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THE IMPORTANCE OF SMALL BUSINESSES IN THE REPUBLIC OF CROATIA AND THEIR ROLE IN DISTRIBUTIVE TRADE

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ABSTRACT. Small businesses, made up of companies and crafts, are an extremely important segment of the Croatian economy. Its contribution to overall employment, revenues and share in the overall number of entrepreneurs is exceptional.

On the basis of size, about 95% of all Croatian companies were categorized as small companies between the years 1993-2003. About one hundred thousand crafts are registered in Croatia, which employ about 2.5 people on average. Small businesses realized 45.4% of revenues in 2003. They show a marked concentration in four segments of economic activities. They are: trade, real estate turnover, processing industry and construction.

Small businesses are concentrated according to territory. Accordingly, about 73% of all businesses are located in five Croatian counties. Small businesses are plagued by a number of problems. The key problems are found in entrepreneurs lacking in know-how and the lack of warranty funds.

Most small businesses are found in the segment of distributive trade, which is particularly fragmented. Fragmented trade becomes an easy prey to foreign competition, which has reached the Croatian market through the internationalization process.

Key words: small businesses, small companies, crafts, Republic of Croatia, distributive trade.

1. INTRODUCTION

Small businesses are a particularly important segment of the overall economy. This claim is as equally valid for the economies of European Union countries as it is for the economy of the Republic of Croatia. The importance of small businesses comes from its presence in the overall number of companies, its contribution towards employment, and to the generation of new ideas. We shall take a detailed look at the importance of small businesses in the economy of Croatia, with an emphasis on its role in Croatian distributive trade.

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2. CRITERIA FOR THE CATEGORIZATION OF ENTREPRENEURS ACCORDING TO SIZE

2.1. In the economy of Croatia

There are three criteria for categorizing entrepreneurs according to size in the Croatian economy. They are: 1) number of employed; 2) total annual turnover and 3) consolidated balance. Table 1 contains quantified criteria for the categorization of entrepreneurs according to size in the Croatian economy.[4]

Table 1.

Criteria for the classification of entrepreneurs according to size in the Croatian economy

Criteria	Amount	Note
Criteria A: a) Consolidated balance b) Total annual turnover c) Number of employed (annual average)	1 000 000 € 2 000 000 € 50	*Note*: Small entrepreneurs do not surpass two out of the three criteria noted
Criteria B: a) Consolidated balance b) Total annual turnover c) Number of employed (annual average)	4 000 000 € 8 000 000 € 250	*Note*: a) Medium entrepreneurs surpass criteria A, but not criteria B. b) Large entrepreneurs surpass criteria B.

The small business category is made up of small and medium-large entrepreneurs. They can appear as craftsmen or companies. In the small entrepreneur category, there is also a micro-entrepreneur category for all those entrepreneurs who employ up to ten workers.

The official definition of the small business industry in Croatia is provided by the Small Business Development Promotion Act that is compliant with european standards.

The small business actors are legal entities and natural prersons (companies, craftspeople and others) which independetly and permanently pursue lawful activities in order to gain profit, i.e. income in the market.[5]

Legislation has entered the category «independence in business» in its definition of small businesses. It is defined in the following manner: "if others are not the owners of more than 25% of part-ownership or have decision-making rights within the small-scale industry subject, individually or jointly, and are not the subjects of small-scale industry themselves"[6].

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[4] See: Small Business Development Promotion Act, Official Gazette/Narodne novine, Zagreb, 22/2002.
[5] Idem as in (1), p.1.
[6] Idem as in (1), p. 1.

2.2. In the economy of the European Union

A comparable overview of criteria for the classification of entrepreneurs according to size is given for both Croatia and the European Union. Employee numbers are an equal criteria for classification in both economies. The value indicators for realized annual turnover and the consolidated balance vary significantly. The differences arise from the strenght of the EU economies as compared to the Croatian economy.

The value ranges, according to the actual rate of exchange between the Croatian kuna and the Euro, the realized annual turnover and the consolidated balance give ranges favoring the EU – from 1:3,2 to 1:6,7. The first reflects on criteria for the realized annual turnover of small businesses, and the other on the value of the indicator, such as is the consolidated balance.

Table 2.

Small business in the Republic of Croatia (HR) and European Union (EU) according to definition

-in millions

Criteria	Republic of Croatia			European Union		
	Micro scale industry subjects	Small scale industry subjects	Medium scale industry subjects	Micro scale industry subjects	Small scale industtry subjects	Medium scale industry subjects
Number of employed	<10	< 50	< 250	< 10	< 50	< 250
Total annual turnover or consolidated balance	-	< 16 KN < 8 KN	< 60 KN < 30 KN	-	< 7 € < 5 €	< 40 € < 27 €

Source: Croatian Chamber of Economy-Small Business Department: Small Business, p.2, www.hgh.hr

The value of criteria for realized annual turnover and consolidated balance are subject to change. This is confirmed by the European Commission, which adopted a new definition of small and micro businesses contained in the document Recommendation 96/280/EC have been changed. See Table 3.

Table 3.

New definition of small and micro businesses in the document Recommendation 96/280/EC

Enterprise category	Headcount	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤€ 10 million		≤ € 10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

The new definition takes into consideration the results of economic development, which occurred from 1996 to 2003. The range of value criteria for defining small businesses are even more in favor of the European Union.

3. BUSINESS STRUCTURE ACCORDING TO SIZE

3.1. Significance of small businesses in the European Union

Small businesses are a particularly important segment of the economy for both the European Union and for Croatian. This is due to the adoption of the European Charter on small companies, which clearly emphasizes: a) the importance of small businesses (the fundamental base of the European economy, main source of employment, generator of new business ideas) and b) principles of activity. The following ten principles of activity are noted: 1) Education and training of entrepreneurs; 2) Cheaper and faster establishment of companies; 3) Better legislation and regulations; 4) Accessible skills; 5) Improvement of electronic access; 6) Better use of single market advantages; 7) Tax collection and financial issues; 8) Strengthening the technological capacities of small businesses; 9) Successful model of electronic business and top support for small companies, and the 10) Development of stronger, more efficient presentation of small business interests in the European Union and at the national level.[7]

Of the total 25.3 million non-primary private enterprises in Europe (28 countries of the European Economic Area plus candidate countries to the European Union), 99.8% were craftsmen, small and medium large businesses. Of this, 90% were micro businesses with less than 10 employees. The micro enterprises represent the typical European company that employs 3 people on average. The average European company employs 5 people. The significance of tradesmen versus small enterprises is in their contribution towards employment. More than every second European (53%) is employed in trade or in a small enterprise. This is close to 95 million people. This segment of the economy makes up for 50% of the overall European turnover.[8]

3.2. Significance of small business – the case of Croatia
a) Number of entrepreneurs

Small businesses are made up of companies (small and medium large) and crafts. According to the criteria of the number of entrepreneurs, craftsmen form the dominant part of small businesses in Croatia. Their share in the number of entrepreneurs was over 63% in the first six months of 2003. See the data contained in graph 1 for a more detailed structure of small businesses according to the number of entrepreneurs.

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[7] European Charter on small companies, www.hgk.hr
[8] Idem as in (4), p.1.

Graph 1. The Structure of small businesses in
Croatia according to the number of entrepreneurs
(I-VI/2003)

Medium
1%

Small
36%

Craftsmen
63%
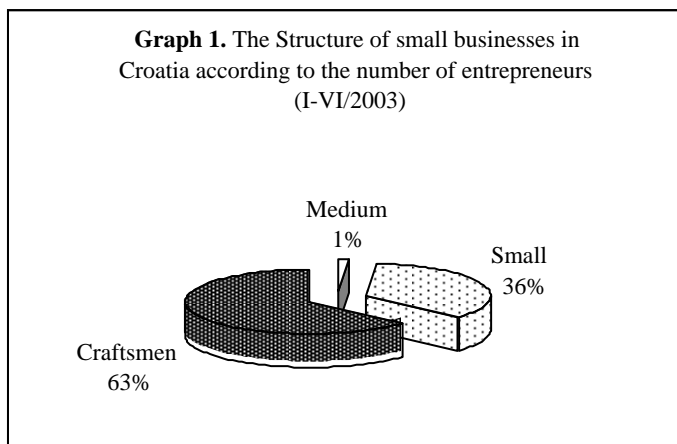
In the structure of companies in the Croatian economy, large companies participated by only 1.2%. See the table 4 and the graph 2 for a detailed structure of companies according to size.

Table 4.
Structure of companies in the Croatian economy
according to size (I-VI/2003)

Companies	Number	Structure in %
Large	685	1,16
Medium	2006	3,41
Small	56152	95,43
Medium + small	*58158*	*98,84*
Total:	58843	100,00

The data contained in the table 5 supports the importance of small companies in the overall number of active companies in Croatia. Their average share in the overall number of active companies was about 95% from 1993-2003.

The oscillations in the overall number of active companies and small companies in certain years are significant. The interest in entrepreneural activities and in the establishment of companies increased with changes in the economic system.

The founders of companies, as with crafts, come from three categories of the population: a) those who have always wanted to work for themselves and who cannot support others being bosses, wanting to be bosses themselves; b) those who simply had no other option considering the economic situation they found themselves in (unemployed, working without receiving a salary), and c) those who would not have undertaken anything on their own if they had had slightly better working conditions.

Graph 2: Structure of companies in the Croatian economy according to size (I-VI/2003)

1,2%   3,4%

95,4%

■ Large   ☐ Medium   ▨ Small
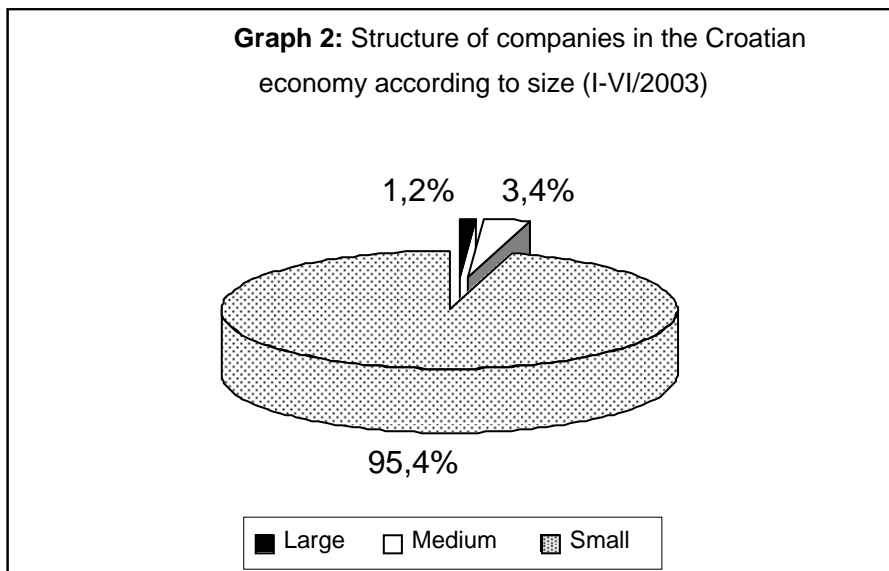
Table 5.

The number of active companies in Croatia, 1993 – June 2003

Year	Active companies		Small companies in % of the overall number
	Total	Small companies	
1993	38 448	33 977	88,37
1994	51 043	48 021	94,08
1995	61 597	58 072	94,28
1996	63 915	60 088	94,01
1997	64 789	62 501	96,47
1998	62 050	59 718	96,24
1999	59 773	57 323	95,90
2000	58 773	56 173	95,58
2001	56 987	54 213	95,13
2002	63 565	60 562	95 28
I-VI/2003	58 843	56 152	95,42
Average: 1993-2003	58 162	55 164	94,85

Note: LJRH and our computation of the same source.

Starting up one's own business is accompanied with such myths as: a) I shall make lots of money; b) I will have more free time, and c) I shall have less problems. The reality is something different, especially in work that is entirely new.[9]

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[9] With regards to myths tied to starting up one's own business, see the following sources for more details: a) Hingston, P., Starting Your Business, A Dorling Kindersley Book, London, 2001 and b) Rewid, J., Start Up & Your Own Business, Third Edition, Kogan Page, London, 2004.

b) Contribution of Croatian small businesses to overall revenue

Croatian small businesses participated in the creation of overall revenues by 45.4% in 2003. The graph 3 shows the overall revenues in the Croatian economy according to entrepreneur size for 2003.

Graph 3. The contribution of Croatian small businesses in overall revenues in 2003

54,6%

45,4%

☒ Small entrepreneurs   ■ Large entrepreneurs
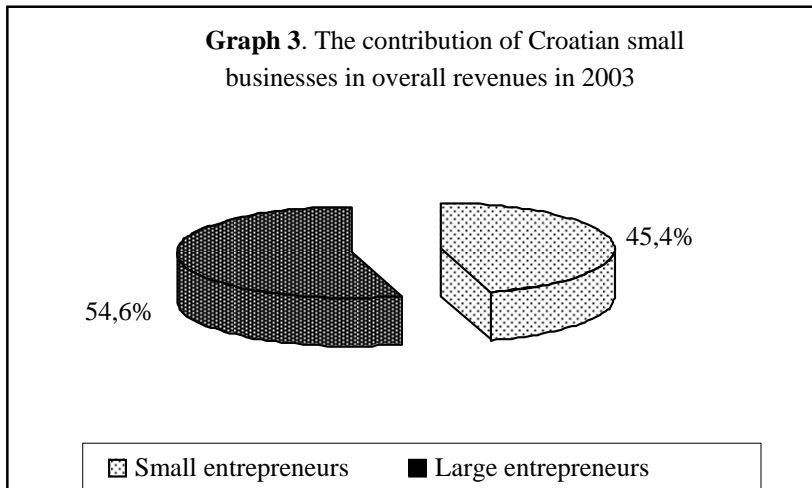
Significance of private ownership in some segments of the Croatian economy: 96,6% entrepreneurs; 62,6% employed; 69,8% total revenue; 69,0% expenditure, and 56,1% salaries.

c) Contribution of small businesses to employment

The Croatian case shows the significant contribution of small businesses to employment. Small business companies (small and medium) employed 55% of all employed in 2003. Small business enterprises, together with craftsmen, employed about 70% of the total number employed in the Croatian economy in 2003.

Table 6.

Number employed in small businesses in Croatia (I-VI 2003)

Small businesses	Number of employed	Percentage
Medium large companies	151 635	22,75
Small companies	269 013	40,35
Craftspeople:		
• owners	*99 989*	15,00
• employees	*145 981*	21,90
Total:	245 970	36,90
Total:	666 618	100,00

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The average craft employed 2.45 persons (owner +1.45 employees).

d) Key problems in small businesses

The key problems of small businesses are various by their nature. They involve: a) education; b) liabilities; c) procedures, d) consultants, e) program-development, and f) structure.

Graph 4. Employee structure in small businesses in Croatia, I-VI 2003

Craftspeople (owners+ employees) 36,8%

Midium companies 22,8%

Small companies 40,4%

Graph 5. Employee structure in companies in Croatia in 2003

Small 35%

Large 45,25%

Medium 19,75%
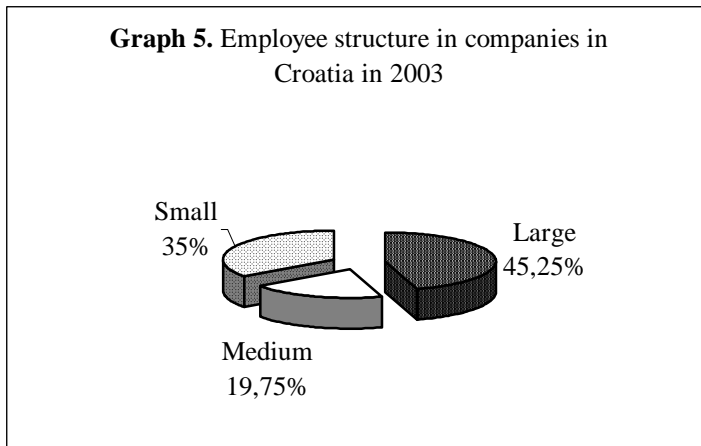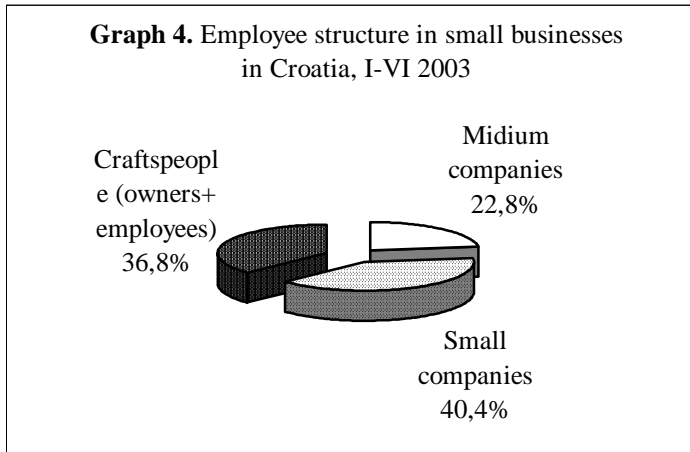
The key problem above all is the insufficient training of entrepreneurs. There is poor readiness to learn throughout one's life. There is also the poor liability rating that stands out particularly with beginner entrepreneurs. There is a chronic absence of good development programs and a lack of usable business ideas. The network of

institutions and organizations offering various consulting services is poorly developed. The structural problems stem from inadequate investment in production, new technologies, and improving the quality of products and services.

e) Territorial distribution of small businesses

The territorial concentration of small businesses in Croatia is very pronounced. Seven leading counties participated in 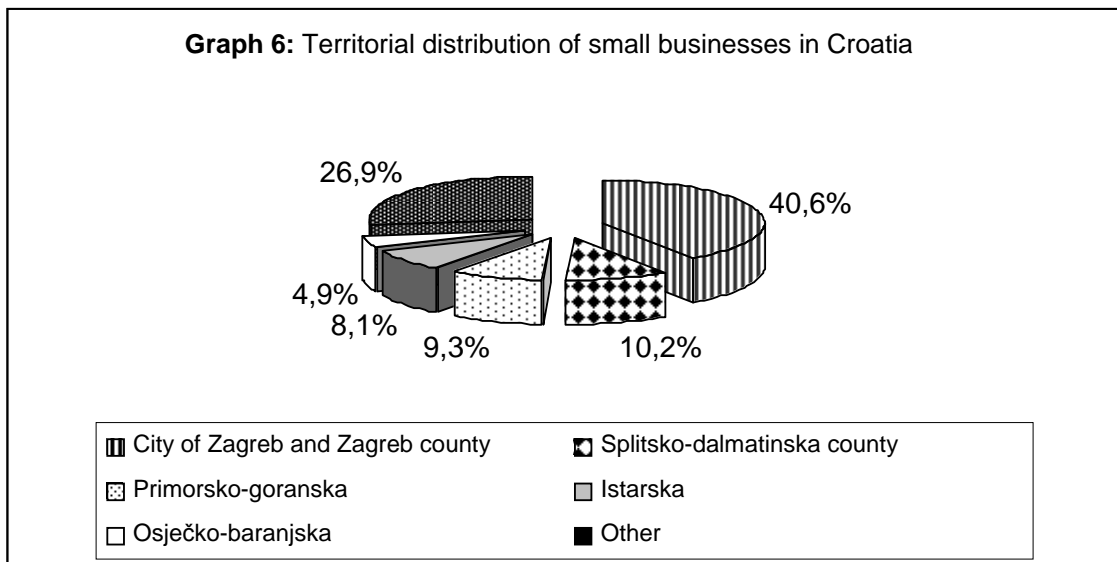the structure of small businesses with 73%. The remaining counties (15 of them) participated in the territorial distribution of small businesses with 27%, or an average per county of 1.7%.

See the territorial distribution of small businesses in 2003 for details.

Graph 6: Territorial distribution of small businesses in Croatia

26,9%
40,6%
4,9%
8,1%
9,3%
10,2%

- City of Zagreb and Zagreb county
- Splitsko-dalmatinska county
- Primorsko-goranska
- Istarska
- Osječko-baranjska
- Other

f) Institutions in Croatian society whose role is to encourage the development of small businesses

There are numerous institutions in Croatian society who encourage the development of small businesses. They are:

- Ministry of the Economy, Labor and Entrepreneurship; Croatian Bank for Restoration and Development; Croatian Agency for Small Businesses; Ministry of Sea, Tourism, Transport and Development; Regional Development Foundation; Development and Employment Foundation; Ministry of Family, Defenders and Inter-generation Solidarity, Ministry of Science, Education and Sports; Croatian Chamber of Economics; Croatian Chamber of Crafts

The number of the above-noted institutions could lead one to conclude that there is too much organization, which can sometimes be counter-productive.

4. FRAGMENTATION OF THE RETAIL STRUCTURE
Case of Croatia

The more fragmented the retail structure is, the greater the need for business ties and the expansion of trading enterprises. The Croatian retail structure is an example of pronounced fragmentation. The same holds true for the overall distributive trade on the Croatian market. The average data points to a pronounced micro structure (on average up to ten employees per enterprise or trade) in overall Croatian distributive trade for enterprises as well as for trades. See Table 7 for detailed data.

Table 7.

Some indicators of distributive trade development in Croatia

Indicator	Year		
	2001	2002	2003
Number of stores per entrepreneur			
a) total	1,177	1,135	1,179
b) enterprise	1,244	1,198	1,249
c) craft	1,094	1,073	1,110
Number of employees per entrepreneur			
a) total	5,19	5,07	5,45
b) enterprise	7,66	8,05	8,71
c) craft	2,12	2,12	2,25
Population number per store	110,0	95,6	95,3
Number of stores per 000 inhabitant	9,13	10,46	10,49

Note: Personal computation according to data from the Croatian DZS

The data contained in Table 7 suggest the need for mutual business ties and the expansion of trading entities. Expansion aims at achieving possible business advantages (ie: increasing negotiation powers and strengthening of negotiation positions with respect to suppliers, achieving better procurement conditions, strengthening the market position in terms of local and foreign competition). Achieving business advantages serves to improve business vitality. Business vitality creates the conditions needed for successful business and longevity of the enterprise.

5. SOME CASES OF TIES IN CROATIAN TRADE

The market position of small, independent and non-connected traders is becoming highly questionable. They will always exist, but their share in retail structures will lessen – smaller in number, but faster in their contribution towards the overall trading result (share in retail turnover and number of employees). They must create mutual interest networks, as well as the creation of independent small trader unions.

The above is valid for medium large traders on the Croatian retail market. We believe that there are no exceptions here, and that large traders can become even larger by entering unions, thereby using the resulting business advantages. This is the experience shown by developed European retail markets and leading European traders.

The process of networking and creating business associations in trade has been significantly delayed on the Croatian retail market. More than a decade has passed since the creation of an independent Croatian state, and the appearance of the first associations of small and medium large trading enterprises.

We site four cases according to their order of appearance.

Case 1:

CBA Croatia.

The model joins together small and medium large trading enterprises, which was introduced at the end of 2001. Eleven trading enterprises throughout Croatia joined together. By joining, they became a respectable factor on the Croatian trading scene.

