for their companies to perform better, they want reduced bureaucracy, lowered taxes, removal of the minimal tax, and a visionary development plan that would boost economic recovery. Some expressed ideas related more to their line of work, but a great number of managers answered “I don’t know.” This shows a lack of information and interest in the legislative process.

With regard to the economic crisis that Romania is facing, companies have adjusted their activity in order for them to reduce its negative effects as much as possible. These measures are temporary, until the economy is boosting again, with stronger positive effects in the region. As a result, companies have diminished their activity and laid off people. At the same time, they diminished the running costs and stopped investing in development.

A limited number of companies diminished their promotion budget as well.

EU funding for SMEs is an interesting tool for the companies of the South – East region of Romania. The majority of the surveyed companies are interested in ways to receive funding, but they do not have complete information resources to submit a project, receive funding and unfold the project. The informational problem occurs due to the small number of specialists who are proficient in attracting funding and the big discrepancy between the quality of the information in the urban areas and in the rural areas. The majority of the entrepreneurs consider they cannot write a project alone, but at the same time they do not know persons or institutions that could do that for them. The major source of information for managers is the mass-media. Internet access is however well developed, with over 80 percent of the companies using it. Informational emails could be a way to provide information for these companies, both for training opportunities and for EU funding opportunities. The interviewed companies showed themselves interested to use their email accounts for information exchange.

The majority of the managers consider it is beneficial for their companies that their personnel be trained to develop their personal and entrepreneurial skills. However, they are not aware of such training opportunities. The general perception is that training opportunities are very expensive and require too much time to attend. This would affect the activity of the company on the short run, and the tradeoff is not worth the effort.

Entrepreneurs are not eagerly trying to influence the public administrations to enact better policies for the business environment.

They are also not forming entrepreneurs associations to make their voices better heard in the community. Very few companies are applying for EU funding and manage to finish a project successfully. These facts show that there is a need to perform information campaigns more consistently. What has already been done, is helping managers become more aware of the need to have better trained personnel and better access to additional funding resources. They are also more aware that in order to access EU funding, they need a constant flow of information and a thorough training in project management.

The problems that small and medium-sized enterprises face during economic and financial crises have direct and strong implications on the local communities. These are affected by increased social problems generated by the measures that the companies are taking. The research has shown that the adaptation and survival methods of SMEs during crises is a function of layoffs, reduced activity and reduced to none investment.

Layoffs determine greater pressure on the social protection policies and diminish the local expenditure on goods and services. The diminished expenditures on goods and services determine a chain effect that spreads to other consumer-goods businesses, credit reimbursements, and various services. This situation requires governmental intervention to protect the increasing number of poor. The measures that were successful in Thailand's response to the 1997 economic crisis and that seem to work in the Romanian environment include "an improvement to the strategic design and coordination of the social policy, protection measures to the poor and to the elderly, strengthened social protection of workers, and improved monitoring

of living standards.” These measures require intervention at the macroeconomic level, with results to be seen on a short to a medium period of time. From this regard, managers that were interviewed seem to have been objective when stating that recovery is to be seen within the next two years.

Thailand instituted a comprehensive social protection program for workers, aimed to strengthen labor demand, reverse the unemployment trend, and halt the decline in wages. “A variety of market labor policies were implemented to promote re-employment of laid-off workers through training and job placement services. The government established a task force, with representation from workers, employers, and government, to design, target and rigorously evaluate the cost-effectiveness of training programs for unemployed workers.” Also, a reform of the social security policy needs to be revisited and adjusted to cope with the new social problems in a more effective manner.

Companies are diminishing their activity because they cannot sell as much as they used to, due to the lower purchasing power of the population. Those companies that made prior investment plans and relied on cash flow projections made before the crisis, found themselves in the situation to even close the business. Investment is slowed down or even reduced to zero because there are no liquidities. The jobs that were initially supposed to be created or kept with the initial development needs have halted, adding up to the pressure on the social protection system. Under these circumstances, the business environment needs to receive governmental support and restructure. One major goal is to provide businesses with liquidities, to start to invest. But to accomplish this goal,

the financial institutions need to be reformed first. Important lessons may be learnt from Thailand’s financial sector reform following the 1997 economic crisis. The objectives of such a reform would be to make troubled institutions leave the market in an orderly way, impose tighter supervision on the remaining players, and provide sufficient information to companies to analyze the risks of the available options. Macroeconomic steps have been taken at a European level in this regard, improving the rules of the activity of the credit rating agencies.

The Thai government first ensured that assets controlled by the affected financial institutions were not impaired and owners were held accountable for their mistakes. At the same time, the fiscal costs were kept so that to avoid the burden on the taxpayer, in an orderly and transparent manner. In the next step, the government reestablished the financial institutions on sound footing. This was done by identifying and addressing the problems like lack of power for the central bank, fraud, poor management of certain financial institutions, and action on non-compliance. Also, the Bank of Thailand established a principle that when it intervened, it would change the management of a financial institution or reduce its capital so that shareholders are the first to take losses. Trust for the financial sector was increased with two other important measures related to strengthening prudential regulations and strengthening supervision. The new regulations “obliged finance companies, like banks, to submit semi-annual credit plans to the Bank of Thailand that reflected portfolio diversification, risk profile, and growth planning and to issue loan-to-deposit, or promissory note, ratio guidelines.” Also, the

government established an interagency task force to review and recommend changes in the legal and regulatory framework for supervision. These kinds of measures could be taken and adjusted to the Romanian macroeconomic environment in order to regain confidence in the financial sector and boost investment. The results though are to be seen on a longer period of time, but they form a

solid foundation to tackle the chronic social problems.

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Liquidity analysis of State Bank of India

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Abstract: Modern customer has a high demand for quality of service than he/she had before. There is an urgent need for improving the customer service levels currently provided in the banking industry. Banks need to understand, foresee, the needs and expected levels of customer support which the customer expects when he/she steps into the branch and strive to stand up and excel in providing the service and making banking a truly delightful experience. The banker should change his/her agenda from Customer Satisfaction to Customer delight and then march towards Customer Ecstasy. This will be possible by maintaining the financial soundness of the firm. In this connection it has been given importance through this study. Since most of the Banking slightly deviate into the other areas like insurance, financial services and modern banking services such as Advisory services, Agent for receivables, custodian, instant loan provider, Forfeiter services and factoring services. A conscious attempt has been made to analysis the liquidity of state bank of India (SBI). The present study aimed to understand the financial soundness of the bank, the ratio analysis taken as tool. In this research work the secondary data mainly used, it has been collected in the form of the company manuals, Balance sheets and other documents. The data analyzed by some of the statistical tools such as ANOVA test and Multi variate test is used to analyze the interferences about the operating efficiency.

Key words: Ratio Analysis, Bank, Forfeiter services, Factoring services,

Background and significance of the study

State Bank of India (SBI) is a large financial services group operating in the banking

industry. The bank is engaged in providing trading services, international banking and traditional banking and treasury operations. The Reserve Bank of India holds more than half of SBI's equity capital. SBI has a network

of over 10,000 branches. In addition, the seven associate banks of SBI have more than 4900 branches. SBI along with its subsidiaries is engaged in providing a wide range of financial services including Life Insurance, Merchant Banking, Mutual Funds, Credit Card and Factoring, Security trading and Primary Dealership in the Money Market, Global Markets Direct, the leading business information provider, presents an in-depth business, strategic and financial analysis of State Bank of India. The report provides a comprehensive insight into the company, including business structure and operations, executive biographies and key competitors. The hallmark of the report is the detailed strategic analysis and Global Markets Direct's views on the company. SBI a public sector bank is the largest bank in India. SBI accounts for almost one-fifth of the nation's loans. The Total Income of the Bank for 2007-2008 increased by 30.99% from Rs. 440.07 billion to Rs. 576.45 billion. The Bank has posted a Net Profit of Rs. 67.29 billion for 2007-08 as compared to Rs.45.41 billion in 2006-07, registering a growth of 48.18%.

Besides personal and corporate banking, SBI is also involved in Non Resident Indian (NRI) services through its network in India and overseas. As of May 2008, the bank had 21 subsidiaries and 10,186 branches. SBI was adjudged the best bank in India for 2008 by 'The Banker' magazine of The Financial Times Ltd. In addition to latest results, growth rates and performance data, the magazine also analyzed the available material on technology, acquisitions and key strategic developments.

Banks across Asia are looking to shore up their balance sheets as they prepare for a tougher business environment amid a global

economic downturn. SBI, which had no direct exposure to sub-prime mortgages, has said that it would still need to raise USD 2-4 billion capital in 2009 to boost its Tier-1 capital adequacy ratio, but whether it would be done through a rights issue or other means has not been finalized. Tier 1 capital is the core measure of a bank's financial strength from a regulator's point of view. It is composed of core capital, which consists primarily of equity capital and cash reserves. SBI offers the services of banking and as well as a whole array of financial services which include Mutual Funds, Credit Cards, Life Insurance, Merchant Banking, Security Trading & Primary dealership in the Money market. The Bank is actively involved in non-profit activity called community services banking apart from its normal banking activity. SBI is the only Indian bank that figures in Fortune's top 100 banks. Its 11,000 branches and 5,600 automatic teller machines give it a reach throughout the length and breadth of the country; its work force of 200,000 dwarfs all other banks in India (its nearest competitor is Punjab National Bank, which has around 56,000 employees. It is also the second largest bank in the world, measured by the number of branches and employee strength. SBI has entered into a lot of strategic agreements with banks, insurers and other companies. Insurance Australia Group (IAG) has signed a \$170 million joint venture agreement with the State Bank of India (SBI) to establish a general insurance company in India. The newly formed company is expected to commence trading in 2009.

SBI will become the first public sector bank in India to enter the custody services sector. State Bank of India (SBI) and Societe Generale Securities Services (SGSS), part of

Societe Generale Group, have announced a joint venture which will offer custody and related services in India. The new company, SBI SG Custodial Services, will be based in Mumbai and offer a range of services to both foreign and domestic investors and clients, covering custody, depository, fund administration, registration and transfer agent services. The joint venture will leverage SBI's strength in the Indian financial sector.

Need of the study

Most of the banks outside the country operate with high profit leaving behind the liquidity sign. The huge loans has been disbursed keeping profitability in view, in case of any eventuality those loans keeping epicenter as profit liquidates which finally leads to doldrums, hence in the country like India the main focus should be on liquidity and not profitability. Hence my study is significant on that count.

Objective of the study

1 To study about the financial performance of State Bank of India.

2. To calculate profitability turnover & financial ratio to assess the financial position of the firm.

3 To study the efficiency and liquidity position using ratios.

4. To study about the factors influencing liquidity and suggest finding for the above study.

Literature review

Rapid changes in financial service industries make it important to determine the efficiency of financial institutions (Berger et

al., 1993). Banks play an important role in the financial markets of the developing countries and it is very important to evaluate whether banks operate efficiently or not. There are many research studies that try to look into the efficiency of banks operating within a country and across the countries. These studies can be differentiated on the basis of used methodologies, considered variables, type and number of banks included in the sample.

Many theoretical and empirical studies indicate that in the development of the economy. Financial sector plays an important role. A number of economists linked the efficiency and development of the financial institutions with economic growth and also established channels through which the financial system affects economic growth (McKinnon, 1973; Levine, 1997; Tsuru, 2000; Ahmed and Bebe, 2007). A positive relationship between financial sector development and economic growth was established by economists in various empirical studies (Goldsmith, 1969; King and Levine, 1993a, 1993b, Levine et al., Khan and Senhadji, 2000)

Gelos (2006) studies the determinants of bank interest margins in Latin America using bank and country level data. He finds that spreads are large because of relatively high interest rates (which in the study is proxy for high macroeconomic risk, including from inflation), less efficient banks, and higher reserve requirements. Athanasoglou, et al (2006) studies the profitability behavior of the south eastern European banking industry over the period 1998-02. The empirical results suggest that the enhancement of bank profitability in those countries requires new standards in risk management and operating efficiency, which, according to the evidence presented in the paper, crucially

affect profits. A key result is that the effect of market concentration is positive, while the picture regarding macroeconomic variables is mixed.

Kailash (III) and Gilbert (1973) studied the impact of size and organizational form of the commercial bank on its efficiency. Cost and output of the banks were collected for this purpose. They used 898 commercial banks that took part in the Federal Reserve's functional cost analysis program in 1968. Banks were categorized into unit banks, branch banks and holding company subsidiaries on the basis of their organizational form and the amount of assets they had. The minimum average cost (AC) at which bank of the same size and organizational form can operate is called as technical efficiency of the bank while the excel AC of the bank over minimum AC represents the operational inefficiency of the bank.

Aly et al. (1990) analyzed technical, scale and allocative efficiencies in US banking by using non parametric frontier approach on a sample of 322 independent banks. According to them, major contributor to the low score of overall efficiency was technical inefficiency in the banking units as compared allocative inefficiency. Al-Faraj et al. (1993) evaluated the relative efficiency of bank branches of the largest commercial bank in Saudi Arabia by means of Data Envelopment Analysis (DEA) for the improvement of the utilization of available resources at branch level more efficiently. They applied DEA methodology on fifteen branches of the bank located in the eastern province of Saudi Arabia. One year actual input – output data of the bank was used for the study. Eight inputs and seven output factors were identified at branch level on the basis of consultation and personal

interviews with the administrators of the several banks. DEA enabled them to identify three inefficient branches out of fifteen bank branches under consideration.

English et al. (1993) assessed output efficiency of individual banks rather than the estimation of technical and allocative input efficiency of banks. Their technique focused on revenues. This allowed them to look explicitly at the output efficiency of banks. Output distance function introduced by Shepherd was used as main analytical tool. For the study, data were collected from the Federal Reserve Functional Cost Analysis programme for 1982. They got information on quantities and prices of outputs and inputs. For outputs, they included real estate loans, commercial loans, consumer installment loans, investment in US securities. These quantities were measured in annual average dollar value. Output prices were constructed from the data by taking the ratio of interest income to output Quantity. Interest bearing small deposits (less than \$ one lakh), labour, occupancy expense and purchase or borrowed funds (greater than \$ one lakh) were used as inputs. From analysis, they found that on average, the banks in their sample were totally inefficient and their results were consistent with inputs efficiency studies. They also determined that the banks with greater assets were technically more efficient than those with relatively less assets and banks on the average were allocatively inefficient i.e. output mix of banks is not revenue maximizing at existing prices. They suggested that banks could increase revenue by increasing investment income at the expense of decrease in both consumer and commercial loans and by increasing total loans relative to investment on average.

McAllister and McManus (1993) criticized the use of translog cost function for the measurement of the scale efficiency in the banking sector. According to them, large banks had very different product mixes than the average banks and thus translog cost function could create problems in measuring scale efficiencies. To solve out this problem, they suggested the use of nonparametric estimation procedure in place of translog function. They found substantial scale inefficiencies for small banks. According to them, full scale efficiency reached by banks at about \$500 million in assets and thereafter upto \$10 billion in assets, approximately constant average costs prevailed.

Timme (1993) investigated the relationship of concentration of decision management and control in one person on the cost efficiency level of the bank and returns on assets. On the basis of their study, they found that the banks whose chairman of the board and CEO were the same person had significantly less efficiency than those banks that possessed not similar governance structure and concluded that performance was affected by top management structure.

Atunbas et al, (1994) justified the privatization of Turkish public banks on the grounds of efficiency improvement. For the study, they used the stochastic cost techniques for the analysis of performance difference between public and private banks. After analysis, they found a statistically non significant inefficiency difference between private and public banks. So on the basis of statistically insignificant inefficiency difference; they favored the privatization of public banks.

Miller and Noulas (1996) use DEA to estimate the technical efficiency of 201 large

sized banks operating in United States. For this estimation, they used data about inputs (total transactions deposits, total non-transactions deposits, total interest expense and total non-interest expense) and outputs (commercial and industrial loans, consumer loans, real estate loans, investments, total interest income and total non-interest income) of the banks from 1984 to 1990. They estimated overall technical, pure technical and scale efficiency for the banks and found large mean estimated scores of scale efficiency as compared to overall technical and pure technical efficiency scores. They also found that the pure technical inefficiency was twice as compared to scale inefficiency and also reported the number of banks operating under decreasing returns to scale, increasing returns to scale and constant returns to scale. From second stage regressions, they found that the profitability and size (measured by total assets) of the banks were significant contributors to overall technical, pure technical and scale efficiencies of the banks.

Resti (1997) used econometric and DEA technique to analyze a panel of 270 Italian banks. According to him, econometric and DEA estimated efficiency scores are same under same conceptual framework and data but if differences present between the estimated efficiency scores, it can be explained by describing the basic features of the models. In Italian banking sector, he found a high variance in efficiency score and direct relationship between productive efficiency and quality of assets. He could not find any evidence of efficiency improvement over the period 1998-1992.

Ayadi et al.(1998) measured the banks performance in Nigeria by applying data envelopment analysis to ten banks by using

financial data from 1991 to 1994. They used interest paid on deposits, total expenses and total deposits as inputs while total loans interest and non-interest incomes were considered as outputs. They reported that banks in existence for long period of time are relatively efficient than other banks in the sample and banks having poor management showed bad performance and is key determinant of the bad performance of banks in Nigeria.

Chand et al. (1998) used translog formulation of stochastic cost frontiers method to estimate the cost inefficiency scores. For this purpose, they used foreign owned multinational banks and local US banks. The banking data of period 1984-1989 were used for the study. From the study they found that foreign owned banks operating in US were significantly less efficient than their local counterparts.

Avkiran (1999) used two DEA models under the assumptions of variable returns to scale to measure the average x-efficiency of Australian trading Banks from 1986 to 1995. In model A, he used interest expense and non-interest expense as inputs while nil interest income and noninterest income as output of the bank. In model B, he used deposits and staff number as inputs of the bank while net loans and non interest income as outputs of the banks. He found mean annual DEA scores ranged from 78.99% to 91.58% in model A and from 37.23% to 70.43% in model B. According to him, DEA efficiency estimates are sensitive to the input and output variables of the model. In his study, the impact of merger on the efficiency of banks is not clear. In one case merger has positive impact on the efficiency of the banks while in another case it has negative impact on the efficiency of bank. Similarly in one case merger raise

the efficiency of the bank in first year and fall in the next years while in one case merger has no effect on the efficiency of the bank.

Mendes and Rebelo (1999) used the stochastic cost frontier methodology to study the performance of 221 Portuguese banks from 1990-95. They found that the increased competition in the banking sector did not improve the cost efficiency of banks. Similarly, no clear existence of predictable association between size and cost efficiency was found in the banks.

Jackson and Fethi (2000) analyzed performance of Turkish banking sector by applying DEA and then explored the determinants of efficiency from a set of explanatory variables (bank size, number of branches, profitability, ownership and capital adequacy ratio) by the use of tobit model. They defined performance of a bank in terms of its ability to produce outputs with minimum use of inputs. For this study, they used the data of year 1998 and considered number of employees and sum of non labor expenses as inputs of the bank while loans, demand deposits and time deposits were considered as outputs of the bank. Under CRS specification of DEA, the estimated mean efficiency score for 48 banks was 0.67 while under VRS specification: they found 0.77 as mean efficiency score for Turkish banks. From tobit analysis, they found significant negative impact of capital adequacy ratio and significant positive impact of profitability and size of the bank on estimated efficiency.

Maghyreh (2004) estimated the efficiency of Jordan banking sector after 1990s financial liberalization by using non parametric Data Envelopment Analysis. He used data of eight commercial banks from 1984 to 2001 for this purpose. For the study, he

considered three inputs (number of employees, value of fixed assets and deposits) and three outputs (loans and liquid assets, investment and other income) of the bank by employing intermediation approach. The range of yearly estimated average DEA technical and pure technical efficiency score of all banks for his study was 0.847 to 0.987 and for scale efficiency was from 0.903 to 0.999. After efficiency estimation, he used tobit model to determine the impact of important factors. From analysis, he found positive impact of size, profitability, market power of the bank and financial liberalization on the efficiency of commercial banks.

Sathye (2001) used DEA to measure the X-efficiency in Australian banking. He used 1996 data of 17 domestic and 12 foreign owned banks and estimated 0.58 as average efficiency score. He found that the estimated technical efficiency scores of the banks were very low while the allocative efficiency scores of banks were very high as compared to world standards.

Grigorian and Manole (2002) used DEA to estimate the commercial bank's efficiency in transition countries. They tried to see the impact of tighter prudential standard, foreign ownership, competition, enterprise restructuring, capital market development and legal traditions and rule of law on the performance of the bank in a country. To explain the difference in efficiency between commercial banks, they developed its relationship with a variety of macroeconomic, prudential and institutional variables by using Tobit model. Tobit analysis found a positive impact of foreign ownership and consolidation on commercial bank's efficiency while the prudential tightening had different impact on efficiency across countries.

