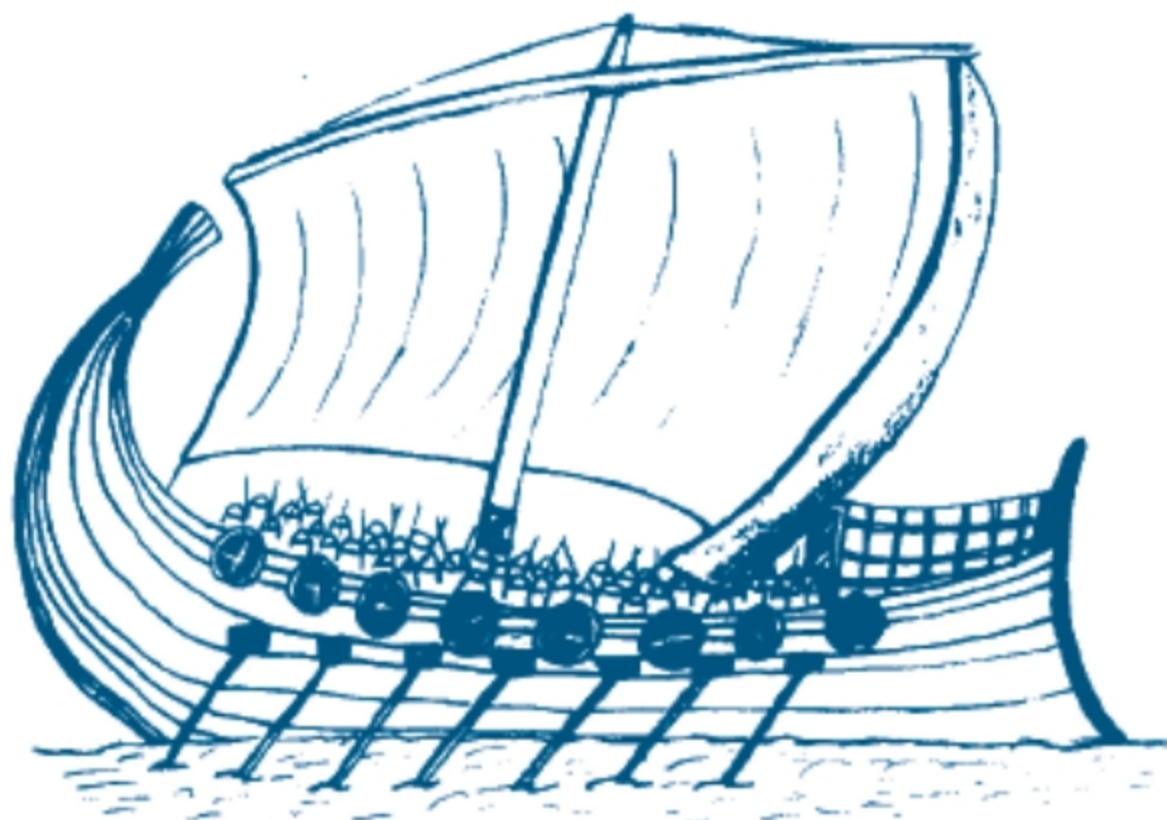




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SUSTAINABLE HUMAN RESOURCE DEVELOPMENT DECENTRALISED GOVERNANCE AND ECONOMIC DEVELOPMENT OF INDIA

HALIMA SADIA RIZVI¹

ABSTRACT. Human resource development requires the provision of basic necessities of life for the existence and survival at grass root levels. Sustainable human resource development can be attained and sustained only when the people at large have access to opportunity, information, communication, knowledge decision making, empowerment and implementation. All these levels create a smooth road towards economic development.

India a nation with largest manpower (next only to China) resource needs to handle this fragile resource for developing linkages between Human Resource, Economic Development and Sustainable Economic and Human Resource Development.

The paper attempts to examine these aspects and related issues in the context of human resource development as a goal through the process of Decentralized Governance.

Key words: sustainable human resource development, decentralized governance, economic development of India

Introduction:

Governance for human development relates to the management of all such processes that in any society, define the capacity levels, and provide opportunities to realize these potentials in a set of available choices.

Decades of development assistance conclude that economic development alone cannot lead to equitable and lasting development, which meant exclusion of political, social, environmental and cultural factors. However in the face of the continued and devastating poverty and rapid environmental deterioration, it is an acknowledged fact that development progress must be people centered, equitably distributed and environmentally and socially sustainable.

Sustainable human development is development that not only generates economic growth but also distributes its benefits equally, that generates environment

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rather than destroys it, that empowers people rather than marginalize them. It gives priority to the poor, enlarging their choices and opportunities and providing for their participation in decisions affecting them. It is development that is pro poor, pro nature, pro jobs, pro women and pro children.

To achieve sustainable human development the human society needs good governance-, which is defined as the manner in which power is exercised in the management of the country's economic and social resources.

Human governance is governance dedicated to securing human development. It must enable the state, civil society and the private sector to help build capacities, which will meet the basic needs of all the people, particularly women, children and the poor. It requires effective participation of people in state, civil society and private sector activities that are conducive to human development.

Without good governance, good development-people centered development will not move from promise to reality. Sustainable human resource development depends on good governance and the empowerment of individuals and communities to participate in the decisions that affect their lives i.e. decentralized governance.

The fundamental principles of decentralized governance are universal: they include respect for human rights-including women and children rights, respect for the rule of law; political openness; participation and tolerance; accountability and transparency; administrative and bureaucratic capacity and efficiency. These are mutually reinforcing and cannot stand-alone.

Experiences from many countries show that while good governance can help secure human well-being and sustainable development, poor governance can erode individual capacities and institutional capacities to meet basic needs of sustenance for large segments of population. There is a general acceptance that human deprivation and inequalities are not merely for economic reasons but go hand in hand with social and political factors rooted in poor governance, and manifested in:

1. Poor management of economies-fiscal imbalances, disparities in the levels of growth.
2. Denial of basic necessities of life for a substantial portion of the population
3. Threat to life and personal security-absence/inadequacy of law and order.
4. Marginalization on account of social, religions, caste and even gender affiliations
5. Lack of sensitivity, transparency and accountability in the working of the state machinery.
6. Perverse system of incentives / disincentives for people, subversion of rules, evasion of taxes and denial of timely justice.
7. Despite decentralization –through Panchayti Raj-existence of significant number of voiceless poor with little opportunities for participation.
8. Determination of physical environment, particularly in urban areas.

INDIA'S GOVERNANCE - RECENT SCORE CARD

I. ECONOMIC GOVERNANCE:

Achievements, Concerns and Challenges alternatively:

1. India is among the top ten fastest growing economies of the 1990s;
1. Growth disparities across states have increased in 1990s as compared to 1980s.
2. Substantial forward movement in industrial, trade and aspects of fiscal policy reforms;
2. Implementation problems remain in many states and need parallel action.
3. Tax reforms- rationalization of tax rates, exemptions and simplification required
3. Less than 0.5 % of the population pays income tax, under reporting of income widespread.
4. Reasonable price stability;
4. Stagnant tax –GDP ratio.
5. Comfortable balance of payments, growing foreign exchanges reserves.
5. Central and State Governments running unsustainable fiscal deficits.
6. Significant decline in the incidence of poverty;
6. About 260 million persons or about 26 percent of population still below the normative poverty line.
7. Self-sufficiency in food grains with sufficient public food stock;
7. Acute deprivation, non availability, inequitable distributions still a grim reality.
8. Steady improvement in most of the social indicators;
8. Existence of critical gaps in literacy, infant mortality and atrocities on women.
9. Impressive gains in demographic transition for many states;
9. Population growth still high, unsustainable and persisting, adverse sex ratios in some states.

II. POLITICAL GOVERNANCE:

Achievements, Concerns and Challenges alternatively:

1. A resilient democracy supporting the emergence of a multi-party polity at various tiers of government;
1. Recourse to competitive populism, use of money power, compromising decisive political actions.
2. Politics of coalition and consensus gaining foothold;
2. Absence of institutional framework for sustaining coalition governments for their terms once elected to office.
3. Broad political consensus on nature and direction of economic reforms and national foreign policy;

3. Disruptions in parliamentary proceedings delaying timely and informed legislative work.

4. Movement on decentralization of power from the centre to states, districts and villages;

4. Excessive compartmentalization of the executive, into ministries, vested interests and preventing the rightsizing of a bloated bureaucracy.

5. Positive discrimination, reservation in political bodies at grass root level, competitive elections and social mobilizations of the marginalized a direction towards decentralized political governance;

5. Criminalization of public life, politics of vote bank, communal violence, and corruption are major challenges for improving governance in India.

6. Independent and proactive judiciary on issues of large public interest;

6. Poor convictions, delays and procrastinations on judgments on major issues of the common man.

III. CIVIL GOVERNANCE:

Achievements, Concerns and Challenges alternatively:

1. Provision of basic human and civil rights in the constitution;

1. In practice there exists widespread inequality for women, deprived, disabled and poor in their social and economic rights.

2. Rule of Law:

2. Persisting law and order problems in most parts of the country.

3. Considerable non –governmental and civil society initiative in various social and political aspects of life;

3. Mobilization of people for better work ethics, civic responsibilities and environmental protection.

4. Institutional framework / agencies for checking corruption in high public offices.

4. Distorted, perverse incentive structures in civil services, encouraging mediocrity and corruption, too much of state presence in some areas and too little in others.

ALTERNATIVE FRAME WORK – EFFICIENT GOVERNANCE

Efficient governance requires efficient institutions, which in turn depend on its delivery mechanism and supportive framework of rules and regulations. In the changing environment of society and system a change in the profile of society with development, there has to be capacity for evolution, a continuous adaptation in the elements of institutions, delivery mechanism and supportive framework must exist failing which governance invariably suffers. Some of these changes in society are only natural and should normally be factored in, while creating the institutions and their framework. Institutions such as population growth and developmental changes administrative machinery infrastructure required to create law and order,

analysis of relevant information, rigid ideological positions requisite expertise, the executive, legislative and judiciary determine the levels of delivery mechanism.

In all such cases, if institutions fail to keep up with the changing content and if supportive framework of rules and procedures become out of tune with prevalent delivery mechanism, the institution may fail to deliver on the objectives satisfactorily.

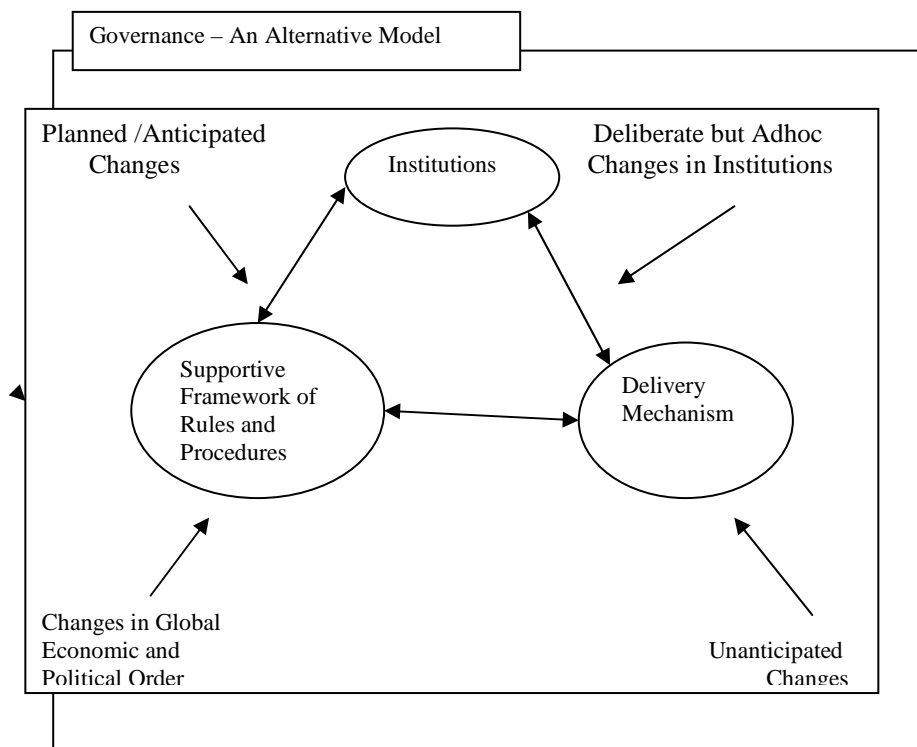


Figure - 1

Successful implementation of development programme requires adequate funds, appropriate policy framework and effective institutional capacity to deliver. Past experiences in the country have shown that availability of resources is no panacea for tackling poverty, disparities and backwardness. It is a necessary, but not a sufficient condition. The determining factor is the institutional capacity to formulate viable need based schemes with efficient delivery system to utilize optimally the available resources.

The macro-economic management of the economy at the center and in the state, in general and that of the public expenditure, in particular high lights the

deficiencies in governance practices resulting from the inertia in the relevant institutions and their practices to keep pace with the changing context.

With the changing political environment-the primitive dissolution of the lower houses of parliament, coalition government, different political parties forming governments in the state and the center-the working together of such institutions concurrently and in consonance with each other cannot be taken for granted anymore.

Corruption is the most endemic and entrenched manifestation of the poor governance in the Indian society, so much so that it has almost become an accepted reality and a way of life as noted by Klitgaard,

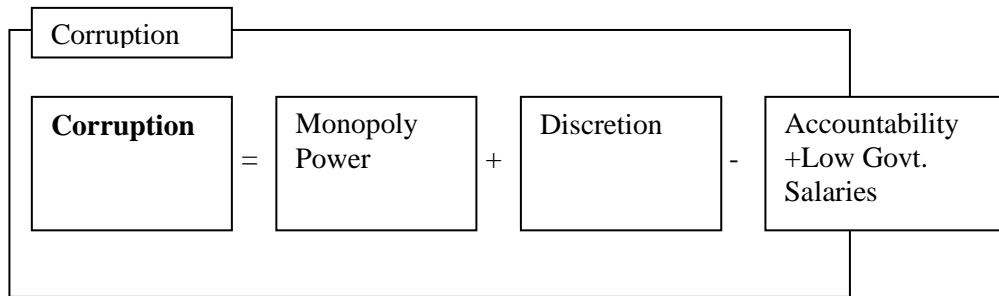


Figure- 2

The solution to the problem of corruption has to be more systematic than any other issues of governance such as economic role of the state with respect to its deregulation, liberalization and privatization, review of prevalent institutional arrangement with regards to the accountability, transparency and social audit.

Redressal of the perverse system of incentive in public life, social monitoring through empowered, autonomous and credible structures, rights to information has to be the starting point of some changes in routing out the menace of corruption.

It turns out that efficient and effective governance requires the institutions, the delivery mechanism that they adopt and the framework of the supportive rules, regulations and procedures to continuously evolve in harmony with each other and in response to the changing context specific to time and the stage of development in any society.

THE SITUATION NOW

The issues of imposing governance in India have to be addressed at multiple levels, which include the socio, economic and political processes towards goals of sustainable human resource development. Specifically they include:

1. Devolution of power to local levels and decentralization of decision - making.
2. Civil services and administrative reforms aiming at improving accountability, transparency and efficiency.

3. Enforcing incentives for social values and norms.
4. Procedural reforms covering all aspects of government interfaces with the public, and
5. Empowerment, particularly of women, the marginal and the excluded.

The enactment of the constitutional 73rd Amendment Bill, 1992 has paved the way for the creation of statutory institutional structures for realizing the goals of Self Governance under the Panchayati Raj system. The explicit objectives of this initiative for democratic decentralization of governance are to accelerate the socio economic development of the rural areas within a participatory framework at the grass root level. The amendment has given statutory recognition to a three tier system of governance with Panchayati Raj institutions (PRIs) at the District (Zilla Parishad), Intermediary (Mandal Panchayats) and village levels (Gram Sabha/ Panchayats). Most of the bodies constituted have completed five years now. A review of the status has been undertaken in terms of the indicators like the conduct of Panchayat elections; constitution of the District Planning Committees; status in respect of the recommendations of the State Finance Commissions on the devolutions of funds.

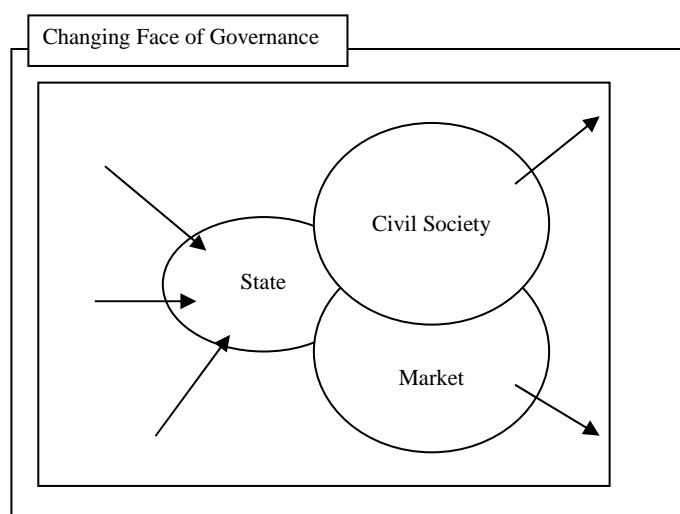


Figure - 3

A major area of concern is that respective state acts have by and large failed to take adequate cognizance of the implications of constitutional status of the panchayats. Under the state laws, the state bureaucracy is vested with wide powers of suspensions and dismissal, which place PRIs in disadvantageous positions.

Besides states governments have also retained financial and administrative powers, which derail democratic decentralization. The scope of panchayat raj has been extended to the panchayat in the scheduled tribal areas also, which reflect various drawbacks and lacunas in the constitution.

Certain steps needs to be undertaken on priority basis for the PRIs to deliver their promises and potentialities

1. Amendment of the Constitution to enable state to abolish district or block level tier of the pachayat and retain only one,
2. Restrictions to be impose on the devolution of Central Finance Commission funds to other sources unless administrative and financial powers are devolved to the PRIs,
3. Strength PRIs with revenue raising powers of their own and encourage them mobilize local resources,
4. Improve accountability of local bodies by evolving a code of conduct for all functionaries of the PRIs and finally,
5. Provide orientation to newly elected members, simplify rules, strengthen financial management and audit procedures.

The success of PRIs rests critically on the reforms of the civil administration at all levels in the state and central governments. There is an urgent need to look at the structure, composition, functioning and the role of civil administration in the development of the country – More than the increase in resources, social sector development needs major reforms in the delivery system.

A control-oriented system has to give way to a growth oriented set up. This requires clear demarcation of responsibility between the law and order machinery and the machinery entrusted with. The tasks of catalyzing development are a partnership with local level self-governing bodies. The coordination of different public and Para – statal agencies engaged in development is essential for utilization of limited resources, minimizing overheads and controlling duplications.

Another important aspects of reform required enhancing the productivity of civil services by linking their performance with social relevant task, which includes incentive structures, such as rewards and promotions on merit and discipline basis and punishment for misconduct and malfunctioning their by promoting accountability and transparency in the functioning. Elimination of unnecessary procedural controls and regulations that stifle entrepreneurial energy, breed corruption and affect the common man has to be a priority area of improving governance. Rationalization of rules, notifying them in a comprehensive and transparent manner, assigning accountability of each functionary and providing administrative and legal recourse will be necessary reforms needed in order to attain success in the economic reforms of the country.

Empowerment of women, the marginal and the excluded has to be among the important means to establish countervailing forces in the society for checking deterioration in governance standards and personal exploitation by others which

requires legislative initiatives by the government. It also requires dissemination of information and free access to all. Most of all it requires capacity building of the individuals through human development strategies involving the access to education, basic health care facilities and opportunities of livelihood.

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A TAXONOMY OF CORRUPTION

THOMAS M. FITZPATRICK¹

ABSTRACT. This article is devoted to providing a working definition of corruption and an explanation as to the importance and the effects of corruption. Included is a review of economic implications as well as an assessment of corruption as positive, negative, or neutral in its effects on the social, political, and economic environment of a nation.

Key words: corruption, culture, governance, taxonomy.

Defining Corruption

The word *corruption* originates from Latin *corruptus*, the past participle of *corrumpere*, which means to destroy. Conceptually, corruption is a form of behaviour, which departs from ethics, morality, tradition, law and civic virtue. The word “bribe”, in Middle English and Old French, meant a piece of bread given as alms. “The etymology of the words suffices to bring home the fact that whilst our law punishes petty corruption, it leaves untouched corruption in its wider sense. Save for the few modern exceptions inserted in our Statute book, the term does not cast its net wide enough to bring home the big fish, the sharks that are there to destroy the very fabric of our society” (Mauritius National Assembly Report, 2002).

It has been suggested that corruption is difficult to define, as the cultural definition of it will vary from one society to the next. This perspective draws its strength from the concept of moral and cultural relativism; “*one man’s gift is another man’s bribe*” is the often used analogy. However, in an effort to avoid a fruitless ontological debate about defining corruption this taxonomy will present the most commonly used and cross-culturally understood definitions of what constitutes corruption.

A Comprehensive Definition of Corruption

Inge Amundsen devoted an entire paper to defining the nature of corruption. The following is his definition of corruption: “Corruption is understood as everything from the paying of bribes to civil servants and the simple theft of public purses, to a wide range of dubious economic and political practices in which

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businesspeople, politicians, and bureaucrats enrich themselves” (Amundsen, 2000, p. 1). This succinct but comprehensive definition of corruption covers the arenas in which corrupt activity can occur (market, legislative, executive and administrative) and articulates the motive which is self-enrichment.

Forms of Corruption

Amundsen further devotes his paper to the description and definition of the forms of corruption that may be encountered around the world. “The main forms of corruption are bribery, embezzlement, fraud, extortion, favoritism, and nepotism. **Bribery** is the payment (in money or kind) that is given or taken in a corrupt relationship. To pay or receive a bribe is corruption per se, and should be understood as the essence of corruption. A bribe is a fixed sum, a certain percentage of a contract, or any favour in money or kind, usually paid to a state official who can make contracts on behalf of the state or otherwise distribute benefits to companies or individuals, businessman, and clients” (Amundsen, 2000, p. 1). The cultural term for bribe is as diverse as the languages and cultures of the world. In Latin America it is called *mordida*; in the Middle East it is *baksheesh*; in Kenya it is *kitu kidgo*; in Russia it is *po-chelovechesky*; in China it is *huilu*; in Indonesia it is *budaya korupsi*; and in the United States it is called a *kickback, sweetener or grease money*. In Japan it has been ritualized to such a degree that the payment is frequently paid through the mechanism of a bet placed on a round of golf played with the intent of the briber losing in a discrete and respectful manner so as not to cause loss of face to the recipient. “In Kenya a newspaper cartoon depicts a man meeting St. Peter at heaven’s gate and offering “*kitu kidgo*”—“*something small*” in Swahili—for a spot inside. In Kenya, the cartoon implies, bribing officials is so much a part of life it may even transcend death” (Omestad et al., 1997). Krzysztof Jasiewicz recounts his brother’s experience in Warsaw “My brother, who owns a little artisan shop in Warsaw, always carries a box of chocolates or a bag of good coffee in his briefcase. On a typical day he has to visit a government agency or two, and little gifts dropped off at official’s desks create an atmosphere conducive to good and swift business, he claims. He developed this custom in the old days of the communist economy of shortage; but today, when there is no scarcity of chocolates or coffee anymore, the practice seems equally effective” (Jasiewicz, 2002).

Embezzlement, the second form of corruption that Amundsen cites, is defined as the “theft of public resources by public officials, which is another form of misappropriation of public funds. Embezzlement is when a state official steals from the public institution in which he is employed, and from resources he is supposed to administer on behalf of the state and the public. In many corrupt countries, embezzlement is one of the most important modes of economic accumulation” (Amundsen, 2000, p. 2). This form of corruption is a form of “capital formation corruption” that has seen political families like the Suhartos of Indonesia amass huge fortunes by pilfering the state or public resources. In the late 1990’s it was

estimated the Suharto family was worth approximately eleven billion dollars. “In Cote d’Ivoire, the president’s family holds the largest coffee and cocoa plantations; and in Cameroon and other African countries the president and his family own the biggest breweries, sugar refineries, transport and other companies. In Zimbabwe the ruling elite seized the farmlands of white farmers as atonement for decades of racism and converted it to their personal property by transferring it to party bosses, relatives and friends.” This form of corruption denies the public its rights to the resources of their nation and “maybe more important than extraction through bribes” to a nation’s economic well being and future (Amundsen, 2000, p. 2).

The third form of corruption cited by Amundsen is *fraud*—“an economic crime that involves some kind of trickery, swindle, or deceit. It is a broader legal and popular term that covers more than bribery and embezzlement. It is fraud for instance when state agencies and state representatives are engaged in illegal trade networks, counterfeit and racketing and when forgery, smuggling and other organized crime is propped up by “official” sanction and involvement. The term “dirty trick politics” is by Jean Francois Bayart in his book, the The Criminalization of the State in Africa, where he chronicles in some detail the fraudulent ways of money extraction including the “import” of toxic and atomic waste from western nations and their involvement in drug trade and money laundering” (Amundsen, 2000, pp. 2-3).

The fourth form of corruption that Amundsen references is *extortion*—“money and other resources extracted by the use of coercion, violence, or the threats to use force.” This form of corruption takes two forms: “one is the corruption from below where “mafia” type organizations in Russia or Italy are able to impose their influence upon individual state officials and entire state agencies through threats, intimidation, and targeted assassination. What they obtain in return may be preferential business opportunities and privileges, and freedom from taxation, and legal prosecution.” The second form is extortion from above “where the state itself is the biggest mafia of them all. This occurs for instance where the state and in particular its security services and paramilitary groups extorts money from individuals or groups to protect them from further harassment” (Amundsen, 2000, p. 3).

The fifth form of corruption that Amundsen (2000, p. 4) cites is *favouritism* – “a mechanism of power abuse implying “privatization” and highly biased distribution of state resources. Favoritism is the natural human proclivity to favor friends, family and anyone close and trusted. Favoritism or cronyism is the granting of an office to a friend or relative, regardless of merit.” Amundsen references a particular form of favoritism called nepotism where one favors their kinship member—family, clan, tribe, ethnic, religious or regional group. This form of corruption destroys the concept of meritocracy and renders government and institutions less effective and credible in the eyes of the public.

Inge Amundsen has for the purposes of this research offered a cogent and effective description of corruption that provides a foundation to avoid any further

debate about the cultural definitions of corruption. But the literature does offer even more laconic definitions of corruption and a review of these would prove useful.

Further Definitions of Corruption

Vito Tanzi (1995) describes corruption as “coming from the Latin verb *“rumpere”* to break, implying that something is broken. This something might be a moral or social code of conduct or, more often an administrative rule. For the latter to be broken it must be precise and transparent. Another element is that the official who breaks the rule derives some recognizable benefit for himself, his family, his friends, his tribe or party, or some other relevant group. Additionally, the benefit must be seen as a direct “quid pro quo” for the specific act of “corruption” (Mbaku, 1996). This definition of corruption will become particularly salient when the study examines the relationship of culture factors to the level of corruption in a nation.

Susan Rose Ackerman (1999) also offers a transactional definition of what constitutes corruption: “Payments, whether in money or in kind, can be characterized along two dimensions. First, does an explicit quid pro quo exist? If so, the transaction may be characterized as a sale even if there is a long time lag between payment and receipt of the benefit. Both market sales and bribes involve reciprocal obligations. The second dimension is the institutional positions of the payers and the payee. Are they agents or principals? A restaurant bill is paid to the owner; a tip to the waiter. A speeding ticket is paid to the state; a bribe to the police officer. Bosses give Christmas gifts to their employees, sales representatives give gifts to purchasing agents, and customers tip sales people for favorable service.

Table 1.1

Payments by clients or customers (Ackerman 1999)

	Quid pro quo	No explicit quid pro quo
Payment to principal	Price	Gift
Payment to agent	Bribe	Tip

Concentrating on only these two dimensions—the existence of a **quid pro quo** and the presence of absence of agents determines what constitutes a bribe” (Ackerman, 1999). (See table above.) The quid pro quo described by Ackerman implicitly involves another dimension in that the agents subordinate their responsibilities to their government and public and to their desire for personal enrichment by accepting the bribe.

Robert Klitgard (2000) offers a mechanistic definition of corruption as “**Corruption = Monopoly + Discretion – Accountability or C = M + D - A**. Whether the activity is public or private, or nonprofit, whether it is carried on in Ouagadougou or Washington, one will tend to find corruption when an organization or person has monopoly power over a good or service, has the discretion to decide who

will receive it and how much that person will get, and is not accountable.” Klitgard’s definition is at once a definition and an attempt to explain why corruption occurs in different environments at different levels.

In Colin Nye’s classical definition, corruption is behavior that deviates from the formal duties of a public role (elective or appointive) because of private-regarding (personal, close family, private clique) wealth or status gains (cited in Amundsen, 2000, p. 5). An updated version with the same elements is the definition by Mushtaq Khan, who says corruption is “behavior that deviates from the formal rules of conduct governing the actions of someone in a position of public authority because of private-regarding motives such as wealth, power, or status” (cited in Amundsen, 2000, p. 5).

“Corruption is not a unified phenomenon. It takes many forms with different types of participants, settings, stakes, techniques and different degrees of cultural legitimacy. In a well-researched paper, Dr. Sangita quotes James S. Nye.” “Corruption is behaviour which deviates from the normal duties of public role because of private regarding (personal, close, private clique), pecuniary or status; violates rules against the exercise of certain types of private regarding influence. This includes such behaviour as bribery (use of reward to prevent the judgments of a person in position of trust), nepotism (bestowing of a patronage by reason of ascriptive relationship rather than merit) and mis-appropriation (illegal appropriation of public resource for private regarding uses” (Nye, 1967, p. 419).

“Jacob van Klaveren (1990, p. 26) believes that a corrupt bureaucrat regards his office as a business from which he is able to extract extra-legal income. As a result, the civil servant's total compensation "does not depend on an ethical evaluation of his usefulness for the common good but precisely upon the market situation and his talents for finding the point of maximal gain on the public's demand curve.” As part of his definition of corruption, Nathaniel Leff (cited in Mbaku, 1996) includes "bribery to obtain foreign exchange, import, export, investment or production licenses, or to avoid paying taxes."

According to Carl Friedrich (cited in Mbaku, 1996), individuals are said to be engaging in corruption when they are granted power by society to perform certain public duties but, as a result of the expectation of a personal reward or gain (be it monetary or otherwise), undertake actions that reduce the welfare of society or damage the public interest as a result of the expectation of a personal reward or gain (be it monetary or otherwise), undertake actions that reduce the welfare of society or damage the public interest.

Institutional Definitions

“The Conference of European Ministers of Justice of the Council of Europe has provided the following provisional working definition of corruption. Corruption, bribery and any other behavior in relation to persons entrusted with responsibilities in the public or private sector which violates their duties that follow

from their status as public official, private employee, independent agent or other relationship of that kind that is aimed at obtaining undue advantages of any kind for themselves or for others" (Council of Europe).

The New South Wales Independent Commission Against Corruption (ICAC) in Australia "defines corruption very widely, including action by non-officials that might affect the 'honest or impartial exercise of official functions' breach of public trust, and misuse of official information. It goes on to list what sort of activities might adversely affect the carrying out of official functions including, for example, bribery, tax evasion, or election fraud" (cited in Mauritius National Assembly Report, 2002). Although it is a concise definition the Australian government has had difficulty determining a working definition of what constitutes "corruption" in a multi-cultural nation such as it. The Australian experience will be explored more fully as the study engages in the assessment of the relationship of culture to corruption.

Singapore's Corrupt Practices Investigating Bureau provides a very simple definition: Corruption is the asking, receiving or agreeing to receive, giving, promising or offering of any gratification as an inducement or reward to a person to do or not to do any act, with a corrupt intention (cited in Mauritius National Assembly Report, 2002).

Broadly, the World Bank defines corruption as "the abuse of public office for private gain." Public office is abused when an official accepts, solicits, or extorts a bribe or when a private agent offers a bribe to circumvent public policies and processes for competitive advantage and profit. Public office can also be abused for personal gain even if no bribery occurs, through patronage (cronyism) and nepotism, under pricing of State assets, collusion to divert public resources, or outright theft. Probably because of its functions, the World Bank is mainly concerned with corruption in the public sector has left the private sector out of this definition (Bottelier, 1998).