The model was first realized in Hungary as CBA Hungary. It is owned by small traders, and was the leading Hungarian trading chain for a wide selection of trading goods.

Most activity is directed towards achieving advantages resulting from the advantages gained from the concentrated procurement of their members.

They show interest for the internationalization of business activities. The transfer of the model to the Bosnia and Herzegovina market and the offering of know-how, as well as efforts made at further expanding the joint base of procuring trading goods.

Case 2:

Ultra grupa. It was originally made up of eight trading companies. The main reason for mutual business networking was in order to achieve more rational procurement functions. The group should contribute towards strengthening the market position of its members. The creation of conditions for growth and the development of the group is not to be neglected.

The strengthening of a business consciousness regarding the need of networking in order to expand business and gain business advantages, resulted in the significant expansion of the group and the creation of new associations of traders.

Integration processes joined the Ultra grupa, Uni-gros and the trading chain from Bjelovar known as PPK. The name of the new group is **Ultra gros**, and it was established at the end of 2004. Today, this group has 18 members. The market share of this group is estimated to be 7-9% of the Croatian market.

Case 3:

Velpro. It is presented as a partner for professionals, based on the rich trading experience of Konzum, and is directed towards satisfying the needs of small and medium entrepreneurs, as well as large companies. Its present business structure is based on 11 wholesale centers. In the middle of last year, an excellent step forward was

taken through the internationalization of business. This was achieved with the opening of a Velpro Cash & Carry sales center on the Bosnia and Herzegovina market in Sarajevo.

Case 4:

Narodni trgovački lanac (NTL – *National Trading Chain*). The chain started with the union of four trading companies in 2004. They are: Kerum, Plodine, Tommy and Presoflex. The union is a method of survival and strengthening of the market position. The market share of this trading chain is estimated to be about 12%. Revenues are expected to rise by 30% each year until 2007.

6. CONCLUSION

Small businesses are an extremely important segment of the Croatian economy. Its significance is measured by the number of economic entities (companies and crafts) in their overall number, contribution towards financial results, and its role in the overall number of those employed. In this sense, the Croatian economy is no exception. The significant contribution of small businesses to the economy of the European Union was the result of adopting the European Charter for small enterprises, and determining the principles upon which European countries should base small businesses.

We directed our attention towards a segment of the Croatian economy known as distributive trade. A fragmented retail structure is no guarantee for the market survival of trading companies that form such a retail structure. Concentration and internationalization processes are the key processes in modern European retail business. These processes result in lowering the number of stores and the number of trading companies, followed by an increase in the size of sales outlet, and an increase in the average surface area of business outlets, such as retail stores.

The increase in the average size of stores creates the conditions needed for introducing the most modern sales technology. Internationalization contributes towards harsher competitiveness on the retail market.

The Croatian retail structure is an excellent case of fragmentation. Expansion is achieved by various strategies. One of the methods practiced by European trading companies is the creation of retail unions. There are numerous advantages that can be achieved by membership in such alliances. There are various forms of retail alliances, and accordingly advantages that can be had through membership in some retail alliance.

The networking processes and the creation of alliances on the Croatian retail scene have been significantly delayed and are slow. Today, we can witness that the business advantages brought by such alliances are being recognized, and that the threat of more powerful foreign competition can be felt. The results of the above are alliances that allow for the expansion of the Croatian retail structure.

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PRIVATIZING ELECTRICAL UTILITIES IN POLAND

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ABSTRACT. This study consists of an extensive review of the literature related to the topic of privatizing the electrical utility industries in the Visegard country of Poland. The intent of the study is to examine the status of the Polish privatization campaign, review of privatization strategies used and an assessment of successful or unsuccessful campaigns.

The review of the literature to date reflects the relative youth of these privatization initiatives. Unlike the UK privatization effort, which is over 25 years old, this 10-year-old campaign has far less written on the subject and a paucity of empirical analysis available on the Polish campaign. The majority of the literature available consists of press releases and feature stories that would appear in the business and financial sections of newspapers and magazines. This study of the literature provides the historical, political, and economic foundation and context for empirical study.

Discussion of Privatization Models and the Polish Experience

The privatization campaign of Poland had the benefit of choosing from four basic privatization models that have been employed by nations over the past twenty-five years of collective privatization experience. The issue today for a nation considering strategies for promoting economic growth is not whether they should privatize but rather how they should approach the process of privatization. It is essentially axiomatic that "governments have found that privatization when properly implemented, useful in reducing public expenditures, increasing efficiencies, raising capital and sparking innovation." (Chang and Jones 1992) What follows is a general description of the four fundamental privatization models that nations can select from in the design of their privatization campaign.

British Model

"The outright sale of government assets is probably the most common form of privatization in the United Kingdom. Two primary pricing conventions have been used. Fixed-price stock offerings make single priced shares available to the public and tender stock offers that do not fix stock prices in advance; thus the price is determined by market forces. This traditional sale of assets follows the traditional private-sector procedures of assessing the value of the firm and then

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"developing a prospectus, identifying underwriters and issuing houses and selecting stockbrokers." (Chang and Jones, 1992) The British model has served widely as an efficient and effective model for privatizing industries in an expeditious and revenue enhancing scheme for governments with economies that have the financial, legal and political infrastructures to implement such a program.

New Zealand Experience

"Corporatization" is a term coined in New Zealand, where privatization of most governmental services is an all-out effort. Using the corporatization approach, the government creates a for-profit corporation having a governing board typically composed of member from the government as well from the local business community. The government owns all the stock in the new corporation. The net assets of the spin off entity are transferred to the new corporation at book value in exchange for the stock. This process allows the newly created corporation to operate free of most of the constraints of government while allowing the government to maintain control and ownership.

Old Standby

Contracting out, and old standby approach in most western societies, is perhaps the simplest method available to accomplish privatization. Contracting for services has historical roots in governmental circles and has been used in the U.S. by federal, state, and local agencies. The governments establish contractual relationships with outside businesses to provide necessary services. The private businesses supply the personnel and perform the needed service for an agreed upon fee. Assets required to perform the contracted task may be provided by the government or by the private business.

United States Innovation

"A somewhat different approach to privatization has been observed recently in the U.S." (Chang and Jones, 1992). Much like corporatization in the initial stages, this technique has a key difference. A non-profit organization, instead of a for-profit entity, is formed and the government does not retain full control of the new institution. Through this mechanism a previously governmental function is transferred to a new entity. The government is actively involved in all phases of the transfer, however, the new non-profit is overseen by its targeted citizen/customer group rather than by government. The oversight group provides initial start-up capital and shares representation with the government on the governing board of the new entity. Once established, the government and the newly formed entity enter into a contract to provide the required services.

Below is a matrix created by Chang & Jones that allows the reader to compare the advantages and disadvantages of the four major privatization models.

Advantages and Disadvantages of the Four Major Privatization Models		
Approach	**Advantages**	**Disadvantages**
British Model	*Available specialists *Raise capital *Provide ownership assets *Reduce public expenditures *Correct inefficiencies *Enhance services	*Expense *No market *Revenues gain an accounting illusion *Wide ownership short-term only
NewZealand Experience	*Same as above *Allows adjustment time *Allows profit generation time	*Same as above *Requires more legislative effort *Time consuming
Old Standby	*Procedures in place *Enhance services *Legislative involvement not necessary *Short time frame *Ease of change *Correct inefficiencies	*Suppliers not available/acceptable *Some not cost effective *No capital generation
The United States Innovation	*Less costly than asset sale *Nonprofit *Allows service continuity *Reduce public expenditures *Correct inefficiencies *Interstate involvement easily possible *Enhance services	*Lacks arm's-length independence *Special legislative effort required *No capital generation

The review of these privatization strategies in relation to the Polish privatization experience must take into account the strategic goals of the privatization program. Additionally, one must take into account the firm, industry and country specific variables that would influence the selection of one privatization strategy over another.

Depth of Privatization Campaign	Macro/economic crisis Yes	Macro/economic crisis No
Shallow	China India	Brazil Ghana
Deep	Malaysia Poland	Argentina Peru

(Table from Ravi Ramamurti: Why Haven't Developing Countries Privatized Deeper and Faster)

The Polish economy was devastated by the years of central planning and communist rule and would require more than an incrementalist approach to converting their firms and industries to a market competitive environment. The Polish privatization campaign set forth these objectives:

Polish Privatization Goals
1. Creation of an open market fostering efficiency and competition
2. Improvement of enterprise performance through the installation of private initiative, motivated management and labor
3. Generation of revenue through the sale of public assets

The Polish privatization campaign (1996) adopted a case-by case method with an accelerated time table for privatization that the Polish strategists referred to as the "Big Bang" strategy. The intention of this strategy was to advance the privatization as rapidly as possible to avoid organized resistance from stakeholders who believed their interests might be adversely impacted by a change to free market economy. Polish privatization strategists selected the British Model of privatization through the sale of public assets using the traditional private sector process of establishing a valuation, identifying underwriters/financial consultants and opening the sale with tender offers from both domestic and foreign firms.

What follows in this paper is a chronology and analysis of the events leading up to and throughout the process of privatizing the Polish electrical utility sectors.

Overview of the Polish Privatization Campaigns

The movement toward privatization began in 1987 under the communists with legislation that allowed state owned firms to begin issuing their own stock. But the real privatization initiatives take hold in 1990, when Prime Minister Tadeusz Mazowiecki signed to bills into law; The State Enterprise Privatization Act and the Office of Minister for Ownership Transformation Act. The Ministry of Ownership was charged with the responsibility of designing and implementing a privatization program that had the following policy objectives at its core: 1) creation of an open market fostering efficiency and competition and 2) improvement of enterprise performance through the installation of private initiative, motivated management and labor. It should be noted that Mazowiecki's government only lasted five months after enacting these laws. (David Gordon, Privatization in Eastern Europe, The Polish Experience, 1995)

The philosophic discussion in Eastern Europe regarding privatization initiatives focused on the issues of corporatization-commercialization-privatization. It is important to distinguish between these three concepts of transformation of a state-owned enterprise:

1.   Corporatization creates a new separate legal entity for the firm by converting an SOE into a joint-stock company, all the shares are held by the State Treasury
2.   Commercialization implies that the new JSC firm will run a profit-seeking firm.
3.   Privatization implies that the JSC will be sold to private investors through a variety of sales mechanisms.

In Poland, the debate about the need for full blown privatization versus corporatization and commercialization was a particularly active debate. The belief of some was that changing the structure, management styles and goal setting would be sufficient to accomplish the objectives of enhanced organizational performance, lower costs and innovation. However, empirical studies were cited by the proponents of privatization to demonstrate that the performance of corporatized and commercialized firms didn't differ much from that of their SOE predecessors. "They believed that only through privatization would firms get the infusion of financial, human and physical capital necessary for restructuring". Poland has been slower to corporatize SOEs over the opposition of managers and workers and more willing to consider commercialization of the corporatized entities without the final step of privatization." (Bornstein 1999)

The following shows the share of various approaches taken in the overall privatization process (Economic Reform Today, Privatization in the Digital Age, Number 2, 1999):

Commercialization (the preliminary stage before privatization) was introduced in 1,343 large companies. Of this group, 240 large companies have been entirely privatized via capitalization (through IPOs, public tenders or negotiations following public invitations).

Some 512 commercialized companies were designated for the NIF program, which is still underway. Their shares have been transferred to 15 National Investment Funds, and these share certificates were distributed to the public in 199596. About 25.7 million Poles, or 96% of the adult population, acquired them.

Privatization through the direct route, sale of assets, was used for medium or small enterprises. The number of operations following this privatization track from 1990 to December 1998 came to 1,551. Among them, 1,515 completed the process, of which 1,021 enterprises were leased to MBOs (management buyouts), 312 were sold for cash, 127 were contributed in kind to new companies, and the remaining were privatized using mixed methods. Direct sale of assets has been the most popular privatization procedure utilized in Poland and by far the quickest to implement.

Around 1,581 state enterprises in weak financial condition have been involved in the so-called "liquidation privatization" program under the state enterprise law. As of December 1988, 699 of them have been liquidated via sale of their assets to outside private owners for cash; less frequently, the assets have been transferred to the employees.

The scale of the privatization effort in Eastern Europe and in Poland in particular was a Herculean undertaking as noted in this excerpt: "The best-known privatization efforts, in England and Chile are minuscule compared with the scale of the task in Eastern Europe. Privatization agencies and ministries initially confronted some 7,500 state-owned firms in Poland, 4800 "large" SOE's in the former Czechoslovakia, and 2300 in Hungary." (David Gordon, Privatization in Eastern Europe, 1994)

"Each country in Eastern Europe has chosen to approach privatization differently. In Hungary, for example, negotiated transactions (particularly direct foreign investment) have resulted in as many deals as public offerings. Hungary also utilized loan coupons, public auctions and leasing and management buyouts. Poland's privatizations have been accomplished through public share offerings or via asset sales to managers, employees, or both; negotiated transactions are possible in Poland, but so far other factors have combined to make them less desirable." (David Gordon, Privatization in Eastern Europe, 1994)

The Polish privatization initiative was a combination of top down privatization and grass roots entrepreneurial start-ups. The grass roots program produced the "most visible results in transforming the ownership of the Polish economy. During 1989-1994 the number of individual private proprietorships (unincorporated firms) more than quintupled. From 350,000 to 1.9 million, by December they employed 2.7 million people or 24% of the non-agricultural workforce. The number of domestic corporations grew in the same period from 11 thousand to over 69.3 thousand, employing 5.5 million people or 47.5 % of the non-agricultural workforce." (Rapacki, Privatization in Poland-(Framework issues in Privatization Strategies of the Czech Republic, Hungary and Poland 1995)

The privatization campaign from the top down was designed to "efficiently transfer ownership, improve resource allocation, facilitate institutional and market structural changes, redistribute property rights, create a new middle class and provide a strong political for systematic reforms. In the first privatization campaign, 1990, the goal was established to privatize 50% of the state owned enterprises (SOEs), a goal later postponed until 1995." (Rapacki, Privatization in Poland, 1995)

"During the past five years, the role of the private sector in the Polish economy, as measured by general macro-economic yardsticks, has dramatically increased. By December 1994, private firms contributed 53% of the GDP (compared to 3%of GDP in the late 1980's) and employed 61% of the workforce." (Rapacki, Privatization in Poland, 1995) State ownership of enterprises dropped significantly during this time period falling from 8,872 in 1990 to 4630 in 1995, a drop of 48%. In agricultural enterprises the decline reached 90% and in industry 26%. (Rapacki, Privatization in Poland, 1995)

"The prospects of the privatization process in Poland will be influenced by several factors of a different nature determining the pace, direction and effectiveness of the remaining stock state assets into private property. In the most general terms, it is very likely that further privatization efforts, based on standard methods, are bound to face growing difficulties and stronger economic, social and political hurdles. They will stem to a certain extent from the fact that the cream of the crop of Poland's productive assets; that is, most of the viable SOE's (or their parts) in politically non-sensitive sectors have already been transferred to the private sector. What remains to be privatized are mostly smaller-sized state owned firms in poorer financial position that need restructuring to reveal growth potential, and large, under performing SOE's in politically sensitive sectors, such as mining, metallurgy and power generation." (Rapacki, Privatization in Poland, 1995)

Additionally, privatization legislation passed in 1995 was destined to slow the process of privatization as it created a mechanism for creating treasury owned enterprises that were corporatized and commercialized but were not intended to be privatized. This left bureaucrats in charge of enterprises that prior to this legislation would have been up for bid to foreign and domestic investors. This legislation also decentralized the privatization process by empowering many central government agencies and local government agencies with the authority to approve or disapprove privatization efforts. By the end of the decade the Polish government recognized that this initial strategy of decentralized privatization was not generating the desired results and philosophically their privatization strategy moved toward mass privatization and the "big bang" approach.

"With the experience of ten years of transition behind us, it is now abundantly clear that the speedy privatization of state owned enterprises is one of the most fundamental elements of transition to a market economy in former socialist countries. Most countries in Central and Eastern Europe adopted a mass privatization campaign strategy. Poland was one of the last countries to embark on her mass privatization campaign in 1996. The Polish mass privatization campaign (MPP) was designed to create dominant owners for enterprises in the scheme-owners who would have the appropriate incentives to force through restructuring of enterprises and speed up their ultimate and genuine transfer to the private sector. Fifteen National Investment Funds (NIFs) were created by the programme, and have taken control of 512 enterprises in the scheme and in 3-4 short years have established themselves as major intermediary financial institutions with significant knowledge of different sectors of the economy and the massive capability to influence the development of these industrial sectors." (Iraj Hashi, The Polish National Investment Programme, 2000)

Polish Electrical Privatization Efforts
The new Energy Law of 1997 created the legal framework for liberalization of the power sector and creation of a competitive energy market. The key provisions

of the 1997 law included a solid legal framework, defining the rights and duties of producers, distributors and users of energy, and the establishment of an independent regulatory entity (URE) responsible for granting licenses, approving tariffs and ensuring competition within the energy sector. The law also introduced Third Party Access (TPA) of enterprises to energy distribution grids, provided the third parties produce energy domestically and meet contractual and governmental obligations. According to the Energy Law and its secondary legislation, the full liberalization of Polish electrical power market will be accomplished in 2005.

The electrical power sector consists of three main systems: 1) the power generators - system power plants, combined heat and power plants and local energy producers with a total installed capacity of 34,255 megawatts; 2) the high-voltage transmission system operated by Polish Power Grid Company, PPGC; and 3) the distribution system consisting of 33 electric distribution utilities (some already grouped into larger companies) and new companies created according to the Energy Law. (Economic Committee of Ministers Council, December 1999)

The Polish government outlined five key objectives for the privatization of its power generation sector and highlighted the size of the privatization program in the power sector—with 17 power plants, 19 combined heat and power plants, 33 distribution companies and the country's power grid all scheduled for sale. (Economic Committee of Ministers Council, December 1999):

- To protect consumers by means of liberalized energy market
- To ensure energy security
- To create capital resources necessary for rational investments especially with a reference to the integration with the European Union
- To optimize social security of the sector workers
- To optimize privatization income

When the process of commercialization began, state-owned energy companies were transformed into joint stock companies with State Treasury holding 100% shares. In the distribution sub-sector all 33 distribution companies became State Treasury joint stock companies at the same time. In the generation sub-sector commercialization took longer. The last power plant was transformed into a State Treasury joint stock company in 1999. About 150 business entities were granted the energy supply concession for the area of the whole country. Among them there are daughter companies of leading energy companies from the world and companies established by big Polish investors. To facilitate analysis for potential investors, power plants to be privatized were organized into groupings each capable of generating 5000-7000MW of electricity. One of the most important issues was the establishment of an energy exchange. (EECE Market 2001)

The year 1999 was "the year of Polish energy". Thirteen power companies were expected to be privatized, including the Patnow-Adakpw-Konin (PAK) power generation plants, the Polaniec and Rynik plants, GZE and Warsaw electricity distribution companies and privatization revenues were estimated to exceed $3.8b

in 1999. In the first phase of privatization the Polish Treasury planned to divide the country's power plants into nine groups, each containing between one and six power stations and each with no more than 15% of the national market. Among the first stations scheduled for sale were the Polaniec and Rynik power plants and the Belchatow and Skawina plants. Altogether, stakes in 12 power stations were to be sold in 2000 as well as shares in five heat and power plants with investors offered 35-40% stakes in most plants, although in some cases, a majority stake was to be made available on condition that the investor agreed to capitalize the plant. (Modern Power Systems, Privatisations Proposals, Oct 1999) Demand for electricity in Poland is expected to increase by 60% in the next 20 years. Electricity's share in the overall energy consumption is expected to grow from 12% in 1999 to 15% in 2010 and 17% in 2020. Poland estimated that the privatization of the power sector would raise between $25 -$30 billion for the state. Its three-year strategy called for the sale of stakes in power generators and distributors, with the full liberalization of the market timed for 2005. (Ministry of State Treasury in August 1999)

To accelerate the Polish energy sector privatization, all 17 system power plants were scheduled to be sold by 2002, either individually or in groups with potential investors to be offered 20% to 35% stakes and allowed to gain majority shareholdings by investing in plant modernization and by increasing their share capital and subscribers for new shares. Seventeen combined heat and power co-generation plants (CHP's) were to be privatized on a "case by case" basis in a similar way to the system power plants. Initially, strategic investors were to be offered 20% to 45% stakes, but trade sales of more than 50% stakes in the first phase excluded. The privatization of the CHP's was scheduled for completion by 2001. (Ministry of State Treasury in August 1999)

Some 33 regional electricity distribution companies (EDCs) were to be sold in regional groups having 12% to 15% shares in the Polish electricity market, with the exception of the largest EDCs, would be sold individually. Potential investors would be initially offered 20%-25% stakes and investors buying shares in all EDC's forming individual groups would be preferred. The largest Polish EDC, Gliwice-based GZE was purchased in February 2001. "Sweden's power company Vattendall paid 167.5 million Euros to acquire 25 percent of this Polish electricity distribution company, and now controls 8% of the market. The Swedish firm has pledged to invest 2.8 billion zlotys in GZE within a decade, especially in low and medium voltage network modernization and to make capital improvements in the energy distribution networks. Vattenfall also bought 55% of Warsaw's thermo-electric power plant in 2000 and wants to take part in the privatization of other Polish energy distributing companies." (PAP-Polish News Agency, 2001, September)

Polish Power Grid (PSE) was not to be privatized before 2002. The first company to be privatised was the Kraków thermal-electric plant, subsequently, the Warsaw thermal-electric complex, the Gdańsk based thermal-electric complex, the Pštnów-Konin-Adamów power station and the Połaniec power station have also

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succeeded in finding strategic investors. Privatisation via the Warsaw Stock Exchange is an alternative route that has been chosen by the Wrocław based Kogeneracja and the Będzin thermal-electric plant. The Upper Silesian electricity distribution company is set to be the first distribution company for privatisation. Other regional distribution companies have decided to join forces creating the G8 group, for example, and will seek strategic investors together. A similar strategy has been chosen by a number of Poland's professional power stations that have formed the Południowy Koncern Energetyczny (Southern Power Concern).

Poland established an ambitious program of sell-offs of power plants. In 2000, Polaniec Power Plant, the fourth largest power generator in Poland, was purchased by Tractebel of Belgium, which acquired a 25% stake in the facility for some E87.5m. Tractebel will invest around E340m in the plant over an 11-year period. The increase in the stake will be achieved in two stages. First Tractebel will increase the plant's capital by E61.6m over two years, following which it will be offered a 37.5% stake. The second stage would involve purchasing a 15% stake currently held by employees. Polaniec occupies a firm position in the Polish power market, with some 5.5% of domestic market share and an installed base of 1,800MW. Net profits in 1999 were Z24m (US$7m). (Polish Energy Privatisation, Polish News Bulletin, May 2000).