Sathye (2003) measure the productive efficiency of Indian banks. He used input oriented model of DEA under the assumption of Variable Returns to Scale. Indian Banks Association published data of year 1997-98 were used for the study. He used two models to calculate the efficiency scores of public, private and foreign owned banks. In one model, he used interest expenses and non interest expenses as inputs of the banks while net interest income and noninterest income as outputs of the bank. In the second model, he used deposits and staff number as inputs and net loans and non interest income as outputs of the banks. In first model estimated mean efficiency score was 0.83 while in second model it was 0.62. He found, most of foreign owned banks on the estimated frontier. He also found that the efficiency scores of private owned banks were lower as compare to public owned and foreign owned banks. According to him, lower score of private sector banks could be due to their expansion.

Since SBI of India is a Universal bank. Liquidity Analysis is been worked out by using above financial ratios. From the above table it is clear that the priority sector runs from 25% to 30 %, but the Government policy is 35% for the interest income on the total asset is likely in the downward trend, where the bank earns to 7% to 9% on that count the bank can increased to another 1 % to 1.5% the intermediation cost has come down over a period of time is welcome sign.

The burden shows signs of improvement but the burden to interest income can show some improvement, as far as return on asset and return of equity can be slightly on the higher side, keeping the benchmark of the banking sector, the cost of deposits should contribute to the profitability of banks, the

cost of borrowings may be minimized which shows a high trend. Cost of funds and advances should improved, return on investment is now slightly show a downward

trend, which means that the grouping has to be made better. Capital adequacy ratio shows satisfactory signs, the NPA should fall below 0.5 % of course there is a reduction.

Ratio Analysis

Ratio Analysis	2003	2004	2005	2006	2007	2008
Ratio of priority sector advances to total	25.49	27.04	28.59	30.58	30.24	28.61
Ratio of interest income to total asset	8.59	7.71	7.47	7.51	7.02	7.6
Ratio of intermediation cost to total assets	2.19	2.36	2.32	2.46	2.23	1.96
Ratio of burden to total assets	0.61	0.42	0.68	0.91	0.95	0.61
Ratio of burden to interest income	7.08	5.36	9.11	12.11	13.58	8
Return on assets	0.86	0.94	0.99	0.89	0.84	1.01
Ratio on equity	19.15	19.6	19.43	17.04	15.41	16.75
Cost of deposits	7.12	5.9	5.01	4.78	4.59	5.57
Cost of borrowings	2.1	1.42	2.51	4.1	4.12	6.43
Cost of funds	6.96	5.74	4.9	4.74	4.55	5.64
Return on advances	8.69	7.62	7.24	7.63	8.29	9.34
Return on investments	9.61	8.78	8.37	7.77	6.71	7.05
Capital adequacy ratio	13.5	13.53	12.45	11.88	12.34	12.64
Capital adequacy ratio - Tier I	8.81	8.34	8.04	9.36	8.01	8.48
Capital adequacy ratio - Tier II	4.69	5.19	4.41	2.52	4.33	4.16
Ration of net NPA to net advances	4.5	3.48	2.65	1.87	1.56	1.78

Suggestions & recommendations

The above two banks can maintain higher financial strength ratios as it is a measure the amount of bank's capital in relation to the amount of its risk weighted credit exposures. The risk weighing process takes into account, in a stylized way, the relative riskiness of various types of credit exposures that banks have, and incorporates the effect of off-balance sheet contracts on credit risk. The higher the capital adequacy ratios a bank has, the greater the level of unexpected losses it can absorb before becoming insolvent.

Accordingly this research minimum financial strength ratios in the above banks

need to be raised to assists in maintaining a sound and efficient financial system of retail banking in India. In addition, the bank has to maintain greater cost efficiency which may be associated with the more efficient provision of public services by the state, such as the rule of law.

During the study we find evidence that an average sized bank in the sample operates at a point that is close to constant returns to scales, while the smaller banks in sample operate with significant unrealized economies of scale. This suggests that consolidation of smaller banks in the region would contribute to greater cost efficiency in banking. Retail banking also respond to relative prices of

inputs by seeking to reduce their use as the price increases. Country – level factors that increase cost efficiency are lower nominal interests, a greater market share of majority foreign – owned banks, and a higher intermediation ratio.

In other words, greater macroeconomic stability and competition in banking from within , as well as development of the supportive institutions promote cost efficiency. Progress in banking reform has non-linear association with cost efficiency. In the initial stages of banking reform, cost efficiency increases significantly, but it then declines as reforms advance further. This may reflect the transition by banks from defensive restructuring (that is cost cutting) to deeper restructuring that increases the quality of and value added to banking services (that is, innovation). Hence the above banks have to concentrate of infrastructure building and information technology adoption.

Banking systems with higher ratios of capital to total asset and banks with lower loan losses also tend to have lower costs. This may be associated with lower risk in retail banking sectors. In addition, merger of seven subsidiaries are more cost efficient than private owned banks.

Policies that many governments and central banks in eastern Europe adopted to promote that transformation of socialist banking systems into market oriented ones have, therefore, contributed to increased cost efficiency in the sectors, a useful indicator of progress. Looking ahead, after the merger will face major new challenges in the form of great competitive pressures with their countries' accession to the European Union. In these countries, policy makers can draw on lessons from the past and promote further

cost efficiencies in retail banking. The liquidity has to be fine-tuned, and the banks under study should concentrate on improving higher financial strength.

Conclusion

Financial strength ratios are a measure of the amount of a bank's capital expressed as a percentage of its risk weighted credit exposures. An international standard which recommends minimum capital adequacy ratios has been developed to ensure banks can absorb a reasonable level of losses before becoming insolvent. Applying minimum capital adequacy ratios serves to protect depositors and promote the stability and efficiency of the financial system.

Two types of capital are measured – tier one capital which can absorb losses without a bank being required to cease trading, e.g. ordinary share capital, tier two capital which can absorb losses in the event of a winding up and so provides a lesser degree of protection to depositors, e.g. subordinated debt.

Indian households are jittery. They are afraid of the backlash of the US financial predicament on the foreign banks, where they have put larger part of their savings following sharp rise in interest rate last year. The share of bank deposits in total household savings that hovered at around 35% in the early part of the current decade has jumped to more than 60% in 2008 – 2009.

A severe dollar \$ shortage in the international markets has had its impact felt in India too as banks have almost stopped large lending to tide over the liquidity predicament.

But this is purely a business decision and the banks' underlying financial strength is quite robust. For instance: Indian markets

experienced the ripple effects of the Lehman bankruptcy, the mood is so bad that there are simply no genuine buyers in the markets. On 15th September the Bombay Stock Exchange (BSE) benchmark Sensex fell by 777.62 points and the Nifty of the National Stock Exchange also dipped below 4,000 marks by falling 242.60 points.

A close looks at their capital adequacy ratio – an indicator to their capital strength can be handy drive this point home. All banks have capital adequacy ratio (CAR), also called capital to risk weighted assets ratio (CRAR) in conformation with the Basel II concurrence.

Direction for future research

Since the study is made by using multivariate analysis the study can be made by

using DEA analysis i.e., Data envelopment analysis which is considered as most powerful technique of late.

Besides the study is made by using multivariate analysis of annual report of both the nationalized banks namely indian overseas bank and oriental bank of commerce.

Limitations of the study

- The study is based on the data obtained from the annual reports of the concern i.e. balance sheet.
- The period under study has been only for 5 financial years i.e. 2003 to 2008.
- The study doesn't take into account the other areas such as dividend policy, capital budgeting etc.

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A new paradigm for indian supermarket retailers based on customer-centric strategic approach

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Abstract: Supermarket retailers in India admit fierce competition and the only way out is through the attainment of competitive advantage. Strategy is the route to attain competitive advantage that could facilitate firms attain superior performance. The objective of this paper is to develop a conceptual framework on customer-centric retail strategy, to facilitate supermarket retailers in India attain competitive advantage. The paper draws heavily from existing literature on retail strategies and competitive advantage in order to ascertain the most effective customer-centric strategies. Adding strength to the research is the result derived from interviews of supermarket managers and customers; and also the results of pilot study. The work involves identification of constructs and research hypothesis for the proposed framework. The framework contributes to literature by emphasizing on not just effective customer-centric strategies but also, on specific performance outcomes that supermarket retailers could be enjoying riding on these strategies. A new dimension to attainment of competitive advantage and superior performance has definitely been recognized by this research effort. Supermarket retailers in India can be certain of attaining competitive advantage by riding on the proposed strategies.

Key words: supermarket retailers, competitive advantage, customer-centric strategy, competition, superior performance.

Introduction

Retailing has today become the new buzzword and a way of life for people in

India. With 15 million retail outlets from small street-cart hawkers to more sophisticated retail stores, the last 20 years have definitely been a dream run for modern Indian

retailers. India's retail sector has also acquired greater momentum, dynamism and charisma with international players making their array into the market. However, KPMG survey(2007) identifies supermarkets as the most preferred retail format in India and have termed it as the "mother of all retail formats", growing at a rate of 45 per cent in our country and contributing to 30 per cent of all food and grocery sales. With both Indian and foreign players adopting this format, the competition among supermarket retailers has intensified. The markets have slowly started getting saturated and there has risen a need to ascertain competitive advantage among the players. This research is initiated to devise an appropriate conceptual framework for enabling supermarket retailers in India attain competitive advantage in the increasingly competitive retail markets, by riding on customer-centric retail strategy.

Competitive advantage has always been at the heart of firms operating in a competitive environment and strategy has been the route to attain competitive advantage Porter (1985). It has also been at the core of success or failure of firms, especially in competitive markets. In India, currently the retail sector is growing at an astronomical phase and creating certain challenges for retailers to survive in this new paradigm shift Raju (2000). As the competition in the Indian retail sector has been increasing for years, the importance of developing an effective strategy appears to be increasing constantly Harris and Ogbanna (2000). However, researchers like Ellis and Kelly (1992) have identified that Porter's concepts are oversimplified in the context of retailers and that there is need for future researchers to consider the customer-centric strategy in assessing the competitive advantage of retailers. Other researchers have also

added strength to this argument by stating that retail companies need to be significantly more attractive to consumers than their competitors and should develop strategic positions in the market place Wortel (1987); Walter and Knee (1989). A totality of all these factors make it imperative for retailers to focus on the right kind of customer-centric strategies to attain superior performance and thereby achieve competitive advantage in the market place. It is however surprising to find limited academic research on this subject. According to Seema, Sequeira and Devaraj (2011), earlier efforts have been directed towards analyzing competitive advantage of retail firms from a competitive-centric perspective, while customer-centric view has not gained much attention. Hence, the importance of the study arises from its orientation towards customer-centric strategy to enable supermarket retailers attain competitive advantage.

Rationale for the study

The newly emerged scenario in the retail sector has generated certain challenges for the retailers to combat. Competition has become the order of the day and developing strategies to beat competition has become very crucial for supermarket retailers in India. The goal of this research is to evaluate the effectiveness of customer-centric strategy and develop a conceptual framework for combating the current competition in the retail industry and facilitating supermarket retailers attain competitive advantage.

Methodology

This paper draws heavily from existing literature on competitive advantage and strategic alternatives available to retailers, in

order to identify customer-centric retail strategies and associated performance outcomes. Managers and customers of supermarket outlets in India were interviewed and the results of a pilot study undertaken in the state of Karnataka (south Indian state) have also been considered in order to identify the components of effective customer-centric strategy. The performance outcomes were also identified in the course of the study. In the due course, an attempt is made to evolve a conceptual framework on customer-centric retail strategy and link it with competitive advantage and superior performance. Research constructs and hypothesis have been evolved in the course of formulating the conceptual framework.

Review of related literature

The rationale for doing this research in the area of supermarket retailers has risen from the works of different researchers whose contributions been quoted below-Porter (1985) identified that Competitive advantage is at the heart of a firm's performance in competitive market. Strategy is the route to attain competitive advantage that will determine a firm's performance. His claims were supported by the works of Day and Wensley (1988) who also quoted that Competitive advantage also enables firms to attain superior performance. Adding new dimension to the concept of competitive advantage, Walters and Knee (1989) opined that it be attained by those firms who make themselves more attractive to the customers than the competitors and establish a strategic position in the market place. All these contributions made in the area of competitive advantage have been the foundation for this research.

In the year 2001, Ellis and Kelly demonstrated that the concept of competitive advantage can be utilized to assist retailers in today's volatile environment. The applicability of the same was discovered in Indian retail sector by Shah and Mehta (2007) who identified that with the retail sector clocking impressive growth and catching up the world's imagination, the Indian retailers were striving hard to attain some kind of competitive advantage. Sameer Kumar (2008) opines that with intense competition among supermarket retailers the markets are getting saturated and there arises a need to ascertaining the competitive advantage among the players.

Porter (1985) competitive advantage framework proposes two distinct strategies – low cost and differentiation. Based on the same postulates, Day and Wensley (1988) suggested two approaches for distinguishing competitive advantages: customer-focused and competitor centered. In the light of these strategies Ellis and Kelly (2001) assessed the competitive advantage of retailers using the competitor-centered approach and suggested the use of customer-focused approach as an area for further research. While it is commonly accepted that the concept of competitive advantage and strategy are applicable across different industries, researchers like Miller and knee (1993) have criticized Porter's concept in several aspects including the allegedly oversimplified dichotomy of cost leadership V/s differentiation. Ellis and Kelly (1992) have also added to this by identifying that Porter's concept are oversimplified in the context of retailers and that there is need for future researchers to consider the customer-centric view in assessing the competitive advantage of retailers. The main reason for the competitor-centric retail strategy

getting outdated in retail markets is the robust growth of technology. The key impact of technology has been provision of greater information to the customer. Hence, a big challenge for the retailer in the information savvy world of today is that the opportunities for price differentiation have nearly vanished. With the wealth of information which the customer has, it becomes imperative for the retailer to differentiate itself qualitatively by superior customer services or better value for money to the customer. In recognition of these facts Walter and Knee (1989) state that companies need to be significantly more attractive to consumers than their competitors and develop strategic positions in the market.

Hao Ma (1999) defined customer-centric strategy of attaining competitive advantage as the asymmetry or differential in any firm attribute or factor that allows one firm to better serve the customers than the others and hence create better customer value and achieve superior performance. Many researchers including Reicheld and Sasser (1990) have recognized that profits enhance when strategies focus on retaining current customers. Bendapudi and Berry (1997) also state that there is sufficient evidence to show that strategies directed towards developing dedicated-based relationship contributes to enhanced profits for an firm. Retail businesses in India also need to focus on nurturing the customer base to enhance the profitability of a retail firms and contribute to its superior performance Economic times (2010).

Concept of competitive advantage and strategic approaches

Competitive advantage has been considered as the key to attaining superior

performance in any highly competitive Industry. Several researchers including Harris and Ogabonna (2001) and Shah and Mehta (2006) have identified that with the Indian retail sector getting increasingly competitive, there appears to be an urgent need for developing an effective retail strategy. Kotler (1997) identifies that in an increasingly competitive environment companies must become customer-centric. Considering the characteristics of the retail Industry Wortzel (1987) and Walters and Knee (1989) recognized that strategies that are significantly more attractive to consumers than their competitors will enable retail firms to attain superior performance.

Levy, weitz and Pundit (2006) opine that establishing a competitive Advantage means that the retailer, in effect, builds a wall around its position in the retail market. When the wall is high, it will be hard for competitors outside the wall to enter the market and compete for the retailers target customer. This articulates the importance of customer-centric strategy that in effect would result in future growth and profitability.

Competitor – centric retail strategy : The strategies of value-chain and Industry analysis have been popular tools for assessment of competitive advantage of firms. However research by Ellis and Kelly (1992) strongly indicate that the dichotomous concept of differentiation V/S price leadership is excessively oversimplified in the context of retailers. The decision on what to sell and at what price have lost much of resonance for retailers because, the same or similar product and services can be obtained from competitors at prices that leave little or no room for adjustments. Hence, the decision of how to sell –what kind of customer experience is

offered –becomes a relevant strategic question from the competitive advantage point of view. This is why competitor-centric strategies are considered to be less relevant for supermarket retailers in India.

Research constructs and hypothesis:

Based on the extensive review of literature, interview of retail managers and customers; and pilot study results, the following constructs have been evolved:

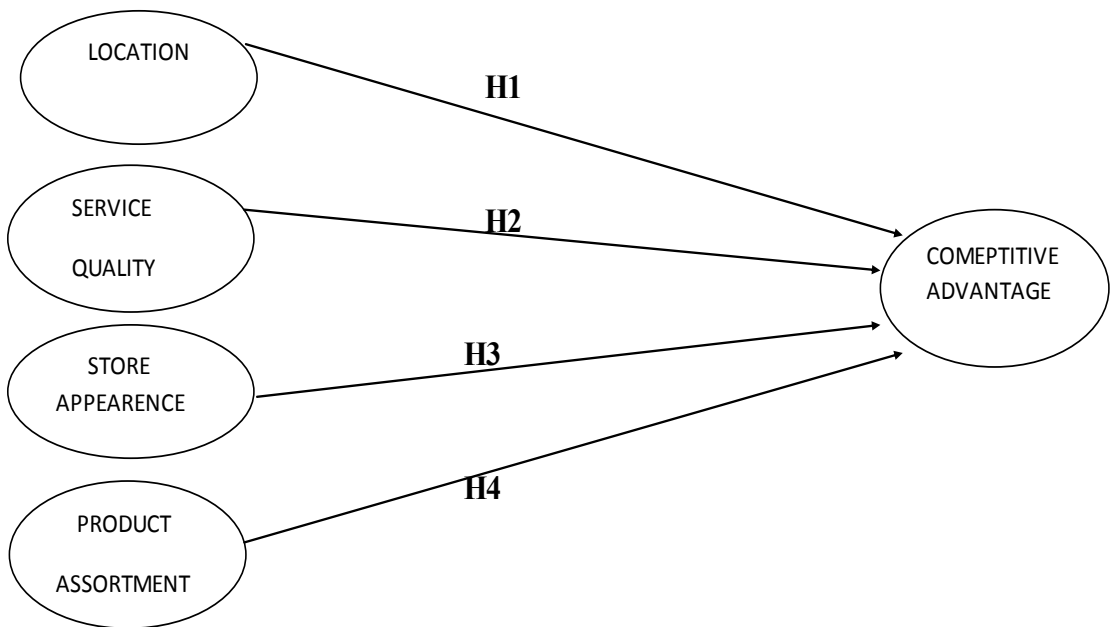
1. Construct on customer-centric retail strategy and its relation with competitive advantage.
2. Construct on competitive advantage

and superior performance.