In its Source Book (cited in Mauritius National Assembly Report, 2002) Transparency International defines corruption as behaviour on the part of officials in the public sector, whether politicians or civil servants, in which they improperly and unlawfully enrich themselves, or those close to them, by the misuse of the public power entrusted to them. This would include embezzlement of funds, theft of corporate or public property as well as corrupt practices such as bribery, extortion or influence peddling.

Interpol defines corruption as ... any agreement between parties to act or refrain from acting in violation of the Public Trust for profit or gain in either the private- or public sector (Mauritius National Assembly Report, 2002).

The UN's Global Programme against Corruption (GPAC) defines corruption as the "abuse of power for private gain" and includes thereby both the public and private sector. Although perceived differently from country to country, corruption tends to include the following behaviours: conflict of interest, embezzlement, fraud, bribery, political corruption, nepotism, secretarisme and extortion.

Concluding Commentary on Corruption Definitions

At this juncture, it would seem appropriate to recognize that the definitions of corruption that have been chronicled in the previous pages from economists, social scientists, institutions like the World Bank, United Nations, European Council and a host of other sources all appear to contain similar language and meaning in their definitions. But despite this perspective some critics (albeit, cultural relativists) would contend according to Sandholtz and Gray “that practices considered corrupt in one society may be acceptable in another. A related objection is that the general definition is essentially a Western one, that it distorts social realities by forcing non-western cultures into Western categories. Indeed, the private-public distinction itself may be a Western invention. These objections can be responded to with two lines of argument. First, if one were to concede the irreducible cultural particularity of standards of corruption, then comparative, cross-national research on the topic would be impossible (Bayley, 1966), as some might argue that it is. But the logic is not compelling on scientific grounds. Indeed, it is ordinary scientific practice to define analytic categories whose utility is precisely that they permit comparative analysis. The key is to define those behaviors that will count as corrupt for the purposes of this study. In other words, for the purposes of this study, corruption consists of bribery, kickbacks, extortion misappropriation, nepotism, and other practices that use public office for private gain. We can attempt to measure (always) imperfectly the perceived prevalence of these practices in various countries, without claiming that they are considered inappropriate in every local culture (Sandholtz and Gray, 2001, p. 8). While this perspective embodies by in large the same philosophy as this study, it should be noted that global integration is forcing many nations that have simply ignored or winked at their domestic corruption to reassess its impact on their image around the world. “One African diplomat could not say it better. Eastern Europe is (now) the most sexy beautiful girl, and we (Africa) are an old tattered lady. People are tired of Africa. So many countries, so many wars. As we have seen, what is happening in Africa is a blueprint of the problem facing Nigeria. The nation’s “unworkable economic policies, blatant, corruption ... in fact the fossilized system of government has brought almost everything to a halt. Thus, corruption discourages honest effort and valuable economic activities; it breeds inefficiency and nepotism. Corruption leads to possible information distortion as it cooks the books and a high level of corruption can make public policies ineffective. Above all, corruption can tarnish the image of a country. As we have seen, Nigeria suffers more than most nations from an appalling international image created by its inability to deal with corruption and bribery (Dike, 2002, p. 5). So for the purposes of this study we will conclude as Sandholtz and Gray have that corruption is definable across nations despite cultural nuance and that cultural relativism notwithstanding, most nations would be better served by less corruption than more

In closing this section of the taxonomy of corruption here is a more impassioned definition of corruption. “It is impossible to measure the actual extent

of corruption in Mauritius. Corruption leaves no visible trace, no bloodstain and no fingerprints. "Corruption is a consensual crime shrouded in secrecy. The participants are willing, consenting and happy. Not a crime of passion, corruption thrives on secrecy and silence. It is only when a person feels cheated or is actuated by a rare sense of duty and loyalty that he will report an instance of corruption. Rarely does a participant have an interest in revealing the deal. Few crimes are as hard to prove. Perceived to be a victimless crime, it nevertheless has a devastating effect on our livelihood" (Mauritius National Assembly Report, 2002).

Importance of Corruption

"Corruption is like cancer, retarding economic development." (James Wolfensohn, President of the World Bank, 1996)

The issue of governmental corruption has been a topic of discussion, perhaps since one man began the process of governing another and reached its zenith since the advent of the modern nation state and the Weberian treaty on the bureaucratic system. Corruption has been the source of innumerable scandals, edicts, laws and has brought more than one government down in the aftermath of such scandals. "Current headlines suggest that corruption is rampant throughout the world, whether it is the bribery scandal of the 2002 Winter Olympics, the sleaze of the European Parliament, or the extreme malfeasance in corporate America" (Davis and Ruhe, 2003, pp. 275-288).

Effects of Corruption

As noted in the Introduction, The World Bank estimates that 5 percent of the value of exports to developing countries, some \$50 billion to \$80 billion a year, is paid to corrupt officials (Moss, 1997, 26). Transparency International reports that the global impact of corruption is estimated at \$600 billion including governmental contracts, arms procurement, drug trafficking, and bribes to politicians (Mukherjee, 1997, 24). In Pakistan economists have begun to track corruption as a contributor to GDP reporting it at 2% in 1988 and growing to 5% by 1993, according to Dr. Mahbuhul Haque, ex-minister of finance" (Haque, 1995, p. 2). "In Italy over 4800 Italian businessman and bureaucrats were arrested in 1992, in a major crackdown on corruption in the construction and pharmaceutical industries. By the end of the investigation in 1997 magistrates had traced over \$390 million in illegal kickbacks or payoffs. In a survey in 1997, 85% of Italian businessmen acknowledge that bribes had to be paid to secure public sector contracts" (Economist, 1994, 61). In the developing world corruption leads to project cost overruns, misappropriation of funds, and economic projects that benefit the few at the expense of the many. Anecdotally, while teaching in a Mediterranean country, one student, the son of a prominent ocean freight company owner, recounted tales of pallets of U.S. aid dollars being shipped by corrupt African leaders to Swiss bank accounts in the 1990's (Fitzpatrick, 2000). "In Africa, hydro-electric plants sit idle in the middle of

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a desert; highway projects in Pakistan experience cost overruns of 300 percent—construction of a motorway that should have cost \$8.2 billion rupees cost over \$24.2 billion rupees to complete” (Haque, 1995). In the United States corruption is euphemistically called “pork barrel politics”—an example being dead-end interstates in West Virginia (ala Senator Byrd) or enormous cost overruns of the now infamous decade long “Big Dig” in Boston. In 1999, the International Monetary Fund suspended a \$300 million economic development loan as a response to high levels of corruption in the Kenyan government.

One of the more succinct analyses of the importance of corruption is offered by Vito Tanzi, the Director of the International Monetary Fund’s Fiscal Affairs Department, who states that “corruption in government has numerous adverse economic consequences. It distorts the allocative role of government by favoring certain taxpayers, applying rules and regulations arbitrarily, allocating government contracts based on connections and bribes, and ignoring fair and objective criteria in making hiring and promotion decisions. Corrupt practices also distort government’s redistributive and stabilization roles. Furthermore, it prevents government from correcting market failures because it has weak control over the policy instruments that should be used to address imperfections in the market” (Tanzi, 1995, p. 24).

“While the prevalence of corruption varies from country to country, most studies recognize that corruption is detrimental to society and business as well. The Gallup International 2000 Millennium Survey of 57,000 people in 60 countries found that where corruption is at its worst, disillusionment with democracy is at its highest. This suggests that the democratic gains of the past decade are quite literally at risk (Transparency International, 2000). Among the effects are the misallocation of resources that disrupts economic development, the distortion of public policy, and the degrading of the integrity of the business system” (Davis & Ruhe, 2003, pp. 275-288). Revelations of corruption have brought down the governments of Indonesia, Italy, Brazil, Pakistan, and Zaire. “Earlier in the 1990’s corruption shook the governments of South Korea, Thailand, Bulgaria, India, Russia, Nigeria, Taiwan, and even Britain’s conservative government” (Davis and Ruhe, 2003, pp. 275-288). More contemporarily and proximate, New England experienced the venality of Dennis Koslowski, the CEO of Tyco International, and now the impeachment and imprisonment of the Governor of Connecticut for corrupt acceptance of gifts for his summer lake cottage.

Arvind K. Jain (2000) offers his review of corruption; “Corruption is of direct concern to the public at large and investors. First, corruption can directly affect how business is conducted when bribery or other forms of corruption interfere with specific transactions. Since operating within any system requires some familiarity with the “*rules of the game*” a corrupt system may discriminate against outsiders. Second, and more importantly, recent studies on the impact of corruption indicate that its effects tend to reverberate throughout an economy rather than remain limited to specific transactions that may have been influenced

by corruption. Corruption can affect economic growth through its impact on a host of economic variables. These variables may include the level of investment (see Fitzpatrick and Dakhar's study of corruption's impact on FDI, 2001), entrepreneurial incentives, and a design or implementation of rules or regulations regarding access to resources or assets within a country. In addition to economic growth rates, corruption can influence the income distribution within a country."

Empirical Evidence

At this juncture, it would be beneficial to review some of the more important empirical studies that have been conducted to assess the significance and the impact of corruption. Dr. Johann Graf Lambsdorff provides an initial review in his paper "Corruption in Empirical Research—A Review," published by Transparency International, 1999. "This study reviews a large variety of studies on the consequences and causes of corruption. It includes research on the impact of corruption on investment, GDP, institutional quality, government expenditure, poverty, and the international flow of capital goods and aid" (Lambsdorff, 1999). The Lambsdorff review while comprehensive provides the launching platform for a discussion of the state of the research literature on corruption. It will be augmented where needed by the inclusion of a review of articles by authors like Shang Jin Wei (1998, 1998, 2001), Vito Tanzi (1995), Daniel Treisman (1999), Susan Rose Ackerman 1977, 1999, 1999), Paulo Mauro (1995, 1998), and a host of others.

Economic Impact

"The first investigation on the impact of corruption on investment in a cross-section of countries was undertaken by Mauro (1995). The author finds in a sample of 67 countries, corruption negatively impacts on the ratio of investment to GDP. He claims that if Bangladesh was to improve the integrity of its bureaucracy to that of Uruguay, its investment rate would increase by almost five percent of GDP." A similar study by Keefer and Knack employed corruption and other variables into a single index of institutional quality and their findings indicated that corruption significantly reduces the ratio of investment to GDP. Brunetti and Weder also found in their sample of 60 countries that corruption has a significant and negative impact on the ratio of investment to GDP" (Lambsdorff, 2003).

Shang Jin Wei's article (1998) examines the "effect of corruption induced uncertainty on foreign direct investment. His measure of uncertainty is based on unpublished responses by individuals to a survey on levels of corruption in "host countries." The result is striking—the effect of uncertainty on FDI is negative, statistically significant, and quantitatively large. An increase in the uncertainty level from that of Singapore to that of Mexico, which at the average level of corruption in the sample, is equivalent to raising the tax rate in multinational firms by 32% points" (Wei, 1998). Wei in an earlier study used a "data set of bilateral foreign direct investment from fourteen source countries to forty-one host countries and

found clear evidence that corruption in host countries discourages foreign direct investment. Using the point estimates in the paper and the BI-corruption ratings he calculated that if India could reduce its corruption level to the Singapore level, its effect on attracting foreign investment would be the same as reducing its marginal corporate tax rate by 22 percentage points.

The nature of the uncertainty encountered by firms in corruption prone environments is evaluated by studies by Wedeman in his article, "Looters, Rent-Scrapers and Dividend-Collector 1995) and a World Development Report that quotes an entrepreneur who contends that "there are two kinds of corruption. The first one is where you pay the regular price and get what you want. The second is where you pay what you agreed to pay and you go home and lie awake every night worrying whether you will get it or if someone is going to blackmail you." In a study conducted by the World Bank a sample of 39 industrial and developing countries was employed and the results showed that for a given level of corruption, countries with more predictable corruption have higher levels of investment" (Lambdoorf, 1999). Mauro found that if Bangladesh reduced its corruption to that of Singapore, "its average annual per capita GDP growth rate over 1960-1985, would have been higher by 1.8 percentage points. Assuming its average annual growth rate was 4% a year, its per-capita income by 1985 could have been more than 50% higher" (Wei 1998, p. 10). Mauro (1995) further finds that "a one-standard-deviation increase (an improvement) in the corruption index is associated with an increase in the investment rate by 2.9% of GDP" (Mauro, 1995, p. 694). Furthermore, Mauro found that bureaucratic efficiency and corruption were significantly and inversely correlated to one another and that as corruption levels increase the level of bureaucratic efficiency decreases. This finding by Mauro was also borne out in a similar study of corruption and bureaucratic efficiencies in a working paper by Fitzpatrick.

The impact on governmental expenditures or the allocative function of government agencies is assessed by a study conducted by Tanzi and Davoodi to determine the impact on public finance. "Tanzi and Davoodi carried out a systematic study on the effect of corruption on government's public finance. They found several important findings: 1.) Corruption tends to increase the size of public investment (at the expense of private investment among other things) because many items in public expenditures lend themselves to manipulations by high officials to get bribes. 2.) Corruption skews the composition of public expenditures away from needed health and education funds, because these expenditures relative to other public projects, are less easy for officials to extract rents from. 3.) Corruption skews the composition of public expenditures away from needed operation and maintenance towards expenditure on new equipment. 4.) Corruption reduces the productivity of public investment and of a country's infrastructure. 5.) Corruption may reduce tax revenue because it compromises the government's ability to collect taxes and tariffs" (cited in Wei, 1998, p. 11). Wei actually found that from a practical standpoint that an "increase in corruption reduces the quality of roads,

increases the incidence of power outages, telecommunication faults and water losses. He specifically found that an increase in corruption from Singapore level to the Pakistan level would be associated with an extra 15% increase of roads in bad condition” (Wei, 1998, p. 11).

The rent seeking activity of corrupt politicians and bureaucrats has the effect of redirecting the allocation of budget from “less manipulatable” but high social value projects like education and health care to construction projects and defense contracts where the lack of transparency allows for bribes to occur. So the old maxim that the “poor get poorer” and the “rich get richer” may be true in nations where corruption and poverty converge. In a study by Gupta, Davoodi, and Alonso-Terme that examined the impact of corruption on inequality in 37 nations, “significant positive impact was found. It was concluded that a deterioration of a country’s index of 2.5 points on a scale of 0-10 is associated with the same Gini coefficient as a reduction in average secondary schooling of 2.3 years. The authors found further evidence that corruption increases inequality in education and land distribution. Additionally, they examined the income growth of the bottom 20 percent of society and found that corruption exerts a significant and negative impact on this variable. They also were careful to test various instrumental variables to ascertain whether or not the relationship between corruption and inequality is a case of reverse causality; it was not (cited in Lamsdoorf, 2002). Gupta, Davoodi, and Alonso-Terme conclude that high and rising corruption increases “income inequality and poverty, lowers economic growth, biases the tax system to favor the rich, lowers social spending, reduces access to education for the poor, and increases the risk of investment by the poor” (cited in Lamsdoorf, 2002).

Corruption: Positive--Negative--or Neutral

It has been suggested by some scholars over the years that corruption actually may contribute to economic growth and bureaucratic efficiency. “Corruption can be like “grease” speeding the wheels of commerce” (Wei, 1998, p. 3). This perspective on corruption has been offered up in various writings as early as the 1960s by Leff and Huntington and in the late 1980s by Liu. These authors suggest that corruption increases economic growth through two mechanisms. “First, corrupt practices such as “speed money” would enable individuals to avoid bureaucratic delay. Second, government employees who are allowed to accept bribes would work harder, especially where bribes act as a piece rate system of compensation” (Mauro, 1995, p. 1). Liu argues that corruption has positive benefits acting as an allocative auction of bureaucratic services where different economic agents (firms) that are more effectively managed offer larger bribes to lower governmental “red tape. “Bribery then, like an auction, would result in license and contracts being awarded on the basis of bribe size, could achieve Pareto-optimal allocation” (41, Scott, page 33).

David Osterfeld argues that in a heavily regulated economy, one can find two distinct types of corruption: expansive corruption, which involves activities

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that improve the competitiveness and flexibility of the market, and “restrictive corruption,” which limits opportunities for productive and socially beneficial exchanges. Most public sector corruption falls in the restrictive category and involves illegal appropriation of public resources for private use (e.g. outright embezzlement by a civil servant) or the illegal use of an individual’s public position for his own personal enrichment. Public sector corruption hinders the proper functioning of the market system, retards economic growth, and thus is restrictive corruption. As examples of expansive corruption, Osterfield (1992, pp. 212-217) mentions the bribing of judges, politicians, and bureaucrats by members of the private sector. The payment of bribes to the right officials, he argues, can help mitigate the harmful effects of excessive government regulation and improve economic participation (cited in Mbaku, 1996, p. 3). Margaret Goodman on the other hand finds that contrary to Osterfield’s finding of the facilitating nature of corruption that “corruption in the Yucatan did not ensure new groups or entrepreneurs opportunities to enter the market. Instead, corruption allowed the old and more established groups to totally dominate and monopolize markets” (cited in Mbaku, 1996, p. 3).

Victor Dike succinctly reviews the argument of corruption as positive or neutral and its impact on society in his article, “Corruption Nigeria: A New Paradigm for Effective Control”--“Despite the immoral and pernicious effects of corruption, some scholars have argued that corruption can be beneficial to political development or “political modernization” (Nye, March 1965, pp. 1-19). Political modernization or development means growth in the capacity of a society’s governmental structures and processes to maintain their legitimacy over time (presumably in time of social change) by contributing to economic development, national integration, and administrative capacity, and so on (Nye, 1967). One could get entangled with different scales used for measuring political development. Nevertheless, Max Gluckman opined that scandals associated with corruption sometimes have the effect of strengthening a value system of a society as a whole (cited in Dike, 2002). This is probably true in the case of Nigeria. The scandals associated with the Abacha era (looting of the treasury and human rights violations) have given the nation food for thought. Nigeria is still perplexed and preoccupied with the issues of how to strengthen the nation’s essential government structures to avoid a reoccurrence of these kinds of looting and atrocities in the future. In addition, some writers have noted that corruption may help to ease the transition from traditional life to a modern political life. Some have argued that the vast gap between literate official and illiterate peasant, which is often characteristic of the countryside, may be bridged if the peasant approaches the official bearing gifts or their (corrupt) money equivalent. In this respect, McMullan points out that a “degree of low level corruption” can soften relations of officials and people (July 1961). And Shils notes that corruption can “humanize government and make it less awesome” (1962). These observations are common occurrences in Nigeria where communities pay political visits to their Governors, Commissioners, and top civil servants with cows, wine, cola nuts, and money stuffed in ‘Ghana must go’ (bags)

in order to get them to attend to their local problems. The apparent benefits of corruption notwithstanding, the overriding concern is with the evils of corruption. Any right thinking person in Nigeria where ubiquitous corruption has ravaged the society will find it impossible to agree that corruption is beneficial, no matter how plausible the argument (Dike, 2002, pp. 4-5).

The contrarian's perspective on the beneficial nature and effects of corruption while necessary to examine can be dispensed with by the writings of Mauro, Treisman, Wei, and a host of other scholars that find to the contrary that rather than acting like "grease on the wheels" corruption acts more like "sand in the gears" of progress and effective government. Kaufman and Wei find that corruption leads to excessive regulation in order to increase the potential for more rent collecting behavior. (Anecdotally, one thinks of the importer that must obtain 37 individual signatures before his shipment can be released--each signature being a rent-seeker.) Wei and Kaufman also find that firms that pay bribes must engage in wasteful interaction with the rent seeker during the process of the transaction and paying of the bribe. "Johnson, Kaufman and Zoido-Lobaton suggest in their study that "corruption sands the wheels by negatively impacting on the smooth operation of the official economy" (Lamsdoorf, 2002). Kaufman and Wei further underscore this finding by determining that corruption increases the "the burden of government regulations on business competitiveness" (Lamsdoorf, 2002). The paying of bribes for better access or improved bureaucratic process creates an asymmetrical competitive environment that favors larger more established firms and disadvantages smaller entrepreneurial firms. "Cumbersome and dishonest bureaucracies may delay the distribution of permits and licenses, thereby slowing down the process by which technological advances become embodied in new equipment or new productive processes" (Mauro, 1995, p. 1).

Shang Jin Wei offers a story published in the China Youth Daily that "is representative of how bureaucratic corruption and extortion can kill a small business. Huang Shengxin, a 36 year old former soldier and recipient of a Class III military medal, was a private business owner in Guangxi Province's Fangchenngang City in Southwestern China. He left the army in 1982; he thought he would go into the restaurant business. Through his and his family's long hours of hard work, his "Changxin Restaurant" had developed a good reputation and even won an official honorable designation from the county government. Huang himself was designated a National Outstanding Private-Sector worker in recognition of his success in business. This was when the trouble began. Bureaucrats and their relatives loved the restaurant. They paid countless visits over the years, sometimes in the name of work inspection. The problem is that they did not pay the bills. Hy Huang's account, by February 1997, the County Government of Tanying, where the restaurant was located, owed him 80,665 Chinese yuans in unpaid bills or just under \$10,000. On May 20, 1997, burdened by his inability to return the restaurant to its profitable past, Huang sadly folded "Changxin Restaurant" (Wei, 1998, p. 9). The "sand in

the gears” ground Huang’s entrepreneurial dream to dust and without a doubt the bureaucrats are now dining at another successful restaurant. As illustrated by this story, the debate of corruption as “grease” or “sand” may continue but only in narrow academic circles as the weight of reality and needs of society outweigh the value of the discussion.

Significance of Corruption to Multinational Corporations

Multinational corporations have a significant stake in the business environments that they operate within internationally and corruption has a variety of macro and micro impacts upon their performance and opportunities in international markets. Corruption creates a variety of issues for multinationals ranging from asymmetrical competitive relationships, increased cost of products, distortion of government contract allocation process, increased levels of uncertainty reduce investment opportunities, reduced GDP and GDP growth rates, reduced per-capita income levels, increased nominal “tax” rate, and a competitive environment that favors nations without a law comparable to the Foreign Corrupt Practices Act.

Detailed below are the macro and micro impacts of corruption on multinational corporations as reflected in the literature.

- Corruption creates asymmetrical relationships in foreign markets with new entrants to the market competing against local competitors with established bureaucratic “relationships.”

- Corruption increases the cost of products exported around the globe and makes imported products more expensive and thereby less competitive (15 to 20% increase in the cost of goods according to the 1997 World Development Report).

- Corruption distorts the allocative process of government spending and reduces spending in health care, education and similar social programs (World Bank Report, p. 1).

- Corruption reduces or inhibits new business start-ups and favors existing larger firms, so economic growth is stunted. Seventy percent of firms in developing countries have foregone investment because of corruption (World Bank Survey, 1997, p. 37). BEEP survey finds in a cross sectional analysis of 22 countries that small firms pay twice as much of their annual revenue in bribes than larger firms.

- Corruption reduces inward flowing foreign direct investment as the uncertainty and cost of corruption deters multinational interest in foreign markets. Investment in countries with high corruption levels averaged 12% of GDP compared with 21% for those countries with lower levels of corruption (World Development Report 1997).

- Corruption reduces GDP and GDP growth rates and consequently reduces markets for imported products (Mauro, 1995).

- Corruption reduces per capita incomes and inhibits the development of a consumer middle class.

- Corruption increases the time that senior executives spent in “negotiation” with bureaucrats to complete a project (DFID Anti-corruption, p. 3).

- Corruption acts as a tax and increases the cost of doing business (Wei).
- Corruption reduces managerial control—how does management really know how clandestine “fees” are actually being spent and how are they explained to the shareholders of the firm (Aibel, 1996, p. 3).
 - Corruption allows the sale of obsolete or defective goods to developing markets but what is the residual impact upon research and innovation of the firm and its competitive posture in developed markets (Aibel, 1996, p. 3).
 - Corruption has a corrosive effect on managerial discipline, transparency and trust in the organization by creating double standards for domestic managers and international managers (Aibel, 1996, p. 3).
 - Corruption places firms headquartered in countries with strong anti-corruption legislation (Foreign Corrupt Practices Act) at a significant disadvantage when competing with firms without similar legislation governing their conduct abroad.
 - Corruption or the disclosure of corruption has its most significant effect on the global reputation of the firm. Public disclosure of bribery and corruption can lead to the loss of contracts, property, and the paying of financial fines (Aibel, 1996, p. 3). Additionally, the scandal can affect the firm’s financial performance both from a revenue and capitalization standpoint.

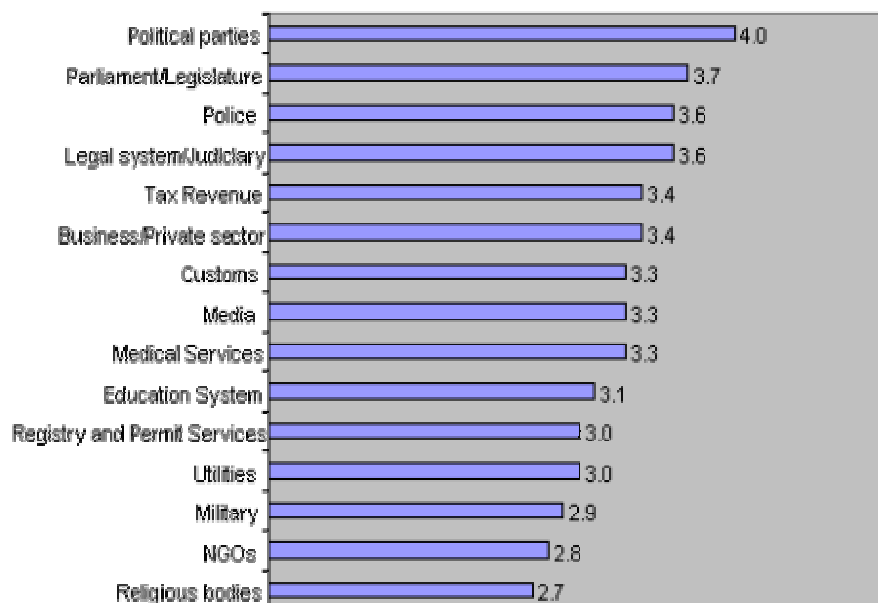
Micro and Macro Aspects of Corruption

The tables presented below are the results of a recent survey initiative by Transparency International to address the micro level impacts of corruption in each nation. This barometer provides a metric by which countries can assess the issues of corruption sector by sector in their societies. It is also becomes apparent by examining the sectors that are represented in this table that multinationals would have an interest in the manner in which transactions would be conducted across the majority of these sectors: legislature, legal system, judiciary, taxation, customs, registry and permit systems, utilities, educational system and the business and private sector. Each of these dimensions clearly would have an impact on the business environment that a multinational would be operating within.

Table 1.3 below provides an insight into the perceived effect on specific spheres of life in a country. Examining the business environment the impact of corruption ranges from a small extent, to moderate and large with corresponding scores of 19%, 30%, and 33% for a total of 82% of those surveyed indicating that corruption has an impact on the business environment. It should be noted that 66% of those surveyed viewed the impact as moderate to large. For the political sphere 85% believe that corruption has an impact on the political operations of their nations. Finally, in the personal and family sphere the survey finds that 66% view corruption as having an impact on their nation.

Table 1.2

Global Barometer of Corruption Perception in Societal Sectors



Source: Transparency International Global Corruption Barometer 2004

Table 1.3

Effect of corruption on spheres of life in a country

	Personal and family life	Business environment	Political life
Not at all	32%	13%	11%
To a small extent	23%	19%	15%
To a moderate extent	23%	30%	26%
To a large extent	20%	33%	44%
Don't know/ no answer	3%	6%	5%

Source: Transparency International Global Corruption Barometer 2004

Table 1.4 below depicts the impact of corruption at the most micro level of economic and political analysis. It affords the opportunity to examine the frequency with which corruption influences the daily lives of the citizenry of different nations. It is important to note that this survey is administered on a household basis so the impact can be considered far greater when countries are reporting that 20 to 50% of their households have had to pay bribes over the past 12 months.

Table 1.4

Corruption Impact on Households

Experience of bribery Question – In the past 12 months, have you or has anyone living in your household paid a bribe in any form? Answer – Yes	More than 50%	Cameroon
	41% - 50%	
	31% - 40%	Kenya, Lithuania, Moldova, Nigeria
	21% - 30%	Albania, Bolivia, Czech Republic, Ecuador, Ghana, Philippines, Romania, Russia, Ukraine
	11% - 20%	Bosnia and Herzegovina, Brazil, Costa Rica, Egypt, Greece, Guatemala, India, Indonesia, Kosovo, Latvia, Mexico, Pakistan, Peru
	5% - 10%	Argentina, Bulgaria, Croatia, Estonia, South Korea, Georgia, Macedonia (FYR), Poland, Turkey, Uruguay, Venezuela
	Less than 5%	Austria, Canada, Denmark, Finland, France, Germany, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Malaysia, Netherlands, Norway, Portugal, Singapore, South Africa, Spain, Switzerland, Taiwan, UK, USA
<i>Source: Transparency International Global Corruption Barometer 2004</i>		

It is reasonable to assume that corruption has a variety of macro and micro level impacts upon performance and opportunities in international market places for multi-national firms and that multinationals would logically be concerned about corruption as an environmental business factor.

Concluding Commentary

Thus far, the taxonomic review has sought to define the term “corruption” within a cross-cultural context and to give examples of definitions from the World Bank, United Nations, European Council of Justice Ministers, Transparency International, and a variety of other sources. For the purposes of this study the following conclusions are drawn:

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- Cross culturally corruption is an activity that can be defined and recognized despite the potential for cultural nuance.
- The impact of corruption on society and economic development is manifestly negative and is recognized as such by both the scholarly community and governmental bodies across the world.
- That Transparency International's definition of corruption is recognized internationally and employed by governmental and non-governmental agencies in their definition of corruption.

It has been the intention of this paper to provide a taxonomic cross cultural definition of corruption that addresses the cultural relativists' belief that corruption is a cultural phenomenon and insulated from criticism or solution by this status. Corruption has its greatest impact on emerging nations and its most profoundly negative impact on the poorest in those societies as public projects and funds are siphoned away to projects that offer greater potential for graft, bribes and corruption. It is time to end the cross cultural semantics of "one man's gift is another man's bribe" debate and engage the issue of corruption with clarity and purpose.

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TECHNICAL EFFICIENCY OF SMALL AND MEDIUM SCALE INDUSTRIES (SMI) IN NIGERIA: EVIDENCE FROM NATION-WIDE SAMPLE SURVEY

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ABSTRACT. Development economists over the years have solicited the use of small and medium industries (SMI) to accelerate the pace of industrialization and economic growth, particularly in developing economies. In recognition of this, entrepreneurship education and the promotion of entrepreneur spirit have received significant attention in Nigeria. This is evident through the deep involvement of government and Non-Governmental Organizations in recent times in the promotion and financing of SMI. In spite of all these efforts, the contribution of the SMI sector to economic growth has been miniscule, while the productivity of the sector has also not been commensurate with the incentives packages. This is essentially because the sector lacks knowledge of modern management techniques and technological capabilities. As postulated in the endogenous growth theory, factor accumulation is not enough to engender growth. Efficiency is a key driver of growth as it enables entrepreneurs to derive more output from a given input. This study lays emphasis on the role of technological capabilities as an important catalyst for the development of SMI and technical efficiency as a major driver of capabilities. An assessment of technical efficiency in this way is necessary because, how technical efficiency contributes to enterprise productivity is a prerequisite to assessing the need for any kind of support for its development. The study utilizes quantitative information gathered from field survey to compute productivity and efficiency indicators. The study also identifies lingering constraints to SMI development. Overall, the findings from this research draw attention to the need for the development of local technology to support and stimulate indigenous entrepreneurship of SMI.

Key Words: Agrarian Economy, Factor Productivity, Technological Capabilities, Technical Efficiency, Endogenous Growth, Learning Mechanism

I. Introduction

Industrial development has been at the heart of Nigeria's economic programme since independence. Shortly after independence, the economic agenda of government was rapid structural transformation of the agrarian economy into a modern industrial one. Indeed, the import substitution strategy of the early 1970s, which was an extension of this agenda, was expected to inter alia drive industrialization.

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This was however not sustained and the aim of rapid industrialization was not realized. With the adoption of the Structural Adjustment Programme (SAP) in 1986, there was a renewed drive to promote industrial development through various incentives and policy pronouncements that would facilitate rapid industrialization and enhance export growth. Consequently, the Small and Medium Industries (SMI) were recognized as having the potential to play a dynamic role in industrial growth, particularly through its multiplier effects on macroeconomic objectives of economic growth, full employment, and income distribution as well as the development of local technology and the stimulation of indigenous entrepreneurship.