Investors were also invited to bid on other large power plants including Rybnik Power Plant; Zespol Elektrocieplowni Wybrzeze, the fifth largest CHP; and Elektrocieplowni Wroclaw, the fourth largest CHP in Poland with a 30 to 35% stake. The largest Polish power plant, Belchatow, as will the Zabre and Tychy CHP's were also scheduled to be privatized in 2000. (Privatisation International, 2000) A Franco-American consortium acquired a 35% stake in the Rybnik power plant. This plant supplies around 6.5% of the country's power and increase it power output from 1600MW to 1700MW within the next three years as a result of a modernization program Early in 2001 eight electric power plants in northern Poland were also scheduled to be sold and then another four from southern Poland. These plants are smaller than those already sold or in the process of being sold, and the government will be looking to attract existing investors in the sector to participate in the sales. The treasury will sell off some 30% of its current overall stake but retain 25% for many years to come. Retaining this stake is to enable it to block any potentially unfavorable decisions by foreign investors. (Polish Energy Privatisation, Polish News Bulletin, May 2000).

The Polish electricity sector continues to go through consolidation, in line with the government's plan to restructure the industry. In the power generation segment, consolidation has focused on creating two large companies, Południowy Koncern Energetyczny (PKE) and BOT, with installed capacities of 5,000 megawatts (MW) and 8,000 MW, respectively. BOT is a holding company for Belchatow, Opole and Turow power plants. In the distribution segment, two group consolidations have already taken place, creating the Group G-8 (eight distributors

in central and northern Poland) and the ENEA Energy Group which comprises five merged companies. There are plans to create three additional consolidated power distributors: L-6 Group (six distribution companies from eastern and southeastern Poland); the K-7 Group (seven companies in central and southern Poland); and W-5 Group (five companies in southwestern Poland). In the coming years, the government plans to begin floating stakes in the newly consolidated distributors and power companies, with a 35% stake in ENEA and a 35%-40% stake in PKE likely to be offered by the end of 2004. Stakes in BOT and three distributors –W5, L6 and K7 – are likely to be offered in 2005 or 2006. The government has privatized only two of distributors: STOEN to RWE; and Górnośląskiego Zakładu Elektroenergetycznego (GZE) to Sweden's Vattenfall. (EIA Country Analysis Briefs, June 2004)

The Polish government currently is working on annulling long-term supply contracts between power plants and the national grid operator Polskie Sieci Elektroenergetyczne (PSE). The contracts have been seen as a hindrance to liberalization of the country's electricity market. Under the contracts, PSE committed to purchasing energy at fixed prices and fixed volumes. The new law would cancel these contracts and the power plants would receive compensation. Government officials have pointed out that these contracts have been a disincentive for restructuring and modernization of country's power sector as producers have fixed revenues. (EIA Country Analysis Briefs, June 2004)

When full decentralization is reached, all market players will be free to perform trade transactions. Buyers may purchase directly from generators or through the competitive energy trading intermediates. Generators may sell directly to end-users or to intermediates. The key element of this market model is the total separation of trade activities from transmission activities performed by transmission and distribution networks. The market players will have free and equal access into the services of the transmission. (EIA Country Analysis Briefs, June 2004)

Conclusion

The privatization campaign of Poland was prompted by the need for radical institutional and economic policy changes to address the residual effects of 45 years of communism. The "Big Bang" theory of privatization implemented was intended to create a momentum for socio/economic change that could not be reversed by revisionist forces in Poland. The speed at which some of the industries were privatized is an unparalleled experience in the history of privatization and this strategy had both positive and negative implications. From a positive standpoint the anti-privatization constituents could not move to block the privatization and thus privatization could be likened to a "rolling wave" sweeping across the economic landscape of Poland, changing it forever. From a negative standpoint the speed at which at the individual industries and firms were privatized frequently meant that the interval for effectively marketing the assets of the firm were shortened and in

some instances may have led to lower revenues generated and some investors withdrawing from the bidding process. But given the breadth and depth of the Polish privatization campaign one would have to conclude that considering the country-industry-firm specific circumstances the privatization of the Polish economy was and continues to be a remarkable achievement.

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THE MANAGEMENT OF INTEREST RATE RISK
IN SMALL AND MEDIUM BANKS

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ABSTRACT. The business banks make its decisions in the condition of certainty, risk and uncertainty. The risk is a condition when the possibility of every event is known. The risk can be measured with distribution of probabilities. The risk of interest rate is one of the main risks that bank have. They can suffer unfavourable changes of active and passive interest rates. The changes of interest rates have various influences on bank balance statement and on bank market value, so it is necessary to anticipate and to develop the methods to measure the risk and to manage the risk of interest rate. In theory and in practice there are various methods that use small and medium banks to manage the interest rates risk and this paper investigate the methods such are the management of assets and liabilities gap, the analysis of average time deposits, the futures contracts, options on interest rates and interest swap.

Keywords: Interest rate risk, risk management, assets and liabilities gap, the analysis of average time deposits, futures, options, interest swap

1. INTRODUCTION

In business surroundings corporations make their decision in the condition of certainty, risk and uncertainty. The business banks also have to make their decisions in mentioned conditions. The risk is a condition when the possibility of every event is known. Uncertainty is a condition when the possibility of events is unknown.[3] The risk in economic theory is defined as the chance of injury, damage, or loss.

The risk can be measured with distribution of probabilities and standard deviation and that is one scientific approach of managing the risk. Standard deviation is a measure of spread of outcomes around expected value. Standard deviation is not very convenient measure for comparison of two different distributions. The better measure is coefficient of variation. Coefficient of variation is the standard deviation divided by the mean, sometimes multiplied by 100; a unitless quantity indicating the variability around the mean in relation to the size of the mean.

Banks are financial institutions with the main activity of collecting the deposits and placing the credits. Those business activities are connected with known risks that are measured, controlled and minimised by bank management. Known bank risks are: credit risk, exchange rate risk, interest rate risk, liquidity risk, and branch risk. The risk of interest rate is one of the main risks that bank have.

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Banks can suffer unfavourable changes of active and passive interest rates. The changes of interest rates have various influences on bank balance statement and on bank market value, so it is necessary to anticipate and to develop the methods to measure the risk and to manage the risk of interest rate. In theory and in practice there are various methods that use small and medium banks to manage the interest rates risk and this paper investigate the methods such are the management of properties and obligation gap, the analysis of average time deposits, the futures contracts, options on interest rates and interest swap.

2. INTEREST RATE RISK

Collecting the deposits and placing a credit expose business banks to a risk of interest rate. The risk of interest rate can be defined as an exposure of bank business state to unfavourable changes of active and passive interest rates. The changes of interest rates have various influences on bank balance statement and on bank market value. The risk management is the base for a high level of bank security. Risk management means the management of active and passive sides and structure of balance sheet in order to control the influence of possible changes of interest rates on financial bank results. The management of interest rate risk depends on size of the bank, the type of main business of the bank, the management attitudes toward the risk etc.

Interest is defined as an amount of many that the borrower is paying to a creditor. That amount depends on *principal, interest rate and duration of a credit*. Interest rate can be fixed or variable. Interest rate is a price of money that has to be paid in order to collect deposits. It is also defined as an opportunity cost or trade off of banking business or a time value of consumptions. Interest rate influences on saving and investment. Monetary-credit policy through national central bank influences on the level of interest rate. The international balance of payments, exchange rates, inflation and business circles are also influence on the level of interest rate.

The most common types of interest rate risk are: the risk of price changes, basic risk, yield curve risk and option risk.[4]

Price risk appears because of fixed interest rate on deposits and credits. Bank have to do temporal transformation of deposits in order to keep liquidity level that can not be jeopardized because the changes of interest rate.

Basic risk appears because the imperfect interdependency between the changes of active and passive interest rates.

Yield curve risk is a risk that appears in business with securities. It is a risk of changes of security prices and that changes influence the bank income and bank economic value.

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[4] Principles for the management and Supervision on Interest Rate Risk, Basel Committee of Banking Supervision, October 2003.

Option risk is a risk that is resulted from option of bank customers to retreat a financial source from a bank. That risk is bounded with liquidity.

Each decrease of passive interest rates (because the monetary credit policy of the central bank or because the market changes) increases the liquidity risk because it could be expected the pullout of deposits from the bank.

Also the changes of active interest rates influence the bank income source and its credit activities. The increase of active interest rates will reduce the amount of given credits but it will increase the income from present credits.

The changes in interest rates change the bank market value because bank market value is a discounted value that is calculated upon discount interest rate:

$$BMV = \sum_{i=1}^{n} \frac{A_i}{\left(1 + \dfrac{p}{100}\right)^i} - \sum_{j=1}^{m} \frac{B_j}{\left(1 + \dfrac{p}{100}\right)^j}$$

BMV - Bank market value
A_i - Inflow amount - depends on active interest rate
n - Number of expected inflow amount
B_j - Outflow amount - depends on passive interest rate
m - Number of expected outflow amount
p - Discount rate

It could be said that the market discount rate influence the bank market value. If we use higher market discount rate the bank market value will decrease and if we use lower market discount rate the bank market value will increase.

It is impossible to completely avoid the interest rate risk, but management has to keep it within accepted bounds that are determined with general bank policy. To do so, first of all bank have to measure and to assess the interest rate risk and to develop the adequate method to manage that risk.

3. MEASURING AND MANAGING METHODS OF INTEREST RATE RISK

It is necessary to anticipate and to develop the methods to measure and to manage the risk of interest rate. In theory and in practice there are various methods that use small and medium banks to manage the interest rates risk. The most known methods are *the management of assets and liabilities gap, the analysis of average time deposits, the futures contracts, options on interest rates and interest swap.*

Net interest margin is a basic indicator of interest rate risk. Net interest margin is the money difference between interest income and interest expenses, usually expressed as a percentage of average earning assets. The formula to calculate that indicator is:

$$\text{Net Interest Margin} = \frac{\text{Interest income - Interest Expenses}}{\text{Average Earning Assets}}$$

The increasing of net interest margin can be the consequence of increasing the interest income or decreasing the interest expenses or decreasing the average earning assets. The decreasing of net interest margin can be result of decreasing of interest income (because the changes of active interest rate) or increasing of interest expenses (because of unfavourable changes of passive interest rate) or increasing of average earning assets. The policy of small and medium banks is to keep high net interest margin and to control the risk of its unfavourable changes.

To show how to calculate and manage the interest risk in small and medium bank we use the balance sheet and income statement of Istarska kreditna banka Umag d.d.[5]:

Table 1.

Balance sheet for 4th quarter in 2003

Description	AOP	Amount (000kn)
Total assets (AOP002+003+004+005+006+007+008+009)	001	1449733.0
Cash	002	32539.0
Deposits in Croatian national bank	003	236235.0
Deposits in financial institutions	004	335624.0
Treasury bills of Croatian national bank	005	113049.0
Other assets	006	11325.0
Credits granted to financial institutions	007	17000.0
Credits granted to other clients	008	565419.0
Investments in branch offices	009	20.0
Investments in other securities	010	107973.0
Tangible and intangible assets	011	30549.0
B) Total liabilities (AOP 013 do 018)	012	1315297.0
A vista deposits	013	515060.0
Other deposits	014	759408.0
Credits from banks and other financial institutions	015	8474.0
Interests, provisions and other liabilities	016	21333.0

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[5] According the number of employment (196), number of branch offices (4) and its assets the Istarska kreditna banka can be considered as a local medium bank

Description	AOP	Amount (000kn)
Issued bonds	017	0.0
Reserves for general banks' risks	018	11022.0
C) Total capital and reserves (AOP 020+021+022)	019	134436.0
Capital	020	64900.0
Reserves	021	48657.0
profit / loss	022	20879.0
D) Total liabilities (AOP 0112+019)	023	1449733.0
E) NON BALANCE ITEM (AOP 025+026)	024	33908.0
Guarantee and letter of credits	025	15059.0
Other non balance items	026	18849.0

Source: www.bankamagazine.hr

Table 2.

Income statement for 4th quarter in 2003

Description	AOP	Amount (000kn)
Interest income (AOP 028+029+030+031)	027	19060.0
From citizens	028	7759.0
From corporations	029	5447.0
From financial institutions	030	2676.0
Other interest income	031	3178.0
B) Interest expenses (AOP 033+034+035+036)	032	8348.0
Toward citizens	033	7152.0
Toward corporations	034	0.0
Toward financial institutions	035	81.0
Other interest expenditures	036	1115.0
C) Net interest income (AOP 027-032)	037	10712.0
D) Net provisions (AOP 039-040)	038	2677.0
Provisions income	039	4639.0
Provisions expenditures	040	1962.0
E) Total other incomes (AOP 042+043+044)	041	1347.0
Income from dividends and other securities	042	0.0
Other incomes	043	452.0

Description	AOP	Amount (000kn)
Net profit / loss from securities investments	044	895.0
F) Net exchange rate changes	045	4382.0
G) Total other expenses (AOP 047+048)	046	13235.0
Stuff expenses	047	7347.0
Other expenses	048	5888.0
H) Profit / loss before reserves (AOP 037+038+041+045-046)	049	5883.0
I) Net reserves and value adjustments	050	3404.0
J)Profit / loss before tax (AOP 049+050)	051	9287.0
Tax	052	1949.0
K) Profit / loss after a tax (AOP 051-052)	053	7338.0

Source: www.bankamagazine.hr

$$\text{Net Interest Margin} = \frac{\text{Interest income - Interest Expenses}}{\text{Average Earning Assets}}$$

Interest income = 19060,
Interest expenses = 8348,
Average earning assets = 582419

Net Interest Margin = (19060 - 8348) ÷ 582419 = 1.8%

Unexpected changes of active or passive interest rate will change the interest income and interest expenses. In small and medium banks these methods are used for measuring and managing the interest rate changes:

- The management of assets and liabilities gap,
- The analysis of average time deposits (duration),
- The futures contracts,
- Options on interest rates and
- Interest rate swap

The management of properties and obligation gap is the simplest and thus the most used method.

GAP = BEARING INTEREST ASSETS - BEARING INTEREST LIABILITIES

The average active interest rate of Istarska kreditna banka is 8% and average passive interest rate is 4% and if that average interest rates increased for 1% that will influenced on GAP:

	present interest rates	Increasing for 1%	Decreasing for 1%
Bearing interest assets	582419 × 8% = 46594	582419 × 9% = 52418	582419 × 7% = 40769
Bearing interest liabilities	759408 × 4% =30376	759408 × 5% =37970	759408 × 3% =22782
Net interest income	16218	14448	17986,76

GAP =582419 - 759408 = -176989

In this case there is negative GAP and increase of interest rates will decrease the net interest income and decrease of interest rates will conduct increase of net interest income. If the gap is positive the changes of interest rates will have inverse effects.

Duration is an average time of maturity of some financial instrument. If bank place a credit, it expects to receive the interest income. Because the long maturity time, the expected interest income is under the influence of changes of market interest rate. If market interest rate increase, that will decrease the present value of interest income. Duration is calculated dividing the present value of expected interest income and market value of security. Following formula can be used for duration calculation:[6]

$$D = \frac{\sum_{t=1}^{n} \frac{C_t(t)}{(1+k)t}}{\sum_{t=1}^{n} \frac{C_t}{(1+k)t}}$$

t - Period
$C_t(t)$ - present value of cash flow in period t

The futures contract is a contract between two parties to buy or sell a commodity or security, at a fixed price and at a fixed date in the future. Futures are used by business as a hedge against unfavourable price changes and by speculators who hope to profit from such changes. Banks and other financial institutions use

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[6] Madura, J., Financial Markets and Institutions, Thomson - South - Western, Ohio, 2002, pg. 537

them to hedge their portfolios against adverse fluctuations in the price of an underlying exposure. Such hedging is possible because you can short futures contracts - i.e. sell the futures contract.

If bank wants to protect its bond portfolio from increasing of interest rate, it should take a short position and sell futures contract on that bond portfolio. That trade will compensate unfavourable changes of interest rates.

For example if bank management expect the increase of interest rates in next couple months and because of higher passive interest rate on deposits it is expected that it will suffer some damage, bank can sell the futures contracts on treasury bills today and later (within next couple weeks) it can buy the futures contracts on treasury bills. Potential loss because of unfavourable changes of interest rates will be compensate with earnings on futures contracts

Options are similar the futures contracts. Option is a contract that give an investor a right to buy (call) or sell (put) a fixed amount of shares (usually 100 shares) of a given stock (or indexes and commodities) at a specified price within a limited time period (usually three, six, or nine months). The purchaser hopes that the stock's price will go up or down by an amount sufficient to provide a profit when he sells the option. If the stock price holds steady or moves in the opposite direction, the price paid for the option is lost.

Put option gives the holder the right, but not the obligation, to sell a fixed amount of a certain stock at a specified price within a specified time. Puts are purchased by those who think a stock may go down in price. Call option gives the holder the right, but not the obligation, to buy a fixed amount of a certain stock at a specified price within a specified time. Calls are purchased by investors who expect a price increase.

Bank can use put or call option to protect the deposits with variable interest rate. If market interest rate goes up and if bank bought put option it would have a right to sell certain stock at higher price than it would be the market price. The market price would go down because of increasing of interest rate.

That example shows that bank will use put option in order to protect from increase of interest rate, and it will use call option in order to protect from decrease of interest rate.

Bank can also use the options to protect its balance sheet. If bank has positive gap in balance sheet it will buy call option (to protect from increase of interest rate), and if bank has negative gap in balance sheet it will use put option (in order to protect from decrease of interest rate).

Interest rate swap is an exchange of interest payments on a specific principal amount. This is a counterparty agreement, and so can be standardized to the requirements of the parties involved. An interest rate swap usually involves just two parties, but occasionally involves more. Often, an interest rate swap involves exchanging a fixed amount per payment period for a payment that is not fixed (the

floating side of the swap would usually be linked to another interest rate, often the LIBOR[7]). In an interest rate swap, the principal amount is never exchanged; it is just a notional principal amount. Also, on a payment date, it is normally the case that only the difference between the two payment amounts is turned over to the party that is entitled to it, as opposed to exchanging the full interest amounts. Thus, an interest rate swap usually involves very little cash outlay.

The three main types are coupon swaps (fixed rate to floating rate in the same currency), basis swaps (one floating rate index to another floating rate index in the same currency) and cross-currency interest rate swaps (fixed rate in one currency to floating rate in another).

For example,[8] corporation A with credit status AAA can borrow with fixed interest rate 10% annually, or it can borrow with fluctuated interest rate LIBOR + 0.2%. It prefers to pay fluctuated interest rate LIBOR.

Another corporation B has lower credit status and it can borrow with fixed interest rate 11% or it can borrow with fluctuated interest rate LIBOR + 0.25%. It prefers to pay fixed interest rate 10.20%.

In this case corporation A will borrow the sources with fixed interest rate of 10% and it will agree a swap with corporation B to get the fluctuated interest rate. Another counterparty (corporation B) will accept that swap to get fixed interest rate. The principal in this deal is not exchanged.

Effect of swap:

Corporation A: Annual fixed interest rate: 10%; fluctuated interest rate: LIBOR +0.2%; receives from bank: 10.1%; all financial costs: LIBOR – 0.1% fluctuated; total savings: 0.3% fluctuated.

Corporation B: Annual fixed interest rate: 11%; fluctuated interest rate: LIBOR +0.25%; receives from bank: LIBOR; all financial costs: 10.45% fluctuated; total savings: 0.55% fixed.

Bank: income from corporation A: LIBOR; payment to corporation A 10.1%; income from corporation B: 10.2%; payment to corporation B: LIBOR; earning: 0.1%

4. CONCLUSION

Banks must take into the consideration the interest rate risk when they make the decision about credits with fixed interest rate and their securities portfolio. The price of typical security with fixed interest rate will decrease when market interest rate

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[7] LIBOR (London Inter-Bank Offer Rate) is interest rate that the banks charge each other for loans (usually in Eurodollars). This rate is applicable to the short-term international interbank market, and applies to very large loans borrowed for anywhere from one day to five years.
[8] This example was taken from: Kandžija V., Živko, I., Poslovna politika banaka, Ekonomski fakultet Mostar, Mostar, 2004, pg 255

increase, and because of that changes, interest rate influence on bank financial statements (balance sheet and income statement) and bank market value.

The level of interest rate is very important in calculation of feasibility of investments project as well. The level of interest rate is determined with money supply and demand and national monetary policy that has very important roll on monetary regulation. It is necessary to anticipate and to develop the methods to measure and to manage the interest rate risk. Economic theory offers various methods that can use small and medium banks to manage the interest rate risk. Each method is based on different approach of managing that risk and banks should, depends on level of exposure of interest rate risk, use combination of mentioned methods. On that way small and medium banks will protect itself against the interest risk, they will reduce financing expenses, and realise a prerequisite for stable profit. Banks may use interest swaps in order to protect their business against interest risk or as intermediaries arrange this kind of business for their clients gaining an extra profit.

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WOMAN IN BUSINESS:
DETERMINANTS FOR VENTURING IN MALAYSIANS SMEs

NORUDIN MANSOR[1]

ABSTRACT. Motivational conflict toward the involvement of women entrepreneur in SMEs is getting the capital but the inner psychological drive that mobilized their energy to venture becoming more prominent. Thus this paper attempts to empirically discuss the effect of environmental, financial and psychological factors in encouraging women to be in business.

With the understanding that traditionally, women in Asia are not encouraged to work but the trend of their involvement becoming more serious and relevant. Is it due to rising cost of living? Is it due to the nature of industries requiring them to be in the business? Is it just to pass the leisure time? Despite the decision to start one's own business has long been regarded as a high-risk decision to make but facts and figures indicates that, women nowadays are involving in business twice as fast as men.

Previous studies demonstrate various implications for motivation to be in business. The finding of the study technically demonstrate that psychological and environmental factors are very relevant, whereas the possibilities of financial factors may be very limited across the region.

While it is possible that the entrepreneurship venturing always relate to male but the impact of the women entrepreneur on the development and subsequent success in new venturing has been demonstrated in certain business sectors which reflects their strength, limitation, commitment and best practices

Keywords: women entrepreneur, motivation, financial, situational, psychological

Introduction

The term entrepreneur has several prominent explanations, depending on the context of its role. The earliest definition viewed entrepreneurship as someone who specializes in bearing residual risk (Knight, 1921). While Alchian and Demsetz (1972) viewed entrepreneur as a monitor with the principal task of ensuring that all assembled factors of the firm provide the promised level of services. Another view as articulated by Kirzner (1984) describe it as a specialist in exploiting profit opportunities, including arbitraging price differentials and developing new products and organizations forms.

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The estimation number of women in Malaysian labor market (employers and workers), as alluded by Intan Osman (I994) for the year 1990 was 1.9 million. Following the steady economic growth of the nation, the expected figure by the year 2020 may be reaching up to 4.0 million. An estimation based on the work of Zarina Salleh et.al (2004) believed that at least there were 36,000 women employers for the year 2001 and with the 12% increased yearly it can be projected there were roughly 50,000 registered women involved in business by the year 2004. As for the state of Terengganu alone, the estimated population by Norudin Mansor and Jamaludin Akbar (2004) reported that it is approximately 73,454 women are in the labor market. Out of the total workforce, about 25% of them are involved in their own business (registered and unregistered). The work of Wirtz and Lovelock (2001) clearly demonstrated that more women are entering into the labor market. However, the current technological development, somehow threatened the job market opportunities. As a result, most of these women choose to start their own business and become and entrepreneur.