3. Construct on performance indicators and its relationship with superior performance.

1. Construct on customer-centric retail strategy and its relation with competitive advantage (Fig1): customer-centric retail strategies include location, service quality, store appearance and product assortment. Their relationship with competitive advantage is detailed below:

Fig 1-Construct on customer-centric retail strategy and competitive advantage



a. Hypothesis on location-In India, Supermarket retailers are large retail stores specializing in groceries, produce, meat, dairy products and a wide variety of non food products which operate on a self-service basis with a central checkout. They are

located in or near residential high streets, where customers do their shopping more than once a week driven by a combination of good prices, overall shopping experience and convenience, product range and quality. Arnold (1997) states that location of a

supermarket- is the most important attribute considered by a customer in choosing the shop where he would shop the most. Huff's (1964) gravity Model of retail attraction provides support for this argument. Further research also goes on to reveal that location of a Supermarket spells its success or failure and being at the right place at the right time facilitates attainment of competitive Advantage. Hence the hypothesis: *H1: Location as a customer-centric strategy has a positive effect on attainment of competitive advantage.*

b. Hypothesis on service quality-Service Quality refers to the identifiable, but sometimes intangible activities undertaken by a retailer in conjunction with the basic goods and services he sells. It includes factors like store hours, parking access, shopper-friendliness, Credit acceptance, level and Caliber of sales people employee politeness, delivery policies customer follow-ups etc. Parasuraman, Zeithamal and Berry (1988) have identified that Service quality is increasingly being offered as a strategy by marketers to position themselves more effectively in the marketplace. Experts like Berry (1986) and Dotson and Patton (1992) opine that service quality has invariably been a critical aspect for achieving differential advantage. Thus we derive: *H2: Service quality as a customer –centric strategy positively influences attainment of competitive advantage.*

c. Hypothesis on store appearance-Store appearance refers to the physical appearance of the retail store which is divided into two parts - the external environment, that part of the store visible prior to entry into retail sales and service area (parking lot, facade, entrance, etc) and the internal environment, that part visible from retail selling space (including decor, color, lighting, layout, background music, product

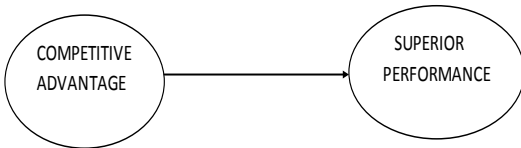
arrangement, billing counters, etc.). While Donovan and Rossiter (1987) emphasize the importance of retail environment in attaining competitive advantage, several studies were also done based on the literature of retail environment which revealed that customers attitude towards the store appearance had a direct effect on loyalty towards the store. In fact Lokan and Walter (1990); Kumar and Karande (2000) conducted studies to show that customers build up perceptions about an retail outlet based on the store appearance, which is why it becomes an important component of customer- centric strategy and leads to the following hypothesis: *H3: Store appearance as a customer-centric strategy has a positive effect on attainment of competitive advantage.*

d. Hypothesis on product assortment-Product assortment was found to be the single most important driver for choice between retail formats as per the research done by Sologard and Hansun (2003). Product assortment refers to the number of different items in a merchandise category. The increase in product assortment is related to two main factors- affordability of retail space and feasibility of investing in additional inventory. For supermarkets in India, space is not a constraint and investment in wide product assortment becomes feasible because most of the retail customers today look at supermarkets as on 'one-stop-shop' for all their requirements. In fact, customers get disappointed if the items that they are looking for are out of stock. The present trend in the retail sector appears to have taken this factor into account and most retailers have been making arrangements for increased product assortment and thus: *H4: Product assortment as a customer-centric strategy positively influences attainment of competitive advantage.*

2. Construct on competitive advantage and superior performance

The relationship between competitive advantage and superior performance is depicted in the Fig. 2

Fig 2 -construct on competitive advantage and superior performance



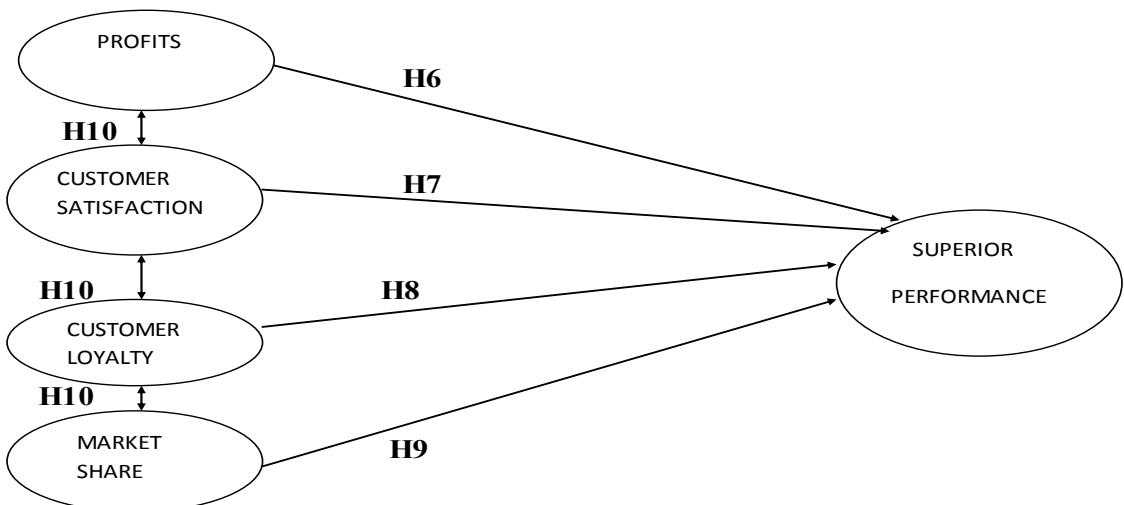
a. Hypothesis on competitive advantage and superior performance: Porter (1985) identified that Competitive advantage is at the heart of a firm's performance in competitive market. Strategy is the route to attain competitive advantage that will determine a firm's performance. His claims were supported by the works of Day and Wensley (1988), who also quoted that Competitive advantage also enables firms to attain superior

performance. In the year 2001, Ellis and Kelly demonstrated that the concept of competitive advantage can be utilized to assist retailers in today's volatile environment. The applicability of the same was discovered in Indian retail sector by Shah and Mehta (2007) who identified that with the retail sector clocking impressive growth and catching up the world's imagination, the Indian retailers were striving hard to attain some kind of competitive advantage. Thus, the following hypothesis is formulated for testing in the context of supermarket retailers: *H5: Competitive advantage is significantly related to attainment of superior performance.*

3. Construct on performance outcomes and superior performance (Fig3):

The performance outcomes include profits, customer satisfaction, customer loyalty and market share. All these items are said to reflect on superior performance of retail firm and the same is discussed below.

Fig 3-construct on performance indicators and superior performance



a. Hypothesis on profits and superior performance: Profits are and have always been the bottom line for evaluating the superior performance of any firm. In a highly competitive retail market, profits will not only enable supermarket retailers to attain superior performance but also will inject fuel for growth and sustainable competitive advantage. Research by Reichheld and Sasser (1990); Fornell and Wernerfelt (1987) indicated the even a small increase in customer retention rates can dramatically increase profits, which brings us the following hypothesis: *H6: Profit as a construct is significantly related to superior performance.*

b. Hypothesis on customer satisfaction and superior performance : Most retailers try to achieve competitive advantage by taking a count of satisfied customers. The same is supported by the findings of Ganguli and Kumar (2008) who found that it is only the satisfied customers who are more likely to remain loyal in the long run. Customer satisfaction is hence considered as an important indicator for assessment of a retailer's performance and so the hypothesis- *H7: There is significant relationship between customer satisfaction and superior performance.*

c. Hypothesis on customer loyalty and superior performance-Customer loyalty constitutes an underlying objective for strategic marketing planning Kotler (1984); and represents an important basis for developing competitive advantage and attaining superior performance Dick & Basu (1994). Hence the hypothesis: *H8: Customer loyalty and superior performance are positively related.*

d. Hypothesis on market share and superior performance :One of the most popular indicators of competitive advantage and superior performance is market share Day &

Wensley (1988).The premise of this measure is that it is said to distinguish winners from losers by the market share they achieve. To the test the same the following hypothesis is formulated- *H9: Market share is significantly related to superior performance.*

e. Hypothesis on inter-relation between performance outcomes:

The competitive advantage of successful service provider and retailer is often explained with a logic wherein service quality contributes to customer value, resulting in increased satisfaction and behavioral intentions, eventually creating loyalty that manifests itself in enhanced profitability Cronin et al 2000; Slater and Naver (1994). Fornell (1992) identifies that there is positive correlation between customer satisfaction and customer loyalty for an retail firm. While customer satisfaction acts as a double edged sword in confirming customer loyalty and profitability for a Supermarket retailer adopting customer-centric strategy. It is also said to have a positive impact on the firm's ability to acquire greater market share. Fornell (1992) reports that customer satisfaction translates into higher than normal market share growth for retail firms. The same phenomenon was observed by Grant (1988) in his study on American customer satisfaction Index. Hence the hypothesis: *H10: The four performance indicator constructs profits, customer satisfaction, customer loyalty and market share are significantly related to one another.*

Proposed conceptual framework

Based on the various research constructs and associated hypothesis, the conceptual framework for the research has been formulated. In doing so the indirect influence

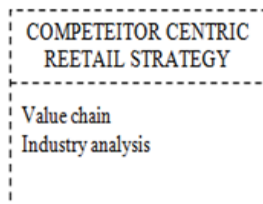
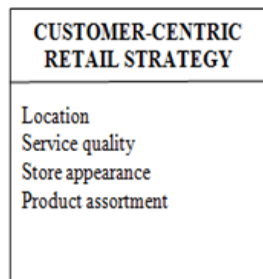
of intervening variables on the need for attaining competitive advantage is also considered. Intervening variables like increase in income, entry of women into workforce, entry of foreign players and favorable government policies are all increasing the basis for competition among supermarket retailers. Consideration of these variables are said to be important and influencing on the ability of retailers in attaining competitive advantage (see Fig4).

The conceptual framework constitutes of two main components-strategic approaches and performance indicators. The first component i.e strategic approaches is made up of two sub components.

The researcher has taken cognizance of only one component-customer-centric retail strategy based on extensive review of literature and interview with retail managers and customers. The component of competitor-centric strategy though exists, seems to less relevant in the context of supermarket retailers in India. The second important component is performance outcomes, which has four items namely- profits, customer satisfaction, customer loyalty and market share. These four components are not just inter-related (see Fig 4) but also connected with the ability of retail firms in attaining competitive advantage based on their strategic approaches.

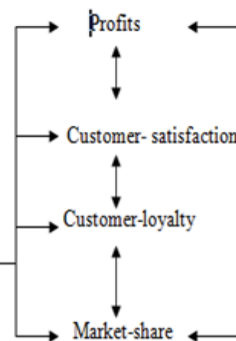
FIG 4-Conceptual Framework for Assessing Competitive Advantage Among Supermarket Retailers in India

A. STRATEGIC APPROACHES



COMPETITIVE ADVANTAGE

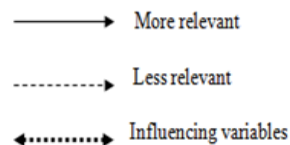
B. PERFORMANCE OUTCOMES



SUPERIOR PERFORMANCE

INTERVENING VARIABLES

- Increase in income
- Women in workforce
- Entry of foreign players
- Government policies
- Mall culture



Conclusion

The growing intensity of retail competition due to the emergence of new competitors, formats, technologies as well as shifts in customer needs is forcing retailers to devote more and more attention to attainment of competitive advantage. It is believed that the orientation towards customer-centric retail strategy that is proposed in the conceptual framework discussed would prove to be effective in enabling supermarket retailers in India attain competitive advantage and thus contribute to superior performance. On the basis of the framework developed, it may be concluded that:

- Customer-centric retail strategy is more relevant in enabling supermarket retailers in India attain competitive advantage than the competitor-centric retail strategy.
- Though a host of strategies are available to supermarket retailers in India, it is analyzed that strategies like location, product assortment, service quality and store environment are the most lucrative ones to beat the current competition.
- Profits, customer satisfaction, customer loyalty and market share are the likely outcomes that supermarket retailers adopting customer-centric retail strategy could attain in order to achieve competitive advantage.

Besides this the items mentioned in the customer-centric retail strategy would be subject to testing of validity and reliability using Cronbach's alpha and further tested through use of factor analysis.

Implications

The success of a strategy lies in its ability to facilitate a firm in achieving competitive

advantage. It is believed that the conceptual framework presented in this paper will enable supermarket retailers to:

- Identify, crystallize and implement competitive customer-centric strategies.
- Understand and respond to the uncontrollable factors (i.e. intervening variables) that are enhancing the need for attaining competitive advantage in the retail industry.
- Aligning the customer-centric strategies towards specific performance outcomes like profits, customer satisfaction, customer loyalty and market share that would enable firms in attaining superior performance.

Future research

This conceptual paper is based on established literature on retail strategy and competitive advantage. The value of the research is enhanced by the result derived from interviews of supermarket managers and customers; and also the results of pilot study. The framework proposed in this paper contributes to literature by emphasizing on not just effective customer-centric strategies but also, on specific performance outcomes that supermarket retailers could be enjoying riding on these strategies. A new dimension to attainment of competitive advantage and superior performance has definitely been recognized by this research effort.

Besides using empirical data to measure and model the conceptual relationship depicted in this framework there are other avenues for future research. The modeled framework could be tried and tested in the context of other emerging retail formats as well.

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Management of the extreme events: countering international terrorism

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Abstract: After the terrorism attacks of September 11, 2001, there is recognition by both the public and private sectors that one needs to rethink our strategy for dealing with these low probability but extreme consequence events. September 11, 2001 attacks against the United States raised numerous questions related to counter-terrorism, foreign policy, as well as national security in the United States and abroad. They also raised the fundamental question of who should pay for losses due to terrorism.

The question of who should pay for terrorism risk prevention and sustainable coverage within a country is likely to be seen first as a matter of collective responsibility that each country has to consider – a societal choice.

Key words: terrorism, extreme events, strategic planning, multilateral approach, cooperation

Defining terrorism as an “extreme value event”

Some challenges are evolving in more dangerous global configurations such as transnational organized crime and terrorism. Illicit and violent organizations are gaining increasing control over territory, markets,

and populations around the world. Non-state armed groups complicate peacemaking efforts due to their continued access to global commodity and arms markets. Many countries, even if they are not directly affected, can suffer from the economic impact of a major terrorist attack. States with ineffective and corrupted institutions may prove to be weak

links in global arrangements to deal with threats like transnational terrorism¹.

Understanding society's response and its reaction to the threat of terrorism, involves the evaluation of the risk itself. You should note that terrorism is a form of extreme risk, defined by that fact that it is rare in its occurrence but extreme in its magnitude, whether measured in casualties or in financial or economic loss.

In this respect, terrorism risk can be viewed as an "extreme value event" that can be measured. This would be a first step towards rationalizing the use of scarce resources to rare but catastrophic events such as terrorism.

There are several reasons why terrorism maybe viewed as a catastrophic event. First of all, you can view terrorism the way you would think about a crime; to the terrorist, the act is premeditated and deterministic – the terrorist knows when he wants to hit, what he wants to hit, by what means and so on. But to the victim there is an asymmetry of information about what, if anything at all, is going to happen, and where, when and how it is going to happen. Therefore, there is a certain "disconnect" between the deterministic aspects of terrorist behavior at the micro level, on the other hand, and the broad macro effects of terrorism on the other hand.²

¹Rosand, Eric: Global Terrorism: Multilateral Responses to an Extraordinary Threat, Coping with Crisis Working Paper Series, April 2007, International Peace Academy, www.ipacademy.org

²Mohtadi, Hamid: Assessing the Risk of Terrorism Using Extreme Value Statistics, Proceedings of the Institute of Food Technologists' First Annual Food Protection and Defense Conference, Atlanta, Georgia, November 3-4, 2005

After the terrorism attacks of September 11, 2001, there is recognition by both the public and private sectors that one needs to rethink our strategy for dealing with these low probability but extreme consequence events. While protecting residential and commercial construction and critical infrastructure services (transportation, telecommunications, electricity and water distribution, etc.) in risky areas may limit the occurrence and/or the impacts of major catastrophes, we know that major disasters will still occur. In these situations one must provide adequate emergency measures and rapidly restore critical services.³ September 11, 2001 attacks against the United States raised numerous questions related to counter-terrorism, foreign policy, as well as national security in the United States and abroad. They also raised the fundamental question of who should pay for losses due to terrorism.

The event revealed highly correlated risks at two different levels. First, multiple lines were affected instantaneously on 9/11 such that commercial property, business interruption, workers' compensation, life, health, disability, aircraft hull and general liability lines each suffered catastrophic losses. Secondly, there is now a well recognized possibility for several catastrophic attacks to occur simultaneously in different densely populated and industrialized locations. Terrorism is now recognized as an international issue because it has a potentially de

³Kunreuther, Howard; Michel-Kerjan, Erwann: Risk Transfer And Insurance: Insurability Concepts And Programs For Covering Extreme Events, Wiley Handbook of Science and Technology for Homeland Security, Edited by John G. Voeller, 2008

bilitating impact on the social and economic activities of a country.⁴

Dealing the threat: counterterrorism strategic planning approach

Although terrorism as a phenomenon is not new, with the upsurge in terrorist attacks around the world claimed by or ascribed to Islamist terrorist groups there is now recognition, even among the most economically and militarily powerful of countries, that this particular threat cannot be fought by a single state or even a group of states.⁵

As a result, even as countries increasingly understand the indirect economic impacts of terrorist attacks and terrorist exploitation of weaknesses in governance or financial infrastructure, very different perceptions of the threat posed by terrorism have emerged. This has complicated efforts to develop coherent international responses to the extraordinary threat posed by terrorism.

Terrorism, as a foreign policy issue and a matter of national security, presents a set of characteristics that differ from other catastrophic risks like natural disasters in the following ways: limited relevant data, difficulty to quantify probability, dynamic uncertainty depending over time on the terrorists' will to attack and their chosen modes, among others.

⁴Erwann, Michel-Kerjan; Burkhard, Pedell: Terrorism Risk Coverage in the Post-9/11 Era: A Comparison of New Public-Private Partnerships in France, Germany and the United States, The Geneva Papers on Risk and Insurance—Issues and Practice, 2005

⁵Andrew Mack: Global Political Violence: Explaining the Post-Cold War Decline, Coping with Crisis Working Paper Series, International Peace Academy, New York, March 2007

This raises the question of government responsibility in dealing with terrorism and call for government participation in any national programme covering economic losses due to terrorist attacks.

Government protection against catastrophic losses associated with terrorism is particularly important, the government having the capacity to provide this type of coverage, as it can diversify the risks over the entire population and spread past losses to future generations of taxpayers.

At the national level, non-military counterterrorism measures now generally fall into three broad areas. The first involves law enforcement efforts aimed at "chasing and investigating terrorists and their networks across borders" and extraditing or prosecuting those that are arrested.⁶

This requires not only properly trained and equipped law enforcement and intelligence officials and exchanges and intensified cooperation with intelligence and security services worldwide, mostly through bilateral channels, but adequate legislation and an effective (and uncorrupted) judicial system.

A second involves protecting the homeland, including measures such as enhancing border and transportation security and safeguarding critical infrastructure, including nuclear, chemical and petro plants, and gas pipelines that could be terrorist targets.

Measures taken to minimize the economic impact of terrorism

An approach to analyze the effects of measures taken to minimize the economic

⁶Coolsaet, Rik: Jihadi Terrorism: Where Do We Stand? Second IRRI Conference on International Terrorism, February 13, 2006, www.irri-kiib.be

impact of terrorism starts with the application of the security chain, which provides the distinction of five different phases to minimize the economic consequences. The effectiveness of the measures within these phases depends on the cost scheme and the aligned distinction between direct (real) and indirect (perceived) costs of terrorism.

First, real costs will manifest in the direct aftermath of an attack (short-run costs) particularly. Measures available to minimize these costs mainly consist of financial assistance through monetary policy for the overall macroeconomic economy and of fiscal policy focused on easing the burden (of the impact) for certain sectors of the economy. Second, perceived costs appear either in advance of a potential attack (proactive, preventive, preparative) or in the aftermath of it (short term, long term).

Actions to minimize these costs need to include other options than just the financial ones. They need to aim at balancing the perception of a terrorist threat with the perception of the sufficiency of security measures and the general ability of authorities to protect vulnerable spots.⁷

The conceptualization and the calculation of economic costs of terrorism differ widely. Nevertheless, common ground exists that the criteria of economic costs comprise four major dimensions.⁸

Those dimensions distinguish costs by their nature, impact, time period, and geographical range of impact. Another dimension that is sometimes added is the differentiation in targets of attacks. Macro- and micro-economic cost effects need to be considered both in the short and long run and a differentiation between direct and indirect are taken into account. Additionally, both can include domestic as well as transnational effects.⁹ With regard to the distinction between short-term and long-term costs, the former are direct and indirect costs emerging in the direct aftermath of a terrorist assault. The latter may include higher operating costs, for example as a result of extensive security precautions, higher risk and insurance premiums and a shift of resources away from the civilian labor force towards the military.

The magnitude of long-term economic consequences depends on the developments of terrorist threat perceptions and the response options taken. The wars in Afghanistan and Iraq and the costs thereof arguably are long-term consequences of the 9/11 attacks, which should be taken into account.¹⁰

This makes clear that both long-term and short-term costs are hard to predict. They largely depend on the unpredictable scale of the (looming) attack, as well as the vulnerability of the affected sector and/or geographical area and on the effectiveness of the response.

^{7***} The negative economic impact of terrorism and means of consequence minimization, Transnational Terrorism, Security and the Rule of Law, 3 September 2008, www.transnationalterrorism.eu

⁸Looney, R: Economic Costs to the United States Stemming From the 9/11 Attacks, *Strategic Insights*, vol. 1, no. 6, 2002

⁹Jackson, B; Dixon, L; Greenfield, V.A: Economically Targeted Terrorism, A Review of the Literature and a Framework for Considering Defensive Approaches, RAND Corporation, 2007

¹⁰Stiglitz, Joseph: The Economic Consequences of Mr. Bush, *Vanity Fair*, December 2007

Similar problems arise with the distinction that refers to the nature of impact, basically the direct and indirect costs caused by terrorism. In general, direct costs are seen as costs that occur as the direct result of the destruction of physical assets. They include property, goods and/or infrastructures losses, and the value of lives lost, et cetera. Direct economic costs are likely to be proportionate to the intensity of the attacks, and the size and the characteristics of the economy hit.¹¹

In contrast, indirect costs comprise those costs relating to the implementation of security and preparatory measures in response to the terrorist attacks. They also include 'costs tied to attack-induced long-run changes in commerce'

Additionally, indirect costs are the result of behavioral change, which derives from a deterioration of consumer and investor confidence, resulting in reductions in demands and shifts in investment behavior. Consequently, indirect costs may surface as reduced growth in GDP, lost foreign direct investment, changes in inflation and increased unemployment.¹²

Disrupting al Qaeda's terror network after 9/11: case study

United States defined the strategic goal in terms of the threat posed by al Qaeda and other Salafi jihadist groups based on their overt targeting of the United States in

in rhetoric and in practice, their broad geopolitical aims, and their material capabilities. The strategic goal was defined narrowly. It did not call for the elimination of these groups or all terrorist violence. The strategic goal focused on preventing attacks from occurring within the United States itself. The United States has worldwide interests that have been in the past, and could be again in the future, al Qaeda targets. However, preventing all jihadist terrorist attacks against U.S. interests is not realistic. U.S. efforts to prevent attacks within the United States may, nevertheless, have the ancillary benefit of degrading terrorists' ability to attack overseas U.S. interests. In the following bullets, we briefly define what "means" was identified in order to achieve the strategic goal: strengthen the indigenous counterterrorism efforts of friendly nations, provide operational military assistance to friendly nations in support of their counterterrorism operations, exploit the network technologies used by terrorists, prevent access to specific conventional weapons, deny safe havens to terrorist groups, reduce state support for terrorist groups, disrupt financial support for terrorist groups, encourage defections and facilitate exits from terrorist groups. Counterterrorism strategies had been defined, right after 9/11, when the Bush administration gave priority to capturing and killing al Qaeda leaders in Afghanistan and ending the support they received from the Taliban government. It was only after the military operations ended in Afghanistan that counterterrorism means proliferated and priorities disappeared.¹³

¹¹Johnston, R.B., Nedelescu, O.M: The Impact of Terrorism in Financial Markets, IMF Working Paper, Monetary and Fiscal Systems Department, 2005

¹²Sandler, T, Enders, W: An Economic Perspective on transnational terrorism, European Journal of Political Economy, vol. 20, 2004

¹³Davis, Lynn E; Sisson, Melanie W: A Strategic Planning Approach. Defining Alternative Counterterrorism Strategies as an Illustration, RAND Corporation, 2009

Unfortunately, as it had been seen at Tora Bora, on December 2001, the region of the Pakistan-Afghanistan border exhibits an almost complete lack of state penetration, with lax or nonexistent controls, the absence of a government monopoly on the use of force, and resistance to state authority by local tribes. In terms of conduciveness to terrorist presence, this region is home to a multitude of extremist religious, ethnic, and criminal entities and has a population that maintains values and norms that promote hospitality toward such groups. This region is also where the core al Qaeda leadership is believed to have taken refuge.