In implementing this strategy, the thinking was three fold. Firstly, SMI are more labour intensive than are large enterprises hence labour market distortions, particularly those accentuated by government policy tend to affect SMI less. If such distortion results in higher wages, through institutional factors or trade union activities, larger firms are likely to be more adversely affected. Secondly, larger firms tend to concentrate more in urban areas than SMI. With time, this concentration drives up costs and threatens to stifle the growth potentials of larger firms. By contrasts, widespread SMI growth could create many growth poles, which could serve as a basis for renewed sources of growth (Mazumdar, 2001). Finally, price incentives and the elimination of price and distribution distortions would elicit a speedy and sizeable response in private sector investment, particularly in the SMI.

Lesson of experience has however shown that the expected output growth of the sector has not been realized. The diffusion of managerial skills has not been observed, while the expected increase in productivity has not been commensurate with the level of incentives and other financial support given to them. It is clear that even though price incentives matter, other factors are also important in conditioning the speed and magnitude of output response. Consequently, in 2003, when government drew up a home grown economic programme, christened the National Economic Empowerment and Development Strategy (NEEDS), with private sector led growth as the main strategy, SMI again took centre stage. It is interesting to note that the NEEDS document further identified “*ineffective linkages between industry (SMI) and the larger enterprises) and the research institutes/universities*” and “*lack of engineering capacity to translate research results into finished goods and maintain existing machinery as well as low level of entrepreneurial capacity,...technological support,... and paucity of trained artisan skills*”, as major constraints to the development of SMI. The NEEDS document was invariably referring to the absence of technological capabilities, that is needed to leverage firm-level efficiency.

Technological capability comprises the skills and information to establish and operate modern machinery and the learning ability to upgrade the skills over time. These capabilities, which can be grouped into investment, production capabilities, and learning mechanism, is a veritable tool for determining firm productivity. Firm productivity, which is broadly measured using the concept of technical efficiency,

is known to shift firms output supply curves outwards and thus require both inter-sectoral allocation of resources towards lower domestic resource cost activities as well as movement within firm best practice production technologies. Both of these responses require managerial and workers technical effort and skills.

There are important policy issues, which have been documented in the literature, that arise in the context of analyzing efficiency of the SMI. First, raising efficiency is an essential condition for further industrial development. Second, relative efficiency between sub-sectors can help policy makers identify enterprises/sectors with the highest potential for meeting planned economic targets as well as provide inputs into government policies aimed at maximizing gains from targeted credit programmes or from technical assistance. Thirdly, it allows for linkages between small firms and large ones on one hand and between small firms and research institutions on the other hand. Fourthly, it has been observed that a large number of SMI stagnate in the smallest size classes and do not make the necessary transition into a medium or large size and the need to know why is compelling. Fifthly, for trade policy, the level of relative efficiency of SMI could indicate the ability of SMI to survive extensive trade liberalization. It also has implications for unfair competition from dumped, second-hand, fake, counterfeit, smuggled, and sub-standard goods from abroad. Lastly, an analysis of inter-firm variation in total productivity becomes easier.

In order to formulate a coherent strategy for the SMI sector, it is necessary to: understand the level of efficiency in the SMI; examine the constraints to efficiency; and articulate how the different constraints affect SMI performance. To do this, we designed a flexible survey instrument and administered it to selected owners and managers of SMI. This allows us to derive measures to aid in the assessment of the outcome of technical efficiency and also deploy the analysis in a comparative setting across different sectors. These objectives will help in designing effective incentive and assistance programmes that would foster long-term industrial and economic growth. Furthermore, since most SMI are entrepreneur-owned, focusing on them allows an evaluation of the extent to which personal attributes of owners significantly influence productivity.

Following this introduction, the paper is organized into six sections. Section II, explores contemporary conceptual and theoretical literature on the efficiency nexus of the relationship between SMI and economic growth. In section III, an overview of SMI in Nigeria is presented. Section IV, presents a discussion of the survey methodology, including instruments used, selection procedure and coverage. It also covers the analytical framework, while section V contains the analysis and major findings. Section VI concludes the paper with policy recommendations.

II. SMI, Technical Efficiency and Economic Growth

There is no universally acceptable definition for SMI. Every country sees SMI from perspectives that are peculiar to her. In particular, from the point of view of the role SMI play in economic development and from differences in the state of

industrial organization. According to the National Council on Industries (NCI), a small scale industry is a manufacturing enterprise with total cost (including working capital but excluding land cost) of above N1 million but not exceeding N50 million, with a labour size of between 11 and 100 workers. A medium scale industry, on the other hand, is one with total cost (including working capital but excluding land cost) above N50 million but not exceeding N200 million, with labour size of between 101-300 workers (Anyanwu, 2001).

Typically, SMI have unique characteristics. For instance, they are small in size, in terms of the labour employed and the financial resources required for their take-off and working capital. The capital is mainly generated from own or family sources and from the informal credit market. They are also largely entrepreneur owned and utilize low technological modes of production and management and often do not refer to any legal status. Furthermore, SMI are widely dispersed and make intensive use of mostly locally sourced raw materials.

There are three important arguments for the existence of SMI. The first is rooted in the labour absorptive capacity argument that SMI exist simply because the growth rate of the formal economy is inadequate to absorb the national labour force. The second is the labour creation argument, which explains how SMI can be used to create jobs. The third argument, is the poverty reduction argument. In this context, SMI is seen as a vehicle that facilitates pro poor growth and offer opportunity for better utilisation of indigenous resources. Indeed, the considerable low capital outlay requirement enables them to convert minimal resources into productive ventures and also offer veritable outlets for technological advancement especially in businesses with rudimentary technology requirements.

Since the 1970s and 1980s, when small scale industries came into prominence, their potential for growth has become more apparent. The age long view that lack of entrepreneurship was responsible for the low supply response of SMI has been discredited by the proliferation of informal sector industries comprising petty manufacturers with technical skills and attributes often associated with entrepreneurship: dedication, initiative, hard work, and readiness to jump at opportunities and to take risk (Schmitz, 1995). In developing countries with large informal sector, the importance of SMI and the upgrading of the informal sector are being advocated as a strategy for enhancing development and growth. The case for nurturing the SMI for growth becomes more apparent when one considers their labour intensive nature, income generating possibilities, capital-saving capacity, use of local resources and reliance on few imports, flexibility, innovativeness and strong linkages with other sectors of the economy (Inang and Ukpogon, 1992; Pissarides et al, 2000; Anyanwu, 2001).

Beck and Levine (2003) studied the relationship between the relative size of SMI, economic growth, and poverty. Using a sample of 76 countries, they found a strong correlation between the importance of SMI and GDP per capita growth. Even though the relationship was not robust, the study concluded that the overall business environment as characterized by perfectly competitive market attributes,

sound property rights, contract enforcement influenced economic growth. Globalisation has also provided another avenue for the utilization of SMI as an instrument of growth. This is because with the apparent flexibility and adaptability of SMI, globalization creates opportunities for them to be beneficially involved in the global market for goods and services, including technology (Biggs et al, 1996).

In spite of these empirical evidences of their importance as instruments of development, many SMI in developing countries lack effective organization and knowledge of modern management techniques and low technological capabilities. Technological capabilities refer to the information and skills—technical, managerial and institutional—that allow productive enterprises to utilize equipment and technology efficiently (World Bank 1995). Technological capabilities are in a nutshell, the range of efforts that an enterprise must itself undertake in order to absorb and build upon the knowledge that has to be utilized in the production process. It also includes on the job training undergone by employees and the motivation mix employed by the enterprise to its workers in order to function as an organization.

There are basically three functional classifications of technological capabilities: namely; investment capabilities—the skills and information needed to identify feasible investment projects, locate and purchase suitable technologies, design and manage the plant; production capabilities which is the skills and knowledge needed for the operation and improvement of the plant; and learning mechanism, the dynamic element of technological capabilities enabling firms to change over time the level of investment and production capabilities.

Recent economic growth theories focus on technological capabilities as a major driver for economic growth. Subsequent development in the literature suggest that long run economic growth reflects sustained increases in firm productivity stemming from continuous accumulation of technological capabilities as witnessed in East Asia (Romer, 1986; Stokey, 1988). Theoretical models, in particular those of evolutionary economics, have also demonstrated that incremental technological accumulation can have a positive impact on firm- level efficiency and productivity (Hanusch and Hierl, 1992; and Caves and Barton, 1992).

Technological capabilities have significant positive effect on firm-level technical efficiency. (Krugman, 1979) in his model of technology gap brought in the possibility of technology diffusion to explain North–South trade. He argued that new technology is created in the North but get diffused to the South, the gap between the creation and diffusion creates the possibility of trade. He therefore assumed the existence of a certain imitative, adaptive or absorptive capability in the South to allow for diffusion of technological innovations. Other studies have also emphasized the centrality of technology in explaining firm competitiveness in the United States (Sveikauskus, 1983; Verspagen and Wakelin, 1993).

Studies on technological capability in developing countries are scanty. For instance, Kumar (1990) affirmed that technology variable such as intensity of R&D and technology imports were significant in explaining export performance. Nagesh

and Siddharthan (1994) studied inter-firm variation in export behaviour of some Indian enterprises, using a Tobit model. The study estimated with a three year panel data, confirmed that a firm's technological activity favourably influences its export behaviour only in medium and low technology industries. Studies on some African countries (Zimbabwe, Ghana and Kenya) show that investments in technology and worker training are both examples of a broad set of learning activities that firms undertake to increase their overall technological capabilities (Tyler 1995). Overall, technological capabilities actually enhance efficiency. In a related study, Adei (1987) examined joint venture with TNCs in the timber industry, in Ghana. The study found that the government took technology transfer and the building of national capacity for granted, very little indigenous technological capacity was developed within the firms and upon nationalization, output deteriorated. Building technological capacity requires not only training, but also preparing employees to perform strategic managerial, production, engineering, financial and marketing functions.

Boris et al (1997) studied the possibilities of production gains by improving the efficiency of small scale agriculture. Using an estimated stochastic production frontier to estimate a Cobb-Douglas production frontier, the empirical result showed that the level of technical efficiency stood at 70 per cent indicating a substantial output production and cost minimization at the existing level of technology. In a similar study Deraniyagala (2001) examined the effects of technology accumulation on firm-level technical efficiency in the Sri Lankan clothing and agricultural machinery industries, using cross-section survey data. Results showed that adaptive technical change had a significant and positive effect on efficiency in both industries. In addition, variables relating to technological skills and training also emerge as significant determinants of firm-level efficiency. Also, in Bagachwa (1992), the choice of technology was x-rayed for Tanzania, by evaluating the relative performance of small and large grain milling techniques. The paper discussed technology choice within the context of employment creation, output expansion, surplus generation, skill formation and resource use. The study found out that there exist economic viability of the small-scale milling sub-sector in terms of employment generation, effective utilization of capital and surplus generation, while flexibility of the sub-sector provided the impetus for the development of entrepreneurial capacity.

III. Overview of Initiatives and Support for SMI

Admittedly, the dynamics and behaviour of SMIs in Nigeria is not well understood. What is known, however, is that their contribution to GDP is about 30 per cent relative to the large population engaged in SMI activities and the 58 per cent employment generating capacity (Ukeje, 2003). Limited evidence suggests that they often face challenges, such as, economic, institutional and legal obstacles. These include; restricted access to working capital, long term credit, inadequate

physical infrastructure, low demand for goods, as well as limited managerial and technical expertise. In recognition of these challenges, government had over the years introduced various institutional arrangements and schemes, intended to enable firms' overcome them. The organized private sector has also made significant contributions to the development of the sector. These schemes together with the institutional arrangements are discussed below.

III.1 Government

Small-Scale Industries Credit Scheme (SSICS)

This programme was introduced in 1971 to serve as a revolving grant, which SMI could draw from on concessionary terms, compared to the prevailing conditions in commercial banks. However, the scheme was aborted as a result of mismanagement and abuses by the beneficiaries.

Nigerian Bank for Commerce and Industry (NBCI)

The NBCI was established in 1973, jointly, by the Federal Government and Central Bank of Nigeria as an apex institution for SMI financing. This was in recognition of the fact that the commercial banks' were not able to meet the financing requirements that would sustain the development of SMI. The NBCI also managed the special fund for SMI on behalf of the Ministry of Industry. Available data showed that out of the total loans of ₦710.5 million approved for SMI between 1980 and 1990, only ₦281.6 million was utilized. Factors adduced for this development were poor loan repayment and management abuse.

Central Bank of Nigeria (CBN) Special Credit Programme

In line with its developmental role, the CBN established this scheme in order to assist SMI access credit from the commercial banks. In the programme, the CBN instructed banks to allocate certain percentage of their total credit to SMI. This directive was consistent with the direct monetary policy framework adopted by the CBN at that time. The CBN also established other Development Finance Institution (DFIs) and schemes, with specific objectives of providing financial assistance to priority sectors of the economy which included the SMI. For instance, the CBN in 1997 assisted in establishing the Agricultural Credit Guarantee Scheme (ACGS). Under this scheme, the CBN guaranteed a maximum of 75 per cent of commercial banks loan disbursement to agriculture in any event of default by the beneficiaries. This was aimed at facilitating credit availability to the agricultural sector.

The Rural Banking Programme

The rural banking programme was introduced in 1977 with a clear mandate of lending, at the rural level, through the establishment, by commercial banks, of specified number of rural branches to be opened within a given period, given the fact that most of the SMI are located in rural areas. The aim was to mobilize deposits from these areas and channel them into productive activities and improve

rural access to the sources of formal finance. A total of 200 rural branches were allowed under the first phase of the programme, which ended on June 30, 1980, while 266 branches were allocated in the second phase, which ended on December 31, 1983. The third phase that began in August 1, 1985 increased the number to 300 branches and this phase was expected to end by July 31, 1989. However, the fourth phase of the programme was suspended following the deregulation of banking services that favoured voluntary establishment of rural branches.

Available data show that the rural banking programme did not mobilize substantial deposits. This was due to factors, such as, cumbersome procedure for loan application, the requirement that loan beneficiaries should have a bank account, the need for collateral, certificate of registration of company, tax clearance, and the filling of numerous application forms. These led to inconveniences as repeated calls had to be made to the banks, which in turn increased the transaction cost for borrowers. Thus, the banks were ineffective either in mobilising rural savings or in loan recovery and portfolio management and, thus, rural credit became grossly inadequate for financing SMI.

National Economic Reconstruction Fund (NERFUND)

The Structural Adjustment Programme (SAP) established in 1986, brought in its wake the liberalization of the financial sector and the adoption of indirect monetary control. Consequently, in order to ameliorate the difficulty in accessing loans by SMI, government established the NERFUND. The main objective was to provide soft loans of medium to long term nature to SMI at concessionary rates as well as provide assistance in terms of equipment acquisition from abroad with respect to the foreign exchange needs. The areas covered by the scheme were enterprises that are wholly owned by Nigerians in Agro –allied Industries, Mining and Quarrying, Equipment Leasing, etc. However, NERFUND was faced with some constraints, which hindered its proper execution of the scheme. This included the systemic distress experienced by the financing banks and the volatility of the exchange rate of the domestic currency.

Peoples' Bank of Nigeria

Established in October 1989, the Peoples' Bank of Nigeria was designed to extend credit to informal small scale enterprises at the grass root level. Available statistics indicate that as at end June 1992, a total of 169 branches were opened with loans, amounting to ₦102.6 million, granted to 181,061 beneficiaries. The programme was relatively successful because of the strategy of using "peer group" as a basis for granting loans. The advantage of this arrangement was that it served as a viable option to conventional collateral security demanded by the conventional banks. Despite this remarkable advantage, Peoples Bank experienced some problems, principal among which was inadequate financial resources to meet the enormous number of rural dwellers requesting.

Small and Medium Enterprises Equity Investment Scheme (SMEEIS)

The SMEEIS was set up by the Central Bank of Nigeria, as Small and Medium Industries Equity Investment Scheme (SMIEIS) in December, 1999 to provide long term finance to SME. It however became operational in June 2001. The objectives of the scheme were mainly to provide and facilitate flow of funds for the take up of new SME projects as well as expansion and restructuring of on going projects and to stimulate economic growth, develop local technology and generate employment. Banks under the scheme were expected to provide a portion of their previous year's profit annually for funding to SME in the form of equity investment or direct loan. Participating banks enjoyed benefits such as: dividend from the investment; capital gains at time of investment; tax exemption; and 100 per cent Investment tax credit in the year an investment is made under the scheme. A total of 83 banks under a syndication arrangement had set aside the sum of ₦20.7 billion, between June 2001 and September 2003, for funding the scheme. However, only 23.7 per cent of the total amount was invested and substantial amount was in the real sector activities. Though the scheme is at an infant stage, the pace of utilization of funds has been very slow.

Small and Medium Scale Enterprise Development Agency of Nigeria (SMEDAN)

The Small and Medium Scale Enterprises Development Agency (SMEDAN) was established in 2003 and charged with the responsibility of promoting and facilitating the development of programmes in the Small and Medium Scale Industries sub-sectors. In particular: initiating and articulating ideas for small and medium scale industries policy thrusts; promoting and facilitating development programmes, instrument and support services to accelerate development, modernisation, networking and linkage of small and medium scale industries; mobilizing internal and external resources, including technical assistance for small and medium scale industries, their support institutions; trade associations, and non-governmental organization; facilitating, promoting and developing of standard designs and quality assurance for machinery and equipment, and commercializing them to end-users; among others. It is however too early to give a thorough assessment of this scheme.

III.2 Private Sector

Deposit Money Banks (DMBs) Credit to SMI

Credit to the SMI by the Deposits Money Banks was on the increase under the direct monetary policy control regime, due mainly to the mandatory credit allocation to the sector. However, mandatory credit ceiling was abolished in 1996, while the level of credit disbursed to SMI remained stable up to 1999 with an upsurge in 2000. Conversely, in terms of proportion to the total credit of the banking system, the credit to SMI was on the decline. This showed that banks no

longer considered the SMI as viable. The core competence of commercial banks is not in long-term lending as SMI repayment gestation period is long term in nature. This factor together with risk aversion prevented many DMBs from greater participation in SMI financing.

World Bank Facility for Small and Medium Scale Enterprises

In order to further promote the growth of the SMI, the Federal Government in 1987 negotiated a World Bank facility. This facility, approved in 1989, was operated in the Central Bank of Nigeria, under the CBN SMI Apex Unit and was worth US\$270 million. However, disbursement was very slow. The slow pace of the disbursement was as a result of lack of awareness due to inadequate publicity; People's Bank unwillingness to assume all the risk; unstable macroeconomic environment, among others. This affected the viability of the scheme, such that out of the 242 projects approved for financing only a little above 50 per cent of the value of the loan was executed.

Non-Governmental Organizations (NGOs)

Complimenting government's effort toward building a viable and productive small scale industrial climate, several NGOs have been set up. Prominent among them is the National Association of Small Scale Industrialist (NASSI). NASSI was founded in 1978 and aimed at; fostering the exchange of ideas and techniques on issues relevant to the development of Small Scale Industries (SSI); facilitating credit delivery to SSI; developing computer based information centers for assessing reliable economic data for the industry, among others. With over 20,000 members nation-wide, the activities of the association cover two broad industrial groups, namely, manufacturing, mining and processing and service groups. NGOs involved in the promotion of SMI also organize workshops aimed at providing information and education on how to manage small businesses. Other areas of intervention include training and retraining of prospective small scale business owners and post training support services.

IV. Survey Methodology

The design for eliciting responses from the owners or managers of SMI, using flexible questionnaires is presented below.

IV. 1 Survey Design

Scope, Frame, and Design

Using the international standard industrial (ISI) classification of manufacturing enterprises, eight sectors comprising food, beverages and tobacco (31); textile, wearing apparel and leather industries (32); manufacture of wood and wood products, including furniture (33); manufacture of paper and paper products, printing and publishing (34); manufacture of chemicals and chemical, petroleum, coal, rubber and plastic products (35); manufacture of non-metallic mineral products, except

products of petroleum and coal (36); basic metal industries (37); manufacture of fabricated metal products, machinery and equipment (38); were covered. A frame listing SMI was obtained from a combination of sources, including; the National Association of Small Scale Industries (NASSI) and the National Bureau of Statistics (NBS). This was complemented by the “baseline study” on small and medium enterprises of the CBN and from information obtained from the zonal offices of the CBN.

A two-stage random sampling design was adopted for this study. The first stage selects the states in the six geographical zones, while the second stage is the selection of the SMI from the eight ISI subdivisions. A total of twelve states, two from each of the six geopolitical zones in the country were selected out of the 36 states. In each of the states, two SMI from each of the eight sub-divisions were chosen. By this arrangement, a total of sixteen (16) SMI were covered per state, except for Lagos (24), because of the large number of SMI in that state. Thus, a total of 200 SMI were studied nation wide (see table 4.1).

Table 4.1

Survey Plan and Industry Classification*

State	31	32	33	34	35	36	37	38
Cross River	xx	Xx	Xx	xx	xx	xx	xx	xx
Rivers	xx	xx	xx	xx	xx	xx	xx	xx
Abia	xx	xx	xx	xx	xx	xx	xx	xx
Anambra	xx	xx	xx	xx	xx	xx	xx	xx
Lagos	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Oyo	xx	xx	xx	xx	xx	xx	xx	xx
Gombe	xx	xx	xx	xx	xx	xx	xx	xx
Bauchi	xx	xx	xx	xx	xx	xx	xx	xx
Kano	xx	xx	xx	xx	xx	xx	xx	xx
Kaduna	xx	xx	xx	xx	xx	xx	xx	xx
Plateau	xx	xx	xx	xx	xx	xx	xx	xx
Niger	xx	xx	Xx	xx	xx	xx	xx	xx

31. Manufacturing of Food , Beverages and Tobacco sector, 32. Textile, Wearing Apparel and leather industries,

33. Manufacturing of wood and wood products including furniture, 34. Manufacturing of paper products and printing and publishing, 35. Manufacturing of chemical and chemical products, petroleum, coal rubber and plastic products. 36. Manufacturing of non-metallic mineral products, except products of petroleum and coal, 37. Basic metal industries

1. Manufacturing of fabricated metal and products, machinery and equipment

Structured questionnaires were then administered to the sampling units (entrepreneurs or the heads of the firms) across the country. The questionnaire

focused on: name and location; age of SMI; employment, categorized into skilled and unskilled; training, to mirror research and development; educational status of entrepreneur; capacity utilization; use of capital, characteristics of entrepreneur; and external factors, such as effects of government policies.

IV.2 Survey Response

Four call backs were allowed for each SMI, after which such industry was declared as non-respondent. Consequently, a total of 174 questionnaires were successfully retrieved. The actual number of questionnaires retrieved by state and sector is given in table 4.2, below.

Table 4.2

Questionnaire Retrieval by State and Sub-sector

States	Number of Small and Medium Industries								Total
	Food	Textile	Wood	Paper	Chemicals	Non-Metals	Basic Metals	Fabricated Metals	
Abia	0	3	2	3	3	1	0	4	16
Anambra	1	1	2	2	0	0	1	1	8
Bauchi	2	1	4	2	0	1	4	0	14
Cross River	3	2	3	3	2	1	1	1	16
Gombe	3	2	3	2	2	0	2	2	16
Kaduna	2	1	2	4	1	0	1	4	15
Kano	3	1	2	1	0	0	3	0	10
Lagos	3	5	3	2	1	1	0	1	16
Niger	2	2	3	4	1	2	1	1	16
Oyo	5	1	2	2	2	1	1	2	16
Plateau	3	3	4	2	1	0	1	1	15
Rivers	4	5	2	1	0	0	3	1	16
Total	31	27	32	28	13	7	18	18	174

Table 4.3

Response Rate from the Survey of SMIs

States	No. of Questionnaires Administered	Response	Non-Response	Response Rate (%)
Abia	16	16	0	100.00
Anambra	16	8	8	50.00
Bauchi	16	14	2	87.50
Cross River	16	16	0	100.00
Gombe	16	16	0	100.00
Kaduna	16	15	1	93.75
Kano	16	10	6	62.50
Lagos	24	16	8	66.67
Niger	16	16	0	100.00
Oyo	16	16	0	100.00
Plateau	16	15	1	93.75
Rivers	16	16	0	100.00
Total	200	174	26	87.00

IV.3 Analytical Framework

A descriptive analysis is carried out across sectors, using standard ratios as well as percentages. The aim of the analyses is to examine the determinants of technical efficiency in the SMI along major industry attributes and inputs and thereafter quantify the outcome. This is because systematic technical efficiency differences can be highlighted along major firm dimensions.

Industry Attributes include: size, age of firm and entrepreneur, capacity utilization, training, sources of input use in production, ownership, and ethnic background. Examining firm attributes in these areas are important for several reasons. For instance, larger firms have better penetration in the market and can exploit economies of scale. Studies have shown that technical efficiency increases with firm size (Gumbau-Albert and Maudos, 2002). However, larger firm may also have the problem of keeping the units, hence undermining efficiency. The effects of age on efficiency have been documented even though ambiguous. A positive relationship can be due to learning by doing, which occur with cumulative production experience. The negative impact can be due to old capital equipments (Deraniyalaga, 1999). A sector-wide analysis of firms is considered because there could be positive effects predicted on the grounds of scale economy and the availability of financial resources to invest in skills and technologies. Assessing capacity utilization rate, while examining firm-level technical efficiency, has been very useful in adjusting for the quality of capital and labour (World Bank, 1995).

Efficiency levels are also determined by knowledge and skills and enhanced by a process of learning over time. It may originate from the ownership structure of the firm—foreign linkages can facilitate flow of knowledge and technical progress. Thus, the amount firms invest in new technology is closely related to how much they invest in training. There are sectoral differences in the training of workers such that some industry sectors, because of the peculiarities of their production process require more skilled labour and spend more on research and development. On the other hand firms may be reluctant to invest in training if turnover is high as training itself may contribute to employee turnover (poaching). Also, employers train workers who are trainable. For instance skilled workers have more training than unskilled workers (Lynch 1994). Lastly, training depends on the amount and quality of education workers received before entering the work force.

When markets are characterized by high transaction costs, as is the case in developing countries, a firm's reputation and legitimacy, i.e the degree to which the firm is socially recognized and accepted in the business environment, facilitates a firm's access to scarce resources e.g. credit, foreign exchange, imported spare parts, licenses, skilled labour, etc. (Sleuwaegen, Goedhuys, 2002). Issues such as ownership or formal status of the firm, therefore becomes important.

Technical efficient production is defined as the maximum quantity of output attainable from given inputs. We quantify the inputs and output into the production and development process in terms of labour, capital, and use of technology.

Thus, employment, investment, working capital, cost of production, value of production, value added, etc. are examined. The outcome of an efficient production process is then evident in the productivity of the industry. Thus, ratios mimicking the characteristics of factors of production, namely, factor productivity, factor intensity, and incremental factor ratios, are calculated. Sector specific disparities in these measures, are of interest to planners.

There are policy constraints facing most SMI. These policies hinder their ability to assess financial resources and thus their ability to expand production. The effect these policies have on the performance and efficiency of SMI are also examined in this analysis. In the next section, a detailed discussion on the results of the analyses from the responses obtained from SMI is presented along the major characteristics discussed above.

V.Results and Major Findings

Firm Attribute

Age of Firm

Firm or industry age is a very important determinant of technical efficiency. Respondents were asked to indicate how long their SMI have been in operation. The different ages were grouped into classes of five-year intervals and the proportion of industries as a total of all industries in each of the sectors belonging to the different age categories were calculated. The results presented in table 5.1. The oldest firms are mostly manufacturers of non-metallic mineral products. This comprises manufacturing of non-metallic mineral products, 57.1 per cent of this type of industry has been in existence for more than 20 years. Following closely, with age of above 20 years are the paper and chemical industry. The youngest SMI is textile. Whether this is capable of inducing efficiency due to learning-by-doing would be gleaned from the output and productivity of the industry.

Ownership and Ethnic Background of Entrepreneurs

On the ownership structure of SMI (Table 5.2), a larger proportion of SMI are individually owned, accounting for almost 65 percent of respondents assessed. About 21 percent are family owned industries, while 13 percent pool resources together to start the business. The table also shows that 47 percent of the entrepreneurs are operating in their places of origin, while 53 percent operate as non-indigenes. These results have implications for technical efficiency. This is because operating in the area of origin is believed to enhance reputation and legitimacy and therefore the degree to which the firm is socially recognized and accepted in the business environment. This may make it easier for the firms to access credit necessary for investment.

Table 5.1

Proportion of SMIs in Different Age Category by Sector

Sector	Age (Years)				
	< 5	5-10	10-15	15-20	> 20
Food	23.3	20.0	16.7	13.3	26.7
Textile	22.2	33.3	25.9	7.4	11.1
Wood	9.7	16.1	29.0	22.6	22.6
Paper	7.1	25.0	14.3	14.3	39.3
Chemicals	15.4	23.1	23.1	7.7	30.8
Non-Metal	28.6	0.0	0.0	14.3	57.1
Basic Metal	23.5	17.6	17.6	11.8	29.4
Fabricated Metal	11.1	16.7	16.7	33.3	22.2

Table 5.2

Ownership of SMI and Ethnic Background of Entrepreneurs

Type of	Number	% of Total
Ownership		
Family	35.00	20.47
Group	22.00	12.87
Individual	110.00	64.33
Others	4.00	2.34
Total	171	100
Ethnic Background		
Indigene	81.00	47.37
Non- indigene	90.00	52.63
Total	171	

Training and Educational Level of Entrepreneurs

As indicated in table 5.3 below, of all the various types of training indicated, most SMI entrepreneurs place a greater emphasis on “learning by doing” otherwise called, “on the job” training, which accounts for 73 percent of responses. Only about 12 percent of employees in SMI benefit from in-house training. Most SMI workers do not benefit from external training (8 per cent). Research and development, which exposes workers to current developments in the industry and a critical factor

in enhancing technological capabilities, paving the way for further improvement of existing production methods, was the least utilized source of training. The need for training, particularly formal training is more compelling if SMI in Nigeria are to reach internationally competitive skill proficiency. The lack of adequate training may result in lower technical efficiency. Overall, the survey revealed that the proportion of workers trained to the total number employed in the SMI was a miniscule 1.3 per cent.

The amount firms invest in new technologies is also influenced by the level of education of entrepreneurs. This suggests that there are likely to be variations in the implementation of technical change and is also an important factor capable of enhancing technical efficiency. The responses, which are also summarized in table 5.3, showed that most SMI were run by entrepreneurs who possess secondary (43.8 percent) and tertiary education (36.84 percent). With this prevailing level of education, SMI entrepreneurs are not positioned to at least improve and update production techniques and to adopt more efficient production methods.

Table 5.3

Training and Level of Education of Entrepreneurs in SMI

Type of Training	Number Trained	% of Total	Number of Entrepreneurs	% of Total
On the Job	2,549	73.26	63.00	36.84
In-house	447	12.85	75.00	43.86
Outside	279	8.01	28.00	16.37
Research & Dev.	205	5.88	5.00	2.92
Total Trained	3,480		171	
Total Employed	261,201	1.33		

Investment Capabilities

Investment capabilities determine the acquisition and installation of new technology and raw materials. It is also related to the sources from where such equipments and materials are purchased. This is because identifying the source of equipment requires some knowledge about its use, while installation would require some knowledge about the suppliers. Table 5.4 distinguishes between foreign and local technology sources. Analysis shows that for most industries, apart from those in the fabricated metal, non-metal, and chemicals sectors, local sources dominate. The dominance of foreign sources for fabricated metals, non-metal and chemicals is quite understandable given the type of equipments required for production. For most sectors, the use of local source of equipments increased between 2004 and 2005.

Table 5.4

Sources of Equipments/Raw Materials for SMI by Sector (%)

Sector	Foreign		Local	
	2004	2005	2004	2005
Food	32.42	43.75	67.58	56.25
Textile	32.81	28.75	67.19	71.25
Wood	27.65	27.88	72.35	72.13
Paper	32.58	36.79	67.42	63.21
Chemicals	55.13	54.60	44.87	45.40
Non-Metal	60.20	55.60	39.80	44.40
Basic Metal	41.67	37.98	58.33	62.02
Fabricated Metal	60.28	51.56	39.72	48.44

Effect of Government Policy

Government generally acknowledges the conventional wisdom that the promotion of growth is inched on a conducive macroeconomic environment within, which the private sector can flourish. Such a friendly environment is engendered by consistent policies that can have profound effects on the development of SMI. Respondents were asked to rank government macroeconomic policies as it affects their operations. Three major policy areas were considered. They include; monetary policy, fiscal policy and external sector policy. Table 5.5 summarizes the findings.