Studies concerning women entrepreneurship began since 1970s and continued into the 1980s (Christmen et.al. 1990). Many of the studies until today focused on personality characteristics or factors affecting the start-up of businesses (Sexton and Bowman-Upton, 1990) and some others focusing the need for assistance, problems in marketing, business planning, securing financing (Aldrich, 1989). It could therefore be very interesting to focus this paper based on different variables such as psychology, environment, and financial resources as the determinants for motivating women to venture into business.

Materials and Method
What motivate women to venture?
Motivation may be expressed in various ways such as the aspirations or behavioral intentions Davidson (1991). If the individual believes that growth led to the fulfillment of personal goals than motivation is enhanced and it stimulate the growth for the business activities and the decision to become an entrepreneur based on product of a number of circumstantial factors are established. Others reported that among factors that contribute directly to venture include choice of business, education and experience, collaboration, location, starting capital, external forces, greater career advancement, freedom and flexibility, and increased in economic reward (Morrison et.al, 1992).

Despite of threats and opportunities that the businesses are offering, still most women that ventured into business are believed to be handicapped in term of appropriate exposure especially with prior business related experiences in the areas that they involved (Watkins and Watkins, 1986). As the result, women entrepreneur are forced to only focus on limited scope of "traditionally" women sectors such as in the service industry.

Earlier evidence from some studies hypothesized that the most critical factor behind the involvement of women into entrepreneurship was due to dissatisfaction with the previous job (Stoner and Fry, 1982) since the need for corporate "rightsizing" tend to reduce opportunities for hierarchical advancement in a corporate sectors (Harvey and Evans, 1995). Reviewing on the finding by Carland et.al (1984), the principal goals of an entrepreneurial venture are growth, profit and innovative strategies. While Cooper (1983) suggested that among important elements that motivate someone to venture into business include the need to improve the quality of living, migrating from urban to rural, to continue day to day life activities within moderate economic climate and others which are non economic factors. Other reasons for involving in entrepreneurship is rather a strong motivational factor which seems to be quite complex and thus acts as obstacles before and turn around to serve as internal pushing factors (Watkins and Watkins, 1986) while others are triggered by positive opportunities offered in business ventures.

Financial resources: Assigning the relative importance of financial aspect often act as one of the key indicators that could either encourage or discourage someone to venture into the business. What enumerates among the problems of the small firm including the lack of adequate finance for the initial start-up and subsequent expansion, disincentives of tax system, inhibiting effects of red tape and regulations (Bannock, 1981) and the failure in implementation of the policy that discriminate in favor of small firms. Other investigation concluded that obtaining a high profit and ability to create a successful business organization would further inspire someone to be an entrepreneur (Woo et.al, 1991). While Harvey and Evans (1995) believed that the financially independent career juncture that provides the individual with the economic freedom hampered them to be an entrepreneur.

When addressing the issue of securing financial resources, Blanchflower and Oswald (1994) assume that one of those factors that prohibit individuals from involving in entrepreneurship is because of financial reason. Humphreys and McClung, (1981) explained the reason for lacking of previous experience in the financial arena, and also lack of self-confidence in presenting their business plans causes for the failure. Acknowledging the transparency of credit facilities offering to the women entrepreneur, evidence of the recent research suggested that biases against women in lending no longer exist like in the United States (Olm et.al 1988; Hisrich and Brush, 1987).

As a whole it can be conclude that entrepreneurs require financial assistance for the purpose of diversifying or spread the start-up risk, to accumulate start-up capital, and to finance growth and expansion (Gnyawali and Fogel, 1994).

Environmental Factors: The work of Keeble and Walker (1994) viewed environmental factors based on the development of local setting that actually stimulate local market. In fact some other earlier research demonstrated the relationship between local and the local environment with the economic development within the area. Among the environmental indicators that usually

contribute towards the decision for business venturing may include factors such as venture capital availability, presence of experience entrepreneurs, technically skilled labor force, accessibility of suppliers, accessibility of customers or new markets, government influences, availability of land or facilities, accessibility of transportation, new technological developments, availability of supporting services and living condition (Ronstadt, 1984).

Morky (1988) proposed that local communities are very relevant towards developing an entrepreneurial environment. In fact as mentioned by Swanson and Webster (1992) with the development of social prejudice against business entities may result to small business become a victim of unhealthy social justice. Hence, among the societies and cultures that support the value of entrepreneurship will develop a societal system that will encourage business entities to progress (Vesper, 1983).

Considering several research papers on environmental variables, broadly, it can be viewed into two environmental perspectives. One is an environment as an outside set of conditions to which the organization must adapt (Aldrich and Pfeffer, 1976; Hannan and Freeman, 1977). While the other perspective analytically considers the environment as a strategic choice of the opportunities availability via the selectivity of their own perceptions (Gartner, 1985).

Psychological factors: One of the crucial requirements for venturing into business is much related to propensity to enterprise and the ability to enterprise (Gnyawali and Fogel, 1994, Vesper, 1983). Focusing their discussion on the characteristics of entrepreneurs in determining what characteristics that really distinguished whether someone could be entrepreneurs or non-entrepreneurs, dimensions such as risk-taking propensity, locus of control, need for achievement (Dunkelberg & Cooper, 1982; Brockhaus, 1980; Timmons, 1978), and capacity to innovate (Schumpeter, 1934), seemed to be regularly addressed in research discussion.

However, indicators considering psychological measurement are not supposed to be isolated with other economic factors (Hornaday, 1990) and also the importance of social factors (Carsrud and Johnson, 1989). It is always been expressed by writers not only Hornaday (1990), but other researcher that when reviewing the development of SME in general and women entrepreneurs specifically a matrix of factors that correlate with each other and thus provide the strength of its contribution toward the success or failure of the business. Birley et al. (1987) suggest that even they are willingly to be in the business, but they need other enabling devices such as attending training programs that may assist them to put their ideas into effect.

Methodology

The empirical evidence presented in this paper reflect the increased recognition of the important of several dimensions such as source of business financing, social psychological determinants, and environmental context which provides avenue for the willingness of women to venture in entrepreneurship field
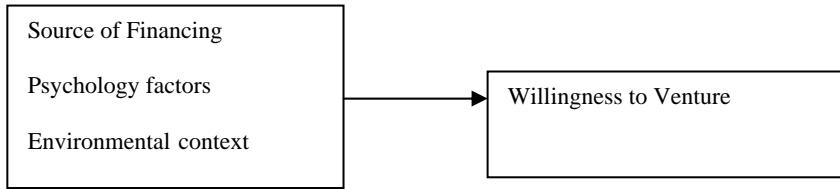
Fig. 1. A Framework For Describing Willingness To Venture In Business

Upon reviewing the literature of the past studies, no doubt that it is an out growth of hundreds of Small and Medium Enterprise studies conducted throughout the world but interestingly to be noted that not much investigation had been seriously carried out in Malaysia, specifically focusing at the state level. Thus through this descriptive study dimensions such as financial capital, psychological and environmental criteria which are believed to pursuit the likelihood of women to actively involved in motivating entrepreneurship spirit among women in the state of Terengganu.

Specific Hypotheses
In undertaking the investigation and understanding the knowledge about the strength as well as the significance of relationship, five hypotheses were formulated. As numerous literature failed to provide an agreeable finding of the related studies, we therefore believed that there are several possibilities expected from the finding. Thus the specification of the hypotheses formulated for this study is non-directional in nature.

H1: There is a significant relationship between psychology variables and entrepreneurship venturing
H2: There is a significant relationship between financial capitals and entrepreneurship venturing.
H3: There is a significant relationship between environmental variables and entrepreneurship venturing.
H4: There is a significant difference in types of business towards entrepreneurship venturing
H5: There is a significant difference between respondent education level towards entrepreneurship venturing

Sampling and Data Collection
Data for the study were collected through a field survey based on the sample frame derived from a list of business organization registered members in four (4) out of seven (7) districts in the state of Terengganu which is approximately

5300 women business establishments. The study followed the sample size within the range of 200-500 suggested by Sudman (1976). The population and sample is developed based on district by means of cluster sampling, so as to gain efficiency and representativeness. Using a convenience approach 470 business establishment successfully completed the questionnaire indicating the number that is adequate enough to be sampled. As the investigation is descriptive in nature, cross-sectional data are collected to address the research questions. Among the strategies adopted to reduce the percentage of non-response, data collection technique such as personally administering the questionnaires and having a second visit were undertaken.

Given the criteria for inclusion in the survey, the majority of the respondents are from the service sectors. In getting more meaningful information the rule of selecting those that are in 5 years or more in business operation, discovered to be a problem in getting the numbers. The research therefore end-up with selection of any women entrepreneur as long as it is a registered business.

Measurement

Survey instrument was operationalized based on the work of Van Praag and Van Ophem (1995) and with some changes to accommodate local environment as suggested by Siti Haryati et.al (2004). A series of question consisting of 10 nominal and 47 scale items had been used in the investigation. The result obtained from the pilot test was analyzed so that the issue of content and construct validity is efficiently addressed.

As the focus of the research is the owner/manager of the small firm, in ensuring that the individual directing the firm was surveyed, respondents were asked through the pre-qualifying question to indicate the position held in the organization.

SURVEY FINDINGS

Data collected was subjected to reliability analysis to establish the reliability of the measures and ensuring consistent measurement among the various items in the instruments. Analysis to the reliability of coefficient showed that Cronbach Alpha for all variables under the investigation met Nunnally's (1967) 0.50 or above criterion. Table 1 shows the result of the reliability test where the Cronbach's Alpha reliability coefficient is obtained for the variables. Therefore the questionnaire is assumed to be reliable.

Table 1.

Reliability Analysis

No	Section	Item	Alpha
1	Entrepreneurships Venturing	14	.7483
2	Financial Factors	6	.7220
3	Psychological Factors	10	.8269
4	Environmental Factors	10	.7093

Respondents' profile

Among the demographic profile of respondents discussed are, types of business, experience in business, age distribution, income distribution, business financing, and education levels among women entrepreneurs.

The total number of respondents was 470 and the profile of the respondents is shown in Table 2. 57.9% of the respondents are aged between 40-49 years old and above. Only 12.7 % among the women business operators are within the age of 30 years old and below, indicating that those who are fresh school and college graduate are not in favor of starting their career path in business. This constitutes the majority of women business operators in the state of Terengganu are among those who are matured and having a stable living. Despite of effort done to encourage younger generation to venture into businesses but the survey reflected that most of them are not keen to involve in businesses.

Majority of women entrepreneurs do not have a tertiary education. Among those without a high level education as they had no choice to work with they therefore end up with involving with small businesses either to fill up unproductive hours or may be just to add up extra income for the family. Approximately 85% among the women SMEs received their education prior to the business at secondary school level. Whereas among those with college education only 14 % are willingly to embark in businesses. In addressing the issue of does a business provide generous incomes to the owners are debatable. Our findings reveal that about 90% of them earn below RM3, 000 per month and only10% managed to earn more than RM3, 000.00 per month. Quite substantially 35.7% among the business operators in the state are among the newly established firms (5 years and below). 49.4% among them seems to be stable and maintaining the business activities. Roughly around 15% can be considered able to maintain their competitiveness after been in the business for more than 15 years.

Referring to the racial involvement in the business eventhough the survey indicated that more than 95% of the operators are among Malay women, but this does not reflect the true picture of the SMEs communities. This due to the fact that some of the respondent especially the non-malays are too busy and reluctant to participate in the study. But as a whole most of the business operators in the service industry are believed to be among the Malay women.

What are the likely service businesses that women are interested to venture? Is it those that actually fit the nature of been a women? Our findings indicated that among the popular service business that are attracting more involvement are retailing agriculture, restaurants, canteen and cafeteria, handicrafts and others (tailoring, small-scale food manufacturing, beauty saloon, direct selling, jewellery, nursery, pharmacy, ticketing counter, supplier of cooking gas) which indicated 25.3%. 22.3%, 18.5%, 7.7%, 2.6% 23.6% respectively.

Table 2.

Demographic Profile of Women Entrepreneurs

Profile	No	%	Profile	No.	%
Age			**Types of Business**		
16-19	11	2.3	Canteen & Cafeteria	36	7.7
20-29	49	10.4	Restaurants	87	18.5
30-39	138	29.4	Agricultural Product	106	22.3
40-49	181	38.5	Retailing	119	25.3
50>	91	19.4	Handicrafts	12	2.6
			Others	111	23.6
Race			**Marital Status**		
Malay	448	95.3	Single	35	7.4
Chinese	15	3.2	Married	386	82.1
Indian	5	1.1	Widow	49	10.4
Others	2	0.4			
Education Level			**Business Financing**		
SRP/LCE below	170	43.9	Self Funding	306	65.1
SPM/MCE/STPM	168	41.2	Family Members	87	18.5
Certificate	38	2.4	Banks	20	4.3
Diploma	50	10.1	Governments Agencies	20	4.3
Degree	9	1.5	Self Funding + Family	8	1.7
Others	35	7.4	Family + Banks + Governments Agencies	4	0.9
			Others	25	5.3
Monthly Income (RM)			**Business Venturing (Years)**		
			Less than 1	27	5.7
500 Below	112	23.8	1-5	141	30.0
500-999	76	16.2	6-10	155	33.0
1000-1499	45	9.6	11-15	77	16.4
1500-1999	78	16.6	16-20	52	11.1
2000-2499	66	14.0	21 Above	18	3.8
2500-2999	46	9.8			
3000 >	48	10.0			

Operating a business seems to be highly correlated with the source of financing. Our investigation indicated that most of the entrepreneurs conducted their day-to-day operation by largely relying on Self-funding (65.1%), followed by support of the family members (18.5%), some may get the assistance from the bank (4.3%), and few others from government agencies (4.3%). For those who are adventurous enough may strategically finance their business from a mix of various sources such as from their own family, government bodies, banks or from their own savings.

Correlation and Regression Analysis

Correlation analysis is used for describing whether there is an existence of association and the strength of relationship between the independents variables

(financial, psychological and environmental factors) towards the dependent variable (entrepreneurship venturing). As shown in Table 2 below, the result shows that only psychological and environmental factors are significantly correlated towards entrepreneurship while financial factors is not significantly correlated based on .01 and .05 significant levels. Interestingly to be noted that the psychological factors have the highest score with r= .572 indicating the existence of strong association, meanwhile environmental factors have a moderately low strength of association with the value of r=. 266 and quite surprisingly the financial factor indicating a low strength of association with r=. 077.

Table 3.

Correlations Between Independent Variable And Entrepreneurship Venturing

		Financial Factors	Psychological Factors	Environmental Factors
Entrepreneurship Venturing	Pearson Correlation	.077	.572(**)	.266(**)
	Sig. (1-tailed)	.096	.000	.000

Note: ** Correlation is significant at the 0.01 level (1-tailed).

Table 4.

Coefficient Of Determination Between Independent And Dependent Variables

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Entrepreneurships Venturing	1.948	.155		12.531	.000
Financial Factors	7.330E-03	.014	.020	.509	.611
Psychological Factors	.467	.034	.541	13.802	.000
Environmental Factors	7.786E-02	.028	.112	2.767	.006

Note: R=. 584, R^2 = 0.341. F (3,466) =80.359, p = .000

Further analysis using multiple regression analysis, aimed to determine the highest influence factor towards entrepreneurship venturing and also as to test the study models. Result from the table 3 above shows that only psychological and environmental factors indicating the existence of significant influence towards entrepreneurships venturing (p<. 05) and financial factors are not significant (p>.05). The analysis result also shows that psychological dimensions are the major influence factors in woman business venturing as proved by the highest t and beta

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score (t=13.80, beta=. 541). The regression result also supported by the correlation analysis before with Pearson correlation r=. 572. Second highest influence is environmental factor with t=2.767 and beta=. 112 further supported this result with the correlation analysis shows a significant relationship with r=. 266. Financial factor does not influence and reflects it importance. This can be shown with the score value of t = 0.509 and beta 0.020. Further more the result from correlation analysis before has indicated that these factors are not strong in relationship towards the entrepreneurship venturing with Pearson correlation r=. 077.The model for this study shows only 34.1% of the independent variables explained the dependent variable (R²=0.341)

Tables 5 below display the result of to what extent does different type of business, different level of education background are significantly different towards venturing into entrepreneurship. The analysis indicated that for both issues there is no significant difference, thus reflected regardless of the status of the education and type of business, as long as the opportunity arises then entrepreneurship prevails.

Table 5.

Chi-Square Test For Type Of Business, Education Level And Entrepreneurship Venturing

		Value	Df	Asymp. Sig. (2-sided)
Types of Business	Pearson Chi-Square	265.630	144	.000
Educational Level	Pearson Chi-Square	243.903	120	.000

DISCUSSION AND CONCLUSION

It is the purpose of this paper to present a general model toward an understanding the dynamics of women entrepreneurial careers and to suggest some research issues, framework and part of methodological concerns that will likely shape the investigation. From the general viewpoint it is very much logical to develop the framework that may include factors like sociological, political, economic, psychological, cultural values, perceptual values, and leadership values that influence entrepreneurial behaviour.

Financial reasons such as profit maximization and capital funding will become priority for those who are willingly to be in the business. Without enough financial support, it is hardly to believe that any business can sustain its growth and competitiveness either in local or what more to be in the national or international market. It is expected that one of the main reasons for venturing into businesses is the inclusion of the dimension pertaining to the financial criteria. In fact the work of Zarina Salleh et.al (2004), and Blanchflower and Oswald (1994) clearly demonstrated the evidence of the importance of financial aspects towards assisting SMEs to maintain its

competitiveness. However this study generated the opposite findings indicating very low strength of relationship and not significant which is not only dissimilar but against established theory of motivation based on extrinsic reward. For some women entrepreneur, the fact that having a stable financial capacity because of husband role in supporting the family and having a large family assets, will not motivate them to become an entrepreneur. Observing the assets ownership of collateral should provide more avenues for not only starting a business but also expanding the business operation. What is happening among the women SMEs is that most families are reluctant to utilize their asset for supporting the business operation.

One of the fundamental arguments underlying the framework of this study is the environmental infrastructure and the psychological dimensions that evolved around the women entrepreneurship studies. This study clearly supports hypothesis I and II. It is been widely acknowledged that most small business owners, regardless the gender categories theoretically support the role of psychological and environmental factors, which make entrepreneurs exerting themselves into business, venture. Numerous literature demonstrated that the motives of their involvement as most frequently cited was self satisfaction, the search for independence and various factors linked with family needs and wants. Among the popular business sectors to be ventured are those businesses that fall under services and retailing which are to be operated at a small scale, requiring low capital investment, minimum labor utilization, a flexible working hours and the priority to the family, fulfilling their leisure time. The results from this study clearly indicate that the psychological motives and supportive environmental factors may well be linked with the reasons for venturing into businesses especially in a small-scale basis. In fact earlier studies on business venturing demonstrated similar relationship (Van Praag and Van Ophem 1995, Woo et.al 1991; Ronstadt, 1984).

For small scale business needs, no doubt, education is not an important pre-requisite but with the training support of tailored to meet the needs of the SMEs will provide knowledge and skills to be used when operating the businesses (Norudin Mansor, 2004). In order for the businesses to be expanded and further penetrating the global market, the contribution of education and training are very much essential. Other than acquiring skills, the role of education, especially at the tertiary level aids the entrepreneurs' in promoting disciplines, identifying options and making decisions (Robinson and Sexton, 1994). In addition, education acts as a catalyst for acquiring and disseminating information that are needed for running day-to-days business operation. In fact tertiary education many times provides distinct advantages to the business operators in terms of developing the networking with the financial institutions, government agencies, and also the multinational companies. Despite of historical evidence and established theories concerning education and training role that demonstrated its importance (Birley et.al, 1987), yet for the case of this study it does not significantly conclude the differences, as what actually initiate them most is the opportunities created within the environment.

Is there a difference in terms of types of business that women prefer to venture? Again our finding concludes that there is no significant difference. What does this reflect? As long as the opportunities exist, and they believed not much threat to be challenge then women entrepreneur will move forward to venture into those businesses that could yield them satisfaction. One of the reasons for their interest in service industry, could be due to the sophisticated elements such as new technology, technical expertise, and leadership qualities that are found to be very important in manufacturing activities may not be a top concern in service industries. What more if the business is relatively small in nature.

Future research directions

It is acknowledged that mostly the business establishments of the women entrepreneurs are relatively among those under the category of small size. Considering the impact of other more important variables such as management expertise, technology, venture capital, global marketing, culture which is prominent in today business which has been left out in this study are therefore necessary for enhancing the entire development of entrepreneurship venturing..

As been many times demonstrated, it is easy for the academician to conduct research that falls on topics of their interest, but effort should be taken so that whatever knowledge and finding generated should be of more values to the practitioners.

Also missing from this research is consideration of the detail investigation concerning the financial strategy. Obviously, the accessibility to source of financing will either expand or limit the choices that can be strategically layout. But it should be formulate in such away that financial aspects of venturing into women entrepreneurship should be integral with other concepts such as innovativeness, technology adoption, market competitiveness, and skill training for the managers as well as the workforce in the industry.

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LE RÔLE DES OBJETS-FRONTIÈRE
DANS LA COLLABORATION INTERNE

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RÉSUMÉ. Dans ce papier nous présentons, à travers une étude de cas, une approche en quatre étape pour bâtir la collaboration interne. Nous insistons, plus spécifiquement, sur l'importance des objets-frontière dans ce processus. Nous montrons comment de tels artefacts, qui représentent le produit de l'externalisation des connaissances, sont utilisés par les acteurs comme un espace partagé, au sens de Schrage (1995), base commune indispensable au partage et à la véritable collaboration.

1. Introduction

Comment des connaissances nouvelles peuvent-elles être créées dans une organisation? Comment faciliter ce processus? Malgré les nombreuses recherches sur le sujet, la réponse à ces questions demeurent un formidable défi de gestion pour les gestionnaires (Cavaleri, 2000), confrontés à des problèmes de collaboration interne, aux besoins de synergies, aux pressions concurrentielles pour innover plus vite, mieux, continuellement.

Dans ce papier nous présentons, à travers une étude de cas, une approche en quatre étape pour bâtir la collaboration interne. Cette démarche prend naissance dans un projet de diagnostic des connaissances critiques de l'organisation qui débouche sur la production d'artefacts matérialisant un espace partagé et créant le contexte de la collaboration, source de création de connaissances à la fois tacites et explicites.

2. Cadre conceptuel et méthodologie

Nonaka et Takeuchi (1995) ont développé une théorie de la création des connaissances qui décrit les interactions entre la connaissance tacite et la connaissance explicite. Ils identifient ainsi quatre modes de conversion des savoirs: la socialisation (du tacite au tacite, entre individus), l'internalisation (de l'explicite au tacite, de l'organisation à l'individu), la combinaison (de l'explicite à l'explicite, du groupe à l'organisation) et l'externalisation (du tacite à l'explicite, de l'individu au groupe).