Also, al Qaeda seek to relocate to other ungoverned areas as Pakistan become inhospitable. Countries with ungoverned territories that are currently less conducive to terrorist presence, but where jihadists might seek a safe haven in the future are Nigeria, Mali, Somalia, and Yemen.¹⁴

Yet for those states whose interests are targeted wherever they are found, the general reluctance of African—and other developing—states to prioritize Islamist terrorism is itself problematic, because it offers breathing space to Islamist terrorist groups. Africa also provides an example of why many developed states suggest that weak state capacity is itself problematic from a counter-terror perspective: Africa is attractive to Islamist terrorists, they argue, because it offers space within disenfranchised countries, whose populations are frustrated and ripe for recruitment. Additionally, there are a number of sources of militant Islamic radicalism on the continent as well as opportunities

for fundraising through exploitation of natural resources such as oil and diamonds.¹⁵

Concluding remarks

Recent changes in the nature of international terrorism worldwide indicate that these issues will remain in our future. They also provide evidence that no country can be viewed today as immune to international terrorism as the world is becoming more and more global, increasing interdependencies across borders. Moreover, it is likely that terrorism will take on various forms in the future that would go beyond our current interpretation of terrorists' rationality.

In that context, the question of who should pay for terrorism risk prevention and sustainable coverage within a country is likely to be seen first as a matter of collective responsibility that each country has to consider – a societal choice. National components, such as characteristics of the insurance market and the national homeland security policy, as well as habits, cultures and references, play a prime role in the implementation and improvement of any national programme. On the other hand, decision makers in both the private and the public sectors now face global threats that go far beyond national frontiers. Given the complexity and evolving nature of the threat, as well as the diversity of conditions conducive to the spread of terrorism, combating international terrorism requires a comprehensive, multifaceted response at the global, regional, and local levels.

¹⁴ Shillinger, Kurt: Global Terror: Africa not Immune to Terror, Business Day, October 7, 2005

¹⁵ Lyman, Princeton N; Morrison, Stephen: The Terrorist Threat in Africa, Foreign Affairs 83, no. 1, Jan/Feb 2004

Although national governments will remain the first responders to international terrorism, since they bear the primary responsibility of protecting their citizens, formal multilateral bodies, informal multilateral arrangements, and programs at the international and regional levels can, if structured properly, make a substantial contribution as well. Successes in the campaign against terrorism have, to a large degree, been a result of cooperation and mutual support among governments around the world.¹⁶

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¹⁶Pope, William: European Cooperation with the United States in the Global War on Terrorism, remarks to the House International Relations Committee, Subcommittee on Europe and on International Terrorism, Nonproliferation and Human Rights, Washington, September 14, 2004

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Mentorship - advantages and disadvantages concerning personnel training programs

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Abstract: Throughout my article I do not claim to revolutionize the human resource management. Still, I believe that in light of the profound economic crisis that we are getting through, new solutions or even insufficiently explored ones are necessary in order to attract new personnel or keep and better motivate the already existing one. In the hypothesis of maintaining the quality of the personnel, as one of the key factors of the success of a company and considering that any extra expense has to have a very solid base, a cheap but effective way to train the personnel should attract the attention of a great number of companies. The mentorship is not a new concept or not even a revolutionary one. Still, its potential is far from being fully exploited by the Romanian economical environment.

Keywords: Mentorship, human resources management, motivation, training, personnel retention

Motto:

The attitude is as (or even more) important as our skills. And yet, we spend most of our time, developing our skills. It is time to develop our attitude.

Mr Dan Ward, U.S.A.F

1. Introduction

Through my paper, I will underline certain positive aspects concerning the use of

mentorship programs as part of the personnel development strategy of companies acting in an economy.

As any concept of human resources management, which contains elements bound to the human personality, the mentorship concept has a wide range of meanings and may be used in various ways. However, considering that the theme of my paper is the management of small and medium enterprises, I will reduce its range to the business mentorship.

The renowned American researcher John P. Kotter, teacher at Harvard Business School, stated in his article *What Leaders Really Do*, published in the *Harvard Business Review* (1990) that the main goal of the systems and structures is to help average people that act normally to accomplish their every day tasks, day after day. It is nothing extraordinary or glamorous. But this is management. Considering this reality, the constant research for methods of training and motivation of the employees throughout their daily routine in an enterprise is becoming increasingly important.

The theories of human resources management pass in review a series of methods in personnel training. Intensive training programs, job-training, internships, all of these methods have advantages or flaws depending on the situations that may occur. The mentorship, as a training method, can be used successfully in recruitment, training and the development of the loyalty of the new employees towards the company.

Although the concept has been intensively used in institutions in the U.S and world wide (The Industrial Society Studies, 1980-1990 – Europe, CIPD, 2005- England, Geber, 2003 – South Africa or Macgregor, 1999 – Australia, have shown the fact that the majority of the companies, and especially the large ones used the mentorship as a tool), the interest of the economic literature for this topic has been relatively low, especially in Europe.

However several innovative and successful programs must be underlined: - “Women in Leadership Program” (2008), a Norwegian project with its declared goal to support women in middle management to become successful leaders. The mentors

were selected from men with a wide experience from other companies. One of the main achievements of this program was the increase of the level of self confidence concerning their role in the company for more than 83 percent of the mentees and more than half of the mentors; - IBM has three formal major mentoring categories. Expert Mentoring helps employees acquire specific technical, business, functional and leadership skills. Career Mentoring addresses long-term career development and succession planning. Socialization Mentoring helps new hires adjust; - American Express has formal programs including New Hire Mentoring, in which each new hire is assigned a peer mentor who explains tasks and responsibilities and serves as a sounding board. The mentors help create an on-boarding roadmap, which outlines a course of knowledge for the first six months on the job. Another formal program is the Professional Development Program, in which employees are mentored and trained to help them grow professionally and personally; - The “National Graduate Development Programme” for local government (ngdp) within the UK combines the desire of applicants to develop and make a difference with local government’s drive to develop its future leaders and serve people and places better. The mentoring process within the programme grants access to independent advice and counsel to the mentees such as: an objective sounding board for ideas and issues, inspiration and confidence building, a valuable source of insight on the wider national perspective, an opportunity to reflect on applicants’ learning, career advice.

Being used formally from the second part of the 1990s, the concept has developed through different forms and areas of use as:

sports, theater or the educational system. Although major achievements have been accomplished by the use of mentorship in areas that needed radical change, it was rarely used in business.

Considering this aspect and having in mind the constant change that Romanian companies have to adapt to, I truly believe the mentorship may be an extremely interesting concept to be researched, adapted and exploited in order to answer the needs of the small and medium enterprises in our country.

2. Mentorship- History and definitions

The concept of mentorship has its genesis in the Antic Ages. In Greek mythology, Ulysses departs for war to Troy and leaves his son and his palace to the care of his friend Mentor. Although in Homer's *Odyssey*, the teachings that Mentor had provided to Telemachus are not underlined, this moment is considered to be the root of the concept of mentorship, considering that at some point the goddess Minerva turns into old Mentor and guides Telemachus to find his father.

Through the ages there were more famous mentor-mentee couples as Krishna - Arjuna, Socrates and Platon, Platon - Aristotle, Aristotle - Alexander the Great, Paul from Tars - Timothy.

Moreover, some of the greatest personalities from different areas have received the guidance of a mentor: Business men: The owner of the Virgin brand (Virgin Records and Virgin Atlantic Airways), sir Richard Branson was guided by the founder of Laker Airlines - Sir Frederick Alfred Laker; Movie directors- Oliver Stone was guided by Martin Scorsese; Actors- Heath Ledger was

guided by Mel Gibson; Composers – Johann Christian Bach, the son of Johann Sebastian Bach, that had a great deal of influence on Wolfgang Amadeus Mozart.

The first biographical references to the concept of mentorship, in modern terms can be discovered in the book of the French writer Francois Fénelon, *Les aventures de Télémaque* published in 1699, with Mentor being the main character, a very popular book during the eighteenth century.

This document can be considered the source of the modern concept of mentorship, which can be defined as a trustworthy friend, a counselor or teacher, a person with greater experience. Some professions as lawyers or notaries have so-called mentorship programs or internships – when the new comers spend a period of time with a more experienced person in order to receive guidance and council and to learn from genuine best practices.

Nowadays, mentors share their personal expertise with less experienced people in order to help them advance in their careers, improve their education and form their own connections. Mentor's role, as David Clutterbuck, one of the founders of the mentorship as a formal method of personnel training, claims is to use one's wisdom to help other people develop their own [1].

Under these circumstances it is easy to comprehend the fact that this concept has known various forms of expression as emerging from different cultural environments. Thus it has been quite difficult to introduce the idea of a structured mentorship in Europe, with American coordinates, where the concept initially developed. Mentorship, in its informal existence, was used more or less on purpose, at a large scale in different organizations. Still, methods of using it as a

management tool were not conceived yet.

Nowadays, in every day work we can find two forms of relationship mentor-mentee: formal and informal. The informal ones are developing naturally between two people with similar values that share a mutual feeling of appreciation. They may or may not work in the same area of activity. The formal ones, on the other side are defined explicitly and are often associated with programs of organizational mentorship, implemented in order to contribute towards personal development.

This divergence of perception regarding the nature and the goal of the mentorship can be observed also from the variety of definitions. Lots of educators considered the mentorship to be a mean towards career development. Still, it has not been achieved so far (and possibly never will) a widely accepted definition. Or, in this case, the efforts to develop a data base of know-how on mentorship are to be considerable. There have been some attempts to define the mentorship in order to help the research in this area and to serve the mentors, the mentees and the sponsors, by underlining the critical elements of the mentorship program.

Thus, the mentorship – is a term used, in generally, to describe a relationship developed between a less experienced person called mentee or protégé and one more experienced called a mentor.

Mentoring, or the process of mentorship, is really a growing, strengthening bond that occurs between a mentor, who is more experienced, not necessarily older, but who is certainly wiser; and his or her protégé, a mentee or someone who is less experienced and wise, and who therefore needs to be guided by the mentor [9].

Another definition, more concentrated on the role of the mentorship as part of the politics for the development of human resources, states that: the mentorship refers to a development – effect relationship, during which a person with a greater experience helps a less experienced person, still called – protégé, apprentice, mentee or a mentored person – to develop a specific competence [2].

Traditionally, the mentorship is considered to be a teaching relation, face to face, on long term between an adult with a supervising role and a novice student, that spurs the personal development of the mentee from an academically, professional and personal perspective [3].

3. Types of mentorship

In practice, the mentorship has developed in many shapes. Yet, no matter which form was more efficient, adapted to the requirements of the different types of organizations, the main principles have not changed.

Concerning the structure, the mentorship can act through a one-on-one relationship type or a relationship with more than one mentor.

Concerning its development as time sequence, there are forms of mentorship in which more mentors are active simultaneous or in stages.

Concerning the mentorship network, there is the waterfall mentorship, when a group of young researchers form a scientific educational work group, in which a professor supervises the young graduates or the advanced students from the senior years, which supervise, as well, the junior students.

Moreover, the mentorship relations can be established formally or informally, on

short or long term, electronically or face to face. Regarding the functions of the mentorship, generally, there are two categories used to describe the role of the mentors: psycho-sociologically and career development. The first type is considered to describe the type of mentor-friend or counselor, while the second is suited for the sponsor-mentor or coach-mentor. There are some opinions that consider the role-model to be a third category.

The mentorship should not be a considered as an all or nothing process. A mentor could cover a single role for a single need of the mentee, or could assume more than one role. An efficient mentor could differ from the mentee from a gender, area of expertise, ethnic profile or socio-economic perspective, although the students prefer, in most cases, a mentor to whom they can relate from several demographic variables.

Each structure of mentorship can be more or less suited, depending on the functions or the results that it is aiming for. For example the structure of stability pillars or peer-monitoring is more adapted to the development of the psycho-sociological functions, while the mentorship based on supervisors may be used for career-development. Also, a structure that is using more than one mentor is more suited for the development of multiple functions of the mentorship and to the personal training than a structure with one mentor.

As to the function of the mentorship as a way to train the personnel, we can also meet multiple types: - The mentorship for the new employees – there are multiple programs through which the newly arrived in the organization (protégées) are paired with more experienced people (mentors) in order to obtain information, best practices examples and

advices. Studies have shown that the new employees that were submitted to a mentorship stage were twice as motivated to stay in the organization as the others; - The mentorship for the employees with great potential – there are also situations when the mentorship is used for the development of the employees that have an important potential, so they could assume the role of leaders in the organization. In this case, the young employees are paired with one or more leaders from a top management level for a series of interactions concerning the career development. A similar method distributes the high potential employees in different positions in dispersed areas of the organizations, for brief periods of time, in order for them to understand thoroughly the organizational culture, the structure and the company methods. A mentor does not have to be necessarily a manager or a director in order to participate to the process.

Overall, the alternatives to the classical methods of personnel training can be essential to the support of the under sampled groups inside and outside of the scientific research. Acknowledging the complexity of the mentorship concept, including its structural diversity and the multitude of roles associated to the mentor, would support the planning of efficient and innovative research.

4. Essential elements of the mentorship

There is a certain divergence of opinions between the theory of the mentorship in the U.S and the European one. The main two forms of mentorship are the sponsorship and the developmental types [4].

The main principles of the sponsor based mentorship are: the mentor is more influential and hierarchically senior, the

mentor gives, the protégé receives, the mentor actively champions and promotes the cause of the protégé, the use of mentor's network by the protégé, a career driven protégé and a one way learning process. The mentor may or may not be the direct superior of the protégée.

On the other hand, the mentorship based on personal development includes a strong difference regarding the experience but not necessarily from a hierarchical perspective, as the power and influence of the mentor are irrelevant, the focus of the process being on the development of the personal competences as a mean to achieve professional or career objectives and last but not least mutual learning. The mentor helps the mentee towards personal insights from which he or she can steer his or her own development. The direct superior must not be a mentor, as a rule, in order to ensure the independence of the learning dialog

To understand these two models as simple results of the cultural differences would be a mistake. Even if, without a doubt, the cultural differences have played an essential role in the evolution of the concept, there has been a gradual evolution of the term in the U.S as well as in Europe.

The main elements of this change would be: - Evolving from the use of the mentor as a source of knowledge transfer to its use as a resource in order to help the mentee to develop his own knowledge; - From focusing on doing to the creation and use of the reflection space (focused thinking); - From focusing on good answers towards good questions; - From guidance to dialogue; - From one strong and long relationship, initiated at the beginning of the mentee's career to several learning stages throughout his career [5, 6].

As a consequence, we can observe shared features of the behavior as [7]:

Expression - The mentor must be capable to explain the best practice examples and illustrate them through stories or anecdotes. He will have to empathize with the mentee and motivate him in order to stimulate reflection- through the use of suited language. Moreover an efficient mentor has to be capable to help the mentee to express his ideas, feelings and thoughts. By asking the right questions and by using visual support.

Listening - The efficient mentors spend less than 20% of the time speaking. They are acknowledging the importance of the assistance provided to the mentee in solving his own problems and building his own perspective. They use questions to change, frequently, the approach, so that the mentee would be able to understand the whole picture. They are also skilled in the art of silence, encouraging the mentee to take a few moments of reflection before forming his personal opinion. Moreover, the mentee has to develop his abilities in the use of silence, considering that it often happens that the mentor speech presents subtleties.

Respect - It is essential for the existence of a fully open dialogue. Respect is based on the mutual acknowledgement of quality as dialogue partners, as intellect, experience and sheer value for the company.

Analytic abilities - The quality of the dialogue can be harmed is neither the mentor nor the mentee does not wish to increase the depth of the relationship. Identifying the most suited methods, connections and themes between events is crucial. The co-analysis of the events helps the mutual understanding on several levels and creates a bond between the two.

The clarity of the purpose - Both the mentors and the mentees must have a very clear understanding of the mentee's objectives. If the objectives change, they must acknowledge it and adapt accordingly. Moreover, a clear understanding of the mentor's objectives will help the mentee to understand that the relationship is mutual. Among the abilities requested for a clear image of the goals are the support for the individuals to identify what they don't want, devising the major objectives in smaller objectives, setting smaller and feasible actions to reach these objectives.

The ability to challenge - One of the main complaints of the mentors and of the mentee is that their partner does not challenge them as often or as intensively enough. The mentorship relationship allows constructive confrontations more than any other type of relationship, considering that both sides are questioning each other's conceptions.

Self acknowledgment - Both the mentor and the mentee need a minimum development of their emotional intelligence to understand their own motivations and to be able to develop a mutual empathy. The self acknowledgment is essential for the mentor in order to become a deep, pro active role model in order to know when and how to use his own experience. For the mentee, the acknowledgment of his quality is a practical foundation for the selection and future implementation of the advices provided by the mentor.

Commitment towards learning - Recent studies have shown that the commitment towards learning is more important than the commitment towards the relationship, in order for the mentee to adopt the right behavior, and his future results. The mentors that have given up on the concept of active learning have the tendency to be more

self-absorbed and more authoritarian, than those that consider the relationship as an opportunity to develop his own abilities and to grasp new perspectives.

Reflection/preparation - Along the lack of time for the meetings, one of the main failure factors are that both sides are deficient on the analytical perspective before and after the mentorship dialogue. It is crucial that the mentee informs the mentor, a few days ahead what he would like to discuss at the next meeting. Thus, until the actual meeting, the mentor can form an opinion, understand what the mentee wants to comprehend as a result of the dialogue, and to search for the most efficient and pertinent examples. After the meeting the mentee must spend at least one hour to reflect on the information received and on its deeper implications. The mentor will also have to answer him self to questions as How can I help? How have I been helping so far? And after the meeting, How did I help?

The mentees need to understand thoroughly the mentorship process and contribute to its development - help the mentors help them. This type of pro active behavior can transform them, in time, into mentors.

Certain competences, as the ability to see the big picture or to be able to say I have been there, I have seen this, I have done this without imposing their own opinions, are required, exclusively, to the mentor. Still the majority of the competences and attitudes must be developed by both sides.

5. Conclusions

The mentorship is an extremely complex concept, which takes many forms into practice. Even if we can't presume it to be a new concept at theoretical level, when it comes to

practice, it is under-developed compared to its potential. The reason is an element that has not been discussed in this article, the fact that it requires a certain period of time in order to function.

In general, the companies, nowadays, are increasingly put under pressure by the global competition, which has infiltrated in all economic areas, and consequently they cannot afford to allow to a new employee, time to adapt. The organizational changes are extremely expedient and any employee that can't keep up is automatically eliminated by the system.

However, the mentorship remains a very important tool for the personnel training. Ignoring the needs, thoughts and aspirations of the personnel, leads to a high degree of fluctuation of the human resource, phenomenon that harms the economic performances of the company.

Considering the expediency of the economic world, we can identify four main principles of the mentorship [8]:

The mentorship has a strong personal touch. In the hypothesis that a top manager, with a large experience in the company will succeed in passing on his knowledge to a younger employee, or to one with similar pattern of thinking, he will have managed to create a special bond with that employee

and the continuity of his company will be ensured. The loss of know how determined by the departure of an old employee and the arrival of a new one would be minimal.