Interest rate, price stability, and exchange rate were ranked highest in terms of their effect on the way SMI do business. This is not surprising as these are key determinants of real interest rates, which could provide the incentive or des-incentive to invest. CBN development policies, particularly those of SMEEIS, have also been very beneficial to SMI as confirmed by 52 per cent of respondents, while 47 per cent of respondents ranked this policy low. This reflects narrow coverage the policy has enjoyed since its inception. With respect to fiscal policy, lower tax rates, particularly on profits, allows firms to retain some earnings, help them in increasing investment, more so since most of the capital for investment as seen earlier are from own funds. Respondents considered the effect of taxes highest on their ranking of fiscal policy. Infrastructural policy, which facilitates business transaction and minimizes the costs of business also ranked high as indicated by 64.6 per cent of respondents. Respondents did not consider subsidies as important to their operations. Only 35.3 per cent of them considered subsidies as capable of increasing their capacity to produce.

External sector policies dealing with trade (imports and exports) are important as SMI require foreign inputs of raw materials and component parts for their operation. However, respondents ranked import incentives higher than export incentives. This is a reflection of the dominance of production for domestic consumption in the Industry.

Table 5.5**Effect of Government Policies**

Monetary Policy	High	% of Total	Low	% of Total	Stable	% of Total	Total
Interest Rate	154	91.12	9	5.33	6	3.55	169
Exchange Rate	149	92.55	5	3.11	7	4.35	161
Price Stability	97	75.19	21	16.28	11	8.53	129
Dev. Policy	73	52.52	47	33.81	19	13.67	139

Fiscal Policy	High	% of Total	Low	% of Total	Stable	% of Total	Total
Taxes	145	86.83	3	1.80	19	11.38	167
Subsidies	53	35.33	88	58.67	9	6.00	150
Infrastructure	106	64.63	43	26.22	15	9.15	164

External Sector	High	% of Total	Low	% of Total	Stable	% of Total	Total
Imports incentive	102	79.07	22	17.05	5	3.88	129
Exports incentive	38	33.93	67	59.82	7	6.25	112

Industry Input***Employment***

Using the sampling frame of SMI classified according to the eight industrial sectors, we estimated the total number of workers employed in the SMI to be 261,201. Sectoral analysis of total employment in the SMI (Table 5.6) shows that majority of workers, 19 per cent, are found in the paper, wood and food sectors. This is expected as these industries are mostly labour intensive. Fabricated and non-metal sectors have the lowest employment share at 5.29 and 8.06 per cent, respectively. With a complete frame of SMI, it would be interesting to see what this means in terms of nation-wide employment. However, employment statistics is a rarity in Nigeria.

Table 5.6**Estimate of Employment in the SMIs in Nigeria (2005)**

Sectors	Number	% of Total
Food	42,966	16.45
Textile	28,388	10.87
Wood	49,871	19.09
Paper	50,638	19.39
Chemicals	27,621	10.57
Non-Metal	21,054	8.06
Basic Metal	26,853	10.28
Fabricated Metal	13,810	5.29
Average per Sector	32,650	
Total	261,201	

Investment

Investment in physical capital means the purchase (and thus the production) of capital goods - goods which are not consumed but instead used in future production. This also represent the efforts firms put in place to enhance their technical efficiency. Table 5.7 shows that investment in physical capital, irrespective of its source, declined for the paper, non-metal, and basic metal sectors and was high for food, fabricated metal, and textile sectors, between 2004 and 2005. As a proportion of total investment, the food sector dominated with more than half of total investment being concentrated in that sector. In terms of growth, considerable decline was witnessed in the paper, non-metal, and basic metal sectors.

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Table 5.7

Small and Medium Industries Investment by Sector

Sector	Amount	Amount	Growth in Investment (%)
	(N'000)	(N'000)	
	2004	2005	
Food	402,559.73	521,900.05	29.65
Textile	142,079.91	202,585.70	42.59
Wood	110,506.59	121,632.45	10.07
Paper	-7,893.33	-13,070.32	65.59
Chemicals	71,039.95	111,628.42	57.13
Non-Metal	-86,826.61	-131,431.00	51.37
Basic Metal	-88,386.97	-102,354.00	15.80
Fabricated Metal	165,759.89	203,173.00	22.57
Total	708,839.17	914,064.30	

Working Capital

Access to finance has long been recognized as a major constraint to SMI, particularly in purchasing new equipments or adopting new technology. Entrepreneurs sometimes rely on their own savings or finance from family members. Because of their weak financial base and high transactional costs, attracting loans as working capital is difficult. The study examined the size of working capital for each sector. Working capital here refers to that part of capital financed from long-term funds. The result is shown in tables 5.8. High content of foreign equipment inevitably require a lot of money. This probably explains the observed similarity in the responses for sourcing of equipments and working capital. Indeed, sectors with high foreign equipment source tend to have a much higher working capital. Thus, working capital as a proportion of total working capital, seem to be higher for food and chemicals industries.

Table 5.8

Average Working Capital of Small and Medium Industries by Sector

Sector	2004		2005	
	Amount (N'000)	% of Total	Amount (N'000)	% of Total
Food	222,698.30	38.07	250,513.30	48.93
Textile	8,737.59	1.49	8,055.93	1.57
Wood	13,621.19	2.33	12,746.90	2.49
Paper	13,553.89	2.32	15,835.11	3.09
Chemicals	256,119.85	43.78	156,147.00	30.50
Non-Metal	15,250.00	2.61	14,885.71	2.91
Basic Metal	38,107.41	6.51	36,773.00	7.18
Fabricated Metal	16,911.36	2.89	17,068.45	3.33
Total	584,999.60	100.00	512,025.40	100.00

Operation

The cost of operation represent the total amount of money (or the monetary value of goods) spent in the cause of running the industry. Admittedly, the cost of operation differs from industry to industry, depending on managerial, cost and technical efficiency and also on the location of the industry. A high cost of operation may also be due to exogenous factors like infrastructure deficiency, government policy. Tables 5.9 shows the average cost of operation by sector. The cost of operation was higher for the food sector at 54.35 and 54.31 per cent for 2004 and 2005, respectively. The lowest cost of operation was in the wood sector, at 1.65 per cent. This result is not entirely surprising since production in this sector requires that physical infrastructure be adequate.

Table 5.9

Average Cost of Operation of Small and Medium Industries by Sector

Sector	2004		2005	
	Amount (N'000)	% of Total	Amount (N'000)	% of Total
Food	154,840.80	54.35	175,870.23	54.31
Textile	5,799.04	2.04	6,684.26	2.06
Wood	4,638.00	1.63	5,332.77	1.65
Paper	6,982.11	2.45	8,239.71	2.54
Chemicals	35,344.77	12.41	41,548.43	12.83
Non-Metal	15,374.29	5.40	16,580.00	5.12
Basic Metal	33,807.06	11.87	37,106.59	11.46
Fabricated Metal	28,099.22	9.86	32,435.97	10.02
Total	284,885.28	100.00	323,797.97	100.00

Inventories represent capital tied up in unsold goods. If large stock of raw materials, work in progress, and finished goods are not required, industries do not necessarily have to hold large inventories. The surveyed SMI were asked to provide information on the value of inventories held by them. Table 5.10 summarizes this result. Inventories held in paper, textile, and Non-metal industries were less than 10 per cent, each, of total inventory. These industries manufacture products that, in most cases, require little inventory. For these products, it is either customers are willing to wait for production to be completed before taking delivery, since there are no half products or raw materials do not necessarily arrive in batches to warrant a break in production.

Table 5.10
Average Inventory of Small and Medium Industries by Sector

Sector	2004		2005	
	Amount (N'000)	% of Total	Amount (N'000)	% of Total
Food	42,615.68	14.95	61,004.67	18.76
Textile	10,435.96	3.66	18,247.33	5.61
Wood	32,353.81	11.35	36,449.29	11.21
Paper	11,725.14	4.11	15,736.64	4.84
Chemicals	63,809.53	22.38	74,809.32	23.01
Non-Metal	45,112.43	15.83	24,869.29	7.65
Basic Metal	49,409.94	17.33	51,146.59	15.73
Fabricated Metal	29,593.89	10.38	42,918.83	13.20
Total	285,056.39		325,181.96	

Industry Output

Value of Production

The value of production in the different activity sectors of the SMI is an important factor to consider, not just from an academic view point, but also for policy related issues. This is because for efficient industries, maximum output is expected from a given input. Tables 5.11 present the value of production of SMI by sector. As a proportion of total production, the food sector outperformed the other sectors in terms of output. This value increased from 29.45 per cent in 2004 to 30.49 per cent in 2005. Declining output was witnessed in the other sectors except for wood and chemical sectors, which recorded marginal increases.

Table 5.11

Value of Production of Small and Medium Industries by Sector

Sector	Output (N'000)		Average Per Sector (N'000)		Percentage of Total	
	2004	2005	2004	2005	2004	2005
Food	3,431,073.63	4,120,497.30	127,076.80	152,611.01	29.45	30.49
Textile	319,030.00	371,722.00	13,292.92	15,488.42	3.08	3.09
Wood	666,400.00	792,347.70	21,496.77	25,559.60	4.98	5.11
Paper	792,713.00	907,600.00	27,334.93	31,296.55	6.34	6.25
Chemicals	1,380,113.00	1,842,380.00	92,007.53	122,825.33	21.32	24.54
Non-Metal	261,900.00	177,380.00	37,414.29	25,340.00	8.67	5.06
Basic Metal	1,363,924.00	1,543,181.00	80,230.82	90,775.35	18.60	18.13
Fabricated Metal	684,669.00	770,265.00	32,603.29	36,679.29	7.56	7.33
Total	8,899,822.63	10,525,373.00	431,457.35	500,575.55		

Value Added

Value added measures the contribution of an industry to gross output. The result presented in table 5.12 shows, as expected, that value added or net output was higher for food and chemical sectors than most of the sectors. As a proportion of total value added, food recorded 29.7 per cent, closely followed by chemicals and paper sectors at 28.8 and 12.0 per cent, respectively. This pattern was the same in the previous year. However, while slight decreases or increases were witnessed in most sectors between 2004 and 2005, there was a sharp decline in value added for non-metal, basic metal, and fabricated metal sectors, while there was a sharp increase for the chemical sector.

Table 5.12

Value Added In Small and Medium Industries by Sector

Sector	2004		2005	
	Value Added (N' 000)	Percentage of Total	Value Added (N' 000)	Percentage of Total
Food	688,591.00	26.71	920,264.61	29.71
Textile	238,288.00	9.24	262,735.00	8.48
Wood	169,496.32	6.57	215,357.20	6.95
Paper	366,666.00	14.22	372,698.00	12.03
Chemicals	461,131.60	17.89	894,541.37	28.88
Non-Metal	186,850.00	7.25	89,130.00	2.88
Basic Metal	181,885.00	7.05	133,491.00	4.31
Fabricated Metal	285,357.00	11.07	209,729.00	6.77
Total	2,578,264.92	100.00	3,097,946.18	

Average capacity utilization rate, overall, was above 50 per cent for the SMI. However, capacity utilization was higher for the basic metal sector than every other sector in 2004 and 2005. The food sector was next at 61 and 60 per cent. This result, shown in table 5.13, is not very encouraging as a huge capacity is still left unutilized. The result apart from having implications for the output of the industry also is indicative of the level of efficiency of technology. **Error! Not a valid link.**

Table 5.13

Capacity Utilization (%)			
Sector	2004	2005	Average
Food	61.07	60.36	60.72
Textile	59.95	60.15	60.05
Wood	53.03	54.14	53.59
Paper	60.22	57.38	58.80
Chemicals	52.98	55.83	54.41
Non-Metal	50.42	49.17	49.79
Basic Metal	69.75	64.38	67.06
Fabricated Metal	55.19	59.01	57.10
Average	57.83	57.55	57.69

Industry Outcome

*Factor Intensity and Productivity*³

Capital intensity is the term used to describe the amount of fixed or real capital present in relation to other factors of production, especially labor. Since the use of tools and machinery makes labor more effective, rising capital intensity (or "capital deepening") pushes up the productivity of labor. Therefore it is assumed that an industry that is more capital intensive tends to be more efficient over the long run than one with low capital intensity. The degree of capital intensity is measured simply as the ratio of the total money value of capital equipment to the total amount of labor hired. Productivity on the other hand is the amount of output created (in terms of goods produced or services rendered) per unit input used. Capital productivity is the output per unit of capital goods employed, the inverse of the capital/output ratio. Labour productivity is typically measured as output per worker or output per labour-hour. Since productivity is related to the concept of efficiency, which is the amount of output produced relative to the amount of resources (time and money) that go into the production, all things being equal, it

³ Comparable estimates for Zimbabwe (2042, 3734, 1.92); Kenya (2612, 2200, 1.41) and Ghana (430, 507, 1.28). See The World Bank, 1995.

benefits a business to improve productivity, which over time lowers cost and (hopefully) improves ability to compete and make profit. Table 5.14 below shows factor intensity and productivity across sectors in 2004 and 2005.

Table 5.14

Selected Indicators of Efficiency in the SMI by Sector

Sector	Capital Intensity K/L (N'000)		Labour Productivity Y/L (N'000)		Capital Productivity Y/K	
	2004	2005	2004	2005	2004	2005
Food	2648.21	3580.17	6126.92	7358.03	2.31	2.06
Textile	4313.34	4860.87	862.24	1004.65	0.20	0.21
Wood	1781.02	1968.15	1025.23	1219.00	0.58	0.62
Paper	2446.59	2426.79	1201.08	1375.15	0.49	0.57
Chemicals	2655.94	2966.02	3833.65	5117.72	1.44	1.73
Non-Metal	1280.70	905.19	748.29	506.80	0.58	0.56
Basic Metal	3185.74	2893.30	3896.93	4409.09	1.22	1.52
Fabricated Metal	3771.87	4900.61	3803.72	4279.25	1.01	0.87
Average	2760.43	3062.64	2687.26	3158.71	0.98	1.02

Capital intensity was highest for the textile, fabricated metal, and food sectors. Non-metal and wood sectors recorded the least capital intensity. However, non-metal, basic metal and fabricated metal sectors witnessed decline in capital intensity. With respect to factor productivity, labour was more productive in the food, chemicals, fabricated metal, and basic metals sectors. Capital, on the other hand, was more productive in the food, chemicals, and basic metal sectors. Overall, the result confirms the fact that higher capital intensity tended to be associated with high labour productivity. Thus, in the long run, capital intensive industries may be more efficient than those with low capital intensity.

Incremental Capital-Output Ratios

Efficiency of production could be determined by the incremental capital-output ratio (ICOR). The ICOR can be thought of as a measure of the inefficiency with which capital is used. The value of this ratio could be equal to, less than or greater than one, representing constant, increasing or decreasing marginal return to scale, respectively. Consequently, the higher the value of the ICOR, the lower would be the productivity of capital. In table 5.15 below, these ratios, are presented. Textile sector recorded the highest ICOR, at 3.8, followed by fabricated metal and non-metal sectors. These results, are consistent with those of table 5.14, and are indicative of low productivity/decreasing marginal return to scale in these sectors. The food, wood, and chemical sectors recorded low ICOR, while the rest of the sectors recorded negative ICOR. The average ICOR for all the sectors was 1.13. This is very close to one, implying constant return to scale. This result highlights the potential high gains from economy of scale in the SMI if technically efficient.

V.2. Summary of Major Findings

The result of the analysis from the survey of SMI provides a number of interesting findings. The relationship between firm age and technical efficiency remains inconclusive. As earlier postulated, a positive relationship is said to be due to learning by doing, which occur with cumulative experience, while the negative impact may be due to old capital equipments. Overall, the study revealed that all the SMI apart from textiles industries have been in existence for more than 20 years, albeit with inter-sector variations. The result suggests that non-metal, paper, and chemical sectors which have over 30 per cent of industries in this age bracket may be more efficient when cumulative learning experience is considered. They may however be less efficient when viewed from the negative impact of old capital equipments. Intra-sector age variability was consistent with this result as it indicated a large concentration of old industries in the above-mentioned sectors.

Investment in skills and technology are important in enhancing efficiency. Training is important if firms are to attain optimal output. However, efforts inside the firm to promote learning seemed to be geared more towards on the job training for most of the industries. Research and development was very minimal. High level of education, in relevant fields, is crucial for assessing information on products, markets, technology, and improving efficient use of equipments. However, majority of the entrepreneurs in the SMI possess basic secondary school certificate as their highest level of education. The impact of skills in promoting efficiency via learning by doing may seem not to favour industries that invest minimally in training and research and development.

Generally low investment in physical capital was observed, even though there was considerable growth in some sectors when compared to previous years. Investment was high in the food, fabricated metals and textiles sectors, while investment capabilities were high in the fabricated metal, non-metal, and chemicals sectors, particularly with the high foreign content of production in these sectors. The use of foreign sources of equipments and materials enhances the possibility for technological transfer, which in turn enhances technological capabilities for the industries in those sectors. There was an association between input source and working capital. Thus, working capital was observed to be highest for the SMI with high foreign inputs. This reflects the huge resources required for the maintenance of equipments and the purchase of spare parts. With respect to cost of operation, the food sector was also dominant when compared to all other sectors. Sectors with huge cost of operation were also observed to keep large inventories of goods. This allows them to keep up production, minimize cost and reduce the risk of price volatility.

The above deductions are consistent with the output and factor outcome of the industries within the sectors. For instance, in terms of value of production and value added, sectoral analysis indicated that the food, textile, and chemicals sectors recorded high value added to production. Conversely, the survey showed sharp decline in value added for non-metal, basic metal and fabricated metal sectors.

There is also a consistency in the relationship between capital intensity and labour productivity. For instance, capital intensity, which was highest in food, textile, and fabricated metal sectors, was associated with high labour productivity in these sectors. Capital was also more productive in the food sector. An industry that is more capital intensive and productive tends to be more efficient over the long run than one with low capital intensity, which over time lowers cost and (hopefully) translates to improvement in the ability to compete and make profit.

Overall, the analyses suggest that the food sector is the most productive sector. It is therefore not surprising that all the parameters for gauging efficiency as well as output were positive in this sector. For policy, the high level of factor productivity in this sector implies that there are no limitations to the scope in exploiting economies of scale.

VI. Recommendation and Major Conclusions

VI.1. Recommendations

Role of Government

A government that is desirous of an orderly development of SMI would need to make policies and design strategies that would support access to resources, creation of market opportunities, the development of entrepreneurial and managerial skills, and competition. These issues are discussed hereunder.

Macroeconomic Environment

Complementing the workings of the markets and removal of structural rigidities through appropriate macroeconomic policies, such as monetary, exchange rate, fiscal, and structural policies are essential for the development of SMI. Consequently, government should ensure that the policy of maintaining a low interest rate regime should continue in order to encourage investment in the SMI. Availability of foreign exchange is also important to enhance the ability of SMI to source for raw materials, spare parts, and finance new technology. Furthermore, reducing the complexities of the tax system and streamlining the different categories of taxes would exert fewer burdens on entrepreneurs in terms of cost and time.

Trade Liberalization

Government long term trade policies should address issues like SMI infant industry protection from dumping of competing imported goods. Lower tariffs for imported raw materials and import quotas or outright ban would boost the development of SMI.

Financial Deepening

The strengthening of the financial system has already begun with the recapitalization of banks. This would provide incentives to save and catalyze the channeling of savings into investment. The small and medium enterprises equity

investment scheme (SMEEIS) set up by the CBN and the promotion of micro-finance institutions are also steps in the right direction.

Development of Local Technology

This encompasses incentives to develop alternative local technologies. Consideration should be given to the adaptation and assimilation of technology capabilities. The strategy should focus on sectors with comparative advantage such as food processing and basic metals. Thus, there is need to strengthen the existing technological incubation centers and provide them with the necessary incentives that would enable them perform the task for which they were set up.

Technical Education

The education planners in Nigeria have long neglected the importance of technical education as the bedrock for industrial development in any country. Our universities of technology are ill-equipped to facilitate technological development. Emphasis on technological and technical education would provide a more industry-oriented work force and further enhance the efficiency of the SMI.

Regulatory and Legal Environment

There is need to strengthen the existing legislations that would minimize the cost and bottlenecks associated with the registration and licensing of new SMI. This would go along way to facilitate the development of SMI. Special attention should be paid to reducing cumbersome documentation and the cost of registration.

Infrastructure

The provision of physical infrastructure like good roads, communication, and energy that would facilitate business transaction would inevitably enhance the efficiency of the SMI.

Role of Private Sector

With the emphasis on a private sector-led growth, in which case government would only be an enabler, while the private sector would be the initiator of industrial development, some of the critical issues the private sector needs to address in order to promote the orderly development of SMI are discussed.

Training

Development of entrepreneurs' human capital should be given top priority. This would help firms leverage on existing technological capabilities and thereby attain a high level of technical efficiency.

Adaptation of Foreign Technology

There is need to promote skill transfer and access to technology. This can be achieved through training, research and development, and increasing the foreign content of machineries and equipment, particularly at the initial stage. Industries can then adapt such technology to their own needs.

Global Partnership

Global partnership is necessary to facilitate access to new technology and sourcing of raw materials and equipments, thereby enhancing technological capabilities.

VI.2. Concluding Remarks

In this study we surveyed 174 SMI in eight major industrial sectors, soliciting response that would enable us assess their efficiency.

Overall, the study examines efforts inside the firm to promote technical efficiency and their effects on productivity. The study showed that firms are populated with mostly unskilled workers with little incentive for firm-based training and lack of an effective training mechanism. Furthermore, there is a vibrant entrepreneurship with mostly individual-owned firms but with limited managerial and technical expertise. Low capital intensity and factor productivity has also led to significant decline in output and investment levels. While the marginal productivity of capital is high and significant, marginal productivity of labour is low and insignificant. Consequently, return to scale is constant and firms do not enjoy economy of scale. The cost of operation is high thus compelling firms to hold huge stock of inventory against price volatility. Technical efficiency was gleaned from the characteristics of the ownership structure of the firm—foreign linkages can facilitate flow of knowledge and technical progress and the degree to which the firm is socially recognized and accepted in the business environment is important for accessing credit.

An assessment of the technical efficiency of small and medium industries in Nigeria in this way is necessary because, how technical efficiency contributes to industry productivity is a prerequisite to assessing the need for any kind of support. In order to attain higher levels of productivity and efficiency and thus achieve meaningful growth and development, there is need for public policy, such that would engender the development of local technology and the stimulation of indigenous entrepreneurship. The private sector itself has some role to play.

There are some lingering constraints to SMI development. Financial service is still concentrated in urban centers, while lack of information on the different sources of finance still poses a daunting challenge. Thus, a large number of them stagnate in the small size classes and do not make the necessary transition into a medium or large size. There are also major constraints in the competition for inputs necessary for production owing to shortage of credit, business infrastructure and other resources.

Raising the productivity of Small and Medium Industries (SMI) is an effective vehicle for stimulating private-sector led growth. If ways are not found to raise their technical capabilities, international competition may seek to de-industrialize Nigeria rather than provide the driving force for economic development.

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**SPHERE OF PROBLEMS CONCERNING DESTINATION OF A SMALL
TOWN IN THE CZECH REPUBLIC
(with case study)**

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ABSTRACT. A number of actually small towns refer to promotion of tourism as one of the main priorities of their development programmes. After the Czech Republic became a member of the European Union, the position of tourism in development of regions has strengthened considerably, together with desirable progress in preservation and use of cultural heritage and improvement in local budgets. The article deals with a particular case of reconstructed Jewish objects in a small town and problems concerning possibilities of their future and appropriate use.

Key words: Small town, micro-region, settlement system, destination management, region, Jewish monuments, Jewish cultural heritage, tourism, thematic tourism, experience tourism, use of monuments of a religious character.

Theoretical insight into the problem – small town, destination, destination management

Small and medium towns are an important element of the settlement system (see table No. 1)² of our territory. They belong to characteristic, historically determined features of our settlement, which has developed under specific natural and social conditions. Unlike development in other parts of Europe, the delay of the first as well as the second industrialisation stage was reflected in relative preservation of small medieval towns and municipalities. This feature was also emphasised by dispersed localisation of industrial plants in many centres. Due to the advanced agricultural background, dispersion of small towns and dense communication network, Bohemia and Moravia almost never appeared to be in a important imbalance in the past, and although the serious economic and environmental problems of our settlement are well-known, they seem to look picturesque or even idyllic from the viewpoint of quantitative comparison and due to their extraordinary cultural values.

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² The table does not provide the number of small towns actually, but it may help to create a picture of the structure of communities in the Czech Republic.

Table 1

Size structure of municipalities in the Czech Republic

Size structure of municipalities in the Czech Republic				
Municipality size (population)	Number of municipalities	Municipalities in %	Population	Population in %
up to 199	1 696	27.2	209 043	2.0
200 - 499	2 061	33.1	667 366	6.5
500 – 999	1 215	19.6	850 216	8.2
1 000 – 1 999	646	10.4	892 741	8.6
2 000 – 4 999	346	5.6	1 049 579	10.2
5 000 – 9 999	135	2.2	934 377	9.0
10 000 – 19 999	66	1.1	930 460	9.0
20 000 – 49 999	42	0.7	1 216 863	11.8
50 000 – 99 999	17	0.3	1 168 930	11.3
Above 100 000	7	0.1	2 413 437	23.4

Source: Opplová, M., Hruža, J. Human settlements in the conditions of permanently sustainable development, 1996.

Naturally, small towns are not a single and versatile element of the settlement system, nevertheless this does not mean that they do not continue to be one – and in our conditions – a very frequent element of the system – with all their advantages and disadvantages and also with their specific problems that are really much different from those of big cities. If – in the case of big cities – there are attempts rather to release and limit their growth relatively, on the other hand in the case of small towns it is the support of their development that is desirable – the direction in which it should be done is a question then, however. A number of actually small towns refer to promotion of tourism as one of the main priorities of their development programmes. This idea is certainly progressive and creditable, nevertheless it does not seem to be very successful without destination management. It is a well-known fact that an overwhelming majority of foreign tourists end their visit and stay in the capital and the number of visitors to regions stagnates or it is even decreasing. Can this trend be stopped by successful destination management?

Destination management means a set of techniques, tools and measures used in co-ordinated planning, organisation, communication, decision-making process and regulation of tourism in a destination in order to achieve its sustainable development and preservation of competitiveness on the market.³

³ Kirařová, A.: *Tourism destination marketing*, Prague 2005.

The destination management also includes the so-called management of the number of visitors, i.e. a set of management techniques and tools used by tourism associations to regulate flows of visitors and to affect their behaviour. In the following paper I will try to deal with an application of the main theses of the destination management in a small town where tourism seems to be, without any doubt, just a neutral branch.⁴

Case study problems: small towns – reconstructed Jewish monuments

1. Possibility of use of historic objects versus respect to cultural heritage in a small town
2. Low number of visitors – low incomes and great subsidies

And issues that will not certainly be answered in the following paper (possible solutions are only outlined)

3. *Is it possible to speak about destination management in connection with the problems dealt with? Does it exist in any form here?*
4. *Is it possible to make use of destination management here? How?*

1. Possibility of use of historic objects versus respect to cultural heritage in a small town

Introduction

Newly reconstructed Jewish objects in Heřmanův Městec certainly belong to important monuments in the micro-region of Heřmanův Městec⁵ as well as the whole Pardubice region. They include the **Jewish synagogue**, **Jewish school**, **Jewish semidetached house** and **Jewish cemetery**. These central buildings of the Jewish town were declared to be cultural monuments as early as 1991.

In the course of 1990s, the plan to create an *open-air museum* of Jewish settlement in Heřmanův Městec was gradually formed: reconstruction of the Jewish cemetery, synagogue and the opposite building of a former Jewish school and their mutual connection. Other gradual possibilities of alterations of the former Jewish town appeared in ideas: reconstruction of a Jewish semidetached house as well as a few other dwellings, and creation of a remarkable complex of Jewish cultural monuments in the Czech country.

- Brief history of Jewish settlement

⁴ If tourism does not affect the economic and social development in a destination but is its important complement, it is a neutral branch for the destination. (Kiráľová, A.: *Tourism destination marketing*, Prague 2005.)

⁵ The micro-region of Heřmanův Městec lies on boundary line between districts of Chrudim and Pardubice. The territory of the micro-region now associates 11 municipalities (Heřmanův Městec, Hošťalovice, Jezbořice, Klešice, Kostelec u Heřmanova Městce, Načešice, Rozhovice, Svinčany, Uherčice, Vápenný Podol, Vyžice) with their 27 basic residential units that are in the territory of empowered authorities of Heřmanův Městec, Přelouč and Pardubice. The total area size is 7 471 ha and the total number of population is 7 530.

The first Jewish settlement in Heřmanův Městec was considerably documented as early as the beginning of the 15th century, nevertheless it cannot be excluded that Jews already came there at the turn of 14th century. The town lying at the road connecting Prague with Moravia and Čáslav with Chrudim provided the Jews settled there with fairly favourable business conditions. Their number grew gradually: in 1724 there were 277 of them living there, in 1826 the number was 492, and the highest number – more than 800 – in 1849. Later their number was decreasing because especially young Jews were leaving for economically more advantageous towns. Still, there were about 240 Jews living in Heřmanův Městec at the turn of the 20th century.

Jews and Christians lived together in the town quite well until the fateful year 1939. Nevertheless, both local Jewish community in 1940, and Jewish settlement in 1942 ceased to exist in Heřmanův Městec. Cruel events of the World War II meant liquidation of the whole Jewish community in Heřmanův Městec.

- Jewish monuments in the period between 1948 – 1989

As it may be supposed very easily, the attempts made in this period to reconstruct Jewish monuments were either miserable or of a rather opposite character than leading to their restoration. The synagogue remained in a condition basically unchanged in this period: flaking finish plastering from the outside, bare walls, torn floors, broken windows, destroyed doors from the outside. The former Jewish school (rabbi's home at the same time) was also in a rather poor condition; the cemetery was covered with overgrown plants, tombstones were partly devastated. The trend actually headed towards gradual liquidation of these monuments: existence of the synagogue, Jewish school as well as one of the largest and oldest Jewish cemeteries was endangered.

Jewish monuments and present time

Work in the former Jewish part of Heřmanův Městec was commenced in 1992. In the period from 1992 to 1996 the Jewish semi-detached house was repaired; the complete reconstruction of the synagogue (1997 – 2001) and the Jewish school (1999 – 2001) followed in the next years. All specialised restoration work was then done by restorers with licences awarded by the Ministry of Culture of the Czech Republic. Furthermore, the realisation work was consulted continuously with workers of Památkový ústav (Institute of Care for Monuments) in Pardubice and the cultural department at the then existing District Authority in Chrudim. The objective was to preserve as many original parts as possible so that the final appearance of buildings does not differ from their original condition.

Restoration of the aforementioned cultural monuments in such a short time horizon could not be completed, due to its economic demands, without financial subsidies received from the state. The state's share in the total costs (CZK 27 million) was nearly sixty per cent. Such a considerable subsidy from the state was enabled by the fact that Heřmanův Městec had successfully managed to join the

Programme of restoration of architectural heritage and the Programme of regeneration of urban conservation areas and urban conservation zones.

Nevertheless, preservation of the local Jewish cemetery, the reconstruction of which commenced as early as 1990, became quite a separate chapter. Local native people and protectors of Jewish culture removed the worst problems in person due to their work and enthusiasm.

- Current use of repaired monuments

At present, all Jewish monuments in Heřmanův Městec are repaired. The synagogue serves to be a cultural place for organisation of exhibitions, concerts and social events; the Cyrany gallery is created in the Jewish school. In the gallery exhibition hall, painters and sculptures of the 20th century, who are connected with Eastern Bohemia, introduce themselves. The level of works created by many of them exceeds the regional limits and a number of them achieve European reputation. This valuable and comprehensive unit of the modern fine art was transferred to the town within a short time after its festive opening in 2001. Also the cemetery is opened to be visited by interested visitors upon request.

- Problem of use of repaired monuments of a religious character

Nevertheless, the extent in which a multi-purpose use of repaired monuments is possible and suitable is a rather serious issue. In Heřmanův Městec itself, it is discussed how to combine the respect to sacral buildings and their wider use in the social life of the town. The combination itself of the reminder of Jewish settlement and creation of the cultural centre may appear to be problematic from the religious viewpoint.