De nombreuses limites ont été identifiées dans le processus d'externalisation, vu comme artificiel, peu respectueux des individus et des processus sociaux. Amin et Cohendet (2004, p. 24) ont même avancé l'idée qu'il dénaturait la connaissance codifiée aussi bien que la connaissance tacite. Nous nous intéressons ici au rôle de ce mode de conversion sur la nature de la collaboration. Traditionnellement, le transfert direct

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(socialisation) et le partage (combinaison) sont les modes de la collaboration. Le premier basé sur un réseau social, une communauté, plus ou moins structurée, qui s'appuie ou non sur une infrastructure informatique; le second basé sur la diffusion à grande échelle de savoirs codifiés, le plus souvent avec l'appui des technologies de l'information et des télécommunications. Nous proposons ici l'idée que l'externalisation, c'est-à-dire le processus de transformation de la connaissance tacite en connaissance explicite peut être un puissant mécanisme de collaboration en produisant à la fois de la connaissance explicite et de la connaissance tacite.
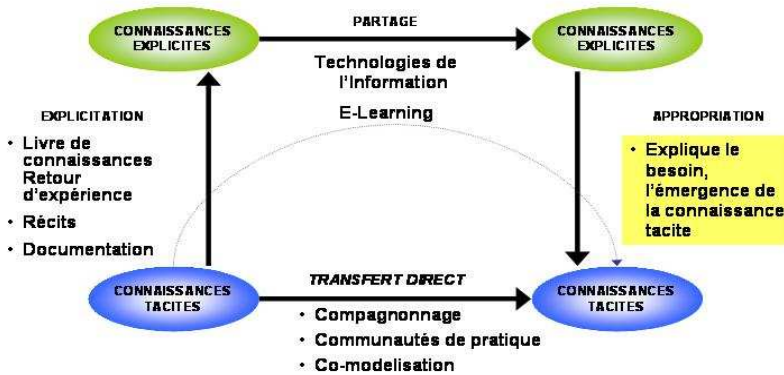
Fig. 1. Quatre modes de conversion de la connaissance
(Adapté de Nonaka & Takeuchi, 1995)

Ce processus se cristallise dans des objects-frontière (OF), des artefacts de connaissance qui servent à la fois de contenu et de contenant à la connaissance (Grey, 2004), «being both plastic enough to adapt to local needs and constraints of the several parties employing them, yet robust enough to maintain a common identity across sites» (Star, 1989). Ces OF permettent la combinaison, c'est-à-dire, selon Nonaka et Takeuchi (1995), le processus de systématisation des concepts dans un système de connaissance, combinant différents éléments de connaissances explicites. Cette combinaison crée de la redondance, une condition préalable à l'apprentissage collectif, la base de la collaboration et de la synergie. Le processus de construction des OF et les OF eux-mêmes, créent de la superposition, une «apprentissage par intrusion» (Nonaka et Takeuchi, 1995) dans la sphère d'expertise de l'autre. Nous voyons là une rupture avec la métaphore de l'organisation comme une machine (Morgan, 1990) pour qui la redondance est avant tout un signe de perte d'efficience.

Fischer (2001) met l'accent sur l'importance des OF dans la créativité sociale. Il les considère comme de la connaissance externalisée qui amène une nouvelle compréhension dans le contexte de l'explicitation et de la résolution de problèmes. Les OF servent à des multiples acteurs dans des situations où chacun n'a qu'une connaissance partielle et un contrôle partiel sur l'interprétation de

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l'objet. Ainsi, les OF ont un rôle d'intermédiaire, de médiateur impliquant une traduction, une coordination et un alignement entre les perspectives spécifiques de différentes communautés. Une telle externalisation permet une démarche réflexive.

Schrage (1995) a établit une lien entre la collaboration et l'existence d'objets-frontière. Il utilise le concept plus général d'espace partagé (shared space) pour développer l'idée que l'innovation ne repose pas seulement sur des individus créatifs ainsi aussi sur des relations créatives. L'espace partagé permet un accès de tous les collaborateurs, en temps réel. Il sert à la fois de modèle, de carte routière et de technique pour gérer une «conversation ambiguë. Cet espace partagé supporte l'ensemble du processus de création collective de connaissance. Comme le précisent Van Krogh et al. (2002), «such an organizational context can be physical, virtual, mental or - more likely - all three». Ce contexte est similaire au concept de «contenant» (container) du dialogue proposé par Isaacs pour qui il crée les conditions d'un champ fertile d'interactions, favorisant le partage de sens et d'énergies qui peut émaner d'un groupe de personnes. Dans le même sens, Nonaka et Konno (1998) ont mobilisé le concept japonais de *Ba* pour représenter un contexte dynamique d'interactions dans des espaces où la connaissance est concentrée et où des relations émergent entre des individus. Cette plateforme fournit un point focal où différents acteurs participent à la création collective de connaissance, produit ultime de la collaboration.

Dans la présente recherche, nous cherchons à explorer comment dans la pratique, le processus d'externalisation de la connaissance, par l'intermédiaire des objets-frontière qu'elle produit, peut favoriser la collaboration. L'étude de cas est alors la méthode la plus appropriée pour investiguer des dimensions dynamiques (Yin, 1990), qualitatives au sens premier du terme, i.e., relatives à la nature des objets ou des phénomènes et non à leur quantité. Elles se rattachent à la famille des théories de processus (Langley, 1996) car l'interaction dynamique entre deux organisations est d'une importance capitale. Nous avons retenu un cas unique pour pouvoir étudier le processus dans sa dimension diachronique et pour l'originalité et l'envergure de la démarche entreprise dans cette organisation en termes d'externalisation des connaissances.

Nous avons utilisé, de manière classique, deux grandes catégories de sources de données. D'abord, des données secondaires pour tracer un portrait général préparer ainsi les entrevues. Nous nous sommes essentiellement appuyés sur des documents corporatifs confidentiels. Sur le terrain, nous avons également complété nos données secondaires par une série d'entrevues avec des consultants internes pilotes de l'expérience.

Ensuite, une série de rencontres avec des acteurs clés du projet d'externalisation a constitué le cœur de notre base empirique. Nous avons ainsi mené 17 entrevues individuelles d'une durée de 1 à 3 heures et une entrevue de groupe de 2 heures. Seules les personnes directement impliquées ont été rencontrées, ce qui assure une certaine saturation des données.

L'entreprise Power Corp (PC) illustre ce processus d'externalisation. L'objectif de l'entreprise était, à l'origine, de gérer le risque de perte de connaissances. Le cas permet de suivre les effets de cette démarche sur la co-création de connaissance, en mettant l'accent sur le rôle des artefacts, des objets-frontière. PC est une grande entreprise de services dans le domaine de l'énergie dont les revenus ont dépassé le milliard d'euros en 2003. PC a formalisé sa stratégie de gestion des connaissances dans un document intitulé, Plan de gestion stratégique des connaissances (2004-2006). Il s'agit d'un projet en cours, piloté par les ressources humaines dans le contexte d'une menace spécifique: le départ à la retraite de milliers de baby boomers dans les années à venir. Le plan est plus particulièrement axé sur la prévention du risque de perte d'expertise d'où le rôle critique de l'externalisation des savoirs.

Nonaka et Takeuchi (1995) insistent sur le fait que l'externalisation est dynamisée par le dialogue et la réflexivité et qu'elle représente l'interaction la plus intensive entre les individus et des groupes. De ce point de vue, l'externalisation est l'élément clé du processus de création de connaissances en prenant successivement la forme de métaphores, d'analogies, de concepts, d'hypothèses et, finalement, de modèles. PC a développé une séquence d'externalisation en quatre étapes: cartographie des savoirs, évaluation de la criticité des savoirs, modélisation des savoirs et plan de gestion des savoirs.

Dans le cas de PC, la stratégie de gestion des connaissances s'ancre dans deux perspectives complémentaires. Dans un premier temps, mieux comprendre quels sont et quels seront les besoins clés en termes de connaissances; dans un deuxième temps, favoriser l'acquisition, le développement et le transfert de ces connaissances pour se prémunir de la menace de perte et de manque de savoirs qui pourraient miner la performance future de l'organisation. Ainsi le schéma 2 montre un processus organisé autour de quatre activités pour gérer ce risque.
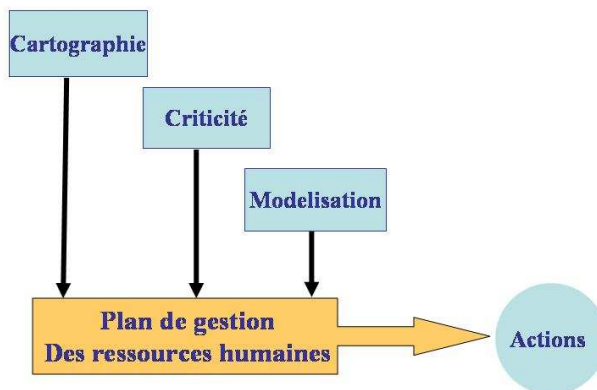
Fig. 2. L'organisation de la stratégie de gestion des connaissances chez l'entreprise PC

Nous décrivons maintenant ces étapes plus en détails.

2.1. La cartographie comme outils de diagnostic et comme outils de planification par la méthode des scénarios

Un premier exercice de cartographie des savoirs débute dans le département de R-D. Les six directeurs organisent une séance de réflexion autour d'une simple question: quelles sont nos expertises? Au cours d'un processus itératif, ils sont parvenus à un accord sur une carte graphique reliant les expertises depuis les connaissances générales jusqu'aux applications concrètes au sein de l'organisation. Cette démarche était considérée et a été effectuée comme un véritable audit des savoirs. Toutefois, en dépit du fait qu'une information critique était assemblée, elle demeurait que de la simple information, incapable de servir de ase à une prise de décision plus efficace en termes de planification des savoirs. Il manquait une évaluation de la valeur réelle de ce qu'ils savaient, maintenant et dans le futur, dans un horizon temporel de 5 à 10 ans.

2.2. L'évaluation de la criticité des savoirs comme règle de décision

Dans ce contexte, l'entreprise a décidé d'appliquer la méthodologie développée par Ermine et le Club de Gestion des Connaissances en France (Ermine, 2003; Boughzala et Ermine, 2004). PC s'est alors engagée dans un long exercice de plus de deux mois et plus de soixante entrevues avec les experts pour mieux évaluer la criticité des connaissances, en utilisant une grille de 21 critères autour de quatre dimensions: l'utilité des savoirs, la rareté, la facilité d'utilisation et la facilité d'accès. Cette démarche conduit à deux sortes de résultats:

– Une description fine du portefeuille de connaissances et des tendances
– Une description qualitative de la nature des connaissances et des besoins de transfert
– Ces deux résultats servent de point de départ à la seconde étape:
– Des décisions sur la composition du portefeuille de connaissances: maintenir, se départir, développer seul ou en partenariats…
– Des décisions sur le besoin et la nature des transferts de connaissances: que prioriser en termes de transfert? Comment effectuer le transfert?

2.3. La modélisation comme outils d'apprentissage et comme co-création des connaissances

La modélisation des connaissances est utilisée à PC de deux manières:

– Une approche classique de la modélisation pour écrire un livre des connaissances, des procédures, des méthodologies pour guider le travail futur.
– Une approche plus novatrice qui utilise la co-modélisation dans des situations de tâches très complexes. Avec le support d'un simple logiciel de modélisation, l'expert et le novice s'engage dans un processus de

modélisation d'une tâche spécifique: l'expert modélise sa tâche puis le novice modélise ce qu'il a compris de la tâche de l'expert. Ils s'engagenet ensuite tous les deux dans une co-construction ittérative d'un modèle jusqu'à ce que les deux soient satisfaits du résultat de la représentation. Ce processus aboutis à une description validée de l'expertise. Cette façon de procéder a prouvé son efficacité pour les tâches complexes de l'entreprise.

2.4.   Les plans de gestion des connaissances comme cartes routières

Finalement, des plans de gestion des connaissances furent rédigés au niveau des directeurs puis intégrés au niveau du département. Le plan incorporent différents types de données: cartes, échelles de criticité, ressources humaines et démographie de la maind'œuvre, tendances, plans de transfert des savoirs…

Le cas de PC amène un éclairage particulier sur une question d'importance pour la collaboration interne: le rôle clé des objets-frontière, d'une part, et la gestion de ce processus par la création d'un contexte favorable qui produise de tels objets tout en facilitant leur rôle dans la collaboration. Nous discutons ces deux questions dans la section suivante.

3.   Discussion

Les objets-frontière, comme le souligne star (1989), avec à-propos, sont suffisamment flexibles pour s'adapter aux besoins locaux et aux contraintes des différents acteurs qui les utilisent tout en étant suffisamment robustes pour maintenir une identité commune entre ces acteurs. De ce point de vue, nous pouvons considérer les cartes, les échelles de criticité, les modèles et les plans produits par PC comme des objets-frontière dont la seule existence favorise l'émergence d'une collaboration et, de ce fait, d'une co-création de connaissances, de nature largement tacites.

Ces objets-frontière permettent la combinaison, au sens de Nonaka et Takeuchi (1995), c'est-à-dire, un processus de systématisation des concepts dans un système de connaissances, qui combine différentes composantes de connaissances. Cette combinaison crée de la redondance, une condition préalable à l'apprentissage collectif et à la synergie. Toutefois, cette redondance est traditionnellement vue comme une perte d'efficience dans une organisation concue comme une machine bureaucratique. Pouratnt cette redondance s'avère un élément clé de la productivité collective chez PC car elle permet de créer des ponts entre les groupes isolés pour bâtir des projets communs.

De ce point de vue, les cartes, échelles, modèles et plans sont de puissants outils de gestion des connaissances collectives à deux niveaux:
-   Ils favorisent la socialisation. En tant que référants, ils contribuent à créer un espace partagé qui est la base du dialogue (Schrage, 1995).
-   Ils favorisent l'internalisation en créant du sens et en favorisant un sentiment d'appartenance par identification à une production spécifique.

La crate, par exemple, permet aux acteurs de mieux se représenter leur position et leur rôle Bien que cet aspect ait été ignoré au départ, il s'est avéré un élément de motivation et d'engagement individuel extrêmement efficace.

Comme l'a souligné Grey (2002), les objets-frontière représentent une importante classe d'artefacts de connaissances car ils sont associés au processus, au sens, à l'alignement et à la réification des connaissances. Ils matérialisent une étape centrale dans la dynamique des échanges et de la production de savoirs. Toutefois pour remplir ce rôle, ils doivent être créés dans un contexte particulier comme le résume la figure 3, ci-dessous.
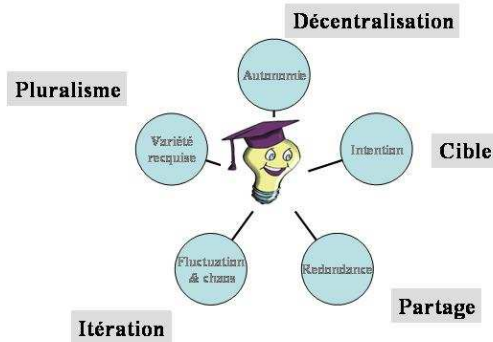
Fig. 3. Contexte favorable à la création des objets-frontière

Nous pouvons identifier cinq conditions critique dans le processus d'élaboration et d'utilisation des objets-frontière pour développer la collaboration et la création collective de connaissances:

-        La décentralisation du processus. Cette caractéristique, basée sur l'autonomie des acteurs permet d'obtenir un engagement et une appropriation de la méthodologie. L'approche n'est pas implantée «clés en main» mais, au contraire, ce sont aux acteurs eux-mêmes de fixer les modalités de son déploiement. Dans le cas de PC, les directeurs du département ont pu fixer eux-mêmes de nombreux paramètres de l'approche, incluant le calendrier d'implantation, les variables clés à retenir, les participants à la démarche…

-        Le ciblage du processus. Cette caractéristique, basée sur la précision des intentions permet d'éviter les interprétations quant aux objectifs plus ou moins cachés. Dans le cas de PC, il était clair, dès le départ, que le projet devait

déboucher sur des décisions quant à la composition du portefeuille de technologies et les priorités à accorder à ses différentes composantes.

-       Le partage des connaissances. Cette caractéristique vise à créer un certain niveau de redondance, une zone d'intersection des savoirs, un lieu commun qui serve de point de départ à la collaboration. En l'absence d'un tel lieu, la synergie se perd dans une approche par silo crée pour générer de l'efficience mais stérile du point de vue de la collaboration. Hors la compétitivité actuelle des organisations passent de plus en plus par leur capacité d'innovation et cette innovation est avant tout un phénomène collectif.

-       Un processus itératif. Cette caractéristique vise à apprendre sur le tas, en expérimentant, en tâtonnant, en échangeant, en se trompant, en recommençant. Cette approche est stressante pour l'organisation et ses gestionnaires car elle est source de risque, d'imprévu et de perte de contrôle. De plus, elle peut être perçue comme trop lente et coûteuse. Mais c'est souvent le prix à payer pour ne pas se tromper et engager l'ensemble des acteurs dans une démarche commune vraiment productive d'innovations.

-       Un processus pluraliste. Cette caractéristique vise à créer de la diversité dans la démarche. Cette variété est requise dans la mesure où la diversité des points de vue est nécessaire pour innover.

Ces éléments permettent de créer un contexte favorable à l'émergence d'objets-frontière productifs.

4.   Conclusion

Il est possible de stimuler la collaboration interne de manière significatif comme l'a montré le cas étudié. Les gestionnaires peuvent créer un contexte favorable. Ce contexte permettra aux objets-frontière, créés par un processus d'externalisation de jouer leur rôle dans la stimulation de la collaboration interne et le déploiement de synergies.

Malgré ses avantages, cette démarche n'est pas sans embûches. Tout d'abord le processus d'externalisation peut se transformer en exercice exessivement bureaucratique par des méthodologies trop formalisées. Deuxièmement, l'approche doit franchir la barrière du temps car c'est un exercice long et coûteux qui nécessite un mécanisme d'actualisation constant et rigoureux. Troisièmement, cette approche peut être perçue comme un exercice politique comme une façon de bâtir de légitimité autour de questions sensible de réduction d'activités ou de licenciements. Finalement, il peut être considéré, à tort, comme un substitut à un apprentissage continu sur la façon de stimuler l'innovation et la construction de synergies.

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SMALL AND MEDIUM ENTERPRISES - CHANGING SCENARIO IN A CHANGING WORLD ORDER: A CASE FOR SMALL AND MEDIUM ENTERPRISES OF INDIA

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ABSTRACT. Like every economy in its growth process, Indian economy too over the decades has undergone several structural transformations both in the main sectoral components as well as in the intersectoral transformation. What is more noticeable and significant is not the change from small scale to medium scale and to large scale production sector but a broad based change within the composition of products, production techniques and the resultant technical efficiency.

The importance of small and medium scale enterprises in the process of economic development of the Indian economy becomes more glaring and significant when we examine its contribution to Gross Domestic Product, Gross Domestic Capital formation, employment generation capacities as well as promotion of exports. Nonetheless, since globalization of the Indian Economy a move towards liberalized economic policy, the small and medium sector has not reflected any positive co-relations between opening up and attainment of greater growth targets.

The present study aims to examine the reasons for this lacuna and suggest measures to policy planners which can be implemented not only by India but also by many developing countries in their similar situations of growth process.

1. Introduction

In most of the developed countries and many of the developing countries world over, Small and Medium Enterprises (SME's) are treated as a composite sector with appropriate policy interventions and legal frameworks.

In India, however, for various socio-economic and historical reasons, the small scale industries, Khadi, village industries, handicrafts, etc. have been dealt with separately. Medium industries and Medium enterprises are yet to be formally defined.

India attained independence in 1947, adopted planned economic growth path with Socialistic Pattern of economic development as a major framework. It started with its planning process since 1950 and India at present is in its third year of the tenth Five Year Plan. Different degrees and levels of achievement have been attained in the sector of agriculture, industry, and various services sectors. Shortcomings

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and less than targeted growths have also been a regular feature of these sectors. However, due to its Geo-political, social and institution framework, the degree of progress is to be appreciated to a great extent. One of the major policy programme/framework/ decision of the Government of India with the regard to the industrial development of the economy since 1950 had been:

1.   To create a major large scale industrial base in the public sector with special emphasis on employment generation capacity and price stabilization.

2.   Since a greater part of India lives in the rural sector with agricultural base it was the economic necessity and political compulsion that India had to give substantial priority to the small scale industries including agro based, handcrafts, handlooms (Khadi) Industries, with substantial degree of protection in terms of their progress, promotion and growth.

Global business is clearly not a 'level playing field' whose actors constitute firms of different sizes, huge Trans–agglomerates, SME's, encompassing different objects, goals, claims, and stakes.

Until recently, the high protectionist walls surrounding India's SME's helped them to cope with competition, big businesses, globalization etc., such protection under the different policy frameworks have become vulnerable due to the shift in economic planning reforms adopted since 1990-91 with emphasis on globalization, liberalization and privatization. In this context and for facilitating growth with wider employment generation, there is a growing realization that India should adopt SME concept, for its own survival, existence and growth.

2. Materials and Methods

In India the SME is generally referred to as 'Small scale industry' including the tiny sector and the 'Small Scale Services and Business Enterprises' (SSSBE). SME's have always represented the model of socio-economic policies of the Government of India which emphasized judicious use of foreign exchange for import of capital goods and inputs; labor intensive mode of production, employment generation; non concentration and diffusion of economic power in the hands of few (as in the case of the big business houses);discouraging monopolies practices of production and marketing; and finally effective contribution to foreign exchange earnings of the nation with low import-intensive operations. .

The SME's of India are broadly characterized on the basis of:

2.1. Category 1: The amount of investment in fixed capital asset.

2.2. Category 2: The extent of employment generation.

2.3. Category 3: Their contribution to Gross Domestic production, exports etc.

2.1.Category 1: The small scale industry is currently defined as an industrial undertaking in which investment in fixed assets[plants and machinery (excluding land and building) whether the plant/machinery are held on ownership terms or on lease, or by the hire purchase] does not exceed Rs. Ten million. However, to enhance their competitiveness both in the domestic and global markets for technological up gradation and adoption of international quality standards, the investment ceilings have been raised from Rs. Ten million to Rs. Fifty million.

The total number of Small scale industries has increased from 1.948 million in 1990-91 to 3.572 million in 2002-03 **[Table 2.1]**. This significant rise in the number of the small and medium enterprises reflects:

1.   That it has been comparatively easier to establish a small and medium enterprise as it requires a relatively less amount of investment both in fixed and flexible capital assets.

2.   That the small and medium enterprises are growing at a much faster rate and thereby creating potentials for output, employment and exports.