Not all the employees are exceptional. Ideally, all the employees of a company would be A level. However, in most of the cases, the majority is formed by level B employees. Thus, the mentorship would be a complementary measure to ensure that the majority would relate and keep the rhythm with the best employees. The choice of task is usually imposed. Most of the time tasks are delegated directly by the line managers to the inferior levels of the organization, without allowing any choice for the employees. So, a better understanding of the goals of each action, as well as of the general vision of the company, would be facilitated by the existence of the mentors. The mentorship goes both ways. We must remember that the mentorship is a win-win procedure, both sides gaining from each other's experience. Let's take for instance, the case of an old employee that is in a mentorship relation with a new employee of the company. The newcomer will receive in short time information about the mission, goals and procedures of the company, while the senior employee will gain abilities, competences or know how, that could improve his efficiency.

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Human capital investment and economic growth in Nigeria: the role of education and health

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Abstract: This study looked at Human Capital Investment and Economic Growth in Nigeria – the Role of Education. Even though there are different perspectives to economic growth, there is a general consensus that growth will lead to a good change manifested in increased capacity of people to have control over material assets, intellectual resources and ideology, and obtain physical necessities of life like food, clothing, shelter, employment, e.t.c. This is why some people have argued that the purpose of growth is to improve peoples' lives by expanding their choices, freedom and dignity. The belief in human capital as a necessity for growth started in Nigeria during the implementation of the 1955-60 Development Plan and today, with the importance of knowledge in the economy, human capital has increasingly attracted both academic and public interest. This study made use of the Unit Root and Augmented Dickey Fuller (ADF) tests and found out that a positive relationship exists between government expenditure on education and economic growth while a negative relationship exists between government expenditure on health and economic growth. Therefore, based on these findings, the study recommended that the Government should increase not just the amount of expenditure made on the education and health sectors, but also the percentage of its total expenditure accorded to these sectors. The ten percent benchmark proffered by the present national plan should be adopted.

Keywords: Human Capital Investment, Economic Growth, Education.

I. Introduction

The notion of investment in human capital is of recent origin. Jhingan (2005) points out that in the process of economic

growth, it is customary to attach more importance to the accumulation of physical capital than human capital. The new endogenous growth theories are thus significant in the introduction of the active role of human capital

in the growth of economies. Human capital is the term economists often use for education, health, and other human capacities that can raise productivity when increased (Todaro and Smith 2003). Health and education are two closely related human capital components that work together to make the individual more productive.

Taking one component as more important than the other is unrealistic as a more educated individual, who is ill, is as inefficient as an illiterate, but healthy individual. Both components are thus related together because of their close relationship. Appleton and Teal (1998), describe health and education as components of human capital that are contributors to human welfare. They describe these components as different from other types of goods produced in societies. While high incomes may be conducive to health it cannot be directly purchased like material goods and services. Health and education are often subsidized by the state and in some countries, education is compulsory for certain minimum length of time. Nigeria, which was one of the richest 50 countries in the early 1970s has retrogressed to become one of the 25 poorest counties at threshold of the twenty-first century. The belief in human capital as a necessity for growth started in Nigeria during the implementation of the 1955-60 development plan and today, with the importance of knowledge in the economy, human capital has increasingly attracted both academic and public interest.

Thus, the objective of this study is to examine the role of education and health in human capital investment and how this can translate into economic development in a country like Nigeria. The hypothesis formulated in this study stated in its Null form is:

H0: Human Capital Development has no significant positive impact on Economic Growth in Nigeria.

II. Literature review

Health and education as components of human capital

Economists do not always recognize the health component of human capital. Schultz (1961) saw human capital as those resources that are inherent in each human being, which can be traded between the users and the owners to improve their respective living conditions. He outlined these inherent resources in human beings to include knowledge (knowing what to do), skills (knowing how to do what is to be done), and attitude (behavioural demonstration of a favourable inclination while doing that which is to be done). No mention is made here of health. Barro (1991) carried out a study on the effects of human capital on growth. His study was based on data sets pertaining to very diverse array of countries. He used a narrow flow of human capital such as school enrolment rates at the primary and secondary level. Human capital can thus be regarded in two ways: the narrow sense which deals with just education, or the broader sense which adds health to the education component. It has become conventional to discuss human capital in its narrower sense because expenditure on education and training is capable of measurement as compared to healthcare (Jhingan, 2005).

Healthcare shall however be included in this study. Aigbokhan et al (2007) consider education to be a basic and obvious process by which skills, knowledge and attitude are acquired for the performance of socio-economic responsibilities, social integration,

improving personal competence, and seeking better opportunities. In the words of Leeuwen (2007), 'Human capital is implicitly referred to as formal and informal education, yet it can also contain factors such as the costs of raising children, health costs, and ability. 'The health and education, components are recognized, although education comes ahead of health, showing the priority placed on it. In line with this, Igun (2006) defines human capital as 'the total stock of knowledge, skills, competencies, innovative abilities possessed by the population'. These obviously have education as their bedrock.

Economists have identified overtime, other components and indicators of human capital. With the two broadly accepted components, come additional factors. For example, Nakamura (1981) for pre-modern Japan defines human capital as labour and managerial skills, entrepreneurial and innovative abilities, plus physical attributes such as physical strength and skills. Newland and San Segundo (1996) also use several measures as indicators of human capital such as physical strength and skills. As such, they see human capital on the one hand as ability and education of an individual, and on the other, the costs of physically raising a child or its health.

From the organizational points of view, Dees and Picken (2000) have this to say: 'human capital is generally known to consist of the individual's capabilities, knowledge, skills and experience as they are relevant to the task at hand, as well as the capacity to add to this reservoir of knowledge, skills, and experience through individual learning. Quantitatively oriented economic historians such as Zanden (2004), measure the price of human capital as the relative wage of skilled labour compared to the unskilled.

This measure includes factors such as on-the-job training and experience. These factors serve to compliment, rather than substitute the health and education components. This is due to the basic role they play in the lives of individuals. Through healthcare and education, individuals can be fashioned to lead useful and happy lives and contribute to societal and economic goals. Appleton and Teal (1998) confirm that human capital is a broad concept which identifies human characteristics which can be acquired and also increase income. It is commonly taken to include peoples' knowledge and skills acquired partly through education, but can also include their strength and vitality, which are dependent on their health and nutrition. This makes health and education two umbrellas under which all other recognized factors can fit. Human capital theory thus focuses on health and education as inputs in economic production.

Human capital development: investing in health and education

The economic rationale for investing in human capital derives from the belief that human capital plays a key role in economic growth. According to Todaro and Smith (2003), human capital must be given direct attention in its own right, even in economies that are growing rapidly. This points to the fact that importance of this key concept centres not on just developing countries who wish to break free of their vicious cycle, but also developed countries that aspire to achieve sustainable growth and development.

Schultz (1961), one of the early contributors to the study of the importance of human capital, identifies five ways by which human capital can be developed. They are as follows:

- Health facilities and services, broadly conceived to include all expenditures that affect the life expectancy, stamina, strength, vigour and vitality of people.

- On-the-job- training, including old type apprenticeships organized by firms.

- Formally organized education at the elementary, secondary, and higher levels.

- Study programs for adults that are not organized by firms, including extension programs notably in agriculture.

- Migration of individuals and families to adjust to changing job opportunities.

These activities all seek to make the individual more productive. Investment in health and education (the two components of human capital) thus leads to the development of human capital. Speaking of which, Jhingan (2005) opines that in its wider sense, investment in human capital means expenditure on health, education and social service in general; and in its narrower sense, it implies expenditure on education and training.

The development of human capital transcends mere acquisition of intellectual ability through the education system, or the living of a healthier life through adequate health-care. It seeks to improve the productivity of the individual and make him more useful to society. Aigbokhan et al (2007) describe it as being concerned with the transformation of the total man to enhance his productivity. This indicates a necessity for the said investment to lead to increased productivity.

III. Human capital development in Nigeria

The importance of investing in education and health is well appreciated and understood in economies that wish to attain sustainable growth. Nigeria is rated by

international standards as 'less developed' and thus has economic growth as a major goal. Indeed, the importance of a prime sector such as education has been stressed in Nigeria since the early sixties following the submission of the Ashby report in September 1960. In recent times, during a keynote address by the former governor of the Central Bank - Dr J.O Sanusi (2002), he stressed the importance of human capital development for Nigeria, saying that the Nigerian economy has to be efficient and competitive in the new world order in which national frontiers no longer constitute barriers to human, material, and capital flows. He noted that one of the greatest barriers facing Nigeria in this millennium is the issue of capacity building to enhance productivity in the economy.

The government in Nigeria as explained by Ogujiuba and Adeniyi (2005), primarily controls education. They summarize the breakdown of this control from the federal to the state and the local government level.

In Nigeria, the federal government is primarily responsible for the tertiary institutions although some states and private individuals also fund and run this level of education. Secondary education is mainly a state responsibility although there are some federal secondary schools. Primary education is a local government responsibility but there also exists a National Primary Education Commission (NPEC) that draws up the curricular for corporate bodies, individuals, religious organizations, international agencies, non-governmental agencies and community based organizations with the three tiers of government. Importance of higher education in national development in Nigeria is reflected in the goals for tertiary education as enunciated in the National Policy on education (NPE, 1988), which are to:

1. Contribute to national development through high-level manpower training.
2. Develop and inculcate proper values for the survival of the individual and the society.
3. Develop individual's intellectual capacity to understand and appreciate their local and external environments.
4. Acquire both physical and intellectual skills, which will enable individuals to be self-reliant and useful members of the society.
5. Promote and encourage scholarship and community service.
6. Forge and cement national unity.
7. Promote national and international understanding and interaction.

These set goals are expected to be achieved by tertiary institutions through teaching, research and development, sustainable staff development programs, generation and dissemination of knowledge and a variety of modes of programs.

Aigbokhan et al (2007) note that a cursory look at the magnitude and trend of increases in allocation might be misleading in passing judgment on the budgetary performance until they are placed side by side with their percentage allocations. The characteristic pattern of the government's allocation to education and health in Nigeria as a percentage of the total budget revealed inconsistency. That is, health and education expenditure were not considered as policy targets in the overall budgeting, or else, they would have maintained an increasing proportion of the yearly budget of the nation.

The National Economic Empowerment and Development Strategy (NEEDS), which is presently Nigeria's development plan and poverty Reduction Strategy Paper, stipulates

a goal of increasing government's budgetary allocation to health and education from 8% to 10% between 2004 and 2007. While listing selected targets, education and health are rightfully noted as worthy of closer attention.

Under its specific sectoral strategies, the government and the private sector are identified as key players in tackling issues that are critical for effective economic growth. One of such listed issues is inadequate human capital development. Going ahead to discuss these specific sectoral strategies, the first sector discussed is education.

Under NEEDS, education is considered the key bridge to the future. In this regard, the strategy aims at the empowerment of the citizenry to acquire skills and knowledge that would prepare them for the world of work. In order to achieve this, NEEDS is to address the following crucial issues:

i) Faithful implementation of the free, compulsory Universal Basic Education (UBE) law to among others:

- Improve education infrastructure.
- Expand institutional capacity to produce quality manpower.
- Expand total school enrolment.

ii) Review of school curricular from primary to tertiary to incorporate vocational and entrepreneurial skills.

iii) Re-tooling and repositioning of technical schools to be able to address the technical manpower needs of the economy.

iv) Establishment of more vocational centers to encourage Nigerians to embrace vocational education.

v) Review of school curricular at all levels to incorporate the study of information and communication technology (ICT).

vi) In view of Nigeria's position in, and vision of ECOWAS sub-region, review school

curricula to make study of French compulsory from primary through secondary schools.

vii) Expand existing special education programs including the virtual library project, the distance learning program and the Nomadic education program.

viii) Sustain existing vocational/on-the-job training programs of the Federal government and encourage the states to do the same.

ix) The National Youths Service Corps will be reviewed with a view to using a good part of the service year to develop entrepreneurial and basic business skills in corps members.

The orientation period will be extended to include a one-month period for formal training on entrepreneurship.

Following the training, corps members will be posted mainly to industrial (including small scale enterprises) and agricultural concerns so that the exposure will expose them to consider the possibility of post-service self-employment.

The health sector is next for which specific sectoral strategies are listed. Major strategies of NEEDS to improve the service delivery of this key sector are as follows:

i) Redefinition of the roles and responsibilities of the federal Ministry of Health (FMOH) and other Federal public health structures and institutions in the provision and financing of quality services to Nigerians.

ii) Reorganization and restructuring within the context of the redefined roles and responsibilities.

iii) Review of existing health policies and strategies as well as health legislations culminating in the publication of a new National Health policy and the enactment of health system and the health functions of each of the three levels of government.

iv) Strengthening the capacity of FMOH in policy formulation and implementation.

v) Improving the existing and/or setting up of new mechanisms to generate and use evidence and information for health policy/ program/plan development and implementation.

vi) Increase in antenatal, postnatal, and family planning services and outlets to reduce maternal and infant mortality from the present 704/100,000 and 77/1000 respectively.

vii) Intensification for the campaign of the eradication of harmful traditional practices such as female genital mutilation and child marriage.

In a January 2008 publication of the Guardian Newspaper, an article by Sanyaolu describes human capital as the bedrock upon which productivity in Nigeria rests. The contributions of prominent individuals to the topic were documented and presented as advice to the President of the country as key points worthy of note. The National President, Senior Staff Association of Nigerian Universities, Mr. Promise Adewusi, the former Director, Institute of Education, Lagos State University, Prof. Ademola Onifade, and the Registrar and Chief Executive, Certified Institute of Cost Management of Nigeria, Mr. Victor Omoregie were among the contributors. Their contributions can be streamlined to consist of the following issues: Better funding of educational Institutions, tackling unemployment, provision of infrastructural facilities, and research and development.

A later publication of February 2008 included an article describing a contribution to human capital development by a joint project of Chevron Nigeria Limited, Coca-Cola Nigeria, and Discovery Channel Global Education Partnership. The project involves eight new learning centers and

teacher training programs to enable teachers from eight primary schools in Lekki and Ikoyi areas to use educational media technology and programming to complement classroom learning for more than five thousand (5000) students. This would also reach an additional fifteen thousand (15,000) community members. The implementation of this project is founded on the belief that human capital and economic performance will be positively affected.

IV. Model specification

In an attempt to determine the effect of human capital development on economic growth in Nigeria, it is necessary to develop a model to justify the correlation that exists between the variables. In this regard, a multiple regression model is thus developed to determine the effect of human capital development on economic growth.

The model for this study is theoretically stated as: Gross Domestic Product (GDP) depends on Government's Expenditure on Health (GEH), Government's Expenditure on Education (GEE), Primary School Enrolment Rate (PER), Secondary School Enrolment Rate (SER), and Tertiary Institutions Enrolment Rate (TER).

Thus: $GDP = f(GEH, GEE, PER, SER, TER)$

GDP is chosen as a proxy for Economic Growth because it reveals the overall contribution of each sector of the economy.

Government's Expenditure on Health and Education and Enrolment Rates into the three levels of education are chosen as proxy for human capital development because the concept entails investment in health and education.

The explanation of the multiple regression model for this study is as follows:

$$GDP = \beta_0 + \beta_1 GEH + \beta_2 GEE + \beta_3 PER + \beta_4 SER + \beta_5 TER + \mu$$

Where:

B_0 = Intercept of the equation

$\beta_1 GEH$ = Estimate parameter with the corresponding regressor of Government's Expenditure on Health.

$\beta_2 GEE$ = Estimate parameter with the corresponding regressor of Government's Expenditure on Education.

$\beta_3 PER$ = Estimate parameter with the corresponding regressor of Primary School Enrolment Rate.

$\beta_4 PER$ = Estimate parameter with the corresponding regressor of Secondary School Enrolment Rate.

$\beta_5 PER$ = Estimate parameter with the corresponding regressor of Tertiary Institutions Enrolment Rate.

μ = Stochastic error term

The economic apriori criteria refer to the sign and size of the parameters and the economic relationship between the variables. The apriori expression of this multiple regression model is that $\beta_1 > 0$; $\beta_2 > 0$; $\beta_3 > 0$; $\beta_4 > 0$; $\beta_5 > 0$.

A positive sign is expected from the coefficient of the relationship between GDP and GEH, GDP and GEE, GDP and PER, GDP and SER, and GDP and TER.

Estimation method

Recall that the study formulated this hypothesis:

H0: Human Capital Development has no significant positive impact on Economic Growth in Nigeria. To test this hypothesis, it is necessary to ensure that some tests are carried out to make adequate allowance for the dynamic relationship, non-stationarity, and spurious regression problems.

Table 1: Unit Root Analysis

Variable	ADF Test Statistical Value	MacKinnon Critical Value at 1%	MacKinnon Critical Value at 5%
GDP	4.31173	-3.7497	-2.9969
GEE	6.23814	-3.7667	-3.0038
GEH	0.75219	-3.7497	-2.9969
PER	0.72669	-3.7497	-2.9969
SER	-0.67016	-3.7497	-2.9969
TER	-1.78513	-3.8572	-3.04

Source: Researcher's Computation

From the results obtained in Table 1 above, it is observed that all the variables are

non-stationary as their t-values are greater than the critical values at 1% and 5%.

Table 1: Unit Root Analysis

Variable	ADF Test Statistical Value	MacKinnon Critical Value at 1%	MacKinnon Critical Value at 5%	MacKinnon Critical Value at 10%	Order of Integration
GDP	-6.085464	-4.5346	-3.6746	-3.2762	I(2)
GEE	-3.35995	-4.5	-3.6591	-3.2677	I(2)
GEH	-6.11233	-4.4415	-3.633	-3.2535	I(1)
PER	-4.58112	-4.4691	-3.6454	-3.2602	I(2)
SER	-3.74268	-4.4691	-3.6454	-3.2602	I(2)
TER	-3.44056	-4.8025	-3.7921	-3.3393	I(1)

Source: Researcher's Computation

The results in Table 2 above shows that Gross Domestic Product (GDP), Government expenditure on Education (GEE), Primary School Enrolment Rate (PER), and Secondary School Enrolment Rate (SER), are stationary at second-order difference. Also, Government expenditure on Health (GEH), and Tertiary Institutions Enrolment Rate (TER), are stationary at first-order difference.

Interpretation of results

The cointegration test results show that the residuals, and thus the variables, are cointegrated. This necessitates the development of the error correction model for short-term adjustment. ECM(-1) is -0.75589. The percentage value of ECM is thus 75.6%, showing that the variables have

Table 3: Error Correction Model Estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GEE(2)	26.52724	6.856537	3.868898	0.0038
GEH(1)	-0.98187	8.815632	-0.111375	0.9138
PER(2)	-140934	88708.6	-1.588733	0.1466
SER(2)	357033.1	389459.1	0.916741	0.3832
TER(1)	4292078	761860.4	5.633681	0.0003
ECM(-1)	-0.75589	0.388065	-1.957818	0.0819

R-squared	0.992261	Mean Dependent var	1894281
Adjusted R-Sqd	0.987961	S.D Dependent var	2469049
S.E. of Regression	270910.6	Akaike info criterion	28.146414
Sum sqd Resid	6.61E+11	Schwarz criterion	28.42936
Log likelihood	-205.096	Durbin-Watson stat	2.154743

to be adjusted approximately 76% to restore equilibrium in the short-run. The t-statistic value of -1.957818 is also significant. The R-Squared is 0.992 showing that the explanatory variables explain 99.2% of changes in the dependent variable. It remained strong even after adjusting for the degrees of freedom to 98.7% (Adjusted R-Squared). This means that in Nigeria, the variables chosen are strong in explaining economic growth. The Durbin-Watson statistic, which is 2.15, falls within the acceptable range in applied research of no autocorrelation (between 1.8 and 2.5). The model is thus free from autocorrelation. The coefficient of Government Expenditure on Education (GEE) is 26.52724. This is a good performance in terms of a priori expectation as it is a positive value. This implies that a positive relationship exists

between government expenditure on education and economic growth. The coefficient is also found to be statistically significant as evidenced by an examination of the t-statistic value (3.868898) and the corresponding probability value (0.0038). In the long-run therefore, a one unit increase in government expenditure on education will generate about 2652 percent increase in GDP which will by extension, lead to economic growth.

The coefficient of Government Expenditure on Health (GEH) -0.98187 is inconsistent with a priori expectation implying a negative relationship between government expenditure on health and economic growth. However when tested for statistical significance, the t-statistic value of -0.111375 indicates statistical insignificance. The coefficient of Primary school Enrolment Rate (PER),

which is -140934, is also inconsistent with a priori expectation. A negative relationship between primary school enrolment rate and economic growth is implied from the result. The t-statistic value of -1.588733 also indicates statistical insignificance.

The coefficient of Secondary school Enrolment Rate (SER) performs well in terms of a priori expectation. It has a value of 357033.1, which is positive. This point to a positive relationship between enrolment in secondary schools and economic growth. The coefficient of Tertiary institutions Enrolment Rate (TER) is positive with a value of 4292078. This is in accordance with a priori expectation. The t-statistic value of 5.633681 implies statistical significance. This indicates the existence of a positive relationship between enrolment in tertiary institutions and economic growth such that a one percent increase in tertiary enrolment leads to a significant and more than proportionate increase in GDP and ultimately, economic growth.