Nevertheless, the monument without any use becomes dilapidated much faster and is on the way to become devastated again. Finding a new function of repaired buildings is usually complicated, however, above all due to two reasons contrary to one another:

- the owner should take into account the original purpose of the building,
- the repaired buildings should be used due to economic and other reasons, however.

Both requirements cannot always be met at the same time.

The Town Council in Heřmanův Městec managed to reconstruct the aforementioned buildings very carefully. Not only their architectural beauty but also the spirit of the past has been preserved. The town has obtained very precious cultural, historic and tourist immovable property, nevertheless the problem of the controversial use of buildings is currently very topical.

The Jewish monuments in Heřmanův Městec are not an isolated example in this context.

2 Low number of visitors – low incomes and great subsidies

Heřmanův Městec is a small town, however, and use of all reconstructed cultural monuments is not as great as it should be and as the monuments should

naturally deserve. Use of the synagogue as a cultural stand may appear to be problematic in some cases, installation of the Cyrany gallery is pride of the town, but the number of visitors – especially in the winter season – is much below its value, and although the value and the unique character of the Jewish cemetery are also admired by visitors of Jewish origin even from abroad, the Jewish monuments in Heřmanův Městec still await their re-discovery. If the Town Council manages to create the remaining parts of the former Jewish neighbourhood as they plan, it would certainly be beneficial for the numbers of visitors.

The management of Heřmanův Městec realises that use of the reconstructed buildings is necessary, above all from the economic point of view. The number of visitors coming to see them in the aforementioned winter half of the year decreases, at the same time the costs of their operation increase. For further periods, it will therefore be necessary to prepare such long-term programmes as well as occasional events that will attract as many visitors to see them as possible.

It is not a current task for the given municipality of the Pardubice region, however, but also for others, where valuable cultural monuments are found. It is only their popularisation to the general public that can help the region to leave the last position in the table of tourist attractiveness in the nation-wide scope.⁶

It would also be necessary to instil a positive attitude to monuments into the general public as for the time being it seems to be more or less a matter of middle or old generation. This would improve preconditions not only for their current commercial use but also for their survival in the historical knowledge of the municipality.

The numbers of visitors to the reconstructed monuments in the period from 2001 till 2004 may be seen in the following tables and charts.

Table 2

Numbers of visitors to reconstructed Jewish buildings: the Cyrany gallery and synagogue (2001 – 2004)

Year	2001	2002	2003	2004
Number of visitors (absolute numbers)	1 100	1 500	1 600	1030

Table No. 2 and chart No. 1 show relatively low numbers of visitors that in fact did not exceed 2000 people in any year. The considerable drop in 2004 was caused due to the gallery being closed temporarily during the winter months.

⁶ E.g. in 2004, monuments administered by the Institute of Care for Monuments in Pardubice were only visited by 394,000 people, i.e. by 58,000 less than in 2003. As a result, the earnings achieved were lower by 10 % as well.

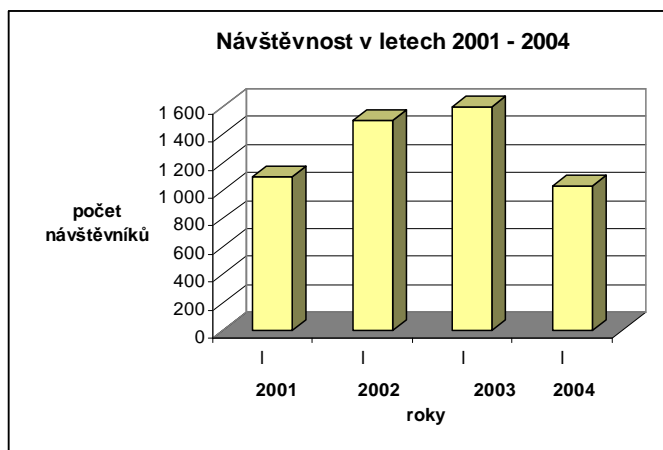


Chart No. 1: Numbers of visitors to the reconstructed Jewish buildings (2001 – 2004)

Table No. 3 and following charts show an interesting, relatively high share of the number of Saturday visitors and the fact that in the case of sightseeing, most visitors select both buildings – Synagogue as well as the Cyrany gallery.

Table 3

Detailed specification of the numbers of visitors to the Cyrany gallery and the synagogue (2004)

Total	Children in this number (under 15)	Saturday visitors	Synagogue + Cyrany gallery	Synagogue only
1 030	157	379	746	284

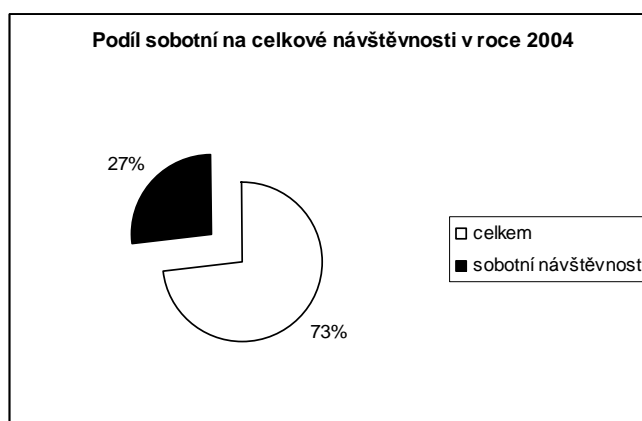


Chart No. 2: Share of Saturday visitors in the total number (in %) (2004)

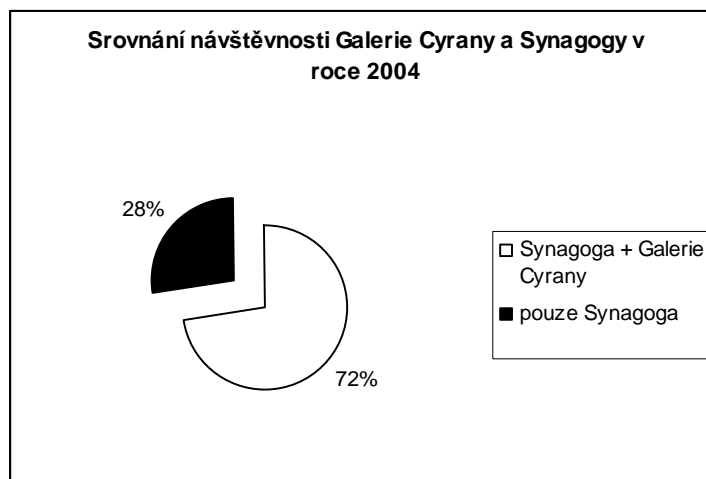


Chart No. 3: Comparison of the numbers of visitors to the Cyrany gallery and Synagogue (2004)

Incomes from the admission tickets as well as sales in the investigated buildings may be monitored in following table No. 4 and chart No. 4. It can be easily deduced how large subsidies the town must provide with respect to the reconstructed monuments if annual operation costs are in the approximate amount of CZK 180,000. The considerably lower number of visitors above in the winter part of the year is clear from the table.

Table 4

Income – admission tickets and sale in the Cyrany gallery and the synagogue (2004)

Month (2004)	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct
Incomes from sales (in CZK)	997,-	1233,-	1409,-	2017,-	5234,-	5754,-	5538,-	4818,-	4313,-	2297,-

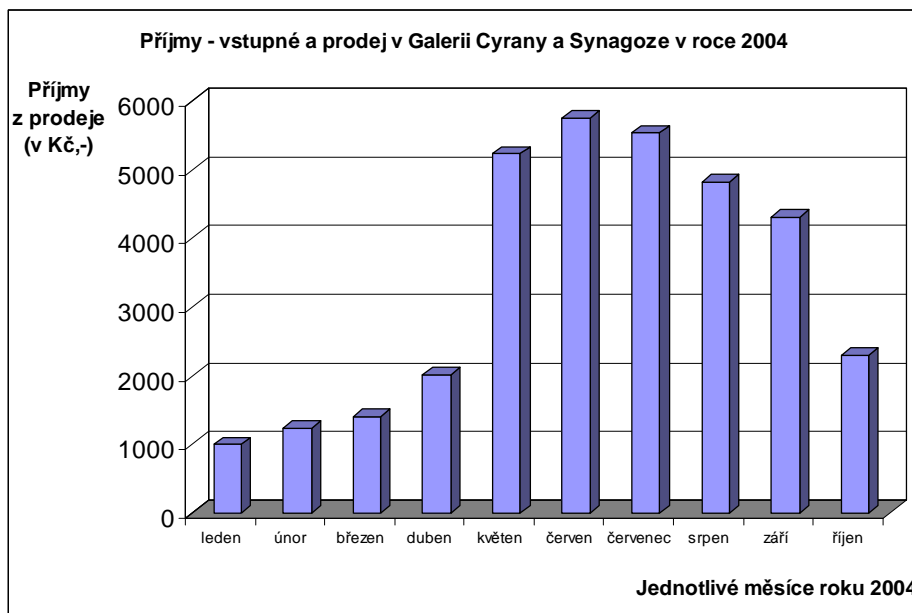


Chart No. 4: Incomes – admission tickets and sales in the Cyrany gallery and synagogue (2004)

Application of methods of the destination management – outline of the solution.

3. Is it possible to speak about destination management in connection with the problems dealt with? Does it exist in any form?

The fact that the “destination” may include more municipalities, regions or micro-regions may complicate the destination management. Local self-government authorities, representatives of the local population, academic community, commercial chambers, representatives of businessmen etc. should participate in the destination management. In this context, it includes above all the following activities:

- territorial development planning
- issuing of permits to carry out business activities, and inspections of the same later
- regulation in the field of the environment, or in other fields, if any
- participation in initiatives of various associations
- activities within development of tourism⁷

⁷ E.g.: An association of municipalities of the Heřmanův Městec micro-region is an investor in the cycle-paths project in the territory of its interest. The project objective is to provide both visitors to the region and the local population as well as the population of nearby Pardubice and Chrudim with a possibility of spending their free time and becoming familiar with their close surrounding area in a form that is as

- creation of initiatives for education of representatives of state administration and local self-governments, businessmen as well as local population in the sphere of tourism

- operational management of activities connected with tourism⁸

The answer to question No. 3 is therefore as follows: *The question is whether or not to speak about the destination management at all. Strictly speaking, probably yes. It functions somehow here, but most probably quite chaotically and only on a basic level.*

4. Is it possible to make use of destination management here? How?

As already indicated, the destination management may not be carried out separately (e.g. only within one municipality), such approach could not certainly result in any solution, especially in the case of a destination where the tourism is just a neutral branch. It is above all necessary to apply a region development methodology and mutual interconnection of all entities that may participate together in tourism within a territory. At the same time it is understood that entities that compete with one another will not probably be the ideal partners. **Co-operation** is necessary and needed, however.

Let us indicate a possible methodology of the destination management within a territory.⁹

- detailed definition of conditions important for development of tourism in the region and determination of the weak points of the system, requiring immediate practical solutions

- proposal and realisation of particular measures to remove main obstacles of development of tourism

- detailed analysis of the existing comprehensive offer within the region

- analysis of possible markets, and definition of potential target groups on the local and foreign market on the basis of parameters given by the analysis and the offer in the region

- creation of a proposal of the basic tourist product and a system of its marketing on the basis of these information groups, i.e. supply and demand

natural as possible, which cycling certainly is. The cycle-paths are led in accordance with the approved territorial plan of regional cycle-paths in the district of Chrudim. They are linked to already indicated cycle-paths of the micro-region called Podhůří Železných hor (Foot of the Iron Mountains). A direct link is ensured through the aforementioned micro-region to the cycle-paths of the Bohdaneč micro-region and above all to main long-distance route No. 24 – Labská passing through the northern part of the Pardubice region. To the south, a direct link to cycle-paths of micro-regions called Železné hory (Iron Mountains) and Centrum Železných hor (Iron Mountains Centre) is ensured. Another important long-distance route passes through the territory of these two micro-regions, i.e. route No. 1 – Prague (www.sweb.cz/heřmanoměstecko/)

⁸ Kirařová, A.: *Tourism destination Marketing*, Prague. 2005

⁹ In no case can the aforementioned facts be understood to be a definite overview.

- co-operation of all interested entities – public administration, businessmen, laic public as well as experts, citizens – on local, regional and central level
- targeted concentration of the system with possible solution alternatives (*not with their fragmentation*)
- etc.
- *People, money and destination management*

A working group consisting of experts with experience in the field and with knowledge of the region potential must be created to implement the project.

The funds to finance the tourism plans may be obtained from the municipality office. It is necessary to create organisation structures required by tourism; e.g. to create an institution that would be responsible, within municipal self-government, for development of tourism and that would also build up a local authority for tourism, tourism associations, and would ensure participation in the regional tourism association. The municipality must ensure such trade policy, which would prospectively ensure the optimum structure of entities making offers for tourism. Successful development of tourism in the region depends on mutual co-operation of the population, self-government, medial and service providers. Jobs, incomes of companies, municipality and citizens, improvement of infrastructure and environment are beneficial to positive development of tourism.

All leading countries in the field of tourism have already transferred to sale of their regions in the form of complex products focused on individual target groups (e.g. senior tourism, spa tourism, etc.). Due to this reason it is a market survey in individual regions, an exact definition of potential target groups and their plans as well as creation of concrete marketing plans that is of decisive importance for all national and regional marketing organisations in preparation of new products.

Conclusion

The vision from the beginning of 1990s begins to be fulfilled in Heřmanův Městec: reconstruction of the Jewish cemetery, synagogue and former Jewish school with renewal of the original condition, adaptation of the synagogue for exhibitions and concerts, creation of a cultural *stand* in the town ...

Each visitor with a feeling for history, art, Czech country and Jewish culture must be addressed by this unique secluded place. The successfully reconstructed Jewish monuments of a *Czech country town* at the foot of the *Železné hory* (Iron Mountains) are certainly worth visiting. Numbers of visitors are low, however, and economic benefits are nor worth mentioning; furthermore the Town Council must deal with the existing discrepancies concerning a suitable use of the monuments after reconstruction. Therefore it may be supposed that inclusion in the destination management is justified.

Let us have a look at the possibilities offered from the viewpoint of target groups of potential visitors:

- The town is located at the foot of the Železné hory, some 5 km from the bordering line of the Protected Landscape Area of the Železné hory (i.e. all visitors to this area may become a target group of potential visitors).

- The town lies close to the caravan site called Konopáč and is approximately 12 km from the recreational zone of Seč – Kraskov (holidaymakers from these area are therefore another target group).

- The town lies approximately from Lázně Bohdaneč (spa town; seniors – spa patients being the target group).

- Possibilities provided for thematic tourism (target groups – local as well as foreign visitors interested in Jewish culture – use of world-wide interest in Jewish culture)

- Use of the ever-increasing interest in the experience tourism (a quite unique complex of Jewish buildings in rural regions of the Czech Republic would be created by completion of the peaceful zone of the former Jewish town)¹⁰

Nevertheless the municipality will not cope with this problem all by itself, co-operation is an entirely necessary part of the destination management. At present, only formal partnerships exist and the manner of permanent communication and co-operation between the public administration, businessmen and citizens in the field of tourism has not been settled. No methodology to manage tourism in regions has been created, which should be changed in the near future, however, as the position of tourism in development of regions has become considerably improved and desirable development in preservation and use of cultural heritage and improvement of local budgets have occurred after our accession to the European Union.

Perhaps this would also be the way not only¹¹ for reconstructed Jewish monuments of Heřmanův Městec – to combine the respect to the cultural heritage and at the same time, to *open* these buildings for tourism and for exploring tourism.

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¹⁰ This *list* is naturally also incomplete ...

¹¹ In the micro-region, there are a number of cultural historic monuments that support attractiveness of the territory from the viewpoint of tourism. The offer contains the total number of 44 registered immovable cultural monuments. In addition to the registered monuments, there are also a number of buildings here, which complete the character and appearance of individual settlements. The largest concentration is – without any doubt in Heřmanův Městec (urban preservation zone), and also at Jezbořice, Svinčany, Kostelec u Heřmanova Městce, Hošťalovice and Vápenný Podol. (www.sweb.cz/heřmanoměstcecko/).

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Supplement:



Picture 1: Jewish synagogue and Jewish school in town Heřmanův Městec photo: Monika Brychtová

ŠÁRKA BRYCHTOVÁ



Picture 2: Jewish cemetery in town Heřmanův Městec (winter 2006) photo: Šárka Brychtová

A UNIVERSITY'S ORGANIZATIONAL INTELLIGENCE. STANDARDS, STRATEGIES, AND DEBOUCHES

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ABSTRACT. The purpose of this article is to discuss some possibilities of diagnosing a university's organizational intelligence and to advance some ways of measuring it. The main steps pursued are defining and describing the organizational particularities of universities, which act as barriers in organizational intelligence strategies implementation, applying the organizational intelligence standards to universities, and examining the features of the intelligence markets. In what respect is the paradigm of the traditional university damaged, and finally eliminated, by the social stimuli which claim for a different type of the intelligence and which are the beneficiaries of the new model of university, as an organization in-between – preserving its idiosyncratic position, but engaging in mutually profitable alliances, is an issue also addressed to.

Key words: organizational intelligence, university strategic management, higher education market, idiosyncratic organizations.

I. Introduction

Traditionally, universities were not seen as organizations. More likely, researchers referred to them as either *institutions*, carrying out a prominent social role (Readings, 1996), or *communities*, that is, “families” of people brought together, which were accepted for service in a certain social ceremony. This liberal philosophy of the modern age, regarding the university as an entity in charge with setting up (lat. *instituere*) and transmitting a national cultural heritage, is now in decline. The model of the “corporate university” (Aronowitz, 2000) emerges not only in the form of private organizations offering highly specialized learning and educating particular skills (e.g., McDonald's University), but also in that of old, reputed, well-established higher education institutions, which mime the managerial and marketing practices of for-profit corporations. In Lyotard's (2004) terms, the “University of Culture” was replaced by the “University of Excellence”, where the logic of performance is legitimating the university, under the pressure of academic capitalism (Clegg and Steel, 2002), which asks it to become competitive by marketing its knowledge: “knowledge in the form of an informational commodity

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indispensable to productive power is already, and will continue to be, a major - perhaps *the* major - stake in the worldwide competition for power” (Lyotard, 2004). The “academic tribes” (Becher and Trowler, 2001), belonging to the community model of the university, can’t survive, as specialized autarchies, in a society which aims at finding “overlapping patterns of unique narrowness”, as Campbell first argued two generations ago. Under these conditions, “colleges and universities can and must grow smarter” (Forest, 2002), as organizations seeking to maximize both their revenue and their prestige (Strober, 2006).

Still, several particular conditions render universities as idiosyncratic institutions. In an attempt to systematize them, they are:

Multiplicity of stakeholders. Universities were reformed, from autonomous communities to organizations having stakeholders (Neave, 2002), that is, they no longer work for themselves, but have to comply with various external demands. Nowadays, a university usually has more stakeholders than a business of the same size would, which leads to a certain level of imprecision in defining its goals, making them appear as rather ambiguous. Baldrige et al. (2000) state that “colleges and universities have vague, ambiguous goals and they must build decision processes to grapple with a higher degree of uncertainty and conflict”. This is a valid assumption for the public sector in general, since public goods are, by their nature, less well defined than private goods (Samuelson, 1954). Additionally, as Bourdieu and Johnson (1993) affirmed, universities are both positioned and position-taking. The position-taking actions of the national governments, as well as regional educational policies position universities but they, as well, adopt position-taking strategies which influence rankings and market shares, positioning them towards their stakeholders.

Problematic hierarchies. Although universities tend to act as middle sized, or large corporations, in terms of their management and marketing decisions, their managers’ ability to hire or fire is limited. More than that, there isn’t any clear delimitation between the technical and the institutional level of the hierarchy (Birnbaum, 1988). Professors, in charge with the technical issues of teaching and research, are also members of the administrative bodies, take part in the issuance of policies inside (University Senate, for instance), and outside (Ministry of Education, Parliament etc.) the university, which leads to an overlapping of perspectives that may not work in the university’s best interest, especially when there is a mismatch between the academic goals (to invest in excellence) and the administrative goals (to cut down costs, to attract more students, to drop examination on entry etc.). The mixture of public and private elements involved also complicates the process of academic decision-making. In addition, universities are loosely coupled systems, in terms of the matching of their strategies, posted on their web-sites, with their everyday practice. In the arena, universities, moreover those from developing countries, play according to “globally institutionalized scripts of what a university ought to be” (Krücken, 2006). Romanian universities’ missions, for instance, employ

the same “big words” taken from their reputed Western European or American counterparts. Still, managing a university according to its mission is a more complicated task than simply adhering to some models:

“the leader of a bureaucracy makes rational decisions, the leader of a community of equals searches for common ground and consensus, the leader of a political system uses power to craft coalitions and compromises, and the leader of a cultural system manipulates symbols to influence the way the organization creates meaning. A good academic leader is one who can do all these things, even when doing one of them is inconsistent with doing another.” (Birnbaum, 1998).

Or, as one faculty dean said, “managing academics is like trying to herd cats. It is a nearly impossible task, since they all have minds of their own and go off in different directions.” Reuniting lots of intelligent people, universities endanger their organizational intelligence.

Professional bureaucracies. They were defined by Mintzberg (1979) as inflexible structures, which produce standardized outputs (*i.e.*, skills), but are not good at changing their patterns, in an attempt to adapt to new demands. In other words, the “pigeonholing” process Mintzberg speaks about equals Argyris’s “single loop learning” (1999): the expert diagnoses the problem which needs to be fixed, and then provides an algorithm, repetitive, of course, of addressing it. Moreover, university professors prefer individual problem-solving, instead of cooperation, which again endangers the learning status of the organization.

The transformation of university structures and patterns, in order to suit the new, entrepreneurial (Clark, 1998) paradigm, comprises, according to Brunsson and Sahlin-Andersson (2000), three levels: construction of identity (“who we are?”, and hence the organizational goal of “being special”), construction of hierarchy (passage from control to co-ordination, the engagement in common projects and in the building of a shared vision), and construction of rationality, *i.e.*, of the acquiring of adequate means for rendering the university accountable, in the “audit society” (Power, 1997). University’s accountability is firmly connected with its autonomy, *i.e.* identity: although, unlike traditional times, universities have stakeholders, they admit not interfering with the knowledge-production of the university, on the condition they will benefit from the generated knowledge, and that this opportunity to benefit is made sufficiently transparent. So, societal pressures relate payment (universities, especially large research units generating knowledge are publicly funded) to performances. And universities must follow the rules of the game.

The construction of identity implies rendering the organizational goals explicit, and passing through a process of differentiation which, according to Clark (1998), is the *sine qua non* condition of a university’s existence: being unlike the others. The construction of hierarchy implies designing a sound formal structure around the organizational goals, which will constitute part of the university’s structural capital (Edvinsson and Malone, 1997). The paradigm of the entrepreneurial university imposes a specialization of management staff, as distinct from teaching

and research staff, which leads to a clarification of the aforementioned *problematic hierarchies*. In order to fight pigeonholing, as a characteristic of professional bureaucracies which hampers organizational learning, project cooperation and networking is also included in the structural capital, as well as the university's ability to spill over knowledge to local community, to companies in the area, by means of technology transfer offices (Gibbons, 1994).

The accountability of the university is strongly connected to its capacity of managing and reporting the intangibles, as well as of creating and maintaining a market for them. The level of a university's intellectual capital provides information on that university's innovation rate and on the quality of its liaisons with the business environment (Fazlagic, 2005). In fact, the respect in which universities are thought to remain idiosyncratic, despite their advancement towards the status of organizations, is the specificity of their knowledge outputs, which seem opaque to formal measurements. But, as Stewart (1995, in *Fortune* 137, p.157) remarked, "the assets that really count are those accountants can't count." That's why IC measurement and reporting models in universities were proposed, in the last years, illustrating a trend of growing concern for the issues of university intangibles management (Sanchez et al., 2006).

II. Material and Methods

Our research is based on the adaptation of a pilot questionnaire, aiming at determining the way in which a university is fit, as far as its organizational intelligence is concerned, which was tested, for the time being, on a population of 20 members of the research and teaching personnel of a Romanian university, having between 5 and 10 years with the organization.

The premise we start from is that a university is intelligent if its strategy is an extrapolation of an algorithm with the "anytime" property, as it was defined by Boddy and Dean (1988). This means that an acceptable solution is always available, and the quality of the answer improves over time. In other words, given that individual intelligence can be defined as dynamic adaptation to niche survival ("the survival of the fittest"), organizational intelligence is the organization's ability to apply something similar to genetic algorithms (Holland, 1975), in order to creatively recombine knowledge residing within individuals and relations. Knowledge, as reproduced in universities, is metameric: it is made of a sequence of segments enchaind repetitively. The genetic algorithm encompassed by the organizational intelligence of the university should be able to identify the points in which this repetitive knowledge recombines, and to artificially recreate those conditions. This way, knowledge evolves in the same manner life does.

Pushing the genetic analogy further, knowledge can be seen as composed of light chains (explicit knowledge) and heavy chains (tacit knowledge), disposed in the shape of an Y, whose junction region accounts for the flexibility of the construct. For an organization to artificially select the regions of light and heavy,

respectively, chains to be activated, in the Y model of knowledge, a fitness function has to be constructed. Following the works of Albrecht (2005), the fitness function we advance for universities is:

$$F = SV \times SF \times CO \times HS \times A \times KD \times PP$$

where SV stays for *strategic vision*, SF for *shared fate*, CO for *change orientation*, HS for “*Heart and Soul*”, A for *alignment*, KD for *knowledge deployment*, and PP for *performance pressure*. To assess the strength of a university's organizational intelligence, each of these parameters have to be evaluated, by means of a questionnaire.

For *strategic vision*, the matters in focus are:

- The “strategic conversation” in the organization – plus or minus.
- The environmental scanning – plus or minus.
- Annual strategic review – present or absent.
- Value proposition – plus or minus.
- Statement of direction – present or absent.
- Correlation between statement of direction and key decisions – present or absent.
- Leaders' identification and promotion – plus or minus.

Similarly, for *shared fate*, other seven questions have to be addressed to:

- Plans and priorities sharing between management and employees – present or absent.
- Understanding of the organizational idea throughout the organization – plus or minus.
- Information sharing across departments – plus or minus.
- Sense or belonging – plus or minus.
- Employees – management partnership – present or absent.
- Employees' belief in the organization success – plus or minus.
- Projected long lasting relationship with the organization – plus or minus.

Change orientation is accounted for by:

- Issuance of new university services to keep up with the demand – plus or minus.
- Natural mechanisms to encourage innovation – present or absent.
- Employees' stimulation to find creative ways to better do their jobs – plus or minus.
- Permission to question the habitual way of getting things done – plus or minus.
- Bureaucracy – plus or minus.

- Willingness of the management to admit their mistakes and to cancel non-working strategies – plus or minus.
- Openness – plus or minus.

“Heart and Soul” measures commitment in terms of:

- Overall quality of work life, as perceived by the employees – plus or minus.
- Management’s interests as perceived by the employees – plus or minus.
- Pride taken in belonging to the organization – plus or minus.
- Willingness, from the part of the employees, to spend extra effort to build organizational success – present or absent.
- Optimism regarding the future of employees’ career in the organization – plus or minus.
- Management commitment – present or absent.
- Perception of managers as role models – plus or minus.

Alignment shows:

- Organizational structure appropriateness to the mission – plus or minus.
- Sense-making of rules and policies, as compared to priorities – plus or minus.
- Facilitation of employee performance – present or absent.
- Information systems as facilitators – plus or minus.
- Value creation – plus or minus.
- Authority delegation – plus or minus.
- Alignment of departments missions, as to facilitate cooperation – present or absent.

Knowledge deployment is expressed by:

- Cultural processes of knowledge sharing – present or absent.
- Managers’ respect for employees’ knowledge skills – plus or minus.
- Porous organizational boundaries – plus or minus.
- Information systems knowledge flows support – plus or minus.
- Continuous study of the new tendencies at the managerial level – present or absent.
- Continuous learning programs support – present or absent.
- Accurate appreciation of employees’ tacit knowledge – plus or minus.

Performance pressure takes into account:

- Clear understanding of roles and responsibilities, at all levels – present or absent.
- On-going communication of performance goals and expectations – present or absent.

- Replacement of poorly performing employees – present or absent.
- Removal of failing managers – present or absent.
- Feedback to employees and recognition of their contributions – plus or minus.
- Employees' perception that their work contributes to the organization's success – plus or minus.
- Employees' perception that career success is determined by job performance – plus or minus.

Performance pressure on universities is reflected in their ability to shift the knowledge demand. A university disposes of two major demand-shifting factors: R, total R&D expenses, and M, total marketing expenses (Tassey, 2005). If x equals R/M , the performance function may be expressed as:

$$\ln P_i = \delta \ln x_i + \delta (\alpha_0 + \alpha_1 x_1 + \dots + \alpha_n x_n) + \varepsilon_i, i = 1 \dots n.$$

By solving the model, a university may select the x (*i.e.*, the R&D and marketing expenses combination) which acceptably suits its interests. Intelligence development strategies are mirrored by the R&D costs, while sound marketing strategies, on emerging knowledge markets, reflect in marketing costs. The sources of R&D intelligence can be direct or indirect, and can reside with the personnel or with the university. Direct sources residing with the personnel are:

- personal relationships
- visiting professorships
- business experience

Direct sources residing with the university include:

- intellectual property
- titles in the library
- research reports

Indirect sources residing with the personnel:

- consultants
- experts
- editorial boards
- retired executives.

Indirect sources residing with the university:

- university market surveys
- university associations
- national and European reports.

Under the heading of *performance pressure* universities should also include the selection and loyalizing of the appropriate researchers, given that they are in a continuous competition with the business environment, which provides better opportunities for the experts, waiting just around the corner.

III. Results

In the considered university, the selection and consolidation of the research staff are performed under uncertainty and risk, with asymmetrical information owned by the two parties, the university and the researcher, respectively, so they can be regarded as a principal-agent interaction. Each of them wants to maximize its utility function, and the main challenge is to find the allocation which best suits both interests. The model proposed by Jensen and Thursby (2002) takes into account three basic alternatives a researcher has: basic research, finalized by an article, applied research, finalized by a patent, and teaching activities, evaluated by assessing the quality of teaching. Each researcher (agent) is allocated by the university (principal) a wage w and a teaching effort e . If a is the time allocated to applied research, and b the time allocated to basic research, then the constraint is $a + b + e = 1$. The basic research and the teaching activities determine the researcher's wage, while applied research is a source of additional revenues. The researchers' preferences are both financial and non-financial, consisting in research satisfaction and professional recognition, access to research networks, acceptance inside the groups of prestige which control the knowledge market, insertion in the knowledge networks on which their success depends (Cohen et al., 1998). The university's interests are to maximize the fraction of the funds attracted by researchers (grants, etc.) which go into its budget, and to allocate wages and teaching effort as to maximize its utility. Studies conducted by Stephan et al. (2002) have shown that applied and basic research are not substitutes, in other words, the fact that a researcher has more patents does not affect that researcher's commitment to basic research, but a great number of published articles is likely to result in an increase in the volume of patents. But teaching and research, both basic and applied, are substitutes, meaning that an intensive research activity will necessarily decrease the quality of teaching.

Given these findings, a university which acts intelligently has to:

a) diminish, and finally annul the teaching effort of its efficient researchers. It might seem costly, on the short term, but it's strategically cost effective.

b) encourage applied research, by investing prestige capital in it. Currently, at least in Eastern Europe universities, exclusively basic research is taken into account for promotion, *i.e.*, for prestige accumulation, situation which puts researchers in front of a university-induced choice: academic prestige, or money and business expertise? Entrepreneurial universities encourage spin-offs, community-led and community-for research, so this fake dilemma has to be solved in favour of the free choice of the researcher who, able to opt for two equally reputable activities, decides according

to the time investment he/she is disposed to make, and to the particular interests he/she has at the moment.

Talking about prestige, universities must also take into account that, although knowledge is a type of good whose allocation is a non-Pareto optimal one, meaning that, not being a limited, tangible resource, the fact that one takes "more" doesn't leave the others with "less", it still is a positional good (Hirsch, 1977), as well as education. The ones who dispose of more knowledge, or are more educated, are better positioned than the others. So, we may infer from here that the amount of knowledge a university disposes of is directly correlated with the market share of the respective university. In practice, yet, things are more subtle than that.