3.   That since the adoption of more liberalized policy measures the scope for their growth has been enhanced greatly.

Table 2.1

Time Series data for SSIs in India

Year	No. of units (millions)	Fixed investment (at current prices) (Rs. billion)	Production (at current prices) (Rs. Bn.)	Employment Nos. in million	Export (Rs. billion)
1973-74	0.416	22.96	72.0	3.97	3.93
1974-75	0.498	26.97	92.0	4.04	5.41
1975-76	0.546	32.04	110.0	4.59	5.32
1976-77	0.592	35.53	124.0	4.98	7.66
1977-78	0.67	39.59	143.0	5.40	8.45
1978-79	0. 734	44.31	157.0	6.38	10.69
1979-80	0.805	55.40	216.35	6.70	12.26
1980-81	0.874	58.50	280.6	7.10	16.43
1981-82	0.962	62.80	326.0	7.50	20.71
1982-83	1.059	68.00	350.0	7.90	20.45
1983-84	1.155	73.60	416.2	8.42	21.64
1984-85	1.24	83.80	505.2	9.00	25.41
1985-86	1.353	95.85	612.28	9.60	27.69
1986-87	1.462	108.81	722.5	10.14	36.43
1987-88	1.583	126.10	873.0	10.70	43.72
1988-89	1.712	152.79	1064.0	11.0	54.89
1989-90	1.823	N.A.	1323.2	11.96	76.25
1990-91	1.948	N.A.	1553.4	12.53	96.64
1991-92	2.082	N.A.	1786.99	12.98	138.83
1992-93	2.246	N.A	2093.0	13.406	177.84
1993-94	2.388	35.376	2416.48	13.938	253.07
1994-95	2.571	40.799	2988.86	14.656	290.68
1995-96	2.658	49.620	3626.56	15.261	364.7
1996-97	2.803	54.698	4118.58	16.0	392.48
1997-98	2.944	60.549	4626.41	16.72	444.42
1998-99	3.08	86.106	5206.5	17.158	489.79
1999-00	3.212	72.633	5728.87	17.85	542.00

2000-01	3.312	79.703	6390.24	18.564	697.97
2001-02	3.442	84.329	6903.16	19.223	712.44
2002-03	3.572	90.450	7420.21	19.965	860.12

Source: Development Commissioner (SSI), Ministry of Small Scale Industries, Government of India

2.2. Category 2: The small enterprises sector is a vibrant segment of the Indian Economy which has contributed over 39 percent of the industrial sector output and 34 percent of the nation's exports and provided employment to over 19.965 million persons through 3.572 million units (2002-03) spread both in the urban and the rural areas of India. It has been estimated that 100,000 rupees of investment in fixed assets in the small-scale sector generates employment for four persons.

Along with agriculture, the small enterprise sector including both SSI and SSSBE provides the largest employment generation potentials in the country. During 2003-04 the small sector registered a growth rate of 8.6 percent as against 7.0 percent for overall industrial growth.

The significance of SSI and SSSBE in employment generation can be noted that while in 1990-91 the sector provided employment opportunities to around 12.53 millions of people which over the decade has gone up to 18.56 million in 2000-01 and to 19.96 million by 2003-04. In a steady growing populated country like India this huge contribution to the tune of almost 80 percent in fifteen years is definitely a significant benchmark in the growth process.

The small and medium enterprises no doubt have become more important in the structural transformation of the economy and the industrial sector.

2.3.   Category 3: The SME's contribution to the GDP **[Table 2.2]** can be analyzed for the same period (1990-91 to 2003-04) and it has been noted that in the year 1990-91 the gross domestic product from this sector was Rs.68295 crores (at Constant 1993-94 prices) which has increased to Rs.184428 crores in 2000-01 and further to Rs.228730 crores (constant prices at 1993-94) reflecting an overall growth rate of 3 times a decade and to 4 times in fourteen years. Though in percentage terms with respect to GDP their share has been reduced from 14 percent approx to 8 percent for the same period. It is this intersectoral transformation which is a significant reason for the present study.

The intersectoral SME's have witnessed drastic changes in their compositions and their production techniques; it is this which reflects change in the industrial base due to the change in the economic reforms policy.

Another important component within the broad macro economic aggregates is the investment capacities and capital formation by this sector. Data **[Table 2.2]** on this aspect suggests that for the period of study fixed investment has increase in absolute terms from Rs. 93555crores in 1990-91 to Rs 147348 crores in 2000-01 and for 2003-04 the increase is to the tune of Rs 170726 crores.

Table 2.2

Performance of Small Scale Sector based on Third Census of SSI's

| S.No. | Year | Fixed Investment (Rs. crores) | GDP (Rs. crores) | |
			Current Prices	Constant Prices(1993-94 prices)
1	2	3	4	5
1	1990-91	93555	63518	68295
2	1991-92	100351	73072	79180
		(7.26)	(15.04)	(15.94)
3	1992-93	109623	85581	93523
		(9.24)	(17.12)	(18.11)
4	1993-94	115795	98804	98804
		(5.63)	(15.45)	(5.65)
5	1994-95	123790	122210	109116
		(6.9)	(23.69)	(10.44)
6	1995-96	125750	148290	121649
		(1.58)	(21.34)	(11.49)
7	1996-97	130580	168413	135380
		(3.82)	(13.57)	(11.29)
8	1997-98	133242	189178	147824
		(2.05)	(12.33)	(9.19)
9	1998-99	135482	212901	159407
		(1.68)	(12.54)	(7.84)
10	1999-00	139982	234255	170709
		(3.32)	(10.03)	(7.09)
11	2000-01	147348	261289	184428
		(5.28)	(11.54)	(8.04)
12	2001-02	154349	282270	195613
		(4.75)	(8.03)	(8.08)
13	2002-03	162533	311993	210636
		(5.30)	(10.53)	(7.68)
14	2003-04	170726	357733	228730
		(5.04)	(14.66)	(8.59)
15	2004-05 projected	176795	400505	246662
		(3.55)	(11.96)	(7.84)

Source: Development Commissioner (SSI), Ministry of Small Scale Industries, Government of India.

With respect to exports **[Table 2.3]** their (SME's) contribution has gone up from Rs.13883 crores in 1991-92 to Rs. 69796 crores in 2000-01 and to Rs. 86013 crores in 2002-03.

SSI Sector plays a major role in India's present export performance. 45%-50% of the Indian Exports is contributed by SSI Sector. Direct exports from the SSI Sector account for nearly 45% of total exports. Besides direct exports, it is estimated that small-scale industrial units contribute around 45% to exports overall. This takes place through merchant exporters, trading houses and export houses. They may also be in the form of export orders from large units or the production of parts and components for use for finished exportable goods.

It would surprise many to know that non-traditional products account for more than 95% of the SSI exports.

The exports from SSI sector have been clocking excellent growth rates in this decade. It has been mostly fuelled by the performance of garments, leather and gems and jewelry units from this sector.

The product groups where the SSI sector dominates in exports are sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products.

Table 2.3

GROWTH OF SSI EXPORTS

Year	Total exports (Rs. Crores)	Exports from SSI sector (Rs. Crores)	Percentage share
1951-52	716	Negligible	-
1961-62	660	Negligible	-
1971-72	1608	155	9.6
1976-77	5142	766	14.9
1981-82	7809	2071	26.5
1986-87	12567	3644	29.0
1991-92	44040	13883	31.5
1992-93	53688	17785	33.1
1993-94	69547	25307	36.4
1994-95	82674	29068	35.1
1995-96	106353	36470	34.2
1996-97	118817	39249	33.4
1997-98	126286.00	44442.18	35.19
1998-99	141603.53	48979.23	34.59
1999-00	159561.00	54200.47	33.97
2000-01	202509.7	69796.5	34.47
2001-02	207745.56	71243.99	34.29
2002-03	252789.97	86012.52	34.03

Sources: Total Exports - Economic Surveys – Various Issues

3. Discussions:
3.1 Composition of the Small and Medium Enterprises:

The small scale industrial sector of the Indian economy encompasses in itself almost all of the products (including a large number of services) produced by the Indian industries within the economy. Most of the times the products produced by the small and medium enterprises comprise of the intermediary products produced by the large scale industries. They also include semi processing units and processing units which are an important link between exports and reexports. Thus it would not be out of context to mention that SME's act both as a backward and forward linkage to the overall industrial sector of the Indian Economy.

As a result of economic reforms and a deliberate move towards globalization and liberalization of the Indian Economy the shift in the unit's contribution to production and exports reflect that the small scale industries have undergone substantial technical change in their production process. At the same time it would not be wrong to state that with globalization and liberalization coupled with WTO regime India's Small and medium enterprises have been passing through a transitional period. With the slowing down of the economy in India and abroad particularly USA and European Union, and enhanced competition from China and a few low cost centers of production from abroad many units have been facing a tough time.

However with the technological up gradation, international business outlook, competitive spirit, willingness to restructure and government's aid and assistance and cooperation the small and medium enterprises of India will see through the light and come out of this passing phase.

3.2 Contributions, Assistance And Developmental Measures Provided By The Government Of India, Banks, And Non-Governmental Organizations And Self Help Groups:

Keeping in view the economic and social factors with an emphasis on encouraging entrepreneurship, the Government of India has been providing support to the small scale industrial sector on a protective basis by offering subsidies, fiscal concessions, priority lending, reservation of items of manufacture and has directed financial support through banks and other financial intermediaries. With these the sector has been growing comparatively more than the average growth rate for the industrial sector as a whole. Gradual shift in the policy programmes of the government since liberalization can also be witnessed from those of protection to competition, promotion and growth to face the challenges of a free and open economy.

3.2.1 Government's Promotion Policy and support Network:

In order to help the sector integrate with the industry at large within liberalized economy framework, the Government of India has announced new policy measures, such as:

a.   The investment ceiling of a small unit rose to Rs. 10 million.

b.   Other investors (Including large scale enterprises and foreign investor) are now allowed 24 percent equity participation in a small scale unit.

c.   The Act on delayed Payments to Small and Ancillary Enterprises has been promulgated.

d.   The reserve bank of India has announced a package of measures such as expansion of 'single window' loan scheme. Banks are encouraged to open specialized SSI branches and to give greater priority to the sector in their annual credit budgets.

e.   Access to inputs has been improved by giving SSI priority to allocation of iron and steel from public sector undertakings and by removing obstacles to imports of a range of raw materials and intermediate products.

f.   The number of products which are reserved for SSI stands at 800 in 2003-04.

The Government of India during pre liberalization period i.e. before 1991 had several incentives and subsidies for promotion of SSI sector. These included providing term finance at concessional rates of interest, higher debt-equity ratio, capital investment subsidies to encourage investment in less developed areas, incentives for starting electronic industries etc.

3.2.2 The Non Government Promotion Structure:

Besides, World Assembly of Small and Medium Enterprises (WASME), there are three national associations representing all types of industries small and large. These are 'Federations of Indian Chambers of Commerce and Industries (FICCI),' Confederation of Indian Industries (CII) and 'Association of chambers of commerce and industries (ASSOCHAM)'. These associations represent mainly the interests of large scale industries. However these associations have membership of small sector as well and represent mainly the policy related interest of SSI sector.

The process of liberalization and globalization of the Indian economy initiated more particularly since 1991 has not only thrown up myriad opportunities for the SSI sector, but has also exposed it to the inherent risks of the free economy. While there is a general perception that in a free economy, the viability and sustainability of smaller manufacturing units are under threat, it has to be realized that there will always be industrial activities which are carried out by the tiny, small and medium units rather than in large units. It cannot make business sense for a large company to do anything that can be done more competitively by a small unit. In a liberalized and efficient industrial system, linkages between the small, medium and large sectors are mutually supporting and not competitively erosive. In fact, in the first decade since liberalization has started, the SSI has been sustaining growth rates higher than industrial average thus proving its resilience. However, it has to admit that opening up of the economy does pose a number of challenges in immediate future to SSI sector, which has so far been insulated in a number of areas.

These issues to some extent have been solved by the Government of India. In this direction, SIDBI, as the apex institution for promotion, financing and

development of this sector, has over the years taken several initiatives. These include enlarging and liberalizing the scope of existing schemes of assistance, development of tailor made products in tune with the changing requirements of the SSI sector and undertaking various promotional measures. Besides encouraging and supporting various agencies involved in assisting the SSI, SIDBI is also pursuing the aim of becoming 'one stop shop' catering to all the needs of the small industries, be it finance, technology, marketing or infrastructure. Now, while 45% of India's assistance is through refinance route, 55% of assistance is extended directly. SIDBI now has a number of products, which aim to solving to some extent the problems listed out above. These are bills financing, Single Window Scheme, Working Capital Term Loan, Factoring Services, Forex Services, Technology Development and Modernization Fund (TDMF), Venture financing, Marketing finance and assistance for development of infrastructure for healthy growth of SSI, and extensive support services programmes such as Small Industries Management Assistants Programmes, Skill-cum- Technology Upgradation Programme, Entrepreneurship Development Programme, special programmes for Quality and Environment Management.

In order to protect, support and promote small enterprises as also to help them become self-supporting, a number of protective and promotional measures have been undertaken by the Government. The promotional measures cover

- industrial extension services
- institutional support in respect of credit facilities,
- provision of developed sites for construction of sheds,
- provision of training facilities,
- supply of machinery on hire-purchase terms,
- assistance for domestic marketing as well as exports,
- special incentive for setting up enterprises in backward areas etc.
- technical consultancy & financial assistance for technological upgradation.

While most of the institutional support services and some incentives are provided by the Central Government, others are offered by the state governments in varying degrees to attract investments and promote small industries with a view to enhance industrial production and to generate employment in their respective states.

Besides it must be noted that the small and medium enterprises of India have diverse, vast and different product and techniques base which makes applicability of any scheme and adaptability of any technique less effective. Elements of bureaucracy, corruption and red-tapism, lack of lobbying capacity on the part of these entrepreneurs slow down the phase of their potential growth.

3.3. Prospects and Opportunities

By the very nature of their operations, industrial units in the small-scale sector enjoy certain inherent advantages over their larger counterparts.

The free economy will usher in accessibility to bigger markets, greater linkages for SSI with larger companies and marketing outfits, improved manufacturing techniques and processes. Various measures adopted by Government of India, Reserve Bank of India and SIDBI have attempted to alleviate the problems of SSI sector. These initiatives coupled with other developments in the economic environment will enhance the prospects of SSIs.

With increasing globalization and entry of multinationals, immense opportunities have been created for outsourcing, sub- contracting and ancillarisation of the products manufactured by corporates particularly in non-core sectors like automobiles, engineering and consumer electronics. SSI the vibrant sector can derive maximum benefit of these developments.

The modern information network available today will open the gates for applied research and keeping abreast with advancement of technology with changing trends. SIDBI has set up a Technology Bureau for the SSI in association with the Asia Pacific Centre for Transfer of Technology (APCTT), a body under the UN umbrella. The centre facilitates technology tie-ups between Indian's small enterprises and overseas companies.

By its less capital intensive and high labour absorption nature, SSI sector will make significant contributions to employment generation and also to rural industrialisation. This sector is ideally suited to build on the strengths of the traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices. This is the opportune time to set up projects in the small-scale sector. This expectation is based on an essential feature of the Indian industry and the demand structures. The diversity in production systems and demand structures will ensure long term co-existence of many layers of demand for consumer products / technologies / processes. There will be flourishing and well grounded markets for the same product/process, differentiated by quality, value added and sophistication. This characteristic of the Indian economy will allow complementary existence for various diverse types of units.

4. Conclusion

The SMEs in India reflect the following features since the liberalization of the economic reforms of India since 1990-91. Broadly they are

1. The Government of India along with the State Governments and specialized institutions have taken care to change the outlook of business from one of protection and restriction to that of substitution and liberalization.

2. These in turn have created a sense of competition both with respect to capacity production and employment generation.

3.   The SMEs have to a certain extent taken advantage of the flexibility on import fronts and thereby have utilized modern international techniques to remain in business.

However, in terms of cost competition, technological optimum utilization and vibrant international marketing strategy is still missing among the SMEs of India.

These have resulted in not creating any conducive base for the SMEs as also existed prior to the liberalization process and hence it clearly does not reflect positive correlation between the opening up of the economy and attainment of higher growth targets. To overcome these shortcomings a threefold manifestation is required both domestically and at the international market field.

The domestic market must capture the latest of the available resources both in terms of techniques and financial assistance and build for themselves and infrastructure which should promote their interests not only in the short run but also in the long run as this heritage of competitiveness and efficiencies must be passed on to the next generations of future entrepreneurs.

Bottlenecks apart, the Indian bureaucracy and administration must now be allowed to be dominated by professionals rather than politicians.

At the international level, there must be an open and welcoming attitude with fewer restrictions in the WTO regimes. The Trans-agglomerates should also provide the Indian small and medium enterprises with a 'level playing field' to display their talents, potentials and cost competitiveness.

These are not only requirements from international arena for Indian small and medium enterprises but for many such small and medium enterprises of other developing nations, who may also be sailing in the same boat. Time is not far away when these changes come over the world domination by small and medium enterprises will be unstoppable. Probably these SMEs will have to provide healthy environment for others to survive and flourish.

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CONTRIBUTION OF FDI TO THE PRIVATISATION IN THE MANUFACTURING SECTOR IN ROMANIA. SUCCESS AND FAILURE STORIES

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ABSTRACT. The aim of the present study is to provide a picture of some aspects concerning the FDI contribution to the privatization process in the manufacturing sector in Romania. First part of the study analyses statistics on FDI presence in different sectors in Romania. Successful or failure cases illustrate different stories in the privatisation process. Investigations were made, based on questionnaires, on the situations in 7 large FDI companies in the manufacturing sector. The second part of the study presents findings concerning the impact of FDI on the human capital issues in the respective foreign companies. Given the limited investigated sample, the findings are to be taken as examples, and not to be generalised.

Introduction

In most of CEECs, FDI have played an important role in the privatisation of the state sector and, consequently, in promoting the market economy. These countries are generally characterised by many attractiveness reasons for FDI such as comparative lower labour costs, along with educated and skilled labour force, an encouraging fiscal regime as well as other significant promotion measures that are aiming to attract foreign investments. Usually, the ways in which the foreign investors enter these economies are *full new investment* (green field investment), as *participant at the privatisation process* (brown investment), and by *mergers and acquisitions* of already existing private or state owned companies. Regardless the ways of penetration, FDI have certainly had a significant impact on the host economies. Issues such as the impact of FDI on modernization of economic structure and exports, on technology and management skills transfer, the impact on balance of payments, the trade off between FDI and exchange rate etc. were widely examined and debated in the literature in the field.

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In Romania the evolution of FDI has fluctuated because of the slow economic reform: the privatisation of the state sector started later than in the other CEECs; the specificity of privatisation process (mass privatisation) was not favourable to FDI 's participation in the first stage, and the business climate was not encouraging and friendly for many years. (see, Chiritoiu; Dumitriu and Hunya, 2002, Voinea, 2003).

From 1996, the situation has changed, and important foreign investors participated in the privatisation process (ARIS, 2004, p. 5). Even if there is an increasing trend of FDI in Romania, the size of FDI, and the FDI/capita are comparatively placed on a lower position that those existing in other countries in this area, and certainly less than Romania's needs.

Based on statistics and on various documentary materials, our study presents, in the first part, short comments concerning the FDI orientation on sectors. Two cases – one on metallurgy and the other one in the food sector - illustrate the success and failure in the privatisation process with FDI participation. The second part of the study deals with the results from field investigation concerning the main reasons of investing in Romania, and on human resource issues in a number of 7 foreign companies. The last part presents our conclusions.

1. FDI on economic sectors – Success and failure stories

Statistic investigations made by the National Institute of Statistics and the National Bank of Romania provide us with information concerning the FDI* orientation by sectors in 2003.

Table 1.

FDI on sectors in 2003

Economic sectors	% of FDI orientation
Total	100.0
Manufacture, out of which	**51.8**
- metallurgy	11.8
- food, drinks and tobacco	9.7
- chemical industry	8. 6
- transportation equipment	5. 3
- machinery and equipment	4. 6
- textiles and leather goods	4. 3
- wooden goods, including furniture	2.6
- computers, electrical apparatus, radio-TV, communications	2.2
-other manufacture sectors	2.4
Mail services and telecommunications	**14.9**
Trade	**11.4**
Financial and insurance mediations	**9.2**
Services provided to companies (real estate transactions, renting etc.)	**6.6**
Other activity	**6.3**

Source: National Bank of Romania and National Institute of Statistics

*FDI as total investments included: social capital; reinvested net profit, net credit

80
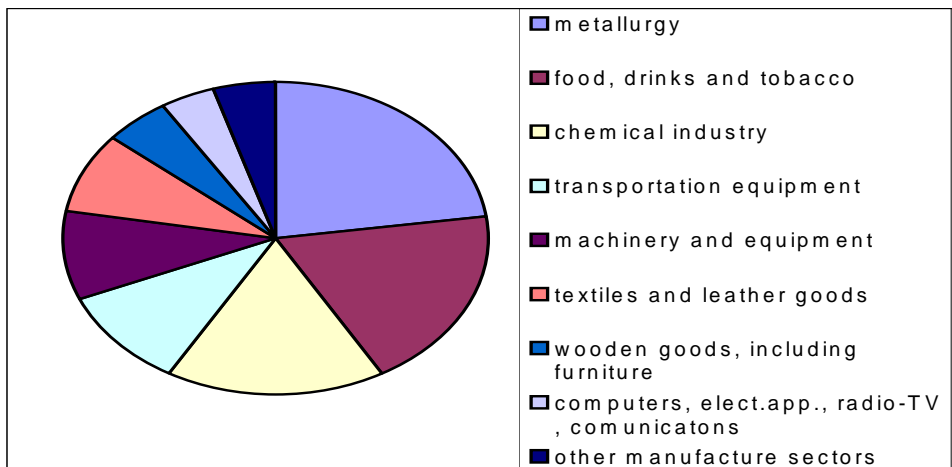
Metallurgy was one of the largest industrial sectors in Romania. As one may see, the metallurgy is one of the top sectors with FDI participation. It was one of the largest industries in terms of production volume and number of employees. Moreover, in many cases, the respective industry provided jobs for almost the entire community where big companies were placed, creating an extremely high economic dependence on one single company. Consequently, any downsizing measure led to social movement on large scale. Anyway, important restructuring was needed, including downsizing. The sector benefited from state aid (write-offs and debt rescheduling) in order to implement restructuring (Atanasiu and Oprescu, 2004). Because of the sector's size, the overstaffed structures, the inappropriate management and losses accumulated in several years, and because of the large budget drains (black holes), the state-owned companies in the sector were also difficult to privatise, as potential investors were discouraged. Only very strong investors could undertake such huge problems.

During the accession negotiations between Romania and the EU, the state aid awarded to the steel industry was one of the most sensitive issues. Romania has to remove any kind of state aid, including those already stipulated in the privatisation contracts.

The sector also faced huge environment problems, which needed big investment for a real step change. The above mentioned existed in all state steel companies. It also happened in companies like Sidex in Galati, and Tepro in Iasi, which are presented in the following case boxes. So, it is obvious the need for strategic investors and when such investors were missing, the privatisation actually failed (see, CS Resita, which was sold to a very small-sized American company, which was unable to fulfil its contractual obligations, because of cash flow problems (SAR, Early warning report Romania 3/2003, p. 12).