This result can be described as good and reliable as the model was properly treated to avoid spurious results. The variables that are consistent with a priori expectation are also found to be statistically significant. The R-squared is strong even when adjusted for degrees of freedom. Also, there is no indication of any violation of econometric assumptions as there is no autocorrelation. The result is thus reliable for policy formulation and forecasting purposes.

V. Policy recommendations

Based on the conclusion that human capital development enhances economic growth, and the finding that Nigeria is yet to fully benefit from it in terms of enhanced economic growth, the study makes the following

recommendations to improve the growth-enhancing tendencies of human capital development in Nigeria.

1. The planned strategies by the government in the education and health sectors as enunciated in the NEEDS document should be fully carried out with reports provided of progress made at each stage.

2. The Government should increase not just the amount of expenditure made on the education and health sectors, but also the percentage of its total expenditure accorded to these sectors. The ten percent benchmark proffered by the present national plan should be adopted.

3. The private sector should improve its participation in the provision of private schools and hospitals. While these are already available, efforts should be made to make these services more affordable to the general public.

4. Teachers/lecturers and doctors should be paid higher rates than what they presently earn. This should be done so as to curb the imminent brain drain problem of the country.

5. Better infrastructural facilities should be provided for existing schools and hospitals, while new educational and medical institutions should be established to provide quality education and healthcare for the populace.

6. The free basic education (UBE) and health care programs established by the federal and state governments should be improved on, and sustained.

7. An enabling environment of macro-economic stability should be provided by the government to encourage investment in human capital by the private sector and the government itself.

8. A Government free from corruption, discontinuity, and political stability is needed. If the government is transparent and morally sound, then these policies can be implemented and sustained for better performance of the Nigerian economy through the development of human capital.

VI. Conclusions

Based on the theoretical presentations, findings and mathematical manipulations of this study, the following conclusions can be drawn:

First, there exists a clear-cut and obvious relationship between human capital development and economic growth.

Second, the contribution of human capital development to economic growth in Nigeria has been less than satisfactory and there is much room for improvement.

Third, the education and health sectors are in a deplorable state and as such, demand urgent attention.

Fourth, the government has the major responsibility of provision of quality education and satisfactory health care, with the

private sector playing a complementary role.

Fifth, the importance of human capital development in economic growth is noted in the past and present national plans of the country, however, adequate action to back this realization is lacking.

Sixth, only through well-planned policies, can Nigeria begin to fully benefit from human capital development, such that it enhances economic performance and growth.

Nigeria is endowed with abundant resources, one of which is human resources. The proper development of this resource will lead to improved economic performance while mismanagement of the resource will hamper whatever growth process has begun. The issues discussed in this study are of optimum importance to the economic growth of the country depending on how well economic managers and policy makers approach them. It is indeed desirable that in the coming years the human capital of the country will be transformed from being merely potential, to kinetic so that sustainable, people-oriented growth can be realized.

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Factors responsible for slow adoption of public private partnership (ppps) in Nigeria

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Abstract: The growth and development of any nation is greatly dependent on the availability of basic social infrastructure like good road, efficient power supply, buildings, ports, rails etcetera. Over fifty years after independent Nigeria is still in a very undesirable state of infrastructural development; variety of broad-based opinion surveys in recent years have shown that prominent infrastructure deficiencies are responsible for the country's disappointing economic performance. This paper is designed to unfold factors responsible for the slow adoption of public private partnership PPPs in Nigeria and proffer workable solutions that could help revised the current trend. A questionnaire survey was conducted seeking the opinions of one hundred (100) experienced professionals within the industry comprising architects, engineers, quantity surveyors, project managers and contractors. Out of 100 questionnaires sent out, 61 came back resulting in a response rate of 61%. The result shows that high rate of corruption in government, high cost of participation and lack of adequate security have all combined to slow the uptake and use of PPPs for the provision of public infrastructures and services. In order to improve the use of PPPs to provide the much needed infrastructures to enhance economic growth and well-being of the growing population of the country, it was found that the elimination of corruption in government, the building of strong financial institutions, improvement in security and improving the knowledge of professionals in the PPP procurement strategy would greatly assist the country to overcome the dearth of public services and enhance economic growth.

Keywords: Factors, Slow adoption, Public, Private, Partnership, Abuja, Nigeria.

1.0 Introduction

Public private partnerships are the new age procurement strategy used by many governments across the world to provide the much needed world-class public services for their citizenry. The move to PPPs is now worldwide movement where there are marked differences in terms of levels of development and overall emphasis, all of which are in need of analysis and comparison (Broadbent & Laughlin, 2003), this move is not limited to poor countries only as the concept of PPPs emanated from the UK, which cannot be termed a poor country nor a developing country by any standard. The adoption of PPPs as the preferred procurement method in this era has to do with a number of factors which include, Value for Money (VFM), time overruns, Quality of final products, efficiency of services, reforms in governments to improve effectiveness, creating a private sector-led economy policy, and to hasten development, "reduce project life-cycle costs, promote local economic growth and strengthening national infrastructure" (Pribadi & Pangeran, 2010). There are a number of definitions of Public-Private Partnerships but the one adopted in this study is that by Union, a UK's Public service union which defined PPP thus "Public Private Partnerships (PPP) is the umbrella name given to a range of initiatives which involve the private sector in the operation of public services. The Private Finance Initiative (PFI) is the most frequently used initiate. The key difference between PFI and conventional ways of providing public services is that the public does not own the asset. The authority makes an annual payment to the private company who provides the building and

associated services, rather like a mortgage. A typical PFI project will be owned by a company set up specially to run the scheme. These companies are usually consortia including a building firm, a bank and a facilities management company. Whilst PFI projects can be structured in different ways, there are usually four key elements: Design, Finance, Build and Operate" (www.unison.org.uk). The rationale for the introduction of the PFI in 1992 by the conservative government in the UK was to reduce the public borrowing requirement by the use of private funding and also reduce the risks of time and budget overruns (Fewings, 2005) and these are achievable using this procurement approach. The lack of world class efficient infrastructure in developing countries is one of the major reasons why Foreign Direct Investments are scarce in developing countries in Africa, as the presence of basic infrastructures is a prerequisite for economic development. Business cannot flourish in the absence of good roads, electricity, pipe borne water and good and efficient modes of transportation; and those who decide to still do business under such conditions will incur very high production costs as they have to create alternative sources of power supply, clean water and transportation for distributing their products to the end users. This pre-condition for economic growth has been recognised by developing countries in East Asia, hence their heavy investments in infrastructural developments. In Malaysia under the tenth Malaysian Plan, the government intends to execute 52 High Impact Projects (HIP) worth about RM63 billion naira (10th Malaysian Plan), while in Taiwan, as of 2008 after the PPP Act was passed, private investment in Public services stood at nearly 382 billion NT dollars (about

US\$ 11.5 billion)" (Public Construction Commission, PCC 2009). The same situation is experienced in developed economies of the UK and Europe where the concept emanated from initially. PPPs are not entirely new as a couple of projects had been procured using this strategy, an example is the Suez Canal PPP which had a concession period of 99 years and was contracted in 1856. PPPs were also used in the 17th century France to supply drinking water to Paris, while the Former Prime Minister of Turkey, Orzal Targut also used the concession based model of PPP for roads in his country. Some like the UK, use this procurement strategy due in part to shrinking revenue while others use it to transfer risks, "the main risks transferred are in construction delay, cost overrun, design problems which are not to do with changing the scope, some planning risks and even some occupancy risks which are controllable" (Fewings, 2005). PPPs are still emerging in developing countries and the extent of their use has depended, amongst other things, on economic strength, prevalent political environment and housing tradition of a particular city (Sengupta, 2006), the most popular PPP option is the concession-based type such as Build – Own – Operate- Transfer in which the private partner (concessionaire) undertakes to finance, design, construct, operate and maintain the facility during a concession period that is usually determined by their public sector counterpart at the outset (Zhang & Kumaraswamy, 2001). Generally PPP/PFI projects are very large complex deals that involve not only the provision and running of a built asset, but also the delivery of services to the general public (Cartlidge, 2004). The complexity of the arrangements between the parties in any PPP agreement

often implies that the 'first mover' must be granted attractive terms to encourage investment" (Alonso-Conde et al., 2007).

As observed by (Ng et al., 2007) there is a growing trend for governments and other clients in the construction industry to place major projects into the private sector as against the previous view where traditional federalism advocates typically view the government as a central funding source for programs with consensual conditions to be met, and view state/local programs as expenditures requiring strong governmental oversight (Maxwell & Husain, 2005). The use of Public – Private Partnerships has covered a wide spectrum of human activities as can be noticed by the varying areas of research work that has been carried out under this concept, they range from Air Traffic services (Goodlife, 2002), Housing delivery, (Sengupta, 2006), Telecentres (Kuriyan & Ray, 2009), Transport (Medda, 2007), Education (Srivastava & Oh, 2010), Metropolitan Subway (De Jong et al., 2010), Healthcare (Crimson, 2008), Conservation of protected areas (Thackway & Olsson, 1999), Water supply (Hukka & Vinnari, 2007), Infrastructure (Grimsey & Lewis, 2002) and Satellite communication (Franzolin, 2009) to mention a few. Though, Public-Private Partnerships are not limited to construction or infrastructure works only, the bulk of the projects undertaken under this procurement system are usually construction based creating the need for an efficient and ready construction industry with practitioners who are knowledgeable in the Process. To understand the involvement of the construction industry, (Martimort & Pouyet, 2008) it is useful to keep in mind that most public services (water management, waste disposal services, sanitation, public transportation, prison

transportation, prison management) involve a complex array of tasks. Those activities necessitate indeed, first, to build infrastructures and second to operate these assets as efficiently as possible. It is worthy to note that Public-Private Partnerships is not panacea for solving all the problems of the construction industry, but some of the principles for integrated project management which have been emerging such as early involvement of the contractors, the committed use of Risk Management and Value Management, integrated design and construction, life-cycle costing and collaborative relationships are an integral part of this procurement (Fewings, 2005). However, the contractual arrangements between the private and public sectors generally aim to transfer risk between the parties and create a clear profit outcome for the private sector (Alonso-Conde et al., 2007), though the level of profits that is being created to encourage the private sector's involvement is already being questioned. There are many forms of PPP, which the concession period. In individual situations, different types of PPP need to carefully selected to adapt to real situations (Tang et al., 2010), Zhang and Kumaraswamy cited in (Ng et al., 2007) observed that the most popular PPP option is the concession-based type such as Build-Own-Operate-Transfer in which the private partner (concessionaire) undertakes to finance, design, construct, operate and maintain a facility during a concession period that is usually determined by their public counterpart at the outset.

2.0 Problem statement

There has been very limited research work carried out on PPPs in Nigerian context,

this is due in part to lack of PPP projects in Nigeria and host of other factors, though there is a regulatory body, The Infrastructure Concession Regulatory Commission (ICRC), which is supposed to draw up a framework for implementation and regulation of PPP deals in Nigeria. On the international scene, a lot of work has been done on PPP projects, their advantages and otherwise. One research that has come close to this intended study is the work of (Babalola & Odunowo, 2010) that tried to assess the critical success factors of PPPs in infrastructure development in developing economy with specific reference to Nigeria and found that legislation, cost-benefit analysis and creating the right environment were very important for the success of PPP projects in Nigeria. However their research was limited to Lagos state out of the 36 states in Nigeria. They also pointed to the inadequate infrastructure developments in the country by observing that several years after independence. Nigeria is still in a very sorry state in terms of infrastructural development, though they did not provide the reasons for the absence of PPP projects in the country. Nigeria could be said to have been afflicted by the 'Dutch disease' as revenue is not its problem because it has abundant natural and human resources, with revenue from crude oil rising significantly over the years since the discovery of the 'black gold'. The revenue from Nigeria's Oil and Gas wealth has risen steadily from 26.3 percent in 1970 to 83.5 percent in 2000 (Ibrahim, 2008) but its public services and infrastructure is 'traveling' very fast in the opposite direction. The government acknowledges the shortage of infrastructure to meet the growing population and the pressure of globalization and the development rate of other countries with less

resources like Malaysia has further brought to the fore an urgency to devise a sustainable way to provide the much needed infrastructure. Political instability and corruption at the top levels of government has in large parts contributed to the slow development of most developing countries and robbed them of the benefits of their enormous revenue generating resources. The lack of infrastructure cannot be said to be due to lack of funds, or inadequate planning but that of implementation and the common disease of most African countries-corruption. According to Transparency International (TI) the public works contracts and construction sector is perceived to be most likely to engage in direct bribery of officials and of those charged with creating relevant regulations (www.transparency.org). Although certainly not absent from developed countries, developing countries face a particular challenge in this regard. There the misuse of funds is the second biggest barrier to more public investment (37%) and trying to establish accountability for stimulus spending the greatest challenge in distributing that sort of funding (45%). TI cites two studies which show that, controlling for other factors, corrupt environments drive up water costs in a range of African states on average by 64% and electricity costs in Latin American ones by 23% (www.transparency.org). The paper intends to achieve the following objectives: (1) to identify the reasons for the slow adoption of PPPs in developing countries of Africa especially Nigeria; and (2) to propose how to overcome the slow pace of PPPs adoption in developing countries of Africa and particularly Nigeria. The study was limited to the city of Abuja, which is the capital of Nigeria and presently is the hub of construction work and seat of government.

3.0 Research methodology

A questionnaire comprising two sections was designed to acquire information from respondents on their knowledge of the subject of the research in Abuja, Nigeria. A Likert scale of 1-5 was used in the questionnaire to assess the reasons and possible solutions to the slow adoption of PPP as a procurement strategy for public infrastructures and services, where '1' represents the least effect and '5' the highest effect. The study focused on all groups of professionals/participants in the construction industry in both public and private sectors among the Ministry of Works, Infrastructure Concession and Regulatory Commission (ICRC), Federal Housing Authority (FHA), Federal Capital Development Authority (FCDA). They include Architects, Quantity Surveyors, and Engineers, Project managers, Contractors and others. Section A of the questionnaire sought to know the general particulars of the respondents while section B focused on the reasons and possible solutions to the slow adoption of PPPs. The questionnaire survey was used to investigate major reasons for the slow use of PPPs in Nigeria and relative importance of the principal factors, and ways of improving the situation based on the experiences and perceptions of the respondents. The questionnaire was distributed to 100 respondents who are actively involved in construction and consultancy in the private sector and those at decision making level in the public sectors. Sixty-one (61) were returned, yielding a response rate of 61%. The study was directed to public sector officials and construction industry professionals because they are the organizations and individual who are responsible for planning and executing public sector infrastructure projects.

4.0 Results analysis

4.1 Background of Respondents

A total of 100 questionnaires were sent out and 61 came back representing 61% response rate. The break-down of the received questionnaire is as follows: Architects 8, Engineers 22, Quantity Surveyors 14, Project Managers 7, Contractors 2 and other professionals not listed 8, giving a total of 61 in total. This was considered adequate for the

analysis based on the assertion by Moser and Kalton cited in (Aibinu & Jagboro, 2002) that the result of a survey could be considered as biased and of little value if the return rate was lower than 30-40%. The result of the analysis of returned questionnaires shows that of all that the 61 valid respondents, 22 (36.1%) were Engineers and represented the highest number of respondents, followed by Quantity Surveyors with a score of 14 (23.0%), (Table 1).

Table 1: Response by Profession

Profession	Frequency Percentage
Architect	8(13.1)%
Engineer	22(36.1)%
Quantity Surveyor	14(23.0)%
Project Manager	7(11.5)%
Contractor	2(3.3)%
Others	8(13.1)%
Total	61(100)%

With regard to the qualification, 27 (44.3%) of respondents hold a first degree, followed by 20 (32.8%) respondents had

M.Sc., in various fields of terms of construction for further details (Table 2).

Table 2. Response by qualification

Qualification	Frequency Percentage
PhD	5(8.2)%
M.Sc	20(32.8)%
B.Sc	27(44.3)%
PGD/Dip.	8(13.1)%
Others	1(1.6)%
Total	61(100)%

The questionnaire also sought to know how many years each respondent has spent on their job, of the 61 respondents, 15(24.6%) have spent between 1-3 years on their job,

16(26.2%) had spent 4-6 years, 10(16.4%) have between 1-10 years experience on the job while 20 (32.8%) respondents have had above 10 years of experience, if we look at the

cumulative range of between 4-10 & above a total of 46 (75.4%) respondents have had above four years experience either in the private or public sectors. This is good as it will increase the reliability of some of the respondent's answer. In terms of response according

to sector, the public sector leads the respondents with 50.8% of the total respondents representing 31 respondents out of a total of 61 total sample, while respondents from the private sector is 49.2% representing 30 respondents (Table 3).

Table 3. Response by Sector

Sector	Percentage
Public Sector	31(50.8)%
Private Sector	30(49.2)%
Total	61(100)%

4.2 Relative Importance Index for Problem Factors

4.2.1 Political Factors

Using the Relative Importance Index to rate the various factors based on responses of all the respondents surveyed reveals the following, 'corruption in government' turned up as the most important factor with an RII=0.90 and ranked (1), this is a surprising result because the questionnaire was served not only on private sector officials but also

public sector officials. 'Government policy on infrastructure' turned up second (ranked 2) with an RII=0.78, while 'lack of consensus on infrastructure policy' returned an RII=0.77. The fourth place goes to 'political stability' which came up with an RII=0.68 and 'effective and respectable judiciary' came up as the least factor among the political factors identified and presented to the respondents through the questionnaires with an RII=0.61 (Table 4).

Table 4. Relative Importance Index of Political Factors

Political Factors	RII	Ranking
Corruption in government	0.90	1
Government policy on Infrastructure	0.78	2
Lack of Consensus on Infrastructure	0.77	3
Priorities		
Political Stability	0.68	4
Effective and respectable judiciary	0.61	5

4.2.1 Economic and Social Factors

On the economic and social factors, 'high participation cost' came up as the most important and significant factor as rated by the respondents and shown by the weighing returned through the RII with an RII=0.71

and ranked (1), this was followed by 'absence of strong financial institutions' with an RII=0.65 and ranked (2). "Public support" came next with an RII=0.57 which it tied with 'unemployment'. High participation costs and absence of strong financial institutions are the two most important factors within the

economic and social factors category which create barriers to or slow down the adoption of PPPs in Nigeria. From the response from the respondents from which the RII was generated, public support and unemployment

do not seem to be very important factors, however the issue of 'unemployment' could be debated under a PPP situation since the services to be provided have to be paid for by the end-users (Table 5).

Table 5. Relative Importance Index of Economic and Social Factors

Economic and Social Factors	RII	Ranking
<i>High participation costs</i>	0.71	1
<i>Strong financial institutions</i>	0.65	2
<i>Public support</i>	0.57	3
<i>Unemployment</i>	0.57	4

4.2.3 Environment Factors

Under the Environmental factors responsible for the slow adoption of PPPs in Nigeria, after the analysis to determine the most important environmental factors using the RII, 'lack of adequate security' returned as the most important environmental factor with an RII=0.76 and ranked number (1) this was followed by 'Absence of a clear contract' with an RII=0.63 and ranked number (2) which it tied with 'absence of an efficient construction industry'. The 'lack of knowledgeable professionals' factor with an RII=0.60 came a surprising fourth place out of five factors rated. And the least influential factor showing down the adoption of PPPs for the provision of public infrastructure in Nigeria is 'presence of competing project' with an RII=0.51, (Table 6). This response is not surprising since it is known that there are very few PPP projects in the country and the number is so small that the citizens do not know what constitutes PPP projects. The ONLY tolled road within the country right now has been prevented from taking – off after completion by the end-users who are reluctant to pay for the service. Though there

are a lot of opportunities for PPPs in Nigeria with a population of almost 150 million inhabitants, yet the lack of adequate security prevents investors from bringing risk money into the country to invest. High participation cost and corruption in government which are the most important economic and political factors respectively have also made it difficult for local contractors to form consortiums to bid for PPP project in the country. Political stability, absence of corruption breeds trust and reputation which many investors seek from their public sector partner as there are what gives assurances that at the end of the day, the investor will get returns on their investments irrespective of the marginal profits that may be realized.

4.2.2 Factors That Will Help Overcome the Problems

4.2.2.1 Solution to political factors

From the analysis using relative importance index, 'Elimination of corruption' returned an RII=0.9 ranked number (1), which appears to be the highest among all the other factors. This means that, this factor is the most important of all the other five factors.