IV. Discussions

University positioning mechanisms have suffered radical changes, especially in Eastern European countries, where the passage from the command-driven to the demand-driven (Radó, 2001) regime was abrupt. Higher education, as an instance of social sorting, desirable because it granted access to some privileges (Bratianu and Lefter, 2001), becomes, nowadays, a victim of its own success. The liberalization of the market, and the acknowledgement of the fact that not only structure follows strategy, but also money follow students, has turned higher education into a mass process, which made universities compete for "customers" (Newson, 2004) and adapt to the consumerist attitude ("What can I do with my degree?") of their students. In other words, they are preoccupied to sell the ivory tower. There occurs the commodification of knowledge, "the phenomenon in which non-material activities are being traded for money" (Lubbers, 2001).

Still, "the consumer is always right" is a dangerous assumption for higher education (McMurtry, 2004), given that universities have also third party beneficiaries (Etzkowitz et al., 2002). So, in the dispute between *acropolis* and *agora*, the accent should be moved on some other important elements which compose a university's intelligence market.

First, universities are the most representative buyers of knowledge (Fritsch, 2003). The payment for this knowledge can be real (fees for database access, journal subscriptions, conference fees, etc.), or symbolic: citations, works in honour of a researcher, etc. By exercising this role in the economy, universities attract knowledge which is locally unavailable, and thus enrich the knowledge market. Their intelligence, in this case, plays the role of the inquisitive mind, "digging" for new (in the sense of not yet disseminated) knowledge.

Second, universities are still expected to train an intellectual labour force corresponding to some standards of the industry which, based on previous experience, has configured a profile of the university graduate, on fields of expertise. Given that science and society change, but a different pace (Nowortny, 2001), traditional universities experienced a conflict between their elitist stagnation and the changes in the skills "traded" outside, on the labour market. The Mode-1 knowledge production,

for the sake of disinterested science (Rip, 2002) belonging to the elitist university, where the two roles – social and research were complementary, was replaced by Mode-2 knowledge production (Etzkowitz, 2002), were they are rather overlapping.

Third, universities engage in partnerships with industry, in order to mitigate the risks of producing knowledge which has no immediate applicability, and to increase the area of coverage of the university (Porter et al., 2005). Universities support their researchers to launch their own research companies, and the so-called “science entrepreneurship” (Lehrer and Asakawa, 2004) has become a rather common practice of these uni-business joint ventures. The success of these ventures is questionable from the point of view of the mono-specialization of their owners, and of their lack of real life marketing and management practice (Bower, 2003).

A danger still exists, in this market dynamics. A new model of market success, as it was, *mutatis mutandis*, that of the traditional university, is being embodied by the research university. But, as both funding and human resources for research are limited (here is the paradox – knowledge, which is unlimited, is still obtained with limited resources), not all universities can achieve the status of research universities. Most of them will try to emulate this model, in order to obtain a better market position, and this results in selling expectations which are not properly supported (Meek, 2001). More than that, focalizing on just one segment, being it elitist and well positioned as far as university intelligence is concerned, creates the risk of leaving the market unsaturated. It is more recommendable, for the universities, to specialize and to prioritize their interests so as to cover all the segments of the market.

In the present environment, highly competitive and turbulent, there is no golden standard towards which the strategies of all universities should converge. From the marketing point of view, the university intelligence equals the ability to determine the adequate marketing mix for appealing to prospective students, without selling overestimated expectations and without neglecting the other major functions a university has in relation to its external environment: antenna for remote knowledge, supplier of qualified workforce, and science-based partner for industry.

V. Conclusions

Universities currently adopt corporate-like behaviours, being, thus, influenced by the same need to develop their organizational intelligence which has recently become a widespread practice in the business world. In fact, they should have been pioneers in the field, given that, although they are losing the monopoly on knowledge, universities still are accredited knowledge producers, so they are inherently involved in the field of intelligence supply and trading. It was not the case, particularly because, traditionally, the economy of higher education was far from being a free one, as it benefited from a sort of knowledge protectionism, from unaccountable autonomy. Now, as they pass from a command-driven (the requirements of the nation-state, for instance, whom universities, as institutions, have served) to a demand-driven

(based on market laws) regime, universities must focus on fostering their organizational intelligence development strategies.

The first step of the process, an on-going one, is the evaluation of the present status of organizational intelligence. Since organizational intelligence is seen as an evolving, mobile feature, its measurements can't, obviously, be static. So, universities have to design adequate functions whose variables are environment-sensitive and, by optimizing these functions, to ensure that they have reached an acceptable level of organizational intelligence, a basis for future development. Of course, both the internal and the external environment of a university are complicated and complex, not to mention their idiosyncrasy, but, in order to model the dynamic equilibrium needed between the two, we isolated one main force representative for each of the domains. The university can control its internal performance by R&D expenditure, while its external performance is controlled by marketing expenditure. The optimizing problem is, thus, reduced to determining the optimal ratio between the two, in order to assess the marketability of university research and to avoid the trap of knowledge for knowledge sake, which is not a solution, any longer, in the present economic context.

Traditionally seen as an "extraordinary" good, knowledge was asserted a particular regime, which didn't involve any utility function. But now, when knowledge is the ordinary good of the knowledge economy, universities must be aware of the fact that their researchers have a life utility function, and knowledge production implies some opportunity costs, which have to be thoroughly considered. In order words, expenses with knowledge production have to provide an adequately high return on investment.

From the marketing side, a forecast on the university's position, as compared to what it used to be, is difficult to advance. What can be said, though, is that it would be recommendable to enlarge the debate between the *acropolis* and *agora*, that is, preserve the university's aura of scientific expertise, by not turning it into a slave of the market tendencies, lusting for money and indulging in research apathy, and adopt a tuning strategy, adjusting in due time, by minimum interventions, without creating major crises, the university's pace to the changes in the industry.

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MONETARISM VERSUS NEO-KEYNESISM: A COMPARATIVE ANALYSIS OF ROMANIAN INFLATION PROCESS CAUSES

VALENTIN TOADER¹

ABSTRACT. Our paper represents a study on the inflation process in Romanian economy after 1990. The purpose is to identify which are the most important factors that caused and sustained the inflation's evolution in our country. In order to achieve our purpose, we will start our research analyzing the statistical data, observing the impact of the economic factors on the evolution of inflation. Using the data analysis results, the author will emphasize which of the most two known theories on inflation causes, monetariste or neo-keynesiste theory, represent the main cause of Romanian inflation process.

Key words: inflation, monetariste theory, neo-keynesiste theory

1. Introduction

During the time, the inflation process represented a problem, always actually, in the economic debates. This situation is explained by the economists' interest to better understand the inflation phenomenon and to find new solutions in order to manage and decrease the inflation level. In the economic theory they have been developed two visions on the inflation's causes: the monetariste theory and the neo-Keynesian theory.

The monetarism is an economic theory which focuses on the macroeconomic effects of the supply of money. This vision was formulated by Milton Friedman and Anna Schwartz in their paper "Monetary History of the United States 1867-1960", where they argued that "inflation is always and everywhere a monetary phenomenon". Friedman, within his works challenge the Keynesian assumption that "money does not matter", sustaining that the supply of money affects the amount of spending in an economy. Their point of view was that an excessive expansion of the money supply is inflationary and that monetary authorities should focus only on maintaining price stability by keeping the supply and the demand of money at equilibrium.

The neo-Keynesianism is an economic theory which sustains that inflation represents the result of the disequilibrium situations appeared in the real economy. Economists like Paul Krugman, Joseph Stiglitz or Robert Gordon argue this theory, and by their works, they illustrated that inflation is caused by:

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- a higher aggregate demand (the sum of total demands from economy: consumers' consumption, firms' investments, public expenditures and net exports) for goods than the aggregate supply (the total supply of an economy) – named demand-pull inflation;
 - the unexpected and uncontrollable evolution of production costs – named cost push inflation or supply shock inflation, because is also caused by the supply shocks;
 - the trade off between unemployment and inflation - named Phillips Curve;
 - the wage bargain, in order to keep up the nominal wages with inflation, causes a vicious circle – named price – wage spiral;
 - peoples' expectations about what will happen with inflation. They based their expectations on what has happened in the past and on all the information available at the present moment.

This paper represents a development of our previous assumptions made in the paper “Inflation process in Romania after 1990: monetariste or neo-keynesiste causes”. The paper will develop the reasons presented earlier and it will bring some new reasons in order to sustain our conclusion. In order to find out the relevance of the two theories on inflation causes in Romanian case, we will analyze separately each factor presented by, emphasizing the intensity of their effects on inflation.

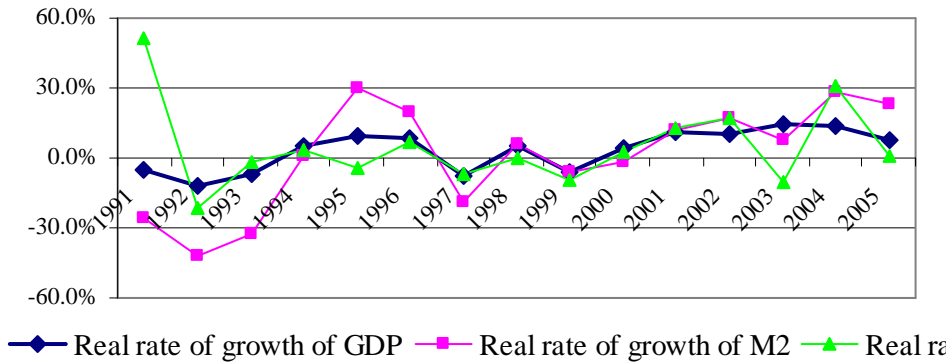
2. Inflation and the monetarist causes

According to the quantity theory of money, there is a positive relationship between the broad money and the general level of prices of an economy. It is known that the level of prices is rising only in the situation when the real Gross Domestic Product (GDP) growth rate is lower than the broad money growth rate:

$$(1) \quad M \cdot V = P \cdot Q$$

where: M – broad money, V – velocity of money, P – general level of prices and Q – GDP.

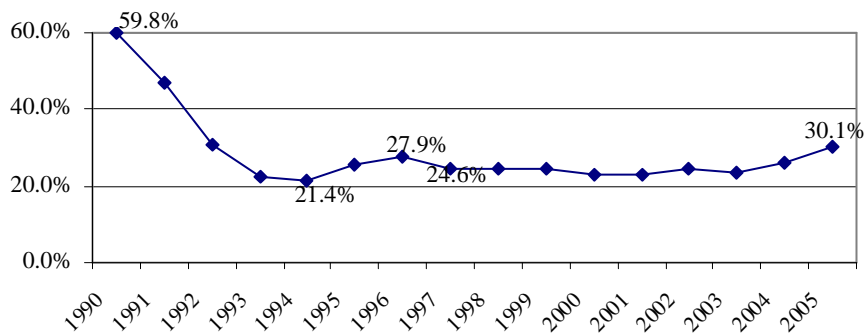
Taking into consideration the analyzed data, after 1990, in Romania, the author found that the influence between inflation and the broad money was developed in two directions: the broad money influenced the level of inflation and the inflation influenced the level of broad money. Looking on the graph 1, it can observe that only in 1995, 1996, 2002, 2004 and 2005 the real growth rate of GDP is lower than the real growth rate of M2, while, in these periods, the inflation rate is decreasing. Owing to this situation, the economy's degree of monetization, computed as M2/GDP ratio, recorded very low values (21.4% in 1994 – represented the lowest value, as it can see on the graph 2). So that, the author consider that the evolution of M2 was not, in most of the cases, inflationary, because all along this period his level was under the suitable value.



Graph 1 – The evolution of real rates of GDP, M2 and MV

Source: NBR – Annual Reports 1998-2004, Monthly reports: December 2000-2006

Due to the fact that in the specific period the velocity of money has suffered consistent changes, it is important to analyze the evolution of real rate of growth of MV, also. The money velocity reached very high levels (7.48 rotations/year in 1994 – was the biggest value), which has reflected the decrease of peoples’ confidence in the national currency and the economy’s demonetization. According to (1) the inflationary pressures appear only when the growth rate of MV is greater than the growth rate of GDP. Looking on the graph 1 the author observe that only in 1991, 1993, 2002 and 2004 the real growth rate of GDP is lower than the real growth rate of MV. So that, the evolution of MV was only in a few cases inflationary.



Graph 2 – The degree of monetization

Source: NBR – Annual Reports 1998-2004, Monthly reports: December 2000-2006

As it can see on the previous graph, starting with 1994 the NBR succeeded to rise the monetization degree, but the Romanian economy was not ready yet, the inflation process rising again. In spite of that, the author does not consider that the

evolution of broad money was the only cause of inflation. As we will see on the chapter 3.2, in 1997 the Romanian economy had to face out the last step on the process of prices liberalization. After 2000, when the economic environment stabilized, the inflation rate declined and the monetization degree started to rise.

Using the regression analysis, it identifies that there is a very strong correlation between the evolution of Consumer Price Index (CPI – used for inflation estimation) and the evolution of M2 in real terms ($R = -0.902$), but the evolution of M2 influence only in $R^2 = 81.39\%$ the evolution of CPI.

As a conclusion, the author argues that the inflation process in Romania had not a strong monetary character and it was not only a negative effect of the monetary policy weaknesses.

3. Inflation and the neo-Keynesian causes

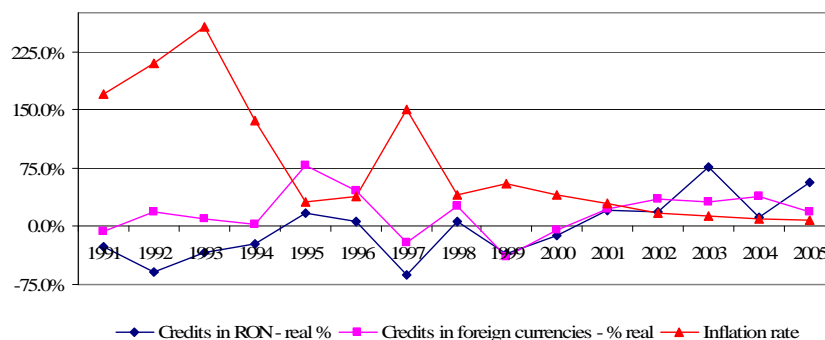
3.1. Demand-pull inflation

The demand-pull inflation had developed in Romania as a result of the expansion of the internal credit, growth of the budgetary deficit and increase of the current account deficit.

In order to help their development, at the beginning of 90's, National Bank of Romania (NBR) was constrained to borrow money with preferential interest to agriculture and energetic sectors. These loans did not help much the results obtained in these areas, because the producers were not stimulated to become more competitive. Adding the fact that the loans were covered by monetary emission, the author considers that this situation determined inflationary pressures on economy.

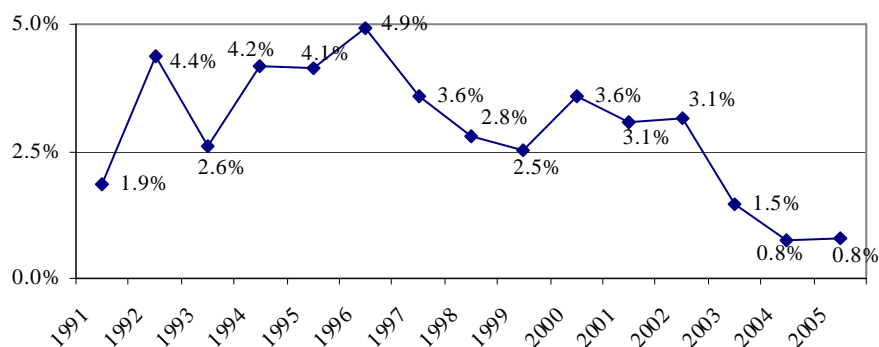
Another stage on the growth of the internal credits has been recorded starting from 2000. After this year, as a result of the economic recovery, the firms and the consumers raised their demand for consumption: on one hand, the companies borrowed more money because they needed to invest in modern technologies, in order to become as competitively as the European Union standards requires, and on the other hand, the consumers, with a greater level of income, raised their demand for credits on long (used to purchase long term use goods) and short term (consumption credits). According to the National Institute of Statistics, after 2000, the level of internal credits is rapidly raising, situation which exert, in our opinion, a very powerful inflationary pressure on the prices. Our view is sustained by the actions taken by the NBR in 2004 – 2006, in order to attenuate the credits' growth.

As was presented, the credit evolution create inflationary pressure, on short term, by monetary emissions and by raising consumption, but on long term it sustains the growth of GDP, helping to the reduction of inflationary pressures. Due to this two opposite influences, when it calculates the correlation index, between the real rate of growth of credits and CPI, it obtains the value $R = -0.811$, which means that between this two variables there is a powerful negative correlation. The determination index ($R^2 = 65.85\%$) shows that the evolution of credits influence the evolution of CPI in a proportion of 65.85%.



Graph 3 – The evolution of internal credits

Source: NBR – Annual Reports 1998-2004, Monthly reports: December 2000-2006



Graph 4 – Budgetary deficit in GDP

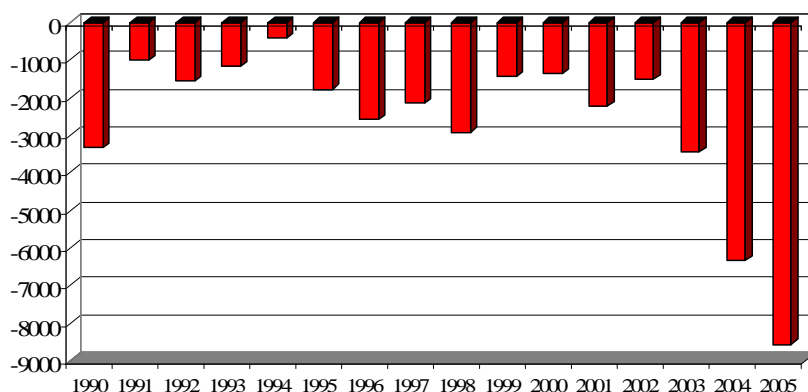
Source: NBR – Annual Reports 1998-2004, Monthly reports: December 2000-2006

Along the specific period, the Romanian government chose to spend more than it receives from taxes. Due to this fact, the budgetary deficit recorded higher values every year. In the 90's, while inflation was reducing the purchasing power of population, the government raised his expenses in order to stimulate the economic growth. This aspect can be observed if we take a look on the statistical data: during the 90's, the budgetary deficit as a percentage in GDP recorded levels greater than 2.5% from GDP, reaching in 1996 the higher value, 4.9% from GDP.

Studying the correlation between the budgetary deficit and CPI it obtains a correlation index $R = -0.585$, which means a very weak correlation between this two variables. In consequences, the author sustains that as grater are the budgetary expenses than incomes, the inflationary pressures are higher, but, in our case, the budgetary deficit had not a great influence on the evolution of CPI.

Another macroeconomic variable that illustrates the differences between the aggregate demand and aggregate supply is the current account of the balance of payments. In Romania, along the specified period, the current account recorded only deficits (as it can see on graph 5), which means that the imports were greater than exports, the goods demand being greater than goods supply. Before 1997 NBR using a fixed exchange rate mechanism any differences between the imports and export created the inflationary pressures on the demand side, while, after 1997, NBR using a managed floating exchange rate the current account deficits determined inflationary pressures on the supply side (cost push inflation).

Due to the exchange rate policy of national currency devaluation, the government stimulates exports and the current account did not recorded very high values. Adding to this reason the low purchasing power of national currency, we have the explanation why until 2004 the difference between exports and imports was not so high. Starting with 2004, the NBR decision to pass to a free floating exchange rate mechanism correlated with the rising in the purchasing power of money accentuated the deficit of current account.



Graph 5 – Current account evolution

Source: NBR – Annual Reports 1998-2004, Monthly reports: December 2000-2006

The determination index between the real evolution of current account and CPI, $R^2=17.51\%$, shows that current account had a very weak influence on the evolution of CPI.

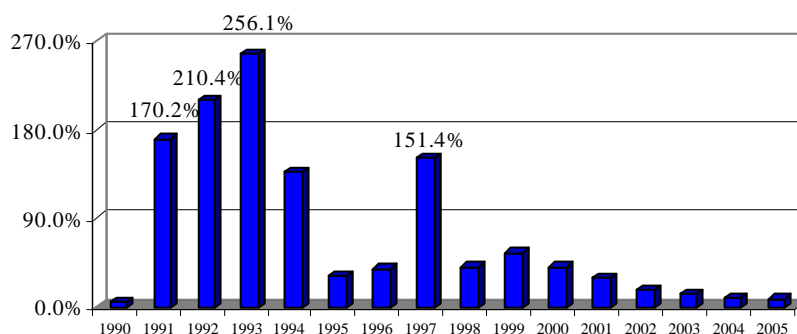
As a conclusion, having these results on the factors that create demand-pull inflation the author believes that, in Romania, the phenomenon of demand-pull inflation was not so intense during the 90's. After 2000, when the purchasing power of the population started to rise, the growth of the goods' demand has accentuated. This aspect was confirmed by the NBR, which affirms that, at this moment the demand-pull inflation represents the biggest threat for his strategy of reaching the inflation target.

3.2. Cost push inflation and price-wage spiral

The cost push inflation appeared in Romania as a result of inadequate strategies for the price liberalization policy, wage policy and exchange rate policy.

In the process of passing from a centralized economy to a market economy, the Romanian government chose to change the economic system by the gradualist steps strategy. In order to protect the people from the loss of their purchasing power they implemented a process of gradualist liberalization of prices. No matter if it was realized by subsidies reduction, exchange rate devaluation or wages indexation, every stage implemented, in the process of prices' liberalization, determined generalized rising of prices. The process started in November 1990 and has developed in four stages: the first one, from November 1990 until March 1991, the second, from April until November 1991, the third, from September 1992 to 1994 and the last one, in February 1997.

As it can be seen on the graph 6, the impact of prices' liberalization was significant, the inflation rate reaching very high values during these periods: 1991 – 1993 and 1997. The author considers that, the situation was the result of peoples' mentality, which expects that when the prices of some essential goods are rising, most of the goods' prices will rise, even if they are not directly affected.



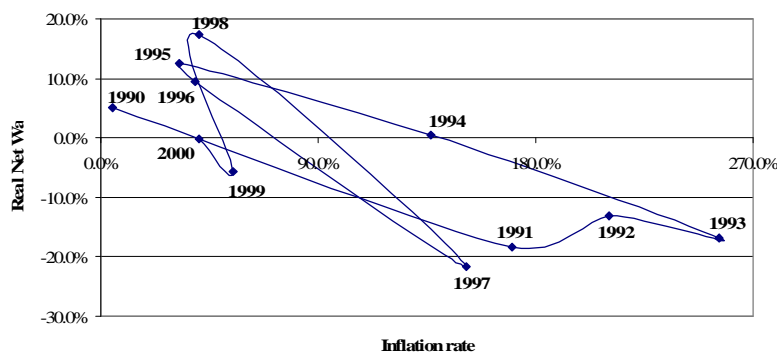
Graph 6 – Inflation rate in Romania: 1990 – 2005

Source: NBR – Annual Reports 1998-2004, Monthly reports: December 2000-2006

The Romanian government stated through the Government Decree (H.G. no. 45/1994) the price control for some “national interest” products with the purpose of calming down the inflationary pressures. For all these products, the prices rose slowly, while the production costs increased in a more accelerated way than the prices, determining changes in the relative prices. In a similar way to the economic experience demonstrated in the USA case from the 70's stagflation, in Romania, the price control measures have not had the expected results, leading to an increase in the level of unemployment and inflation. In February 1997, government gave up price control for most of the “national interest” products, decision that determined the increase of inflation to a higher level.

The Romanian wage policy applied after 1990 was totally inadequate being one of the main causes of the inflation. The problem was that the correlation between labor productivity and wages' evolution was very weak. In most of the cases, the wage raises were greater than the productivity raises, so, the firms were confronted with higher costs. Especially in 90's, the wage raises were the result of the syndicalism pressures, most of the branches with strong syndicalism structures obtaining unjustified salary raises.

The author considers that the wage policy had a great influence on the evolution of inflation raising the production costs. Our conclusion is sustained by the results obtained for the correlation and determination indexes. The correlation index between the nominal wage and CPI illustrates the existence of a very strong correlation ($R = 0.975$), while the evolution of nominal wage influenced the evolution of CPI in a proportion of $R^2 = 95.11\%$. Such a high value for the determination index was obtained because the strikes represented the beginning point of a price-wage spiral. In our opinion, this phenomenon had developed very well because the Romanian governments, being dedicated to the gradualist steps strategy, had not the capacity to decline strikers' demands.

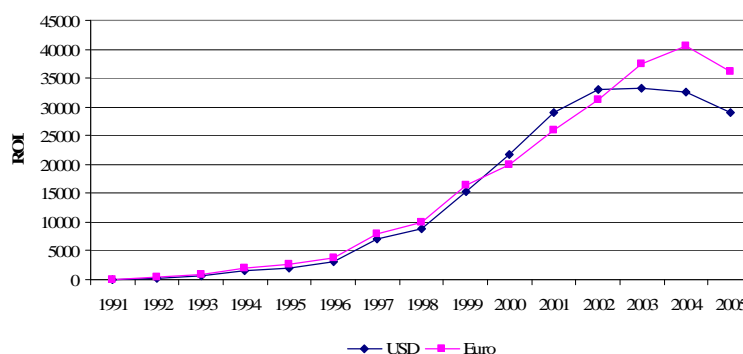


Graph 7 – Price – wage spiral for Romania between 1990 - 2000

Source: NBR – Annual Reports 1998-2004, Monthly reports: December 2000-2006

Another element that had an important influence on the evolution of inflation was the exchange rate policy: when the national currency devaluates (as was the case of Romania until 2004 – graph 8), the imported goods are more expensive, the production costs of the firms which use imported materials are raising and the prices increase. NBR had to follow two goals in the coordination of exchange rate policy: on one hand, to support the disinflation process and, on the other hand, to maintain the competitiveness of the Romanian goods on the foreign markets (government desire). Due to the fact that it is impossible to achieve both goals one at time (to support the

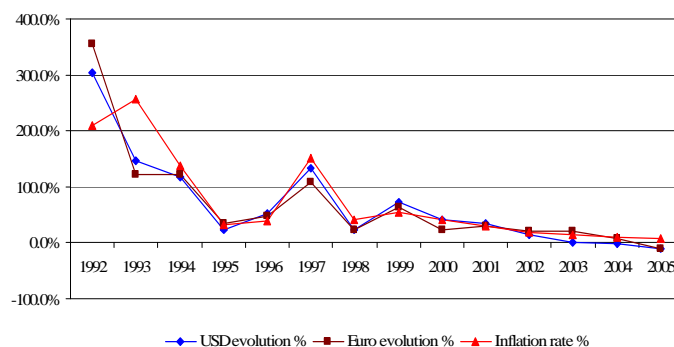
disinflation process the national currency must appreciate, while to support the goods competitiveness on foreign markets the national currency must devalue), the NBR realized a trade off between this two goals. Although the Romanians were very sensitive to the changes appeared in the value of the exchange rate (because they used, all along this period, the foreign currencies to hold their savings), NBR chose, in some cases, to put on the first place the foreign competitiveness of goods risking to amplify the population's inflation expectations. The author sustains that these decisions of NBR reduced the populations' confidence in his capacity to control and to reduce the level of inflation, amplifying their expectations.



Graph 8 – Evolution of exchange rate of USD and Euro

Source: NBR – Annual Reports 1998-2004, Monthly reports: December 2000-2006

The strong correlation existent between the evolution of exchange rate and CPI can be very easy observed analyzing the statistical data. Not only their trends are identical, but the determination indexes showed that the evolution of dollar influenced the CPI in a proportion of 79.01%, while the evolution of euro influenced the CPI in a proportion of 63.67%.



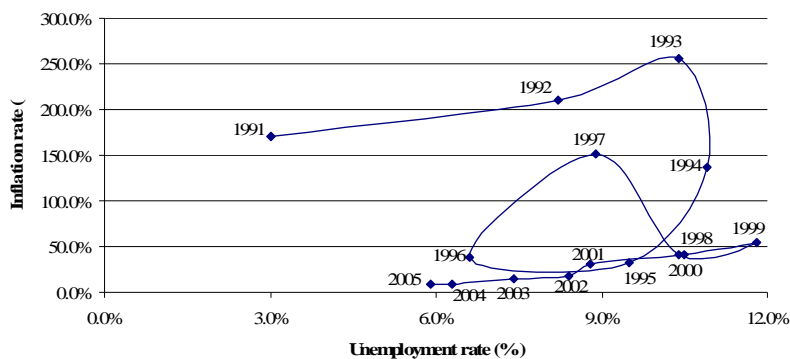
Graph 9 – Exchange rate evolution (%)

Source: NBR – Annual Reports 1998-2004, Monthly reports: December 2000-2006

As a conclusion, The author considers that the cost push inflation process and the price-wage spiral were very intense in the 90's, period when the correlation between the fiscal policy, wage policy, exchange policy and monetary policy was very fragile. After 2000, when the policy mix became more consistent than before, the process of cost push inflation reduced his intensity and the government gained the power to decline some of the syndicalism demands in order to sustain the stability of prices.

3.3. Phillips Curve

The economic theory sustains that, on the short term, the governments are able to make a trade off between the inflation and unemployment. Analyzing the evolution of inflation and unemployment, in Romania, after 1990, the author considers that their evolution respects the economic theory. Looking on the statistical data, the author considers that the Romanian governments tried in the 90's to apply this theory, "to spending against the wind", as Keynes suggested, the goal of inflation being left on the second place. They tried to create economic growth by: running budgetary deficits, according subsidies to the unproductive branches, conducting a very lax wage policy and decreasing unemployment.



Graph 10 – Phillips curve for Romania

Source: NBR – Annual Reports 1998-2004, Monthly reports: December 2000-2006

Starting from 2000, the situation has changed: the economic environment became more stable, and it was no longer necessary to stimulate the GDP growth by the measures used before. Taking into consideration the inflation targeting strategy, adopted in 2004, NBR could not afford anymore to let the inflation target on the second place.

4. Conclusions

In our opinion, the inflation process in Romania had his roots on the neo-Keynesian theory. The demand-pull inflation, cost push inflation and the wage-

prices spiral were present in the Romanian economy: in the 90's the economy experimented, more intense, the cost push inflation and wage-price spiral, while after 2000, the economy experimented, more intense, the demand-pull inflation. The author does not reject the inflation's monetarist causes, but it believes, that in the Romanian case, their influence was a low one.

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ROMANIA'S UNEMPLOYMENT SITUATION

CARMEN MARIA GUȚ¹

ABSTRACT. The present paper aims to analyze the situation of Romania's unemployment, beginning with 1990, when our country began its transition from a centralized economy towards a market economy. Romanian's unemployment major problems are: youth unemployment, respectively long-term unemployment. The author intends to analyze the reasons of this situation and to identify the necessary directions of action for the purpose of the improvement of efficient usage of human capital in Romania.

Key words: unemployment, employment, training.

1. Introduction

Unemployment is today one of the un-settles which affects in different proportions all the states including those underdeveloped and which have a transition to market economy. The high unemployment represents an economic problem, but also a social one. From the economical point of view, unemployment is a dissipation of precious resources, conducing to the diminution of production and incomes. From the social point of view, it is the cause of some profound sufferings, because the unemployed fight to survive with the small incomes that they have.

2. The "disguise" methods of the unemployment in Romania

The transition towards market economy has generated major changes in Romania's employment and labour market field. During the '90's, the labour market in Romania developed into an unfavorable economic environment, because of the delays registered in the privatization and restructuring processes but also in the passing of the adequate economic reforms, the low level of investments, the industrial decline, all of these contributed to the decrease of the labour demand and to the appearance of unemployment, especially among the youngsters and the individuals with low levels of education and qualification.

We ought to point out that Romania is among those ex-communist countries that registered during the transition time a relatively low level of unemployment. The maximum values of the unemployment rate were under 12%, being approximately with 10% lower than the maximum values registered in NSM-10 during the transition time; at the present time, it is 50% of the NSM-10 average.