Box 1

The **SIDEX** case has been the most important privatisation in Romania. The company is the biggest steel manufacturer in South-Eastern Europe and its production represented about 4% of the national GDP in the year 2001 when the company was privatised; yet, because of inefficient management and wrong market orientation, the company had become one of the biggest "black holes" of the Romanian economy. Among the state owned companies, it had the highest losses and debts; it was also a very important employer at national level - over 36,000 employees by the end of 1996 (www.amadeus.bvdep.com).This situation made the **SIDEX** case one of the top issues of privatisation in Romania. Even if many questions have been rising around the privatisation process of Sidex, it remained a successful story in the steel industry, as the production has increased, and the downsizing was realised due to the restructuring process and without negative social impact. In 2003, two years after the privatisation, the company has reported a 3,687,980 mil ROL profit before tax (www.amadeus.bvdep.com.

The buyer of the **SIDEX** was **LNM ISPAT** (**MITTAL STEEL** after a merging process in October 2004), one of the major steel manufacturers in the world. The company is known as having important expertise on restructuring state owned big companies, and was involved in privatisation cases all around the world in the steel industry. The **ISPAT** experts started by cutting costs and changing the marketing strategy. The main changes operated by the new owners of the company were the total withdrawal of the barter system, the renegotiations of all major contracts, development of a network of authorised dealers and investments in technology.

ISPAT avoided social problems associated with the restructuring of the company. The government prevented negative social impact of the downsizing by remittances schemes (including the RICOP, a scheme under the PHARE pre-accession programme). Thus, only 7400 employees left the company, in change of generous social remittances (SAR, 2003, p.29). **LNM ISPAT** highly invested in technology and restructuring the company - the investments in 2004 reached $ 100 million, from a total of $ 240 million investments since 2001 (*Adevărul economic*, nr. 48 (658), 1-7 Dec 2004). However, the generous facilities and incentives from the state made the privatisation a good business for **ISPAT** (facilities regarding VAT exemptions for acquisitions, the transformation of state debts into shares, a three-year postponing for paying the employees' social contributions to the state). The EU-Romania negotiation results regarding competition will probably lead to the re-negotiation of the initial privatisation contract regarding the indirect subsidies – which will cover the entire steel industry. The national strategy for the metallurgy sector also stipulates the downsizing of the major companies, the most affected being **SIDEX ISPAT** (www.rri.ro).

Despite of the above-mentioned shortcomings, what makes **ISPAT** a 'happy story' of privatisation? First of all, because the investor succeeded to "save" a company which otherwise would be damned to death. The technology has been improved, and the environmental standards strengthened. The productivity increased, and there were no significant employment problems. The company succeeded to reverse the trend of increasing annual losses, and to become profitable (**Sursa** www.amadeus.bvdep.com**.)** Therefore, the company is going to contribute to the state budget.

Box 2

SC TEPRO SA IASI is a Romanian company operating in the metallurgy industry, one of the industries facing huge problems after the collapse of the communist regime. The company's main products are longitudinally welded steel tubes, cold-formed profiles, steel guardrails for highways and other types of roads.

In 2001, the Authority for Privatisation and Management of State Ownership (APMSO, later called APAPS and now AVAS) informed on the opportunity to invest in TEPRO. At that moment, the company's situation was quite dramatic because the financial debts and the stock of goods kept on growing, the number of employees decreased constantly (fortunately that led to the increase of labour productivity) and the demand of metallurgical products was reducing, both on the external and internal market. After four unsuccessful auctions, the chosen privatisation method was the direct negotiation with the Czech company **ZELEZARNY VESELY**, instead of privatisation through the capital market. The most criticised aspects of that method were: the total assets were under-evaluated, the negotiation process lacked transparency (the trade unions and the shareholders claimed that they hadn't seen the Czech offer), the Evaluation Commission assessment methods were questionable and the post-privatisation conditions didn't include the necessary provisions regarding the lay off policies. Even if another company, respectively **PAS-Privat TEPRO IASI** (an association of no less than 3053 employees from TEPRO who chose to buy an important part of the company's stock) was offering a similar price/share, they were turned down and the Czech company was preferred.

According to Gabor Hunya (2000, p.31) „the investor did not fulfil its contractual obligations: no investment has been made, the equipment was exported as scrap metal, more than agreed number of employees has been laid off". Finally, the conflict was solved by the Romanian Supreme Court of Justice, which considered the contract null and void. The Supreme Court's decision meant that the partners of the contract were to step back to the situation before contract: APMSO gets back the 51% of the shares and **ZELEZARNY VESELY** gets back the money invested (Ovidiu Nemteanu, Ziua de Iasi, March 11/2005). The media got also involved by running many investigations that revealed some controversial aspects - APMSO was accused of postponing the enforcement of the contract nullification until the general elections and the failure of this privatisation was unfortunately connected to the death of **Virgil SAHLEANU** (the former union leader). The attempts of the APAPS to elude the payments to the Czech company finally cost the Romanian government over 1,2 million dollars (Ovidiu Nemteanu, idem)

Later on, the company was taken over by LNM Holdings NV from India, now renamed **Mittal Steel** (the company has 74% of the company's stock), which also invested in Sidex Galati.

The case of **SC TEPRO SA IASI** revealed the difficulties of the privatisation process, especially the impact of delays. The labour force was strongly affected by the lack of a coherent strategy regarding the lay offs and the remittances offered to the employees.

Another sector that attracted the interest of FDI was the food sector. Initially, food and drinks sector lagged behind, as the companies (usually state-owned) were overstaffed, had low productivity, and lacked the necessary equipment to respond to the market and to EU quality standards. The agro-food industry attracted many FDI, both greenfield and brownfield investments (according to the National Bank of Romania, the FDI in food industry represents 9.7% of the total FDI in the manufacturing industry, on the second place after the metallurgy industry with 11.8%). Many important foreign investors in Romania operate in the food industry (beer manufacturers, soft drinks manufacturers, diary producers and sweets manufacturers). Among the top 100 foreign investors in Romania there are: Interbrew Central European Holding (Netherlands), Sucre-Est Developpment SA (France), Efes Breweries International BW (the Netherlands), SABMiller(USA) - Ursus SA – now, Compania de Bere România, Coca Cola HBC Romania, Kraft Foods International (USA). Many companies in the food-industry are almost 100% oriented towards the domestic market. Contrary to the general perception, the opinions of some important investors (Compania de Bere România SA (beer production, privatisation), Kraft Europe (sweets and similar products, privatisation) and Dorna Lactate SA (diary products - part of Natural Dorna Investment Holding SA, greenfield) revealed that the labour costs and the quality of the labour force do not represent the main reasons for investing, and reasons such as the Romanian market opportunities and raw materials availability (for the diary products) prevailed. They highly invested in technology improvement. The competition in this sector became quite strong, due to the entrance of the multinationals. Since the sector was overstaffed, the number of employees was reduced, mainly because of structural changes. The foreign company Kraft Romania represents one interesting successful experience in this sector.

2. Findings from field investigations
2.1. Methodology

The empirical investigation was made using a questionnaire (see the Annex) that had close and open questions. The questions were grouped as to provide exact information about the company, but to reveal also the perception on several business climate aspects they operate on. The sample of companies was selected according to the companies' size – 7 companies from top 100 foreign investments – and to the availability to respond to the questions as well. We are grateful to these companies for cooperation. Since the selected companies belong to few sectors, they do not illustrate the opinions in the whole economic spectrum and has to be taken only as examples. Extended investigations are certainly needed in order to have statistically relevant findings concerning the FDI impact on economic sectors. The investigation has been made during February-April 2005. Since the legislation is changing (e.g. Amendments to the Labour Code), certain aspects in the companies' answers might be different after several months. We kept the answers as made in the while of investigation.

Box 3
KRAFT ROMANIA
Kraft Foods is the second largest branded food and beverage company in the world), comprising Kraft Foods North America (the largest branded food and beverage company in North America) and Kraft Foods International. Companies sell their products in more than 145 countries worldwide, operate more than 200 production facilities and have a global workforce of approximately 114,000 employees (www.kraft.com)
Kraft Foods Romania is a subsidiary of **Kraft Foods International**, a part of **Kraft Foods**, the global food business of Philip Morris Companies Inc. **Kraft Foods Romania** produces and markets successful confectionery and coffee brands such as: Poiana (a very successful brand), Smash, Suchardine, Silvana, Sugus, Yam-Yam and imports Jacobs coffee. In 1992 KFI enters the Central and Eastern Europe market and in 1994 the Romanian company **Poiana - Produse Zaharoase** was acquired by **Kraft Foods International** and became **Kraft Jacobs Suchard Romania**. In 1995 Kraft Foods Romania became the sales leader on the Romanian market, and in 1999 it held 62% of the market (Savu, in www.aiesec.com *)*
In February 2001, **Kraft Foods International** purchased the coffee brands of Supreme Imex Romania, more commonly known as Nova Brasilia, a major coffee producer and distributor. This acquisition proves their interest in the Romania market. According to Stephan Warley, Managing Director **Kraft Food Romania**, these brands represent "a perfect complement to our current business, and position us well for future growth"(www.kraft/newsroom.com).
Regarding the impact on employment, the training programs, based on a Japanese model, provided by **Kraft** are very illustrative, along with all the working conditions' improvements such as: canteens, toilettes, fitness facilities, etc. The first programs targeted the top management (an important number of Romanian executives were trained abroad and some of them were sent as expatriates in other Kraft divisions), and the next ones were more tailored (each employee from operative staff was involved in these creative programs). The Human Resources Manager admitted that "the quality management and all the quality standards are not sufficient if the decisions taken do not reach the ones involved in production" (Capital, April, 1999). For Kraft Romania long-term human resources strategy is the best way for a successful business in Romania.

The seven companies that have been interviewed for illustrating foreign investments in Romania are: Dorna Lactate SA (Societe Generale Romania Fund), Compania de Bere România (Ursus SA – SAB Miller); Celestica SA (Celestica), Kraft Foods România (Kraft Foods International), Reromar, Rondocarton (Ganahl), Dunapak (Dunapak). Three of them are green field investments, and four are brown field investments. All the companies involved in this study have very high foreign capital share (over 90%); this situation offers the investors increased control over the company, leading to higher motivation for company development. With one exception, all investments (green-field and privatisation) had been made before 2000. The 7

companies come from four different industries - agri-food, electronics, footwear manufacturing and package manufacturing- and their answers illustrate not only the company's situation, but the sector specificity as well. The investors show a very clear orientation towards domestic or external market, (over 90% of their production is oriented either towards domestic or external market). The companies generally perceive the market in their industry as more and more competitive, compared to the moment of the investment. With one exception (from the footwear industry), all the investors declared their intention to expand their business in Romania.

2.2 Main reasons for investment

According to companies' answers, the most important reasons for investing in Romania are the quality of the labour force and the low labour costs. The market situation and perspectives represent the second important reason for investing in Romania, for the interviewed investors.

For most of the interviewees, the FDI legislation and the legal framework generally encourage investments, but it represents only a necessary background for an attractive business environment, as the comparative advantage cannot be based on state incentives.

The low labour costs are considered as a main advantage, but only corroborated with the quality of the labour force, as the expected employment needs of the investors regard medium and highly skilled labour force, especially in the context of business expansion in Romania. This opinions support the assumption that the expected EU accession of Romania in the next years will probably not lead to massive new relocation of the investments in countries with lower labour costs (maybe, excepting the very labour intensive sectors such as textile). One investor mentioned that he employed over skilled staff for certain lower positions (he hired university graduates for medium level positions. The employees were motivated by higher wages). This finding supports our assumption of foreign companies paying higher salaries than domestic ones.

2.3. Human resource development within the companies
2.3.1 Job creation/Job reduction

Following the general rule (Zaman, 2004 p. 6) downsizing would have emerged due to structural changes in privatisation cases. All Governments were very concerned about the social impact. Therefore, many privatisation contracts stipulated the investors' commitment to maintain a certain number of employees. The investigated companies avoided to refer to specific stipulations concerning the employment commitment in the privatisation contracts.

2.3.2 Employment requirements

Most investors require mainly medium qualified employees; with one exception, no investor has an important share of low-qualified labour force. In the privatisation cases, regardless the present shares of qualifications, the investors

appreciate a future need of medium and highly skilled labour force. In the greenfield cases, the medium skilled labour force represents the main future employment need. We may conclude that the general need for labour force will target more skilled groups than in present.

2.3.3 Employees' age and sex

The most important age group is represented by 25-34 years old segment. The people over 45 often face difficulties in getting a job, in spite of some incentives provided by the law in order to facilitate the employment of long term unemployed people.

Concerning the gender structure of employment, this is very much linked to the type of sector. Traditionally, certain sectors employ mainly male or female. However, we have noticed that sectors like agro-food industry have very diverse employment structures, despite the traditional employment policies with high share of female employees. Explanations might be the changes in terms of technology endowment, and re-allocation of labour force on the local market, in the context of very low mobility between regions.

2.3.4 Local labour force

All the companies have a strong majority of Romanian employees in executive positions. This is a very important finding, as it highlights, firstly that they came for the quality and the comparative labour lower cost; secondly it also shows the long-term perspective of the investors, who did not come for a temporary de-localisation, motivated by cheap labour force, but mainly because of their high confidence in the employees' skills level and capabilities.

2.3.5 Working conditions

Three companies made clear reference to the improvements of the employees' working conditions such as:

- safety equipment (2 companies)
- production equipment and machinery (1 company)
- canteen (2 companies)
- sanitary facilities (3 companies)
- wardrobes (3 companies)
- fitness facilities (1 company)
- health insurance (1 company), as indirect income incentive

2.3.6 Human Resource Development

With one exception, all investors offer training programmes for employees, both in executive and operational positions. The training programmes take place in Romania as well as abroad (or only abroad). These findings reveal a strong and real interest of the investors in human resource development (at all levels), as well as know how transfer, given the fact that all of them offer training programmes abroad for the Romanian employees.

2.3.7 Contracts

Full time contracts are the main employment option for all companies. Part-time contracts remain only the exception, as a result of the stipulation in the present Labour Code. According to EU Commission evaluation (European Commission, 2004), the share of part-time contracts in total contracts is only 5% in Romania. From this point of view, the investors fully adopted the general trend in Romania, regarding the types of contracts.

2.4. Productivity

All companies stated that the productivity increased, compared to the moment of the investment. The main factors that led to the productivity increase are the new technology and working condition improvements. All the answers mentioned both factors; the two-privatisation cases mentioned the restructuring process as one cause of the productivity raise.

A very interesting differentiation has emerged between the privatisation and green field cases regarding human resources development and motivation programmes. The first category obviously transferred the employees' involvement strategies and practices from the parent company. The two cases studied showed comprehensive and coherent programmes including:

- Identification of personal objectives in the objectives of the company.
- An open performance analysis system (including information, self-assessment and constant feed-back)
- Support for innovation
- Training programmes

In the green field cases, only one company answered to the question, mentioning non-financial incentives based on performance.

2.5. Law

Regarding the social contributions legislation, almost all investors perceive them as an obstacle to job creation. These answers should be considered taking into account the high level of social contributions in Romania, compared to European average. It is noticeable that only in the privatisation cases, the interviewed foreign investors made comments on this issue. They also made recommendations regarding the necessary amendments to the Labour Code in order to provide the labour market with more flexibility. We mention aspects such as: the obligation of wage guarantee fund should be removed, duration of weekly average working hours should be 48, instead of 40; the hiring and firing conditions should be more clearly stipulated for both parts; trade unions should not interfere with production organisation; bureaucracy should be reduced; training should be encouraged; change of unclear regulations regarding the fulfilment of the contract provisions.

2.6. Policy recommendations

In a few privatisation cases, the investors made comments regarding the FDI law and policy. Their recommendations concern the following issues:

- Corruption
- Fiscal facilities
- Encouragement of labour force flexibility
- The upgrade of the methodologies on the law implementation
- Differentiated facilities for FDI based on national strategic priorities
- Incentives for capital reinvestment, regardless of its origin (domestic or foreign)

The European integration is generally perceived as having a positive impact on FDI. The remarks on this issue regarded:

- The improvement of employment rate and skills of the labour force
- The increase of export opportunities, especially due to customs tax reduction
- The improvement of FDI opportunities on medium term

Conclusions

There were various experiences with FDI participation in the privatization process. However, FDI certainly represents an important contributor to the economic development in Romania, and to the human resource development as it resulted from our field investigation. We may mention the importance of foreign best practices transfer in the field of working conditions, training and development, or organisational culture

Along with technological change, it is expected an increase of the productivity level and, accordingly, of the wage level; therefore, the differential wage gap is a temporary factor of attractiveness for FDI.

In order to keep the FDI interest, other factors must be emphasised in promotion measures such as attractive business environment, law stability, better infrastructure, corruption reduction.

The education system has to enforce its links with the business environment to respond better to the market needs (see the findings concerning the companies' intention to hire more medium and highly skilled workers), and to the future EU labour market.

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Annex

Questionnaire for foreign investors:

1. *General information about companies:*
1.1 **Your company:**
   a) Has taken over a Romanian company
   b) Developed a business in Romania
1.2 **What is your company?**
   Subsidiary of a parent company
   De-localization of a foreign company
1.3 **Which is the capital share in your company? (%)**
   a)Romanian capital.....%
   b) Foreign capital ....%
1.4 **When did you take over/start your business?**
   ....
1.5 **Which industry do you operate in?**
   ....
1.6 **Which is the destination of your production? (%):**
   a)External market ....%
   b) Domestic market ....%
1.7 **Please, mention the technological level of your company?**
   a) low
   b) medium
   c) high

2. *Reasons for investment*
2.1 **Please, rank, in order of importance, the main reasons for investing in Romania (1- the most important, 5 – the least important).**
   a) Quality of labour force(Qualification level,
      foreign language
      PC skills, etc)
   b) Wage level
   c) Market dimension
   d) Market perspectives
   e) Fiscal regime
   f) FDI legislation
   g) Future EU accession
   h) Natural resources availability
   i) Others. Please, specify

3. Competition and market

3.1 Do you perceive the competition on the market has increased since the moment of your investment?
> yes
> no

3.2 How do you appreciate the competition in your sector?
> strong
> weak
> absent

3.3 Which are your main competitors?
> multination
> large Romanian companies
> SMEs

3.4 Please, describe your company's strategy for the future in Romania?
> expansion
> maintanance
> downsizing

3.5 Please mention the number of your Romanian sub-contractors

4. Human resources

4.1 If your investment was the result of a privatisation contract, did it state any requirements regarding the number of employees
> a) yes
> b) no

4.2 How has the number of employees changed?
> a) increased
> b) decreased

4.3. How would you explain the increased number of employees (if the case)?
> a) Activity expansion
> b) Structural changes
> c) Others: please, mention

4.4 How would you explain the increased number of employees (if the case)?
> a) Activity reduction
> b) Structural changes
> c) Leavings upon employees' request
> d) Lay-offs

4.5 Please, mention the structure of personnel by qualification (%)
> Low ...…..........%
> Medium ....%
> High ......….......%

4.6   In the future, which qualification(s) will be mainly required by your company?
   a) low
   b) medium
   c) high

4.7 Please, mention the structure of personnel by age (%)
   a) Under 24 year ....%
   b) 25-34 year ....…......%
   c) 35-44 year…............%
   d) 45-54 year ....…......%
   e) 55 and over ....…......%

4.8 Please, mention the structure of personnel by sex (%)
   a) male ....…......%
   b) female ....%

4.9 Please, mention the structure of personnel by category (%)
   a) Operational ....%
   b) Executive ....…......%

4.10 Which is the share of Romanian employees in executive positions (%)
   ....%

4.11 Which is the share of Romanian employees in operational positions (%?)?
   ....%

4.12 Please, mention some measures taken by your company for the improvement of working conditions
   ....

4.13 Do you provide training programmes for your employees?
   a) yes
   b) no

4.14 Which category of employees is included in these programmes?
   executive
   operational

4.15 Location of training programmes:
   in Romania
   abroad

4.16 Please, mention the share of the market contracts?
   a) Part-time ....%
   b) Full-time ....%

4.17 How would you appreciate your company's relationship with the trade unions?
   a) Very good
   b) Good
   c) Satisfactory
   d) Unsatisfactory

5. Productivity
5.1 Did productivity increase since the moment of the investment?
> a) yes
> b) no

5.2 If yes, please mention the causes:
> a) restructuring
> b) new technology
> c) improvement of working conditions
> d) others

Please, specify a few methods of increasing the commitment of your employees:
> ....

6. Legal framework and FDI promotion
6.1 Do you consider the present level of social contributions as a barrier against job creation?
> yes
> no

6.2 The new Labour Code was adopted in 2003. How do you appreciate it?
> a) Very good
> b) Good
> c) Satisfactory
> d) Unsatisfactory

Please, comment
....

6.3 How would you appreciate the FDI legislation?
> encouraging   e
> discouraging   d

Please, comment
....

6.4 How would you appreciate the impact on FDI of Romania integration into the EU?
Please, comment.

Thank you

Name and position of the interviewee Date
Signature and stamp

SMALL CONSTRUCTION FIRMS - MATERIAL MANAGEMENT MODEL IN COMPUTER MEDIA

OLCAY ÇETİNER[1]

ABSTRACT. In this study, The design an information system which will enable to reach needed information to manage material for construction realizations of the small construction firms and the subject of producing a software where it can be used to apply this designed system are considered. The quick improvement of equipment and techniques of gathering and analyzing information by the usage of computers and information technologies engenders computers and information technologies to become the indispensable components in realization of material management, one of the functions within construction management in the sector of AEC (Architectural Engineering Construction).

Introduction

In the construction sector, material, together with labor force and equipment, constitute the three main resources of the construction process and covers 60% of the total construction cost (DİE). Rational management of material is one of the factors to reduce the construction cost and construction duration. Material Management is directly related to all the other functions of the process. To provide the quality and efficiency improvement by achieving correct and on time information flow using the Information Technologies is the main subject of this research. Small sized enterprises play an important role in the economical and social development of a lot of country, as it is the case for Turkey (Alpugan, 1998). Both economically and socially it is very important, since the number of people setting their lives by working at this small firms, can not be depreciated. The terms, principles, rules and methods that are valid for the big firms are also valid for the small firms. They have different attributes. Having different attributes and different problems, it is required to analyze solutions with different approaches. For this reason, the scientists and researchers prefer to examine the problems during the management process of the small firms separately from the ones of the big firms.

Within the developing technology, the AEC sector management functions applied during the construction process are realized providing the association between functions within the context of computer aided systems. There is a consistent use of 'Computer Aided Information Systems' in all sectors (production,

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commerce, service, information). Compared to these sectors, AEC sector does not use the systems consistently and efficiently although it is a part of the production sector. The reason for this is indicated as that the constitutional features of AEC sector do not have suitable conditions for the use of Information Technologies which are project type production, multi-attendee construction process, production at site area. It is observed that the improvement and change in AEC sector are peculiar to big firms, but the Small Constructions Firms are either at the preparatory phase or just beginning phase to use them.