Table 6. *Relative Importance Index of Environmental Factors*

Environmental Factors	RII	Ranking
<i>Lack of adequate security</i>	0.76	1
<i>A clear contract</i>	0.63	2
<i>An efficient construction industry</i>	0.63	3
<i>Lack of knowledgeable professionals</i>	0.60	4
<i>Presence of competing projects</i>	0.51	5

If this factor is taken care of within the public sector, then the rate of adoption of PPPs will increase positively. Existence of 'Political Stability' came up as the next most important factor with an RII=0.85 and ranked number (2), which was followed by 'improvement in government policy on infrastructure' with an RII=0.84, the factor 'effective and respectable judiciary' came at the rear among all the political factors which had earlier been listed above, next from behind included 'setting priorities on infrastructure among policy makers' (Table 7). It is very interesting to find that corruption was agreed as the most

significant factor by both public and private sector respondents alike this is because if anything it is the private sector alone that should be complaining of this factor because they are the ones who have to find alternative ways of getting permits and other statutory requirements signed. It will be worth investigating to know why public sector officials would admit that corruption within their own establishments was a major factor responsible for the slow adoption of PPPs for the provision of public infrastructure and services in Nigeria.

Table 7. *Relative Importance Index of Solution to Political Factors*

Political Factors (Solutions)	RII	Ranking
<i>Elimination of Corruption in government</i>	0.90	1
<i>Political stability</i>	0.85	2
<i>Improved government policy on infrastructure</i>	0.84	3
<i>Setting priorities on infrastructure amongst policy makers</i>	0.81	4
<i>Effective, respectable and independent judiciary</i>	0.73	5

4.2.2.2 Solution to Economic and Social Factors

On the economic and social factors, the RII returned 'developing strong financial institutions' as the most important factor with an RII=0.83 and ranked number (1) this was

followed by 'adequate involvement and sensitization of the public' with an RII=0.78 and ranked number (2), while 'reduction in participation cost' came third place with an RII=0.74 the rear was taken by 'staff transfer agreement to reduce unemployment' with

an RII=0.69. This is not surprising as it is believed that with the implementation of PPP procurement, there will be jobs available for the different categories of jobless youth

presently available since, such infrastructure provision will involve construction works, information technology related jobs, maintenance jobs etc (Table 8).

Table 8. RSolution to Economic and Social Factors

Economic and Social Factors (Solutions)	RII	Ranking
<i>Developing strong financial institutions</i>	0.83	1
<i>Adequate involvement and sensitization of the Public</i>	0.78	2
<i>Reduction in participation costs</i>	0.74	3
<i>Staff transfer agreements to reduce unemployment</i>	0.69	4

4.2.2.3 Solution to Environmental Factors

On the issue of Environmental factors, 'improving the knowledge of professionals' came up as the most important factor under the environmental factors suggested as being able to help hasten the adoption of PPPs in Nigeria with an RII=0.86 ranked number (1), this was followed by 'improvement in security' which came up with an RII=0.84 and ranked number (2). The first two factors are indeed very important for the investors who intend to come and provide services in any country as they will guarantee and create the confidence that they will be able to get return

on their investments. The respondents did not think that 'proper cost benefit analysis' with an RII=0.79 and 'joint ventures with foreign firms' also sharing an RII=0.79 were significant factors that could help speed up the use of PPPs for the provision of infrastructure. 'A clear contract' came out with an RII=0.76 to make the fifth place and guaranteeing demand/- competing projects' RII=0.65 came up as the least factor under the environmental category that had the power to speed up the rate of adoption of PPPs for the provision of public infrastructure and services in Nigeria and other developing countries (Table 9).

Table 8. RSolution to Economic and Social Factors

Environmental Factors (Solutions)	RII	Ranking
<i>Improving the knowledge of professionals in PPP</i>	0.86	1
<i>Improvement in Security</i>	0.84	2
<i>Proper cost benefit analysis</i>	0.793	3
<i>Joint ventures with foreign experienced firms</i>	0.79	4
<i>A clear contract/Toll review mechanism</i>	0.76	5
<i>Guaranteeing demand/absence of competing projects</i>	0.65	6

5.0 Finding and observations

The various reasons for the slow adoption of PPP for the provision of public infrastructure were discussed separately, each with its causes, and possible remedies that could be used to enhance the perception and use of this procurement strategy that holds a lot of potential to improve the infrastructure conditions in the country within a very short time. The descriptive statistics and relative importance index was adopted for the analysis of data collected from the questionnaire survey. From the 'Relative Importance Index analysis, the most significant factors were treated within their respective categories viz: Political factors, Economic and Social Factors, and Environmental Factors. The most significant political factors from the Relative Importance Index were 1) Corruption in Government, 2) Government policy on infrastructure, 3) Lack of consensus on infrastructure priorities, while 4) political stability and 5) Effective and respectable Judiciary were ranked as not too significant political factors by the respondents. For the economic and social factors, of the four factors under this category, 1) High participation cost, 2) Absence of strong financial institutions, 3) Lack of public support, were ranked as the most significant in that order, while 4) unemployment among end-users was not considered as being very significant an economic factor to result in slowing the adoption of PPPs for the provision of public infrastructures and services in Nigeria as perceived by the respondents. And finally, on the last category, environmental factors, 1) Lack of adequate security, 2) Absence of a clear contract, 3) Absence of an efficient construction industry were ranked as the most significant environmental factors responsible for the

slow adoption of PPPs in Nigeria by the respondents, while 4) Lack of knowledgeable professionals and 5) Presence of competing projects were ranked as not too significant environmental factors as perceived by the respondents and determined through the Relative Importance Index. The reasons identified above and their rankings in terms of significance were in response to the first objective of the study, which was to identify the reasons for the slow adoption of PPPs for the provision of public services in Nigeria. The second objective of the study was to identify the possible ways to overcome slow adoption of PPPs in Nigeria in total 15 possible strategies which can help overcome the slow level of adoption of PPPs for infrastructure provision were identified from literature review, these factors were further categorized under three headings namely, Political factors, Economic and Social Factors and Environmental Factors and then analyzed separately based on the 3 categories created. Under the Solutions to Political factors, of the five political solutions identified and processed using RII to determine the most significant factor, it was not surprising that 1) elimination of corruption, 2) Political stability and 3) improvement in government policy on infrastructure turned up as the three most significant factors in that order while under economic and social factors, 1) Developing strong financial institutions 2) adequate involvement and sensitization of the public and 3) reduction in participation costs were found to be the most significant. Finally, under the solutions to Environmental factors, 1) improving the knowledge of professionals in PPPs 2) improvement in security and 3) proper cost-benefit analysis were found to be the most significant factors that would help

improve the use of PPPs for the provision of public infrastructure in Nigeria.

6.0 Conclusion and recommendations

Public private partnerships has become the most preferred method of providing public infrastructure and services, this change in procurement method has been made possible by government will to reduce public sector borrowing, transfer the twin construction risks of time and cost overruns and reduce the presence of the government in the economy in line with the principles of the New Public Management (NPM). However in most developing countries and especially in Nigeria, high rate of corruption in government high cost of participation and lack of adequate security have all combined to slow the uptake and use of PPPs for the provision of public sector infrastructure and services. In order to improve the use of PPPs to provide the much needed infrastructures to enhance economic growth and well-being of the growing population of the country, it was found that the elimination of corruption in government, the building of strong financial institutions and improving the knowledge of professionals in the PPP procurement strategy would greatly assist the country overcome the dearth of public services and enhance economic growth. The availability of good public services is a basic medium for economic growth. Electricity, good roads, pipe-borne water are

essential for the well being for any nation, therefore the government should Endeavour to fight corruption consequent upon which private investors and foreign firms would be confident about investing their risk-capital in Nigeria albeit other developing countries. The government should also assists its financial institutions to achieve world-class standard so they would be able to provide the necessary financing for PPP projects. The government should also provide a means for training both public and private sector on the benefits and strategies employed in this procurement strategy. These will go a long way in helping the countries overcome the present shortage of good public infrastructure which has clogged the wheels of its progress since its independence from Britain 50 years ago. Though there are other areas that need improvements to help speed up the use of PPPs like having a respected and independent judiciary, a clear policy on infrastructure by policy makers and the provision of security for the lives and properties of the population including foreign nationals; but it is hoped that if government fights corruption and enlightens the population on the importance of adopting this procurement strategy it will succeed in speeding up the provision of the necessary public infrastructure for economic development. In conclusion, the research questions were all answered by the study, and the study also achieved the objectives of the research.

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Equal opportunities in the public and private sector

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Abstract: Equal opportunities are a goal to achieve in Romania at the legislative and institutional/organizational level. In terms of legislation Romania has made progress, but the institutional mechanisms of the government dealing with gender equality issues are not functioning properly, are not generating a concrete impact on the equal opportunities for women and men. For this reason there is no specific and significant political commitment to the issue of gender equality in Romania. Gender discrimination is addressed both by anti-discrimination and equal opportunity laws. Equality, fairness and non-discrimination in the workplace environment are present as objective requirements of economic, social and ethical behavior that goes beyond the labor market. Theoretically, on the labor market, both public and private sectors do not accept direct or indirect discrimination at the workplace, especially during the process of recruitment, training, development, promotion, establishment, payment of the salary and benefits. In practice, the legislation regarding the equal opportunities and equal treatment it is not respected by the employers all the time.

Promotion of the policies at the national and organizational level, focused on ensuring equal opportunities, will enhance the social cohesion of the population that will generate economic growth overall.

Key words: equal opportunities, equal treatment, discrimination, labour market, mobbing, policies

1. General legislative overview

During the past years, Romanian laws concerning equal opportunities for women

and men, discrimination and social security have been substantially amended. Some of the changes are meant to fulfill obligations of the Romanian Government to implement

the European Union Directives on equal opportunities and antidiscrimination. Other amendments diminished the former provisions, without being contrary to the EU Directives.

1.1 Protective Measures for Pregnant and Breastfeeding Workers

The main legislative changes are related to the protective measures for pregnant workers and women who have recently given birth or are breastfeeding. Almost all the recommendations made in the first report related to the Council Directive 92/85/EEC of 19 October 1992 on the Introduction of Measures to Encourage Improvements in the Safety and Health at Work of Pregnant Workers and Workers who Have Recently Given Birth or Are Breastfeeding have been incorporated into Romanian law. The legal acts that introduce those provisions are:

-Emergency Government Ordinance No. 96 of 2003 on Maternity Protection at the Working Places¹;

-Law No. 25 of 2004 on Approval of the Emergency Government Ordinance No. 96 of 2003 on Maternity Protection at the Working Places²;

-Methodological Norms of April 7, 2004 for the appliance of the Emergency Government Ordinance No. 96 of 2003 on Maternity Protection at the Working Places³.

¹Emergency Government Ordinance No. 96 of 2003 on Maternity Protection at the Working Places, published in the Official Gazette 750 of October 27, 2003.

²Law No. 25 of 2004 on Approval of the Emergency Government Ordinance No. 96 of 2003 on Maternity Protection at the Working Places, Official Gazette 214 of March 11, 2004.

Thus, the concepts “pregnant worker”, “worker who has given birth” and “breastfeeding

Worker” are now legally defined as follows⁴:

- A “pregnant worker” is a woman who has notified her employer in writing about her physiological condition of pregnancy and attached a medical document from the family doctor or her gynecologist for confirmation of her condition.
- A “worker who has given birth” is a woman who is resuming her active employment after maternity leave, not later than six months from the day she gave birth, and who has asked the employer, in writing, for the applicable legal protection measures, and attached a medical document from the family doctor for confirmation of her medical status.
- A “breastfeeding worker” is a woman who, upon resuming her active employment after maternity leave, is breastfeeding and has revealed to the employer, in writing, the beginning and the estimated end of the breastfeeding period, attaching a medical document from the family doctor for confirmation of her medical status.

At the same time the following procedures were introduced:

³Methodological Norms of April 7, 2004 for the appliance of the Emergency Government Ordinance No. 96 of 2003 on Maternity Protection at the Working Places, Official Gazette 378 of April 29, 2004.

⁴Emergency Government Ordinance on Maternity Protection in the Workplace, Article 2

- the employer's obligation to review and assess the working conditions, as well as to inform pregnant and breastfeeding workers and workers who have recently given birth about those conditions⁵;
- the employer's obligation to grant an exemption from work ("maternity risk leave") if it is not possible to transfer the employee to a different job within the workplace⁶;
- the employer's obligation to allow female employees to attend a medical examination during working hours without a decrease in pay⁷;
- the list of agents, processes and working conditions that physically and/or mentally affect pregnant and breastfeeding employees are to be made public⁸;
- the obligation to take a maternity leave of 42 days after the birth (from the total of 126 days of maternity leave that women are entitled to take before and/or after the birth);
- protection against the dismissal of women taking maternity leave or maternity risk leave, and against the dismissal of men and women who are taking parental leave or special leave to attend to sick children up to seven years or, in the case of disability, up to 18 years⁹.

⁵Ibid., Articles 5 and 6

⁶Ibid., Article 10

⁷Ibid., Article 15

⁸Ibid., Annexes 1 and 2

⁹Ibid., Article 21

1.2 Labor Code

The Labor Code went through a major revision at the beginning of 2003 and it was again amended in 2011. In the new version of the Labor Code, Article 128 stipulates that pregnant women, women who have recently given birth or are breastfeeding cannot be forced to do night work¹⁰.

The Labor Code also mentions other important aspects relevant in the prohibition of gender discrimination:

-Article 272 regulates the reversal of the burden of proof in work conflicts. Although the article does not make direct reference to gender discrimination and is applicable only to work conflicts (excluding the initial phase of job advertising or the process of job selection, e.g. a job interview), the European Commission stated in its 2003 Regular Report on Romania's Progress Towards Accession that "the directive on the burden of proof has been transposed by the Labor Code"¹¹. Nevertheless, although Romanian anti-discrimination legislation has been updated recently, a reference to the reversal of the burden of proof in discrimination cases, including gender discrimination, has yet to be made¹².

¹⁰Law No. 53 of 2003, the Labor Code, amended by the Law No.40 of 2011 published in the Official Gazette 345 of May 18, 2011, Article 128

¹¹European Commission, 2003 Regular Report on Romania's Progress towards Accession (Brussels: European Commission, 2003), p. 76. Available at http://europa.eu.int/comm/enlargement/report_2003/pdf/rr_ro_final.pdf

¹²Iustina Ionescu, "Legal and Institutional Context of Discrimination in Romania," in *Combating Discrimination: Efficiency of the Governmental and Non-Governmental Initiatives* (Bucharest: Agenția de Monitorizare a Presei, 2004), p. 17

- Article 152 gives the right to take a few days of extraordinary paid leave in cases of special family events. These days are not included among the usual leave.

- The Labor Code also regulates part time work. According to Article 103 of the Labor Code a part time work contract allows employers to hire people to work not less than two hours per day, and not less than ten hours per week. Part-time employees have the same rights as the full-time employees.

- Articles 111 to 119 of the Labor Code regulate the application of flexible work programs.

Other rights related to the equal opportunities for women and men were already included in the former Labor Code, thus amendments were not necessary.

1.3. Anti-Discrimination Legislation

Anti-discrimination legislation in Romania includes gender discrimination issues. As a result, gender discrimination is addressed both by anti-discrimination and equal opportunity laws. During the past years, anti-discrimination laws have also been amended by introducing the concepts of 'indirect discrimination', 'harassment', 'victimization' and 'disposition to discriminate'. Moreover, the fines for discriminatory acts have also been increased.

In the process of changing the legislation on anti-discrimination, the National Council for Combating Discrimination proposed the term 'gender' as a criterion for discrimination, replacing the term 'sex'. This proposal has not been accepted by the Parliament.

2. Institutional mechanisms

2.1 Parliamentary Commissions

The Parliament has two bodies that

address issues of gender equality: the Deputy Chamber Commission on Equal Opportunities for Women and Men¹³ and the Senate Commission on Equal Opportunities for Women and Men. Unfortunately, these committees have not been able to fulfill their mandate due to the lack of real political interest in the field of equal opportunities for women and men, as well as a lack of financial resources to sustain their activity.

The Deputy Chamber Commission on Equal Opportunities for Women and Men is officially comprised of 21 deputies (18 women and three men), and has the following domains of activity:

- the elimination of any form of sex-based discrimination and the improvement of women's social status;
- the integration of the principle of equal opportunities for women and men in legal initiatives, policies and programs;
- the monitoring of the application of legal provisions included in international documents signed and ratified by Romania, concerning equal opportunities for women and men.

The Commission's tasks are as follows:

- to promote the application of the principle of equal opportunities for women and men in the national legislation;
- to monitor the integration of the equal opportunities principle within policies and programs, through collaboration with the social partners and public institutions responsible in the field;

¹³For the founding documents of these committees, see the Deputy Chamber Decision No. 24 of 2003 on Setting up the Commission on Equal Opportunities for Women and Men and the Senate Decision No. 10 of 2003 for Completing the Article 56(2) of the Senate's Regulation.

- to give a consultative notification on legal drafts and legislative proposals with an impact on women's and men's status;

- to monitor Romania's progress within the process of harmonizing national legislation with EU standards in the field of equal opportunities for women and men, as well as Romania's progress with regard to international obligations assumed in the field of equal opportunities for women and men;

- to participate in the elaboration of the National Strategy for promoting equal opportunities for women and men, and monitor its application by debating the periodical reports issued by the governmental structures with tasks in the field;

- to consolidate the partnership with civil society, aimed at raising social solidarity through promoting equal opportunities;

- to act for changing the mentality and discriminatory attitudes;

- to support the publication of research, studies, public opinion polls and statistics on the status of women;

- to collaborate with similar structures placed at the EU level and with regional networks active in promoting the equal opportunities principle for women and men.

The Senate Commission on Equal Opportunities for Women and Men placed at the Senate level has 11 senator members (six women and five men), and has the following tasks:

- to examine and discuss legal drafts and legislative initiatives aimed at elaborating reports or notifications on the elimination of any form of sex-based discrimination and the improvement of the status of women in society, as well as on the integration of the equal opportunities for women and men principle in the legislative process, in the

policies and programs targeting women and men;

- to monitor the application of the legal provisions on the principle of equal opportunities for women and men in light of the international documents ratified by Romania;

- to request reports, notices and documentation from the public authorities concerning the activities in its sphere of competence;

- to elaborate notifications on the written amendments set down by the senators or the parliamentary groups;

- to collaborate with similar European structures in the field of equal opportunities for women and men;

- to pursue ongoing collaboration with the national structures in charge of the application of the gender policies with the aim of elaborating legal initiatives in the field of equal opportunities for women and men;

- to perform parliamentary investigations when considered necessary and to present reports to the Permanent Office.

2.2 Government Offices

The institutional mechanisms of the government dealing with gender equality issues are not very functional, but efforts have been made for the specialized structures to work properly. It is difficult to define the domain of their activity due to a significant number of legal changes over the past years. Thus, through the reorganization of the Ministry of Labor, Family Social Protection¹⁴, the former Directorate for Equal Opportunities has been removed from the ministry's structure.

¹⁴Government Decision No. 11 of 2009 on the Reorganization and Functioning of the Ministry of Labor, Family and Social Protection and, published in the Official Gazette 41 of January 23, 2009

The structure that is currently responsible for dealing with gender equality in the governmental sector is the Coordinator of the National Commission on Equal Opportunities for Women and Men, which has taken the tasks and the responsibilities of the former Inter-Ministerial Commission:

- to disseminate, through the public administration authorities, the concept of gender mainstreaming, in order to incorporate the principle of equal opportunities for women and men and to eliminate the sex based discrimination within the elaboration of the public policies;

- to evaluate the application and implementation stage concerning the legal framework on equal opportunities for women and men;

- to promote the exchange of experience and information in the field of equal opportunities for women and men;

- to elaborate recommendations for supporting the performance of the governmental and non-governmental structures in applying gender mainstreaming policies;

- to elaborate periodical reports on the status and condition of women in Romania, as well as on the application of the equal opportunities policies in different activity sectors.

The above described governmental mechanisms are based on the legal provisions of the Law No. 202 of 2002 on Equal Opportunities for Women and Men¹⁵ that has already been amended with the aim of incorporating the changes generated by the

¹⁵Law No. 202 of 2002 on Equal Opportunities for Women and Men, adopted on April 19, 2002, republished in the Official Gazette 150 of March 1st, 2007.

Council Directive 2002/73/EC of September 23, 2002, amending Council Directive 76/207/EEC on the implementation of the principle of equal treatment for men and women as regards access to employment, vocational training and promotion, and working conditions.

3. Policies, programs and awareness-raising

3.1 Policies and Programs

In line with the above-mentioned legal attributions of the Romanian institutional mechanisms on gender equality, no reference on policies and activities on gender equality can be made. The National Action Plan on Equal Opportunities between Women and Men, provided for in the Government Decision No. 1273 of December 7, 2000¹⁶ did not reach its established objectives in their entire description. The action objectives stipulated for in the mentioned legal norm were not accomplished. Almost four years after the National Action Plan on Equal Opportunities between Women and Men was approved, the Government finally adopted its Decision No. 285 of March 4, 2004 on the application of the National Action Plan¹⁷. The significant delay in the process of adoption revealed a lack of political commitment to the issue of gender equality in Romania.