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Unfortunately, all of the above suggest that the economy restructure has realized partial or incomplete, being registered delays in the privatization process. For many times, for fear of labour unions disturbances the privatization process has been slow down and the personnel shakeout problems instead of being settled, were postponed generating negative consequences upon the economic development.²

Despite the fact that an increase of the unemployment rate and of the number of unemployed people should have registered the expected evolution on the labor market, the subsistence agriculture illustrated through the high proportion of people employed in agriculture, the labor force migration over the borders in the seeking of jobs, the early retirement and the hidden (unregistered) unemployment have until now had an effect of protecting the labor market against a high increase of unemployment. Thus, while for the time span of 1991-1999 our country's unemployment rate registered both ascending and descending periods, after this moment there has been noticed its continuous decrease; by the year of 2005 it actually was of 7.2 unemployed people for every 100 active persons (compared to the EU-25: 8.8%).³

Subsistence agriculture disguised many unemployed persons in farmers. Round the middle of the 1990's, there began a huge flux of migration from urban to rural areas, in the sense of those shakeout from industry came back to their native villages. They were not considered unemployed, because they "had" a household which guaranteed them the subsistence level. Not accidentally, during the 1990's, the agriculture employment quota increased in total employment (from 29.1% in 1991 to 42.7% in 2000). From 2000, the population employed in agriculture began to decrease (32.2% in 2005) as a consequence of the revival of the industrial production and of the services sector. But despite all of these, this quota is approximately 6 times higher than the average of the EU-25 (4.9%).⁴

The second disguise modality of the Romanian unemployed was the external migration for work. Certainly, this emigration presents a lot of positive consequences for Romania, being a "valve" for the labour market surplus from some activity sectors and decreasing the budgetary expenditures in the shape of unemployment benefits. Furthermore, the emigrants send annually to our country important funds, which contribute to temper the deficit of the current account. The volume of remittances is estimated at US \$1.5 to 2 billion per year, which is equal or even more than the foreign investment volume.⁵ Unfortunately, this money is spent for consumption and long-term goods, which might affect inflation in a negative manner and accentuate the external commercial deficit, due to the imports of long-term goods.

² Ghişoiu, M. (coord.), (2000), p. 69.

³ National Institute of Statistics, Romanian Statistical Yearbook, Cap. 23 - International Statistics.

⁴ National Institute of Statistics, Romanian Statistical Yearbook, Cap. 23 - International Statistics.

⁵ Lazaroiu (2003), p. 5.

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We tend to believe that the money transfers to Romania coming from the emigrants or the export of unemployment cannot compensate the loss of human capital, which already misses from many sectors, having an alarming impact upon the future economic development of our country and on the emphasis of the ageing process.

As a consequence of the economic restructuring process, a lot of persons, who fulfilled the activity oldness conditions but not the age ones, have been early retired. During the 2002-2005 time span, the number of early retired pensioners increased with 50% (+4 thousands persons) and in the case of partially early retirement with 84.1% (+53 thousands persons).⁶ Such a phenomenon seems to be anomalous, pursuing the fact that early retired persons leave the labour market at an age that would allow them to do a fructuous activity in the labour field.

When we talk about unemployment we have to take into consideration not only the registered unemployment by the National Agency for Employment but also the hidden unemployment represented by the underemployed persons, by the discouraged persons to look for a job, by the persons who look for a job without being registered by the National Agency for Employment and by the early retirement persons.

In 2005, the persons who had a job but worked less than the normal time of the weekday were 541 thousand persons, 68.8% of these having their residence in rural areas. In the same year, the discouraged persons to look for a job were 258 thousand persons, representing 1.4% from the total population aged 15 years and over and 1.7% from the active population. The most discouraged persons are the women (51.9%), those from urban areas (51.9%) and the youths aged 15-24 years (33.6%).

Table1.

Discouraged persons to look for a job by sex, by area and by age group, in 2005

	Total	Male	Female	Urban	Rural
Total discouraged persons (Thousand persons)	258	124	134	134	124
	- % from total -				
15-24 years	33.6	36.6	30.8	29.0	38.7
25-34 years	26.2	25.5	26.8	25.8	26.6
35-44 years	20.7	16.9	24.3	22.0	19.3
45-54 years	15.7	15.1	16.3	18.7	12.5
55 years and over	3.8	5.9	1.8	4.5	2.9

Source: Forța de muncă în România – ocupare și șomaj în anul 2005 [Labour force in Romania – employment and unemployment in 2005 – our translation], INS, București, p. 39.

⁶ Our calculation realized by the data from Quarterly Statistical Bulletin on Labour, Social Solidarity and Family, N^o. 1(63)/2006, <http://www.mmssf.ro/website/ro/statistici/pensii53.pdf>.

3. Unemployment structural problems

Analyzing the registered unemployed by sex⁷, we may observe that in 1991 women represented almost 62% from the total unemployed, but until 2005 this quota decreased to 40.3%. If the unemployment intensity was higher among female till the end of 1996, starting with 1997 this situation becoming unfavorable for men, the unemployed ILO male quota being 59.7% in 2005.

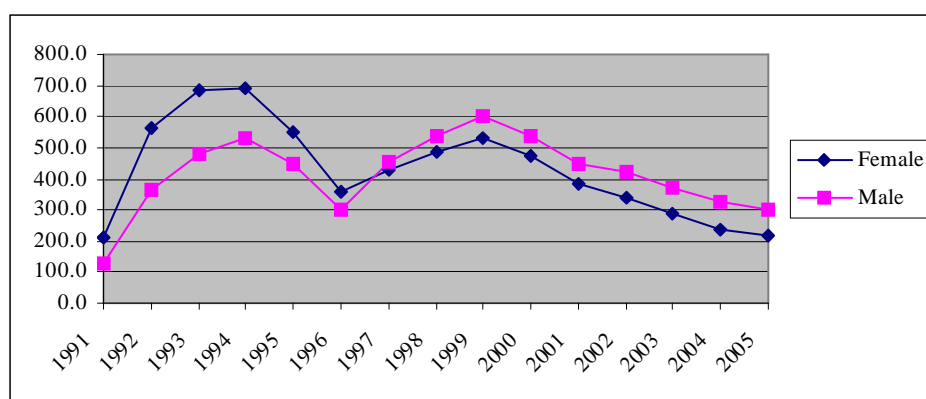


Figure 1: Unemployed persons evolution by sex from 1991 to 2005

Source: Made based on data from Household Labour Force Survey (HLFS), Romanian Statistical Yearbook, INS, Bucureşti; Romanian Statistical Yearbook, 2006, INS, Bucureşti

How can we explain this situation? Firstly, the dismissals and activity reductions took place in the sectors where there worked men (for example, mining and quarrying, heavy manufacturing). To all of these, we can add the impact of the compensatory payment system over the “voluntary unemployment” of the male labour force. In parallel, the textile industry, where work particularly women, developed substantially during the transition time.

The most alarming structural problem is the increase of the youth unemployment quota, respectively the long-term unemployment. The unemployment rate among youngsters is in Romania on a constant increasing curve, expressing the insufficiency of the new work places and, especially, the attractive work places for youngsters, taking into account the high education level of the young generation, as well as their expectations, that are bigger compared with the generation who spent most of their active life in the centralized planning system, marked by permanent constraints and privations.

The unemployment rate among youngsters under 25 years increased for the time span of 2000-2005 from 17.2% to 25.8%, compared to the EU-25: 18.6% and

⁷ Romanian Statistical Yearbook 2002 and 2005, INS, Bucureşti.

UE-15: 16.8%.⁸ This situation can be explained through the fact that the companies with problems protect their employees, dismiss the youngest persons and do not employ others. As a consequence, almost 60% of Romania's unemployed people are less than 35 years old, and this fact can have both economic consequences (there are wasted the most creative human resources) and social consequences (the youngsters behavior towards work is negatively affected). The difference of almost over 12% between the youth unemployment rate and total unemployment rate indicates the important role that subsistence agriculture has had in the prevention of a real explosion of unemployment and in maintaining unemployment at a moderate level until the present time.

Concerning unemployment duration, the facts show that in Romania the long-term unemployment tends to become a serious problem (the same happens, for all EU countries). For the time span 2000-2005, the long-term unemployment rate has increased in Romania from 3.5% to 4.5%, compared to the EU-25 (3.9%) and EU-15 (3.3%).⁹ According to some authors¹⁰, this situation suggests that the unemployed need a long time to move from one work place to another.

The average duration of unemployment was of 20.6 months in 2005, decreasing with 1.8 months compared to the previous year. If short-term unemployment decreased due to the reasons mentioned above, long-term unemployment constantly persisted, even increasing (from 51.3% in 1996 to 56.2% in 2005), reflecting the low capacity of the Romanian economy to generate enough work places and the existence of a certain stiffness of the labour market, that stop the accomplishment of the concordance between labour demand and supply. The persistence of long-term unemployment and even its increase indicate that the salary policy, orientated towards the increasing of the minimum wage achieved its limits. This was convenient for the time span 2001-2002 when it improved the standard of living for the employees with low incomes. The current proportion between the average and minimum salary discourages the real generation of new work places in the companies from sectors with low and average added value that constitutes the actual motor of economic growth, allowing the formation of "a hard nucleus" of unemployment, relatively difficult to dislocate.

⁸http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=Yearlies_new_population&root=Yearlies_new_population/C/C4/C42/ccb30992, data accesării site-ului: 14.12.2006

⁹http://epp.eurostat.ec.eu.int/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&product=EU_yearlies&language=en&root=/yearlies/C/C4/C42/sc061, data accesării site-ului: 03.05.2006

¹⁰ Huber (2002), p. 18.

Table 2

The evolution of long term ILO unemployed persons (12 month and over)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Long term unemployed persons (thousand persons)	406	337	306	350	423	371	449	428	471	396
Percentage of the long term unemployed persons in total unemployed persons (%)	51.3	47.7	41.9	44.3	51.5	49.5	53.1	61.8	58.9	56.2

Source: Household Labour Force Survey (HLFS) from 1997 to 2006, INS, Bucureşti.

Long-term unemployment has implications both in what regards the professional integration that becomes more and more difficult as time passed and the antisocial manifestations that this phenomenon may generate.¹¹ The most affected population categories are the persons over 45 years, the youngsters and the persons with a low level of education. According to the ILO analysts when the lack of the work place appears at a young age, mostly all careers of those persons are affected, because the probability to be unemployed even in the future increases and to have a low wage during the active life.¹²

If we analyze the ILO unemployment rate by education levels, we can observe the existence of a strong negative correlation between the level of education and the unemployment rate. Unemployment affected mostly the persons with secondary levels of education, for which the unemployment rate was of 8%, approximately double as compared to the level registered for the unemployed with university education, of 3.9%.¹³ This situation can be explained through the fact that a better education increases the opportunities to find a work place, reduces the unemployment duration and has a favorable influence upon the earning possibilities.

Finally, analyzing the labour market by regions, we may observe that in Romania there are substantial regional disparities concerning unemployment. These disparities have intensified during the transition time, both as a consequence of some economic factors (the economic restructurings from many activity sectors, which lead to huge personnel shakeouts) and under the effect of the demographical factors (the decrease of the birth rate, the increase of the mortality and of the external migration). These factors amplified the territory and socio-professional migratory fluxes, with effects on the regional distribution of labour force. The

¹¹ Pirciog (1996), p. 16.

¹² Aspect mentioned in Catana (2006).

¹³ Household Labour Force Survey 2005, *Forţa de muncă în România. Ocupare şi şomaj în anul 2005*, INS, Bucureşti, 2006, p. 36.

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regions most affected by unemployment are: the South region with a quota of 20.2% from the total ILO unemployed and North-East region (14.5%), the lowest quota having the West region (8.0%).

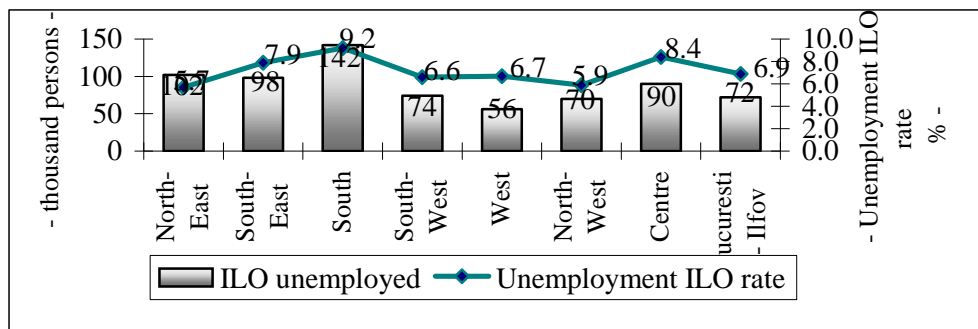


Figure 2: ILO unemployed and unemployment ILO rate by regions in 2005 (end of year)

Source: Ancheta AMIGO 2005, *Forța de muncă în România. Ocupare și șomaj în anul 2005* [Labour force in Romania – employment and unemployment in 2005 – our translation], INS, București, 2006, p. 44.

4. Access to training of workers and job seekers

In the line of the European Employment Strategy, Romania signed the Joint Assessment Paper in October 2002, in which there have been identified the fundamental tasks of the employment policies, with emphasis on: the necessity to improve the access to “the second chance” educational programs, to high school and university education, especially for the rural population; the improvement of the access to training programs both for the employees from companies and for the unemployed; the increase of the active employment measures to facilitate, to test and to evaluate the transformation from the labour market; the assurance at the local level of some qualified and sufficient personnel for the public employment services, for efficiency assistance of the persons who look for a job; the assurance of equal opportunities and the promotion of the active role of the social partners.

In this context, the assurance of the access and the participation to life long learning seems to be very important. Some existing facts in this field show that only 11% of the Romanian enterprises assure training programs (in 1999, this quota was 70% in EU-15) and the global rate of the access to life long learning in enterprises was only 7.6%, being higher among the employees with superior level of education, who fill managerial and administrative positions, which are not affected anyway in a huge manner by the unemployment.¹⁴

¹⁴ Government of Romania, (2005), *National Development Plan 2007-2013*, pp. 144-146.

The explanation for this situation consists in the cost of the professional training, respectively in the inexistence of the sufficient training offers on a local area. The supply of professional training remains fragmented, since it addresses especially to the needs of individuals and not to the companies' needs. These dates confirm the fact that for the time being – although the operating legislation stipulates some fiscal facilities – the problem of financing the professional training is not perceived as the firms' responsibility, but as the individual one, nevertheless the persons do not have the necessary financial resources.

Life long learning is financed from unemployment funds, employers' funds, contributions of the participants, sponsorships, donations etc. Unfortunately, the employers' funds represent a very small quota for the time being. Approximately 7% of the big Romanian enterprises stipulated in their development plans a special budget for professional training. The funds allocated by enterprises for professional training represent 0.9% from indirect personnel costs and 0.3% from total cost with the labour force.

These dates confirm the fact that for the time being – although the operating legislation stipulates some fiscal facilities – the problem of financing the professional training is not perceived as the firms' responsibility, but as the individual one, nevertheless the persons do not have the necessary financial resources. Moreover, the offers do not always represent authentic modular training programs, offering partial qualification.

The training of the unemployed is the responsibility of the National Agency for Employment (NAE) and the training courses are organized by the Regional Agencies for Employment, through personal centers of training, regional centers of grown-ups' training and authorized training providers. In 2005, the National Agency for Employment comprised 20 centers subordinated to county agencies (in 19 counties), 6 regional centers and 3 Romanian - German foundations.

The training programs for the unemployed include the induction, the qualification, the requalification, the perfection and the specialization, included in the National Plan of Training, elaborated by the National Agency for Employment based on the employment agencies recommendation. The access to these programs is possible only after the participation in information activities regarding the career.

Unfortunately, the participation rate of the unemployed to the professional training courses is very low: 2% from the average monthly number of the unemployed in 2002. In 2003, the unemployed have participated in the free professional training courses with 23% more as compared to 2002; in 2004, with 14.6% more as compared to the previous year and in 2005, with 20.2% more than in 2004.

The majority of the long-term unemployed, which participated in professional training courses, were under 25 years, fact that can be explained through the changes that took place in the country's economy and the development of other qualifications requested on the labour market.

For the time span 2002-2004, there were employed 56.1% from the total persons who graduated such professional training courses.

Conclusions

The problem of employment and unemployment has to be found amongst the priorities of a country, including the case of Romania, because the adhesion to the EU structures requests the creation of an efficient frame for the approach of the problems related to the labor market, in function of the predictable evolutions of the national and European economic space.

In that purpose, the employment and the unemployment have to be a major concern, the most important problems that needs to be solved are:

- Management of education and of training processes in general, for training future employees in accordance with the present and future demands of the market;
- The increase of the labour market capacity to create new attractive work places for youngsters, to stop the emigration phenomenon and the waste of human capital.
- The ensurance of a suitable correlation between the existent qualifications and the labour market needs, as well as the system of ensuring the quality in adults' training programs, according to the European model;
- The development and the perfection of entrepreneurial education in adults' training programs in respect of increasing the number of the Romanian SMEs.

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THE EUROPEAN CLOTHING INDUSTRY POST THE AGREEMENT ON TEXTILE AND CLOTHING

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ABSTRACT. The textile and clothing industry is one of the oldest in the world. The EU it is a major player in world trade in textile and clothing. On 1 January 2005 was implemented a measure stipulated for some time, that is the total abolishment of the quota system for the imports of textiles. This measure opened the way to the imports from Asia as well as to the interest of the big companies for the cheap workforce in these areas. This paper deals with the impact of the Agreement on Textile and Clothing on the European Union textile and clothing sector.

Key words: textile and clothing industry, the Agreement on Textile and Clothing, quota system

I. Introduction

The textile and clothing industry is one of the oldest in the world. The oldest known textiles, which date back to about 5000 B.C., are scraps of linen cloth found in Egyptian caves. The industry was primarily a family and domestic one until the early part of the 1500s when the first factory system was established. It wasn't until the Industrial Revolution in England, in the 18th century, that power machines for spinning and weaving were invented.

According to a GfK study made for Wall Street Journal Europe⁴, four out of five Europeans and Americans buy clothes because they need them. So we can notice that the clothing industry is a very old and important industrial sector all over the world. The clothing industry is a very global industry, with constantly increasing trade flows all over the world. It can be seen in Table No. 1 that the world trade flows in clothing are more than double in 2005 than in 1990.

The textile and clothing industry is a major part of the manufacturing industry and has two components: the textile industry and the clothing industry. It

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⁴ http://www.gfk.com/group/press_information, "We buy clothes because we need them", 2006

Table No. 1

World trade in clothing in period 1990 – 2005								
- Billions dollars -								
Year	1990	1995	2000	2001	2002	2003	2004	2005
Textiles	104,35	151,62	157,06	146,98	154,304	173,727	195,378	202,966
Clothing	108,13	158,34	197,413	193,7	203,038	232,557	259,147	275,639
Textiles + Clothing	212,48	309,96	354,473	340,68	357,342	406,284	454,525	478,605

Source: WTO – International Trade Statistic

can be say that the majority of the textile products are the raw material for the companies from clothing industry. In order to establish the role of the textile and clothing industry for the world economy it is sufficient to look at the following statistics presented in Table No. 2. The world trade in textile and clothing products with a value of 479 billions dollars represent 4,7 % from the world merchandise trade and a share in total manufactures world trade of 6,6 percentages.

Table No. 2

World trade in textiles and clothing, 2005			
	Value - Billions \$-	Share in total merchandise world trade (%)	Share in total manufactures world trade (%)
Textiles	203	2,0	2,8
Clothing	276	2,7	3,8
Textiles + Clothing	479	4,7	6,6

Source: WTO – International Trade Statistic

II. Material and methods

To realize this paper we used information from Romanian Statistical Yearbook, from WTO for International trade statistics and Eurostat for European statistics.

In order to a closely identification for some problems and the specific ways to solve those it is been used exploratory research. To obtain information about situation already existing on the market it is been used descriptive research.

III. Results and Discussion

The EU it is a major player in world trade in clothing, being the first world supplier of clothing with trade flows of 80,35 billions dollars in 2005 representing 29,2% share in world market and the second market for clothing after the United States if we consider only imports from outside European Union borders with trade flows of 70,97 billions dollars representing 24,7% share in world market.

Table No.3

Textile and clothing industry in UE - 25		
	2005	% Growth 2005/2004
Total employment	2.218.729	-6,9
Total number of firms	154.866	-6,1
Turnover (billions euros)	198	-4,8
Investment (billions euros)	5.1	-3,3

Source: Euratex

According to the European statistics in 2005, the total number of firms involved in the textile and clothing sector was 154.866 having 2.218.729 employees. The investment made in this sector was about 5 billions euros, and the turnover was 198 billions euros.

The figures presented in Table No.3 shows big dimensions for the textile and clothing industry in 2005. If we compare the year 2005 with 2004, it can be notice negative growth in this sector. The total number of firms decreases with 6 percents and the turnover with almost 5 percents.

According to the declarations of the people in the field, over 60% of the companies involved in the clothing industry work exclusively in outward processing trade system – OPT (in Romania OPT is called “lohn system”).

The work performed in “lohn system” is done according to the following pattern: the foreign company uses only workforce from a cheapest country, the raw materials, technology and know-how are imported. The worldwide clothing producers have preferred to bring the raw material to their partners and to take the finished products after a certain period of time established in the agreements.

OPT was an established practice in the Northern European countries at the beginning of the 1990. During the nineties OPT has expanded massively in Germany, Belgium and French companies at the beginning and later in Italian, British and Greek firms. Only for Portuguese and Spanish firms the OPT is a recent practice.

There follows naturally the question „**Why did the great european companies choose the “lohn system” (OPT)?**” Obviously, these companies look for advantages by contracting the production of other companies with lower costs (the low cost of the workforce and the low costs of the utilities).

These advantages lead to a low production cost, which, beside the partner companies’ gain, add up to a final production cost that is much lower than the one that could have been obtained in Western Europe.

Table No.4

UE-25 External Trade in clothing				
Millions EUROS				
Year	2002	2003	2004	2005
Textiles				
Imports	17.660	16.902	17.531	17.908
Exports	21.434	20.566	21.351	21.080
Balance	3.774	3.664	3.820	3.172
Clothing				
Imports	46.532	47.197	49.788	53.531
Exports	14.801	13.937	14.267	14.717
Balance	-31.731	-33.260	-35.621	-38.814
Total - Textiles and clothing				
Imports	64.191	64.099	67.320	71.440
Exports	36.235	34.503	35.518	35.797
Balance	-27.956	-29.596	-31.802	-35.643

Source: Eurostat – European Statistics

Looking at the figures from the European Statistics (Table No. 4), it can be noticed from the balance, that the European Union is an importer rather than an exporter. This situation is possible because in the clothing sector, the Europeans, having a high level of life, buy a lot of clothing articles (Fig. No. 1). The European Union's imports of clothing are 4 times bigger than the exports.

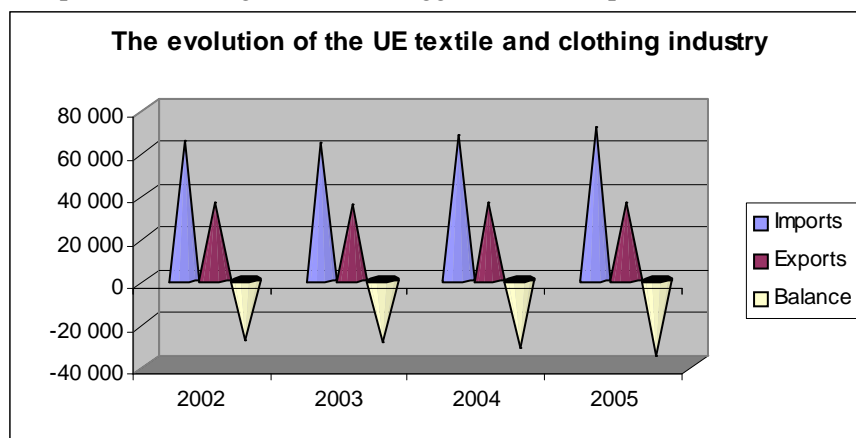


Fig. No. 1 - The evolution of the UE textile and clothing industry

Since 1 January 2005, The WTO Agreement on Textile and Clothing no longer exists. There was implemented a measure stipulated for some time, that is the total abolishment of the quota system for the imports of textiles and clothing.

Before the Agreement took effect, a large portion of textiles and clothing exports from developing countries to the industrial countries was subject to quotas under a special regime outside normal GATT rules. Under the Agreement, WTO Members have committed themselves to remove the quotas by 1 January 2005 by integrating the sector fully into GATT rules. The sector was fully integrated into normal GATT rules, and importing countries are no longer being able to discriminate between exporters.

The total liberalization of the world trade with textiles and clothing opened the way to the imports from Asia as well as to the interest of the big companies for the cheap workforce in these areas.

Table No. 5

Top 10 UE-25 – Suppliers in clothing						
NO.	Origin	Millions EUROS				% Share 2005
		2002	2003	2004	2005	
	Total	46.532	47.197	49.788	53.531	100,0
1	China	9.333	10.219	11.484	16.855	31,5
2	Turkey	6.925	7.410	7.675	7.993	14,9
3	Romania	3.757	3.834	3.840	3.602	6,7
4	Bangladesh	2.744	3.113	3.719	3.530	6,6
5	India	2.322	2.380	2.478	3.233	6,0
6	Tunisia	2.908	2.742	2.602	2.455	4,6
7	Marocco	2.612	2.494	2.427	2.252	4,2
8	Hong Kong	2.345	2.107	1.962	1.703	3,2
9	Indonesia	1.476	1.360	1.336	1.196	2,2
10	Bulgaria	897	994	1.074	1.091	2,0

Source: Eurostat

The Asian firms (Chinese, Indian) and the companies from Turkey became powerful competitors on both domestic and foreign markets. China is the biggest player on the UE-25 market with a share of 31,5% in the European market (see Table No. 5).

From Figure No. 2 it can be easily noticed that in the first year after the export quotas disappeared, the principal winner is China, followed by India. In 2005, China and India's exports in clothing on UE market growth with almost 50% and 30%. Those are big percents, showing the power of these two countries in the clothing sector.

China is the most competitive production base for the time being due to an immense oversupply of labor in the rural provinces and young educated workers who make possible the keeping of the wages at very low levels.

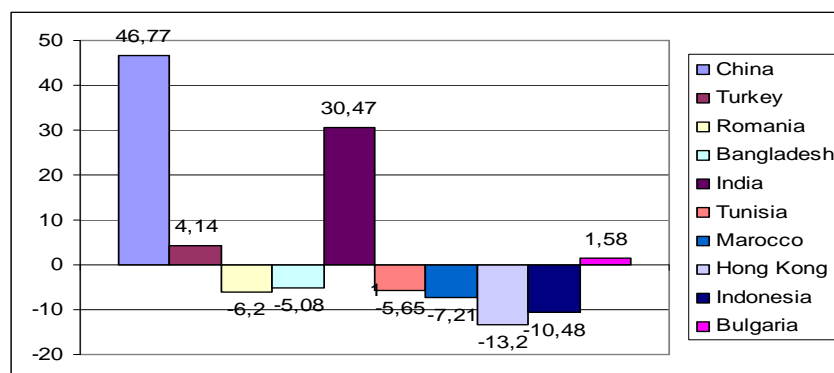


Figure No. 2 Growth in trade with clothing on UE-25 market in 2005/2004

IV. Conclusion

In the following months after the total liberalization of the world trade with textiles and clothing, many European producers expressed concern at the sudden increase in Chinese textiles and clothing exports to the EU. To solve this problem, an agreement was drawn up between the EU and China (Memorandum of Understanding - MoU) in June 2005. This once and for all deal aims at limiting specific categories of Chinese textile and clothing exports to the EU considered as the most sensitive to EU industry.

This political agreement was favored by the Commission rather than the application of complex, uncertain and limited-in-time safeguard clauses which could have been negotiated under the WTO auspices according the Textile Specific Safeguard Clause set in 2001 at the time China reached the Geneva-based organization. Within this arrangement, quantitative limits were reintroduced on the ten most sensitive categories of products, with the aim of achieving fully liberalized trade by January 1st, 2008. This agreement reflects the difficult balance the EU had to strike between retailer, importer, producer and consumer interests. It mitigates the impact of the phase-out of the quotas.

At the same time it offers a high degree of predictability and legal certainty to economic operators as well as additional breathing space for EU producers and developing countries in order to further adjust to the quota-free world announced ten years ago. This agreement also safeguards our trade relations with China, which must be seen as a valuable trade partner. Last but not least, this agreement reflects the strong willingness and ability of the EU Member States to reach a compromise and to show solidarity with each other.

By comparing the first semester of the 2005 with the first one of the 2006, it can be notice the constant growths of the Asian exports to the European Union market.

For the first four months of 2006 total imports of textile and clothing items into the EU from the world diminished by 4% compared to the first four months of 2005. China shows a decrease of 9% in volume coupled with increases in import prices both for categories under quantitative limitations and for most liberalized categories. This can be attributed partly to the transitional quantitative limitations introduced for the ten most sensitive categories, and partly because the corresponding period of 2005 showed a surge of imports from China and other developing countries in the context of the long-announced trade liberalization. The measure of limiting specific categories of Chinese textile and clothing exports to the EU it is unhelpful because the Chinese companies export their goods to the EU via Hong Kong. This ex-British colony increased their exports with incredible figures of 300% in 2006.

More generally, the overall picture in the textile and clothing imports into the EU since liberalization is the following: there is no longer an import surge in the EU neither in the latter part of 2005 nor during the beginning 2006. The main overall result is that China, taking advantage of its natural competitive advantages has doubled its EU market share mainly at the expense of other traditional sourcing countries.⁵

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TOURISM ACTIVITY IN ROMANIA AND TRANSYLVANIA

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ABSTRACT. The present paper aims to present and discuss the development of Romania's and Transylvania's tourism activity beginning with 1990. The paper mainly focuses on determining the number of foreign visitors who are interested in Transylvania as a tourist destination. This analysis is part of a larger project, that of branding this region. The intent is to use the established number of Transylvania's foreign visitors for determining the size of a sample that shall be investigated in a future research concerning the manner how foreign visitors perceive the region as an international destination. A short analysis of the region's tourism capacity is also going to be presented.

Key words: tourism, tourist destination, foreign tourists, Transylvania, Romania

Introduction

The current paper focuses on establishing the number of our country's foreign visitors, to further determine the number of Transylvania's foreign visitors, respectively that one of Cluj County. Later on the intent is to use the established number of Transylvania's foreign visitors for determining the size of a sample that shall be investigated in a future research concerning the manner how foreign visitors perceive the region as an international destination. Another aspect that is going to be covered refers to the region's tourism capacity.

Everybody tends to admit the fact that Romania enjoys a huge tourism potential but the sad reality is given by the fact that this potential has been and continues to be neglected, and consequently fully underexploited. In order to be able to create oneself an image regarding the situation of Romania's and Transylvania's post-December tourism, there are going to be presented several statistics based on the below-mentioned facts and sources.

Material and Methods

In this phase, there is going to be carried out an analysis of the documents offered by the National Statistics Institute of Romania (NSI), of the data found in the *Statistic Year Books of Romania*, as well as of the information found on different Internet sites posted by institutions more or less connected to tourism. Unfortunately, it is necessary to mention from the very beginning of this paper that the institutions that

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are supposed to gather such data, only offer very few pieces of information regarding the situation of each of the country's regions. Moreover, the National Statistics Institute (NSI) does not seem to collect data referring to the purposes of the foreign visitors. Given this situation it has been decided to also use facts, figures and analyses presented by different economic and non-economic publications.

Results and Discussions

1. Romania's International Tourism

The paper begins with a presentation and an analysis of the evolution of Romania's receiving tourism, beginning with the year 1989 and until now. The magazine *AnatMedia*, edited by the National Tourism Agencies' Association of Romania (ANAT), shortly presents the features of the development of Romania's tourism in the 1989-2003 time span:

- the decrease by 23% of the number of tourism accommodation's places: 353,000 (1990), respectively 273,000 (2003) – only hotels are taken into consideration, the villas, motels and agrotourism facilities are excluded;
- the regressive evolution of the net usage of the accommodation capacity coefficient: 58.7% (1989), respectively 34.6% (2003);
- the decline by 26% of the number of foreign visitors: from 6.5 million in 1989 to 4.8 million in 2003. [5]

Based on the statistic data and facts offered by the NSI, in the *Statistic Year Books of Romania* of 2003 [6], 2005 [13] and 2006 [17], as well as on the figures found in the media [1; 4], a short presentation and analysis of the development of our country's tourism activity between 1990 and 2006 is going to be realized; below data illustrate Romania's tourism activity measured at the level of the accommodation facilities:

Table 1.

Romania's Tourism Activity (Thousand Persons in Accommodation Facilities)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total	12297	9603	8015	7566	7005	7070	6595	5727	5552	5109	4920	4875	4847	5057	5639	5805	6216
Romanians	10865	8309	6830	6718	6149	6304	5833	4894	4742	4314	4053	3960	3848	3952	4280	4375	4836
Foreigners	1432	1294	1185	848	856	766	762	833	810	795	867	915	999	1105	1359	1430	1380

It is interesting to mention the fact that Gheorghe Fodoreanu (the president of the Romanian National Association for Tourism Agencies) declared [1] that in 2005 there were registered 5.85 million tourists, of which 4.37 million were Romanians and 1.49 million were foreign visitors. He also said that the number of foreigners increased by 3% compared to the previous year. One may easily observe the fact that there is a difference concerning the numbers of international tourists of approximately 60,000 persons. One may presume that these people arrived in Romania but did not use the registered accommodation facilities; that means they might have

chosen alternative accommodation, such as agrotouristic facilities or private homes of relatives or acquaintances. These types of accommodation are not taken into account by the NSI but they are important. According to the NSI [26] in 2007 there arrived in Romania 1,177.3 thousand foreigners in the first quarter, that means the number increased by 10.5% compared to the same period of the previous year; 94.5% of them arrived from European countries, and 60.2% were EU citizens. Regarding the number of Romanian citizens who traveled abroad increased by 18% compared to last year, reaching for the first semester of 2007 1,986.3 thousand persons.

As the NSI publishes data and figures with a delay of almost one year, it was only possible to access few pieces of information referring to last year's tourism activity. Still, below there are the facts published in an informative communication of the NSI:

Table 2.

January-May of 2007 Compared to January-May of 2006 [26; 27]

Thousand Persons	Arrivals				Overnight Stays			
	2007		2006		2007		2006	
	Jan.-March	Jan.-May	Jan.-March	Jan.-May	Jan.-March	Jan.-May	Jan.-March	Jan.-May
Total	1211	2278	1103.8	2017.5	2922.2	5776.8	2835.5	5258.1
Romanians	955	1753.6	868.9	1556	2335.1	4592.9	2293.6	4236.6
Foreigners	256	524.4	234.9	461.5	587.1	1183.9	541.9	1021.5

During the first quarter of 2007, arrivals, respectively overnight stays registered an increase by 9.7%, respectively by 3.1% compared to the same time span of the previous year. The increase in the arrivals was almost the same in both cases (Romanian and foreign tourists) but the overnight stays increased by 8.3% in the case of international visitors, and only by 1.8% in the case of the domestic tourists. Comparatively analyzing the first five months of the two years the following facts can be shown: there has been registered in 2007 an increase by 12.9% in the number of total arrivals compared to 2006; international arrivals increased by 13.6%; an ascending trend was also registered in the case of the overnight stays (+ 9.9%), with an important increase, by 15.9% of the foreigners' overnight stays. Significant increases of overnight stays were registered during the first quarter of 2007 for the following types of accommodation facilities: youth hostels (+ 99.4%), hostels (+ 52.9%), rural tourist facilities (+ 42.2%) and inns (+ 40.9%), while declines occurred for: campings (- 17.5%), tourist villas (- 16.4%) and tourist bungalows (- 5.4%).

In order to be able to offer a global image of the country's whole international tourism activity, it is needed to centralize the facts gathered by the NSI in the *Statistics Year Books of Romania* of 2003 [10] and 2006 [20], thus the quantitative evolution of our country's international tourism activity in the 1990-2006 time span [29] can be illustrated. The analyzed facts present both the arrivals of the foreigner tourists in Romania and the departures of the Romanians abroad, according to the used means of transportation:

Table 3.

Romania's International Tourism – Arrivals by the Used Means of Transportation
(Thousand Persons)

Year	990	991	992	993	994	995	996	997	998	999	000	001	002	003	004	005	006
Total Arrivals	532	359	401	786	898	445	205	149	831	224	264	938	794	595	600	840	307
Roads	670	729	826	309	557	266	073	850	529	930	808	622	594	343	401	429	390
Railways	349	178	128	005	02	70	92	96	89	86	60	76	74	48	08	05	16
Air	71	76	08	26	89	33	79	33	53	67	55	05	89	52	05	19	122
Naval	42	76	39	46	50	76	61	70	60	41	41	35	37	52	86	87	09

Table 4.

Romania's International Tourism – Departures By the Used Means of Transportation
(Thousand Persons)

Year	990	991	992	993	994	995	996	997	998	999	000	001	002	003	004	005	006
Total Departures	1275	087	0905	0757	0105	737	748	243	893	274	388	408	757	497	972	140	906
Roads	396	408	601	036	057	288	202	664	308	999	018	086	886	584	010	000	418
Railways	501	396	103	435	673	85	065	96	76	54	87	48	51	56	24	22	37
Air	65	69	52	76	93	99	24	05	48	89	35	41	27	93	87	81	225
Naval	13	05	9	10	82	65	57	78	61	32	48	33	3	4	1	7	6

TOURISM ACTIVITY IN ROMANIA AND TRANSYLVANIA

The figures from above are centralized and presented in the following graph:

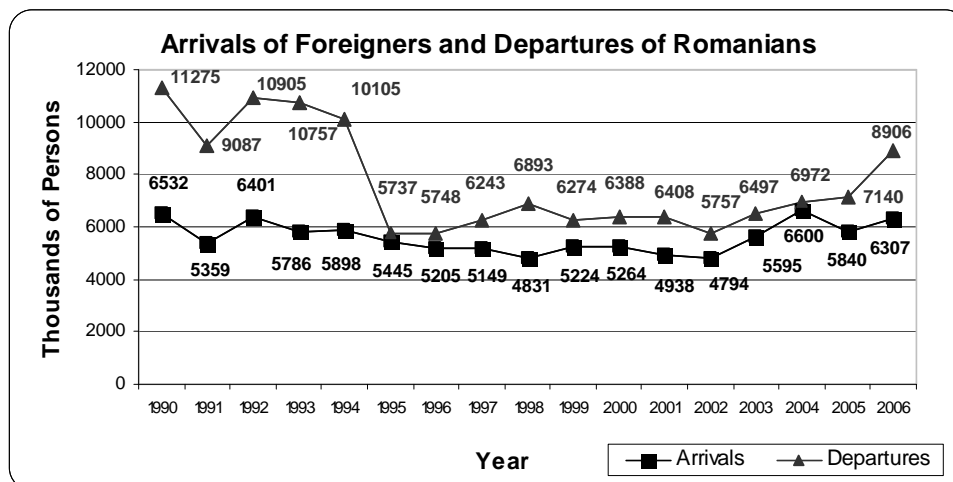


Figure 1. Romania’s International Tourism [own graphic representation]

According to the online business publication, *Wall-Street* [4], during the first three months of 2006 there were registered over one million foreign tourists at Romania’s borders; this number is by 2.9% smaller than that of the previous year. A few facts need to be pointed out [4]:

- 95% of the international visitors originated from European countries;
- most of the foreign visitors came from the neighboring countries;
- a decrease by 12% was registered in the arrivals of EU visitors compared to 2005;
- compared to the previous year, the demand for business travel packages increased by 30% to 40%;
- demand for spa circuits also increased, tending to become the symbol of Romania’s tourism offer²;
- Romania’s seaside presents less interest for the foreigners, demand having registered a decline in this case; the same happened with the sojourn type of offers;
- 1.68 million Romanians chose during the first three months outbound destinations, that means an increase by over 12% of the departures of Romanians over borders compared to the similar period of 2005.

² This statement can be argued against. Our own research study referring to the manner how foreign visitors perceive Transylvania as an international destination, carried out in the time span May 7th – June 18th 2006 in Cluj-Napoca, revealed the fact that the investigated population shows little interest, close to indifference, towards our country’s spa resorts, mainly because of the fact that there are provided services of poor quality. [2]

Analyzing the above mentioned figures, keeping track of the ones mentioned before, and taking into consideration the fact that during 1990-2002, several trials to promote Romania as an international tourism destination were made (the picture album *Eterna și fascinantă Românie*³ of 1996-1997; the campaign “Come as a Tourist, Leave as a Friend”, carried out in 1998-1999; the projects initiated in 2001-2002 for the promotion of Romania’s image; the program “Fabricat în România”⁴ run during 2001-2004; the campaign “România mereu surprinzătoare”⁵ of 2004); the national campaign launched in 2006 for the promotion of inbound tourism “România, o lecție de viață”⁶; the recently created “România – Fabulospirit” campaign of 2007), the following conclusions may be drawn:

- during the time span 1990-1998 Romania’s international receiving tourism had a decreasing trend (with two exceptions, 1992 and 1994, when small increases were registered in comparison to the previous years); in 1998 the number of foreign visitors who entered our country represented only 73.95% of the figures of 1990; the main reasons for this situation can be explained through the negative image Romania had abroad, and due to the lack of any serious initiative to promote the country as an international tourism destination (until 1996 or 1997);

- the 1998-2000 time span had an ascending trend; by 2000 the number of international tourists had grown by 8.96% compared to 1998 and had reached 80.58% of the figures of 1990; among the probable causes of this increase one may mention: the political change of November 1996, which has led to the real democratization of Romania and to the improvement of the country’s external image; the true beginning of the privatization of the state owned properties, including hotels and restaurants and the beginning of the development of the private sector; as well as promotion activities based on the album *Eterna și fascinantă Românie* and on the campaign “Come as a Tourist, Leave as a Friend”;

- the 2000-2002 period did not confirm the same ascending trend; it was characterized by the decline of the number of foreign visitors; by 2002 it registered a decrease by 9.8% compared to 2000, representing only 73.39% of 1990’s value; several causes can be identified for this phenomenon: the change of the government in December 2000, the in consequence of the authorities regarding the implementation of a promotion campaign for Romania, scandals linked to the allocation and management of the funds for such approaches, the continuous worsening of the country’s image abroad etc;

- the years of 2002-2004 registered a new ascending trend; by 2003, figures had increased by 16.68% compared to the previous year, and in 2004 arrivals of foreign tourists had increased again by 17.96%; by 2003 the number of

³ *Eternal and Fascinating Romania*. [o. t.]

⁴ “Made in Romania”. [o. t.]

⁵ “Romania Always Surprising”. [o. t.]

⁶ “Romania, a Lesson of Life”. [o. t.]

foreign visitors represented 85.63% of that of 1990. For the first time since 1990, in 2004 the number of Romania's international tourists reached a greater value than the one of that year; by 2004 there had come to Romania more tourists, exactly 1.01% more than in 1990. Among the reasons of this favorable situation there can be mentioned: the strengthening of the nation's economy, as our economy tends to fulfill the conditions to become and be declared a true market economy; the increasing attractiveness of Romania from the point of view of the foreign investors; the greater stability of the governmental policies, in the context of the nearing EU integration; the fulfillment of the privatization of accommodation facilities and that one of other sectors linked to the hospitality industry; several trials to promote Romania's image, even though incoherent, also played an important role in increasing the international visitors' number;

- unfortunately the year of 2005 does not continue to register an ascending trend; it is characterized by a decrease of the foreign visitors' number, by 11.51% as opposed to the previous year; among the possible reasons one may first of all mention the chicken fever that appeared last fall in Romania and also the poor quality of the offered services, Romanian visitors and foreigners, as well, seem to be more and more attracted by other destinations that offer similar or lower prices and better services (for example, Romanians prefer the Greek or Bulgarian seaside);

- the year of 2006 brought a very much needed initiative, that of promoting Romanian destinations for inbound tourism; on the other hand, in 2007 there appeared a new and very controversial campaign, "România – Fabulospirit"; as for the figures, it may be shown that the number of accommodated tourists decreased in 2006 compared to 2005, by 3.5% but it increased in the first quarter of 2007 compared to the same period of the previous year; the same increasing trend was also registered for the overall arrivals of tourist in the first quarter of 2007.

Referring to the foreign tourists who have visited Romania in the time span of 1994-2006, their arrivals' situation can be presented according to their continent and country of origin [11; 21; 29]. It is impossible not to notice the fact that for the whole analyzed period of time, Europe was the continent that provided Romania, by far, the most tourists; the EU was the most important source of foreign visitors for our country; in the same top then followed the group of the non-EU countries. The European countries that have provided our country with the most visitors were: Hungary, Republic of Moldova, Bulgaria, Germany, Italy, Turkey, etc. In the regions' top, Europe is followed by: North America (with the United States of America as main provider of tourists), and then by: South America, Asia, Africa, Oceania, and other areas. The following table and graph illustrate the centralized information, according to the continent of origin [11; 21; 29]:

Table 5.
Arrivals of Foreigners in Romania, By Main Areas of Origin (Thousand Persons)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
TOTAL	5898	5445	5205	5149	4831	5224	5264	4938	4794	5595	6600	5839	6037
Europe	5719	5240	4977	4923	4601	5006	5024	4696	4551	5344	6306	5522	5690
America	60	66	75	81	90	84	95	96	103	115	139	154	172
Asia	92	113	126	125	122	116	126	130	123	119	135	142	151
Other Areas	27	26	27	20	18	18	19	16	17	17	20	21	24

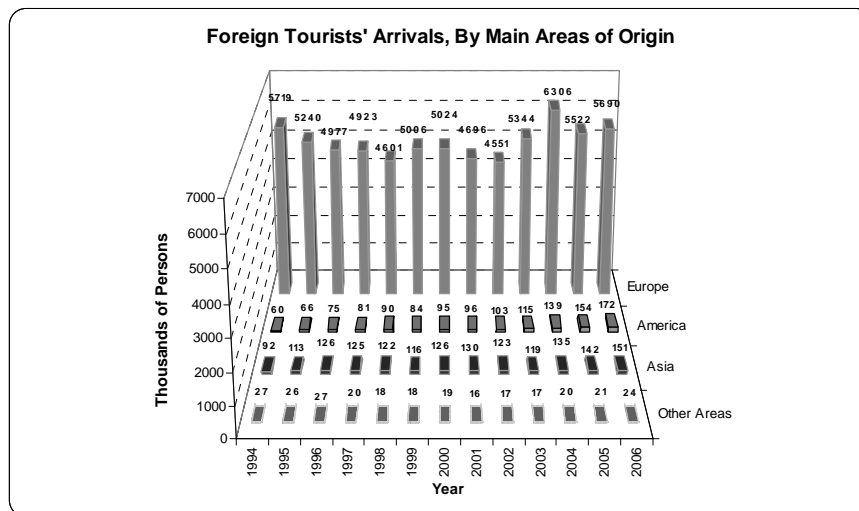


Figure 2. Arrivals of Foreign Visitors by Region [own graphic representation]

Regarding the year of 2007, the figures for the first two months were: 700,000 foreigners arrived in Romania (an increase by 4.6% compared to the similar period of the previous year) and 1.255 million Romanians (5.8% of the country's population) traveled abroad during the first two months of 2007; that means an increase by 14.2% compared to the similar period of the previous year; 94.4% of the foreign visitors were Europeans; the net usage index was of 24.4%, similar to the one of the previous year. [32]

Due to the fact that statistical data and figures regarding foreign visitors, according to their chosen type of destination or according to the practiced type of tourism, play an important role for this paper, a few facts linked to this matter are going to be shown. Identifying the types of destinations chosen by foreigners for their holidays or just for other purposes enables us to sketch Transylvania's identity as a tourist destination, in concordance with these preferences and helps us properly promote the region for each foreign visitors' and tourists' category.

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Table 6.

Tourists Accommodated in Specific Facilities per Destination [7; 18; 29]

(Thousand Persons)

Year Tourists	TOTAL	Seaside	Spa	Mountains	Danube Delta	County Residences	Other Towns
1994	7005	797	750	924	74	3419	1041
Romanians	6149	697	696	859	60	2853	984
Foreigners	856	100	54	65	14	566	57
1995	7070	919	718	1056	71	3311	995
Romanians	6304	851	680	984	60	2785	944
Foreigners	766	68	38	72	11	526	51
1996	6595	865	694	918	62	3200	856
Romanians	5833	803	651	848	56	2678	797
Foreigners	762	62	43	70	6	522	59
1997	5727	767	612	796	51	2683	818
Romanians	4894	709	572	723	45	2095	750
Foreigners	833	58	40	73	6	588	68
1998	5552	806	622	821	51	2471	781
Romanians	4742	757	589	744	41	1894	717
Foreigners	810	49	33	77	10	577	64
1999	5109	679	665	790	39	2261	675
Romanians	4314	644	636	718	33	1664	619
Foreigners	795	35	29	72	6	597	56
2000	4920	672	678	756	34	2237	543
Romanians	4053	639	653	668	29	1579	485
Foreigners	867	33	25	88	5	658	58
2001	4875	659	690	750	46	2199	531
Romanians	3960	614	664	662	40	1513	467
Foreigners	915	45	26	88	6	686	64
2002	4847	685	634	700	36	2256	536
Romanians	3848	627	601	602	29	1535	454
Foreigners	999	58	33	98	7	721	82
2003	5057	718	674	748	37	2291	589
Romanians	3952	651	637	650	29	1499	486
Foreigners	1105	67	37	98	8	792	103
2004	5639	755	683	836	73	2625	667
Romanians	4280	671	638	720	57	1656	538
Foreigners	1359	84	45	116	16	969	129
2005	5805	713	650	828	77	2756	781
Romanians	4375	625	614	715	54	1736	631
Foreigners	1430	88	36	113	23	1020	150
2006	6217	687	702	883	55	2982	908
Romanians	4837	625	666	786	43	1966	751
Foreigners	1380	62	36	97	12	1016	157

Because of the fact that, for our approach, it is very important to identify tourism attractions and types of destinations that are interesting from the foreigners' perspective, there rises the need to present a situation regarding tourist activity and the number of visitors for each of the chosen types of destinations. Analyzing the above facts, in 2004, 2005 and 2006 (the most recent years are the most relevant from the perspective of this approach) foreign visitors, who have made use of various types of tourist accommodation facilities, had the following preferences regarding the chosen tourist destinations:

Table 7.

Percentages of Foreign Tourists Accommodated in Specific Facilities per Destination
[own calculations]

% of Foreigners in	TOTAL	Seaside	Spa	Mountains	Danube Delta	County Residences	Other Towns
2004	100	6.18	3.31	8.54	1.18	71.30	9.49
2005	100	6.15	2.52	7.9	1.61	71.33	10.49
2006	100	4.49	2.61	7.03	0.87	73.62	11.38

For the first five months of 2007 the percentages of the arrivals and overnight stays were:

Table 8.

Percentages of Tourists' Arrivals and Overnight Stays in Specific Facilities per Destination, January-May 2007 [27]

	TOTAL	Danube Delta	Seaside	Other Towns and Tourist Routes	Mountain Resorts	Spa Resorts	County Residences
Arrivals	100	0.8	3	16	15.6	10.3	54.3
Overnight stays	100	0.8	3.6	12.2	13.4	26.8	43.2

Except for the seaside and the Danube Delta, all of the other types of destinations are also present at the level of Transylvania; this region practically possesses important quotas of these categories (as it is going to be shown later on, when analyzing Transylvania's tourism capacity and activity and when evaluating the measure in which its potential is exploited). The changes registered in the foreign tourists' preferences are quite small and it does not seem necessary to point them out as they are quite visible.

One can find a more detailed presentation of the types of tourism that are practiced in Romania in the *Statistical Year Books of Romania*. The next figures refer to the tourism agencies' activities as a whole and do not offer information

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about Romanian, respectively foreign tourists; thus it is assumed that these figures only refer to the agencies' offers of tourism packages to Romanians.

Table 9.

Tourism Activities Organized by Agencies – On Tourism Actions and Areas [9; 19]
(Thousand Persons)

Year	External Tourism Activities – Total	Internal Tourism Activities – Total	Seaside	Spa	Mountains – Towns	Mountains – Villages And Alpine Routes	Historic Areas	Religious Pilgrimage Zones	Fluvial Cruises	Diverse Circuits	Other Zones
1995	498	1801	342	376	417	303	96	8	10	93	156
1996	424	1787	411	351	448	175	108	11	2	44	237
1997	347	1524	367	308	335	181	87	3	3	33	207
1998	266	1421	382	315	295	136	69	3	2	18	201
1999	204	1299	297	302	343	111	70	4	2	17	153
2000	195	1230	327	307	340	93	59	3	1	11	89
2001	125	1322	376	360	340	86	68	2	1	7	82
2002	161	1203	304	330	312	80	62	4	4	7	100
2003	186	1234	318	334	341	89	50	4	18	5	75
2004	216	1429	389	317	372	121	61	4	44	12	109
2005	291	1210	293	288	332	76	44	13	54	37	73

The agencies' internal tourism activities mainly registered in the analyzed time span a descending trend; this decrease was overall a dramatic one (there were registered slight increases but the main trend was a negative one). This aspect reveals the high importance of the campaign for the promotion of the country's destinations for our nation. A country's or region's brand does not make any sense unless it manages to raise the interest of both local and international tourists. One cannot expect to gain the desired profit from activities such as tourism unless the promoted destinations and offered services are successful for both types of tourists. It can be presumed that the slight increases were mainly caused by the so-called "social tourism programs" initiated in the past years (cheap sojourns are sold in low-season). On the other hand, external tourism activities also registered a harsh decrease between 1995 and 2001 (when it only represented 25.1% of the figures of 1995); this negative evolution can be explained through the effects of the transition: reduced incomes of the people and continuous increases of the services' process; these two factors generated very few traveling possibilities for the people. After 2001 the trend reversed as people began to feel the benefits of the reforms implemented in the late 90's and as their incomes began to increase. This fact worsened the demand for inbound tourism.

Another aspect worth to be mentioned is that one regarding the reasons of foreigners' visits. Unfortunately, it is impossible to present a comparative evolution of these reasons for the past 17 years because of the fact that the NSI only decided to study these phenomena in 2004. Thus, the only data that one can use are those from the *Statistical Year Book of Romania 2005* and only refer to local tourists:

Table 10.**Internal Travels of Residents for Holidays* and Business** [14; 22]**

		Tourist Zones						
		Total	Seaside	Mountains	Spa	Danube Delta	Diverse Circuits	Other Zones
Journeys' Organizers	2004	10519668	1154191	1905403	202244	65315	155298	7037217
	2005	8735557	1023234	1651658	158759	39300	97219	5765387
Tourism Agencies	2004	257178	141005	63506	11989	3068	4961	32649
	2005	195622	109076	44062	16289	-	719	25476
Syndicates/Unions	2004	151109	90251	25852	4216	-	4160	26630
	2005	95886	49920	14146	10690	-	-	21130
Pension Offices; Ministry of Labor, Social Solidarity and Family	2004	142109	22829	33466	40000	-	5656	40158
	2005	69713	30528	8492	16454	-	-	14293
Self Organized Trips	2004	9801960	866552	1746337	145515	62247	130227	6851082
	2005	8192356	827161	1528932	109515	39300	95394	5592054
Other Means (Professional, Cultural, Religious Associations, etc)	2004	167312	33554	36242	524	-	10294	86698
	2005	181980	6549	56026	5811	-	1106	112488

* Including rest, relaxation, leisure, amusement, visiting friends and relatives.

** Including travels for professional reasons.

A series of aspects need to be stressed. First of all, the figures offered by the NSI refer to Romanian tourists; under these conditions, it can be assumed that, generally speaking, the proportions may be also applied to the case of the foreign visitors. Another aspect that ought to be mentioned is given by the fact that, except for the seaside and the Danube Delta, all of the other destinations are found in large proportions in Transylvania; therefore, it may be considered that the quota of the region's tourism activities is, by consequence, a significant one.

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The next section is going to detail aspects regarding Transylvania's tourism activity; it shall also analyze the region's accommodation capacity, its whole and international tourism activity.

2. Transylvania's Tourist Capacity and International Tourism Activity

The paper's main purpose being to analyze Transylvania's international tourism activity, the next lines are going to centralize figures referring to this matter. Unfortunately, it is very difficult to realize a detailed analysis regarding the evolution of our region's international tourism activity, given the conditions generated by the fact that the authorities only offer very few facts regarding foreign visitors (at the level of towns, cities, counties, regions of development, etc). Data referring to Transylvania, as well as figures for the County of Cluj are presented in a centralized manner, for the three development regions: Center, West and North-West.

According to the National Statistics Institute [12; 15], by the 31st of July 2004, there were in Transylvania an average of 43.8% of all of the accommodation facilities that existed at the same time in Romania; at the same moment, the accommodation capacity of Cluj County represented 8.4% of Transylvania's whole capacity. By the 31st of July 2005, Transylvania had 43.5% of Romania's accommodation facilities, and Cluj County represented 9.85% of the region's total accommodating facility [23]. As one may easily notice in the table below, all along the evaluated period, net usage indexes of the functioning accommodation facilities registered in our region values very close to those at national level, thus indicating a relatively constant demand as opposed to the region's possibilities to satisfy it, by offering the required accommodation places.

Table 11.

Transylvania's Tourism Activity [24; 25, 29]

	TRANSYLVANIA			NATIONAL LEVEL			TRANSYLVANIA% OF NATIONAL LEVEL		
	2005	2006	Jan.-May 2007	2005	2006	Jan.-May 2007	2005	2006	Jan.-May 2007
Arrivals	2,336,479	2,558,730	1,019,525	5,805,096	5,817,386	2,277,990	40.25	43.98	44.76
Overnight Stays	6,907,993	7,299,495	2,556,423	18,372,789	17,959,159	5,776,861	37.60	40.64	44.25
Net Usage Index	31.21	32.11	27.82	31.78	32.58	28.52	-	-	-

According to the monthly statistical newsletters⁷, issued by the NSI, during the analyzed time span, Transylvania registered an average of 39.37% of all of the tourists' arrivals in 2004, respectively 40.25% of all tourist's arrivals in 2005, 40.9% in 2006; and 44.76% during the first five months of 2007. The table below contains facts and figures referring to the tourism activity of both Romania and Transylvania; the number of the foreign visitors who have arrived in Romania and Transylvania between 1990 and 2006 is also presented. In the table there also are pieces of information regarding the County of Cluj. It is absolutely necessary to present the information regarding the County of Cluj because our research is going to be carried out at local level. Unfortunately, one may observe that after 1990 there has been registered a continuous decrease in the number of Cluj county's visitors. This happened until 2000, when the interest for this region began to increase again; but the 1990 level has not yet been reached. A positive trend was registered in the case of the county's foreign visitors.

A few observations need to be made: both at national level, and also in Transylvania only a small number of foreigners have chosen to use registered accommodation facilities; most of Romania's and Transylvania's international visitors have preferred other types of facilities; thus, some have of them have probably chosen facilities belonging to agrotourism. One must also keep in mind the fact that many of the region's international visitors have relatives or friends here, so they do not need to make use of formal accommodation facilities.

The pieces of information in the table below have been obtained by processing several facts and figures [8; 16; 25; 28, 29]:

Table 12.

Romanian and Foreign Tourists' Arrivals and Foreigners Accommodated in Romania, Transylvania and Cluj County

Thousand Persons/Year		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
ROMANIA	Total Arrivals (Foreigners in Romania)	6532	5359	6401	5786	5898	5445	5205	5149	4831	5224	5264	4938	4794	5595	6600	5840	6037
	Total Arrivals in Accommodation Facilities (Country Level)	12297	9603	8015	7566	7005	7070	6595	5727	5552	5109	4920	4875	4847	5057	5639	5805	6216

⁷ There are some differences between the figures provided by the NSI in the monthly newsletters and through the *Tempo-Online* database; as the *Statistical Yearbook* has not yet been issued, the figures shall be presented and discussed from both sources.

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Thousand Persons/Year		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
	Romanians	10865	8309	6830	6718	6149	6305	5832	4894	4742	4314	4053	3960	3848	3952	4279	4375	4836
	Foreigners	1432	1294	1185	848	856	766	762	833	810	795	867	915	999	1105	1359	1430	1380
TRANSYLVANIA	Total Arrivals in Accommodation Facilities (Transylvania)	4882	3518	2981	2938	2660	2627	2635	2115	2054	1996	1997	1974	1875	2000	2220	2336	2558
	Romanians	4394	3126	2604	2652	2371	2366	2348	1802	1740	1670	1621	1586	1471	1539	1651	1770	2023
	Foreigners	488	391	377	285	290	261	286	314	314	326	376	388	404	461	569	566	536
CLUJ	Total Arrivals (Cluj County)	429	340	307	357	220	208	206	167	168	141	147	145	168	214	258	281	319
	Romanians	365	267	257	323	193	180	176	139	135	114	111	107	116	155	172	206	257
	Foreigners	64	73	50	34	28	28	29	28	33	26	35	39	52	59	86	75	62

Conclusions

For analyzing Transylvania's tourism profile, the region is going to be administratively systematize according to its three development regions [31]: **Center** (six counties: Alba, Braşov, Covasna, Harghita, Mureş and Sibiu), **West** (four counties: Arad, Caraş-Severin, Hunedoara and Timiş), and **North-West** (six counties: Bihor, Bistriţa-Năsăud, Cluj, Maramureş, Satu Mare and Sălaj); thus, the region totalizes a number of sixteen counties, that means a little more than a third of Romania. Another extremely important aspect of the research focuses on identifying the region's tourism activity that is carried out according to Transylvania's main types of tourism attractions and features, in order to be able to later promote it as an international destination.

Taking into consideration the multicultural character of the Transylvanian space, mainly generated by the region's historical background, the zone's main tourism spots and attractions are going to be presented, by classifying them according to the different receiving tourism categories [3], as follows: prehistoric and antique vestiges and ruins; medieval castles, fortresses and fortifications; cathedrals, churches, monasteries and hermitages; cities, towns, villages and hamlets – architectural elements, traditions and customs; Transylvanian village, preserved and full of significances and traditions; memorial houses; handicraft and craftsmanship; rural tourism and agrotourism; festivals, traditions, cultural and folkloric events, as well as thematic destinations; agricultural specifics – ecological products, viticulture,

cheese etc; medical cures – spa resorts, thermal and mineral waters, lakes and salt works; geotourism natural tourism attractions and spots – botanical gardens, reservations, natural and national parks, caves, salt mines, the great variety of our region's forms of relief, types of sports that can be practiced, etc. This way of presenting Transylvania's tourism attractions was chosen because there exists the intent to verify (through future researches) which of them have tourism significance from the foreign visitors' point of view.

Transylvania has features that allow one to include it in the category of ecotourism destinations. *Ecotourism* is a special type of tourism, that enables a good grasp of the local specific. This type of tourism includes the following categories: *cultural tourism* (urban and rural, cultural circuits, festivals, fares and other events with folkloric, traditional and cultural features); *ethnotourism* (the type of tourism practiced by ethnic groups); *literary circuits*; *religious tourism* [visiting of churches and cathedrals (in urban areas), circuits of wooden or stone made churches (mainly in rural areas but not only), circuits of monasteries, etc]; *sportive tourism* (fishing, horseback riding, ski, rafting, alpinism, biking, *birdwatching*, classical and nature friendly hunting, mountain hiking etc); *ludic tourism* (amusement parks and casinos); *health, beauty and medical care tourism* [trips and journeys to different Transylvanian resorts (areas with thermal waters, regions with mineral waters, salt works/mines, cosmetic and beauty treatments and wellness, and also medical services: mainly, dental care and luxury services, such as aesthetic surgery, due to the very attractive quality-price quota); *medical tourism* represents one of the most important reasons for visiting Romania for many of the people who have emigrated; some specialists consider that this type, *health and beauty tourism* [30], consists of: *the pure health and medical care tourism* (medical cures, diet food, climate, swimming, sauna and physical activity), a category which should also include *gerovital type of tourism* and aesthetic surgery, *fitness* (aerobic, mountain hiking, sauna, *mountainbiking*, tennis, golf), *wellness* (beauty cures, spoiling, biking, tennis, social contact) and *spa cures* (natural resources, health, cures, diet food, climate, baths, nature)]; *business tourism* (practiced mainly by business people but also by their employees and business partners – seminars, trainings, *team-building* sessions, holidays, etc – all of these organized with a single purpose, that of welding working teams and of rewarding the employees); *thematic circuits (Dracula)*; *special circuits* (in vine areas, beer circuits, gastro-culinary circuits, in the summertime on the tracks of the miniature train – *mocănița* – or in the wintertime snow-sledge rides); *agrotourism* [services (accommodation and meals) offered by private persons from rural areas]. Ecotourism is the most appropriate form of tourism to be practiced in Transylvania and to be used for creating and promoting the region's tourism destination profile.

Moreover, the figures registered by for the region's tourism activity (Transylvania being by far underexploited as a tourist destination but there existing an increasing interest from the perspectives of both local and international visitors) provide enough reasons for seriously taking into consideration the matter of branding this region.

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