¹⁶Government Decision No. 1273 of 2000 on the Approval of the National Action Plan on Equal Opportunities between Women and Men, adopted on December 7, 2000, published in the Official Gazette 659 of December 15, 2000

¹⁷Government Decision No. 285 of 2004 on the Application of the National Action Plan on Equal Opportunities between Women and Men, adopted on March 4, 2004, published in the Official Gazette 236 of March 17, 2004

According to the legal provisions of the Government Decision No. 285 of 2004¹⁸, new structures on gender equality were set up. These structures are represented by the “specific structures on equal opportunities for women and men” located within the central public administration authorities and within their public de-concentrated services. As long as they are based on the legal provisions of the Article 4 of the Government Decision No. 285 of 2004, these specific structures are supposed to be set up within the limits of the personnel posts and budgetary allocations already approved it is to be underlined that these structures are functioning only on the paper. In the same way, the information activities and professional training on the legislation regarding gender equality to be carried out by the central public administration authorities shall be assured within the limits of the already approved budgetary allocations, according to the legal provisions of the Article 6 of the Government Decision No. 285 of 2004. Therefore, it is to be emphasized that these activities will not be carried out as long as there are no funds independently secured.

There are no state policies to promote women’s participation in the labor market, such as promoting flexible working arrangements, supporting women to re-enter the labor market after the leave to care for children. There are no state policies or initiatives aiming to reduce gender pay gap, even if in the discourse of the state official representatives this gender pay gap reality is recognized and mentioned. There are no state policies or structures aiming to involve men in sharing family responsibilities. In general, aspects such as reconciling work and family life,

changing attitudes on gender stereotypes, or encouraging men to take greater family responsibilities are absent from the political discourse. Specific programs and initiatives in these fields are still addressed by the non-governmental organizations or other actors of the civil society.

3.2 Awareness-Raising

Although a law on transparency in decision-making has been in force since February 2003, it cannot be said that access to information from state institutions has been improved. The Ministry of Labor, Family and Social Protection (the main institution dealing with gender equality) does not fully comply with the requirements of this law, involving NGOs in debates on gender equality legislation only formally, without taking their point of view into consideration.

4. Key areas of concern and recommendations regarding the domain of equal opportunities in the public sector

4.1 Key Areas of Concern

The activity of the Parliamentary structures is still decorative and does not generate a concrete impact on the equal opportunities for women and men agenda in Romania. The process of establishing proper and specialized institutions is a very important political step in order to recognize the social reality of the obstacles to gender equality in Romania; however, the institutions must be given and guaranteed the financial and human resources to meet their mandate. In the absence of these concrete means, the specialized institutions are going to be another governmental structure that lack national impact in the field of equal opportunities for women and men.

¹⁸Ibid., Article 4

The lack of integrated and consistent state policies on various aspects of gender equality dramatically affects the level of addressing them in practice. The situation is more serious as gender equality policy is promoted only in words, and on very limited occasions. There is no serious and significant political commitment to the issue of gender equality in Romania. Therefore, the legal norms aimed to put in practice gender equality commitments undertaken by the Romanian Government are inadequately structured and lack practical implementation. The monitoring function of the legal commitments assumed by the Romanian state in terms of gender equality is absent.

Civil society is not really involved in the process of decision-making related to gender equality; and there are no campaigns to promote gender equality legislation or public campaigns on gender issues: sexual harassment, sharing family responsibilities.

The gender pay gap still exists; and gender disaggregated data is still lacking, especially data that would give a better picture of the gender situation in the main policy areas (such as the social security scheme, for example). There are no strategic plans for training teachers on gender issues or plans to introduce the gender perspective in educational curricula. The media is not gender sensitive; and there is an enormous need for training media experts on gender issues, and introducing a gender sensitive code of writing.

In addition, there is no detailed information available on gender discrimination cases resolved by the Labor Inspection or the National Council for Combating Discrimination. The procedures (criteria, norms, plans, strategies) through which political parties nominate candidates on the

election list are not sufficiently transparent; and the political parties are not obliged to introduce any measures to encourage the women's participation in politics.

4.2 Recommendations

4.2.1 Legislative Measures

-The Romanian Government should ensure that legal norms aimed to implement gender equality commitments are adequately structured to comply with the relevant EU Directives and they are capable of practical implementation.

-The Romanian Government should ensure that its legal commitments are monitored and their implementation mechanisms are evaluated.

-Civil society should be consulted in a more systematic way in the process of drafting gender equality legislation.

4.2.2 Institutional Mechanisms

-The activity of the Parliamentary structures should cease to be only decorative and should generate a concrete impact on the "equal opportunities for women and men" agenda in Romania.

-The National Agency for Equal Opportunities should be given and guaranteed the financial and human resources to meet its established mandate.

-The National Agency for Equal Opportunities should ensure the equal opportunities mandate is followed as a priority.

4.2.3 Policies and Programs

-Integrated and consistent state policies on various aspects of gender equality should be developed as a matter of priority.

-Specific policies addressing the gender pay gap should be put in place by the Government.

-A gender perspective should be

introduced in educational curricula, and trainings for teachers on gender issues should be initiated by the Ministry of Education and Culture.

- A gender sensitive code of reporting and training programs should be developed for the mass media.

- More transparent procedures should be established regarding the nomination of candidates on the election list.

- Specific measures to encourage women's participation in politics should be introduced (for example, a quota system).

4.2.4 Awareness-Raising

- Detailed information on gender discrimination cases solved by the Labor Inspection and the National Council for Combating Discrimination should be made available to the public, together with a complete report on these institutions' activities.

- Information on the process of drafting gender equality legislation should be made more accessible to the public.

- The government should develop and implement public campaigns on gender equality legislation and on gender issues in order to increase the public awareness on the topic. These campaigns should include simple and effective messages conveyed in an accessible language.

5. Equal opportunities in the public and private sector

In the public and private organizations in Romania, the national legislation requires employers to provide equal employment opportunities and treatment between men and women in the labor relations of any kind, including the introduction of provisions prohibiting discrimination based on gender,

belonging to minority groups, race, religion, disabilities. These elements are listed in the organization and operation regulations and in the internal rules of enterprises.

Internally there is a legal framework for enterprises to ensure operation on a fair, legal and regulatory framework of labor within the company. The main documents regulating the activity of the company staff are: contracts of employment, internal rules of organization, collective agreements at the branch level, legislative regulations in the labor field and the social protection etc.

As in the public sector, the private sector will not accept direct or indirect discrimination in the workplace, especially during the process of recruitment, training, development, promotion, establishment, payment of the salary and benefits.

Direct discrimination is when a person is treated less favorably than another person in a comparable situation.

Discrimination is indirect when, intentionally or not, it is applied a provision that penalizes persons based on race, nationality, sex, sexual orientation, age, religion, marital status or certain disabilities.

To ensure equal opportunities and equal treatment in labor relations the organizations must ensure non-discriminatory access to:

- Employment in all positions or vacancies at all levels of professional hierarchy;
- Equal pay for work of equal value;
- Induction program, qualification, training, specialization and retraining;
- Promotion at any hierarchical and professional level;
- Working conditions that comply with health and safety at work, according to the legislation;
- Any benefits other than salary, security measures and social protection.

To avoid such actions, the employees will be informed permanently, which will include posting in visible places, in spaces reserved for their work, of the rights they have in respect of equal opportunities and treatment between men and women in a labor relationships. The rules of disciplinary sanctions are provided, as provided by law, for the employees who violate the dignity of other employees, committing any discrimination actions.

The employers have the following obligations in order to ensure equal opportunities and equal treatment of employees:

- The employers are required to ensure equal opportunities and equal treatment of the employees, men and women in the labor relations of any kind, including the introduction of provisions prohibiting discrimination based on gender in the organization and operation regulations and in the unit's internal regulations.

- The employers are obliged to keep the employees informed, by displaying in visible places the rights they have in respect of equal opportunities and treatment between men and women in labor relations.

- In addition, motherhood may not provide grounds for discrimination. Any less favorable treatment of a woman related to pregnancy or maternity leave constitutes discrimination. It is forbidden to be required of a candidate for the employment, production of a pregnancy test or to sign an undertaking that the pregnancy will not be accepted during the validity of individual employment contract. Dismissal may be ordered for pregnant women, in maternity leave, prenatal leave, illness on a period which is determined by national legislation. It is also expressly prohibited sexual harassment in the workplace.

A new concept emerged in organizations concerns the promotion of Diversity Management. Diversity refers to all aspects of organizations in which employees differ from one to another. These include a series of visible personal characteristics such as gender, age, ethnicity and also less visible personal characteristics such as skills, needs, and work style.

In general terms, diversity management, including practices for ensuring equal opportunities and affirmative action, focuses more on equality by difference than by similarity, promoting acceptance and use of differences between individuals and groups and recognition of the benefits that diversity can bring in the organization.

The removal of discrimination is aimed to achieve equal opportunities for all individuals and it is a strategy currently adopted by many organizations, even if it's only one component of the diversity management. The latter is something more, namely turning diversity by maximizing employees potential. Currently, management of diversity is a demographic goal as changes are required to switch attention from the perspective of equal opportunities for traditionally disadvantaged groups, to the imperative to attract and maintain employment in the whole variety of population groups¹⁹. Equality, fairness and non-discrimination in the workplace environment are present as objective requirements of economic, social and ethical behavior that goes beyond the labor market. In order to diminish the effects of discrimination there were developed specific measures.

¹⁹Paloş R. (2004), *Diversitatea în organizații: tineri, vârstnici, femei, persoane cu nevoi speciale*, în *Manual de psihologia muncii și organizațională*, Editura Polirom, 2004, p.315

There are already consecrated non-discrimination practices (EEO - Equal Employment Opportunities), and the intended favorable (AA - Affirmative Action), of American origin (which have been adopted, sometimes with the same name in many countries and cultures). These practices are often confused with diversity management. Of course, although not identical, their efforts in all three directions are not mutually exclusive, but ideally can support each other. It was showed that while the policy of equal opportunities and affirmative action mainly serve social goals, diversity management is justified in economic purpose therefore differs from the first through objective, approach and character²⁰.

6. Negative practices

In Romania and the EU equality policies rest upon their governments but at the business level the compliance is poor. Negative practices of violation of equality come as various types of discrimination. Among these is appropriate to recall the classical forms of discrimination as well as two new concepts of discrimination investigated and appeared again in the Anglo-Saxon literature: mobbing and bullying the only specific actions the for discrimination in the workplace.

6.1. Classic discrimination

Among the classic forms of discrimination, "by far one of the most widespread is the gender and the age ones. Newer are discriminations based on sexual orientation, potential communicable disease or persons

with disabilities"²¹. Thus, according to the 2009 Activity Report of the NCCD (National Council for Combating the Discrimination), "most cases of discrimination found in 2009 were aimed at ethnic origin, belief, disability persons, followed by gender and pregnancy status". Most of the complaints registered in 2009 NCCD on gender discrimination were the subject of infringement on employer with regards to the raise of the employee's wage. In cases of complaints made by women, interesting is that it records more and more situations where women are discriminated on grounds of "Pregnancy". NCCD has registered claims that women have complained that the employment contracts were terminated due to the fact that they are pregnant or that they the position they occupied were abolished in the period of pregnancy. To underline, that in any case of the discrimination manifested on both public and private employees, the most common way to solve a problem of discrimination consist in changing the workplace. According to a survey on equality between men and women and discrimination at the workplace, only 45% of employees had a direct discussion with the supervisor when they were discriminated, and 10% addressed to the trade union where they were members. When they complained of discrimination, the employees have recognized especially on the salaries violations: 21% of them said that their salary was lower than that of other colleagues who were making the same work, while that 22% said they

²⁰ Pollar O., Gonzales R. (1994), *Dynamics and Diversity*, Thomson Crisp Learning, USA, p.13

²¹ Alexandra Gheondea, Simona Ilie, Mihaela Lambru, Adina Mihăilescu, Adriana Neguț, Mariana Stanciu, Cristina Tomescu, *Fenomene specifice de discriminare la locul de muncă: Mobbing-ul*, Revista CALITATEA VIEȚII, XXI, nr. 1-2, 2010, p. 113-136

had made additional hours that were not paid. Many of those who have been discriminated have searched for another job to solve the problem.

6.2. New types of discrimination: mobbing and bullying

According to the authors of the study regarding the "Phenomena of discrimination at the workplace"²² - Mobbing is a phenomenon related with discrimination and may be only partially considered as a type of discrimination. It binds exclusively to the workplace and it is related mainly to actions of psychological pressure on an employee by the employer or, especially, by a group of colleagues to determine him to quit the job, given the fact that the dismissal is not possible. There are no reasons in terms of professionalism of the person and / or legislative issues addressed to the employer.

According to Zapf, the term bullying is characterized by aggression of someone in the top/ or managerial position²³. Thus, at times, the two concepts overlap. The difference between the two concepts was described by the authors Whatcott and Bultena²⁴ (op. cit. Gheondea Alexandra and all). As the authors cited above affirm, while while mobbing

targets above average skilled person, in a process of bullying, it is first tested the field, especially with the new employees, to identify the weakest of group. The victims who do not resist the attacks are identified, the so-called "soft targets". In terms of effects, there are identified social and economic effects. Social effects concern the person subjected especially to negative actions, affecting both physical and mental health of the employees and may even lead to social phobia phenomena. From an economic perspective, the uncontrolled phenomenon of mobbing can severely affect labor relations, leading to poor communication, low labor productivity, breaking the team work, leading to a decrease in efficiency and effectiveness of the organization.

7. Conclusions

Mobbing the generally occurs in contexts that do not target a classical discrimination because its actions aims the person on the long term.. Mobbing may occur within the classical discrimination, but the duration, intensity and manifestations constitutes itself as a distinct type of violation of the principle of equal opportunities. While mobbing is the specific labor market discrimination, the classic discrimination can be found in different social spheres. Equal opportunities should be promoted both for equal opportunities between men and women and for other vulnerable groups in the labor market: people with disabilities, ethnic groups, older people seeking employment, young persons. Promotion policies at the institutional level focused on ensuring equal opportunities will enhance the social cohesion of population that will generate economic growth overall.

²²Idem , p. 114

²³Einarsen, S., Hoel, H., Zapf, D., Cooper, C., Bullying and Emotional Abuse in the Workplace. International perspectives in research and practice, Taylor & Francis e-Library, 2004, p. 25

²⁴Bultena, C., Whatcott, R. B., Bushwhacked at work: A Comparative Analysis of Mobbing and Bullying at work, în „Proceedings of ASBBS" (American Society of Business and Behavioral Sciences), vol. 15, pp. 652-666, <http://asbbs.org/files/2008/PDF/B/Bultena.pdf>, 2008

To prevent discrimination acts, both in negotiating collective labor contract at national level and to negotiate collective agreements at the level of organization, the Contracting Parties may introduce clause

prohibiting acts of discrimination and those clauses regarding the proceedings to solve the complaints registered by persons affected by such acts.

Table 1. *The difference between BULLYING and MOBBING*

Bullying		Mobbing
<i>Author (s)</i>	<i>A person, often holds a higher hierarchical level</i>	<i>Colleagues</i>
<i>Target (targets)</i>	<i>Vulnerable, humble</i>	<i>Higher qualified</i>
<i>Motivation</i>	<i>Getting power</i>	<i>The threat is encouraged by the low power of the victim</i>
<i>Actions arising from</i>	<i>Strengthening his/her position</i>	<i>Envy, jealousy</i>
<i>The situation is triggered by</i>	<i>Author's sense of failure</i>	<i>Organizational conflict</i>
<i>Intended effects</i>	<i>Damage the victim (soft targets)</i>	<i>Elimination of the organization</i>
<i>The methods are</i>	<i>Primary</i>	<i>Complexes</i>
<i>Harassment activities</i>	<i>Interaction obviously abnormal, inappropriate</i>	<i>Disguised as normal or ordinary interactions</i>
<i>The attack is</i>	<i>Directly</i>	<i>Indirectly</i>
<i>The defense is</i>	<i>Rather informal</i>	<i>Rather formal</i>
<i>Frequency</i>	<i>Singular or regular occurrence, with no specific pattern</i>	<i>Appears regularly at least once a week</i>
<i>Duration</i>	<i>Variable duration</i>	<i>Long, at least 6 months</i>
<i>When the victim fails</i>	<i>The victim loses his/her effectiveness</i>	<i>The victim leaves the organization</i>
<i>When the victim resists</i>	<i>Attackers retreat</i>	<i>Attackers flourish</i>
<i>Management</i>	<i>Often collaborating with victim</i>	<i>Often collaborating with attackers</i>
<i>Consequences on the aggressor</i>	<i>Often punished</i>	<i>Often unpunished</i>
<i>Consequences on the victim</i>	<i>Loss of confidence, anger, discomfort, frustration, doubt on mental health, unemployment</i>	
<i>Organizational consequences</i>	<i>Low productivity, low efficiency, creativity, loss of reputation, loss of commitment and key employees</i>	
<i>Social consequences</i>	<i>Unemployment, discontent, involving a court</i>	

Source: Bultena & Whatcott, 2008, p. 661

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University management – improvements and dilemma in the context of equal opportunities

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Abstract: *Equal opportunity is a relatively new concept which first of all must be understood, and then implemented as a premise and not as a result of current activities. Equal opportunity in organizations is a new way of achieving results and the modern management puts it as a necessary principle among old ones, such as benchmarking, corporate governance, customer relationship marketing, experience curve, strategic alliances etc. This paper explains the equal opportunity in higher education institutions, their improvements and dilemma sin implementing equal opportunities.*

Keywords: university management, equal opportunity, strategy, discrimination, interested parties.

1. Introduction to University Management in the Contemporary Context

During the last years, most higher education institutions have faced difficulties in managing specific processes and activities since the international financial crisis affected them both directly and indirectly.

The current situation for universities

from the context point of view shows that:

- less resources are allocated from the public budget
- new national normative rules changed the way of many operations
- many measures have been taken at national level under the name of the reform as well as at institutional level which generated frustration and confusion

- lack of human resources in universities both for professors and administrative staff which meant overload and overworking for the current employees

- contradiction in implementing quality management with scarce resources

- huge increase of bureaucracy

- many behavioral changes from all interested parties: students have become more demanding, especially when they pay the tuition, parents have started to claim for better results, professors have complained for too much extra-teaching activities, partners have reduced their involvement, administrative staff has become unable to cope with stress and extra-work etc.

In addition, under these conditions, universities had to take part above all to different projects and to advance financing their activities.

2. University Management and Equal Opportunities

Equal opportunity is not a new concept. During the last years, it has been used as a principle of restructuring different policies at European, national and institutional level. The main idea is that all people should be treated similarly without any barriers or preferences or specific distinctions among them.

Equal opportunity as a management principle promotes the need of identifying most qualified persons for a specific adjective, activity or project among employees.

In higher education institutions, many changes have taken place with regard to equal opportunity. At present, equal opportunities in universities is considered applied most with regard to the students' treatment,

but it is to be considered as well, related to the university staff.

The university management takes into consideration the equal opportunities for students in many ways:

- students are not discriminated in the process of their knowledge evaluation

- students are all beneficiaries of the same learning facilities and infrastructure

- students are not restricted at all to participate to different contests or events.

More than this, universities implementing the quality management system have started to consider the students an interested party and have wanted to understand their expectations in order to better satisfy them. Even so, some dilemmas appeared in this context, such as:

a) -the willingness and actions to integrate into groups those individual students who, from one reason to another, have been neglected, on one side

and

-the new discrimination toward some old members of the groups who have been integrated from the beginning but started to be neglected since the new ones came, on the other side.

b) -the management preoccupation of financial support for students and a more positive attitude to the students coming from families with low resources, on one side,

and

-the discrimination toward students coming from same kind of family incomes, but who couldn't apply for the financial support having income just one unit more than the limit.

At the same time, university management considers the equal opportunity as a principle which must be taken into

consideration as well as for its own employees, both professors and administrative staff.

Equal opportunities among professors mean no discrimination when they have the same characteristics for their promotion, when they are involved in bureaucratically operations, when it is made the schedule for the semester, when it is a chance for a mobility etc. Many times, there is a propensity to feel discriminated and therefore, people become frustrated but just because they have not know the entire judgment.

The dilemmas that can come up are:

a) -professors who are not so much involved in extra-activities and therefore, not supported by management in different activities, such as international mobility, feel discriminated, on one side

and

-professors who are hard working and always present to extra tasks, and therefore, supported and encouraged by management feel also an unfair treatment from their colleagues, since they know they really deserve their appreciation, on the other side

b) -professors who help the administrative staff in different activities, feeling that

they do too much for them, on one side

-administrative staff who contribute to activities for professors feeling that they work too hard and with no compensation in return, on the other side.

3. Conclusions

University management has improved many processes toward equal opportunity principle, but it still faces many contradictions.

More than this, higher education institutions has to accept the equal opportunity as a premise and not as a result. that means that university can develop processes and activities involving equally people according to their competences and at the same time, the management can suggest different actions which will contribute to the achieving of the equal opportunity.

A good university management is that which promotes strategies based on equal opportunities. Besides, university is more than any company, a learning organization and has the willingness to rethink its objectives and methods.

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