Utilising Information Technologies. a 'material management information system' model designed and a software to use this designed model is generated, to enable the accurate choice and efficient use of material within the Material Management during the realization projects of the Small Constructions Firms of the sector AEC. As the study generated, identification of the Small Constructions Firms, the basic principles of Material Management and relations with construction projects, the usage of Information Technologies and CIC systems researches are utilized. The design and realization of this model is developed within the computer aided design package program using the programming language and in a modular structure. A Small Constructions Firms project has chosen and application outputs are given at the test phase of the model.

Small Construction Firms

In many countries, researchers use different definition and criteria for the term Small Scaled Firms (SSF) (Başmanav, 2001). Measure of value of the definition researches consists of employee number, machinery park size and independency criteria not to cause a conflict both at a national or an international level. Definitions at the researches may differ according to time, economy, sector, market, people and subject related firms.

In this study, to attain the definition of Small Construction Firms (S.C.F.), questions formed for the survey benefiting from definition researches. From the results of the "Establishing Small Construction Firms' Features Survey", it is achieved to define the Small Construction Firms. Firms that take place in construction sector determined by the results of the survey, 100% with their qualitative criteria, 80% to 100% with their quantitative criteria and dependence wise totally, with determined features of these firms relying on the researches above mentioned a general definition can be made for "Small Construction Firms".

In the study, it is observed that the SCF that constitute the scope of application of the generated model, have the below listed features;

- Firms Realizing Material Management together with the big firm or by own means, according to the content of the operation,
- Realizing operation using a subcontractor,
- Realizing only a small part of the operation which the big firm is demanding,

- Machinery park consisting of tools that enables to use information technologies,

- Realizing the operation by renting the acquired machinery park during the application,

- Firms that has the basis to be a big firm any time they get a big project, using the experience and knowledge gained in time and from applications,

- Realizing Material Management using information technology,

- Obtaining detail solutions and changes that may be acquired during application using information technologies.

Detecting SCF which can use the model generated in the study, questioning "construction process and computer's role during this process", a survey held to ascertain if these firms are using information technologies. Furthermore, at the second part of the survey, considering inspection and application phases which field of information technologies they are benefiting at these phases are determined. Firms realize their applications by using Computer Aided Design software for design and drawing and by using MS Office Excel software for preparing quantity lists. The software used for material management (Excel, Word, Pro.Man.) are partial or temporary solutions. They believe that alternative solutions will be accepted 100% for the use of information technologies in AEC studies of the SCF. It is observed that they are ready to use a new model which would contribute to their realizations (Çetiner, 2004).

A Material Management Model for Small Construction Firms in Turkey
Method of Generating the Model:

In the study, using the properties of the CAD software which are used consistently in SCF, an integrated system realization is suggested within the CAD software, considering project management principles. Using the programming language, the opportunity to apply material management in the same media they always work and not in another media is given to the CAD user SCF. The generated model has a modular structure. As the model can operate integrated in the CAD media, it also has the specialty to operate independent. Independently operating property is generated to adapt the model in different CAD media. There appear a lot of problems having the material management information flow improper and incomplete. For this reason, a study is realized to formulate the information flow within CAD, MM and users. A data base is built to store the required information. The model consists of functions and possibilities which enables easy adaptation to the firm's structure with the help of the software which produces an interface using the firm's actual computer system and operating system. The realization steps of the model are generating material information, purchasing, involving process that will be held on site (figure 1).
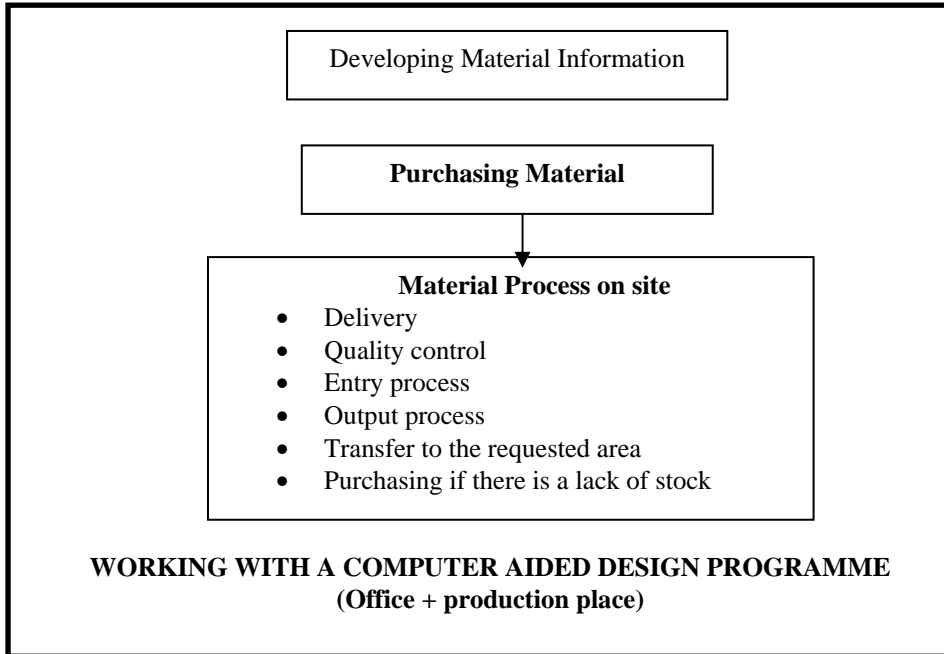
Fig. 1. Material Management + Application proposal in Computer Media

      The purpose of Material Management Information System can be defined as take under control the purchase and usage of the material in construction activities. Supplying the material information about which quality of material, with which purpose, how much used by whom, it will enable them (managers – decision makers on site) to have information about (for them to decide) when, how much, where from, under which circumstances to maintain these materials.

      It consists of

      * preparing quantity file (with the CAD property- composed each new piece, component, etc. added to quantity file automatically),

      * material code (the material that get in the system – e.g.: 0001 which is used at the model),

      * data base integration, preparing purchase order (considering the date that the material will be used, it gives a warning message for purchase orders),

      * integration with the design (with the CAD property- the type, quantity and etc. of the material that will be purchased can automatically updated to the quantity file if there is a change),

      * integration with application (change in activities during construction it can update schedule),

      * tracking (reporting can be made at the end of inputting the data) properties.

It is considered that material management functions are realized on site + office and in relation with other sites. Material management input, process and output phases are examined stages in the model and additive steps are included (chart 1).

Chart 1. Material Management Input, Function and Output Phases

Input	Function	Output
Construction Schedule Quantity list	Constituting Material information	material information
supplier information material information	having market research (brochure, catalogue, web resources) receiving approval and researching purchasing information determining delivery date (schedule)	demand form purchasing information
purchase demand Purchasing information	supplier choosing and ordering purchase information preparation tracking material supply	warehouse entry form material tracking, delivery and situation controls
demand from the warehouse, warehouse entry form Material related forms	material tracking in the warehouse and situation control Material form preparation material demand form preparation Material entry form preparation Material entry (delivery) form preparation	warehouse exit form Material related forms

For the Constituting Material information function to be realized construction schedule and quantity list are inputs and material information is the output. For the functions of having market research, receiving approval and researching purchasing information, determining delivery date; material information and supplier information are inputs and demand form and purchasing information are the outputs. For the functions of supplier choosing and ordering, purchase information preparation and tracking material supply; purchase demand and information are inputs and warehouse entry form and material tracking, delivery and situation controls are outputs. For the functions of material tracking in the warehouse and situation control, material demand, entry and exit forms' preparation, demand from the warehouse, warehouse entry form and material forms are inputs and material forms and warehouse exit form are the outputs.

Tools Used In the Model:
Using the dynamic tabling and developing construction element listing properties of the CAD systems, obtaining quantity list information is an important

contribution to the data input of the model. VB editor with the structure that can design and can find special solutions integrated with application allows design and construction teams to have the coherency during project process. This specialty is accepted as the important input (tool) at the beginning point of the study.

The properties of the Model;

∗ submitting an easy and an apparent interface to the user with the help of the dialog windows and transfer and stock data at an object based data base,

∗ To provide all users to share and use the data at the same time (to reach rapidly the approved update information and to share in the organization)

∗ Being able to work integrated with data base,

∗ Being able to transfer (import, export) data from Microsoft Office (e.g. Excel),

∗ Having an interactive structure,

∗ Being designed with Windows architecture, working in coherence with printers, readers, and other environmental units without the need of an additional function,

∗ Need of a short adaptation time with an easy learning, user directing structure and helping tools,

∗ Being designed for subject works of the subcontractor or small construction firms business.

Algorithm of the Model:

During the realization of the model proposed in the study, solution considered for material management is obtained with a flow chart, step by step and visually expressed., Model design oriented main steps and steps that are indicated in the "Material Management Input, Function and Output Phases list" (chart 1) which includes the material management function steps are being composed for the Material management flow chart to be constituted. After that, a flow chart that consist material management functions detailed is prepared step by step.

In the study, algorithms of the main module and sub modules that will compose the model are prepared one by one considering the material management function flow chart (figure 2).

In the main module, Construction schedule, MIS (Material Information System) and Reports modules take place. Construction Schedule Module, avoids delay in material delivery consequently avoids delay in construction by warning the demand date which was set during purchase order for the material that will be used during construction phase to be delivered on time. In the MIS Module, Material information entry, demand process, delivery process, ordering process, control and reception process, warehouse return process, stock taking process, junk material process can be held. Reports Module, when the data for all the applications of material inputted, material information report outputs can be obtained one by one. After finishing the process, it is possible to exit the main module and return back

to the CAD media to make any revisions or applications. This way the user has the opportunity to transfer all the necessary processes for material management, in the CAD media which he/she is familiar with.

```
        ┌─────────────────────────────────┐
        │  Computer Aided Design Media    │
        └─────────────────────────────────┘
                       │
              ╭──────────────────────╮
              │  Entry to main module │
              ╰──────────────────────╯
                       │
┌───────────────┐   ┌─────────────────┐
│   schedule    │◄──│   Main Module   │
└───────────────┘   └─────────────────┘
       ▲                   │
       │          ┌──────────────────────────┐
       │          │ Material Information system│
       │          └──────────────────────────┘
       │                   │
       │          ┌────────────────────────┐   ┌──────────────────────────┐
       │          │ Matrial Information entry│◄──│  Quantity list Information │
       │          └────────────────────────┘   │   (from CAD or menu)      │
       │                   │                    └──────────────────────────┘
┌───────────────┐ ┌─────────────────┐   ┌──────────────────────────┐
│Delivery/deadline│◄│ Material order  │◄──│    Supplier research     │
│     alert      │ └─────────────────┘   │(Information entry from WEB)│
└───────────────┘         │              └──────────────────────────┘
                  ┌─────────────────┐
                  │  Report output  │
                  └─────────────────┘
                          │
                ╭──────────────────────╮
                │ Exit from the main menu│
                ╰──────────────────────╯
                          │
              ┌──────────────────────────────┐
              │ Returning back to the CAD media│
              └──────────────────────────────┘
```
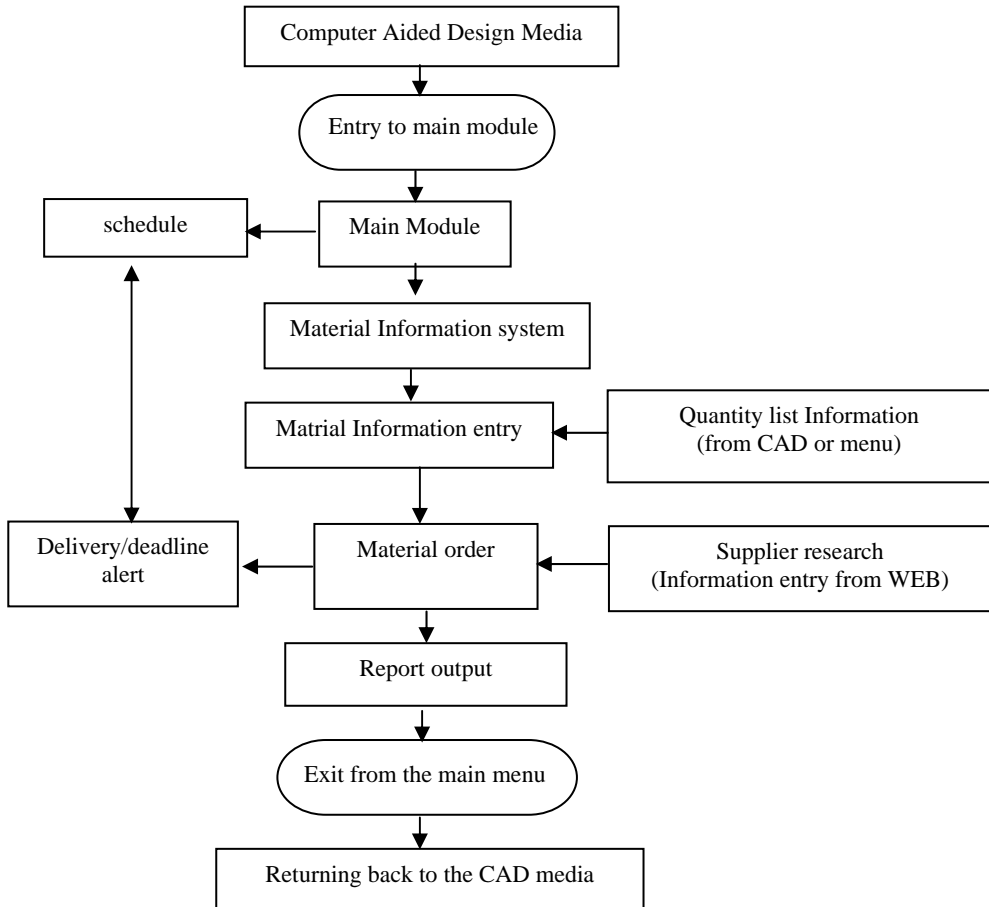
Fig. 2. Steps that CAD-MMIS Main Module contributes to the Model
to be realized (Flow Chart of the Model)

The Process and Application of the Model:

In the process of the model, it is avoided to use color, texture and etc. features, but instead plain and pure design of an interface is used to enable users' perception to be easy. MMIS consists of eight modules which are prepared to

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enable different process. Construction schedule and reporting modules are examined separately (Figure 3, 4[*]). Information entry process in the model is realized by the prepared forms and all modules have same properties.
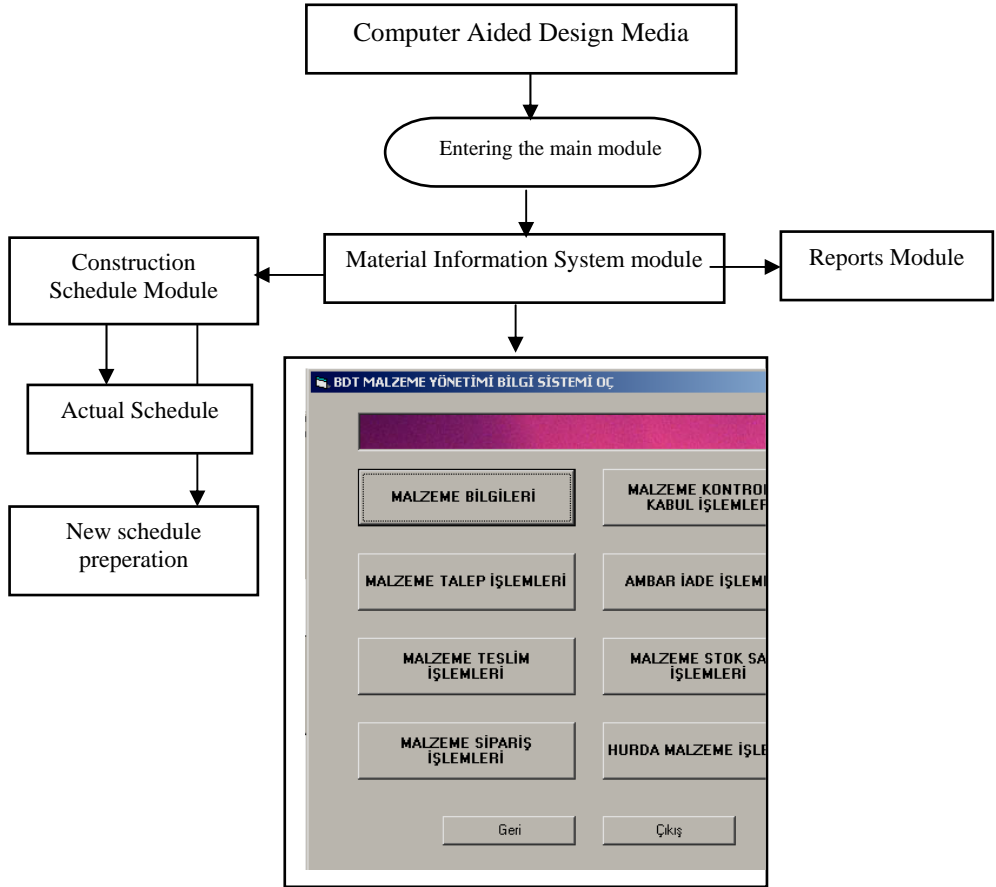
Fig. 3. Processing schema of the Model
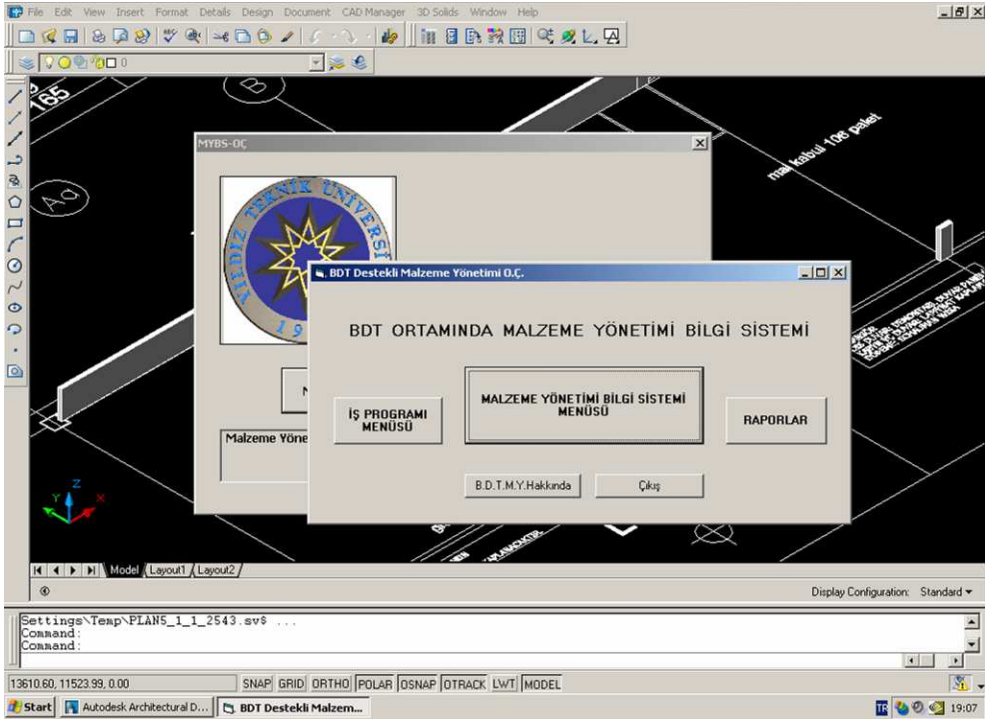
Fig. 4. Screen display of the entry module.

Material Management Information System Module: It consists of all the functions examined in MM (Material Management), takes input from the schedule module and with reports module it enables the output of the obtained information from MIS. Functions constitute the MM takes place under MMIS module as sub modules (Figure 5).

Sub Modules: Material Information entry Process module, Material Demand and Delivery Process Module, Material Ordering Process module, Warehouse return Process Module Material Control and Reception Process Module Material stock taking process Module, Material junk Process Module.

Construction Schedule Module: This is the module where the necessary information is for tracking of MM according to the schedule. The information that was prior prepared under MS Office Excel can be read by marking the 'Actual Schedule' option and the necessary information for MM can be reached (Figure 6). New additions can be made using duration, beginning and completion date headings by marking 'New Schedule Preparation' option.
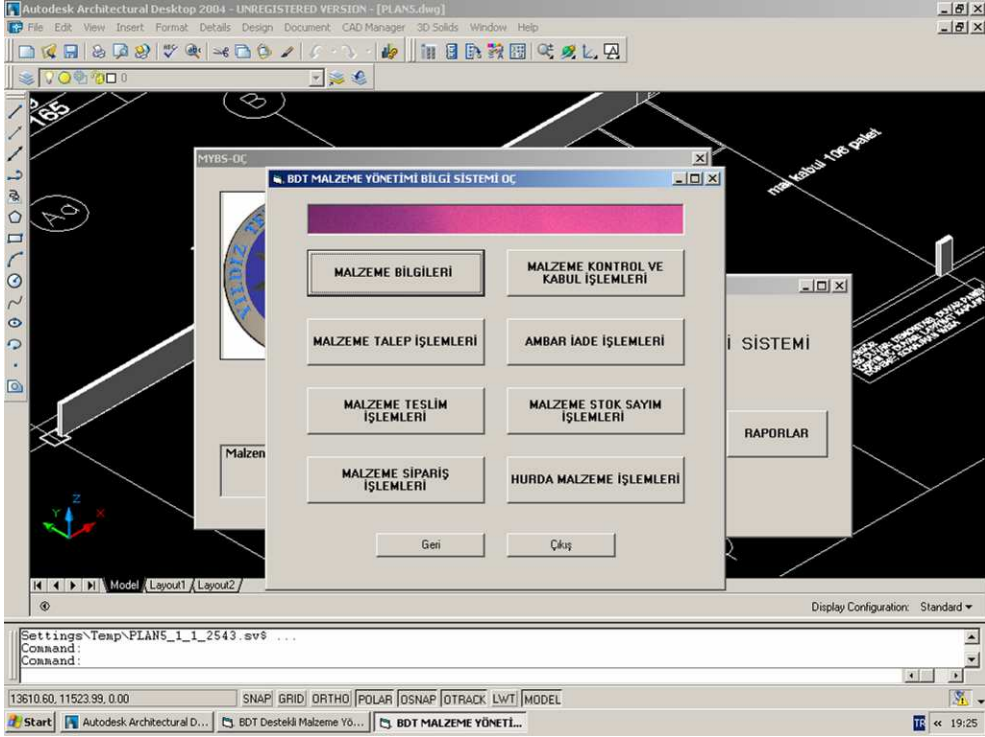
Fig. 5. Screen display Material Man. Information System module with sub modules.

Reporting Module: It is a very important module which transmits the Construction material reports to the printer or to the screen. Without sharing the information achieved by the process and examining the processed functions MM wise, it will be unessential. The report options in the model are Material Information, Demand Information, Delivery Information, Ordering information, Controlling and Reception Information reports.

For the application of the Model; to test the designed and generated model, a project of a firm which attended the survey and that uses CAD and MS Office in their realizations of the sector is used. A labeling area is realized in a big warehouse in this project. Labeling area construction is realized using wooden panels, metal profiles, windows with aluminum jalousie curtains. Also there are painting and flooring processes. Using these processes as inputs the model is tested.
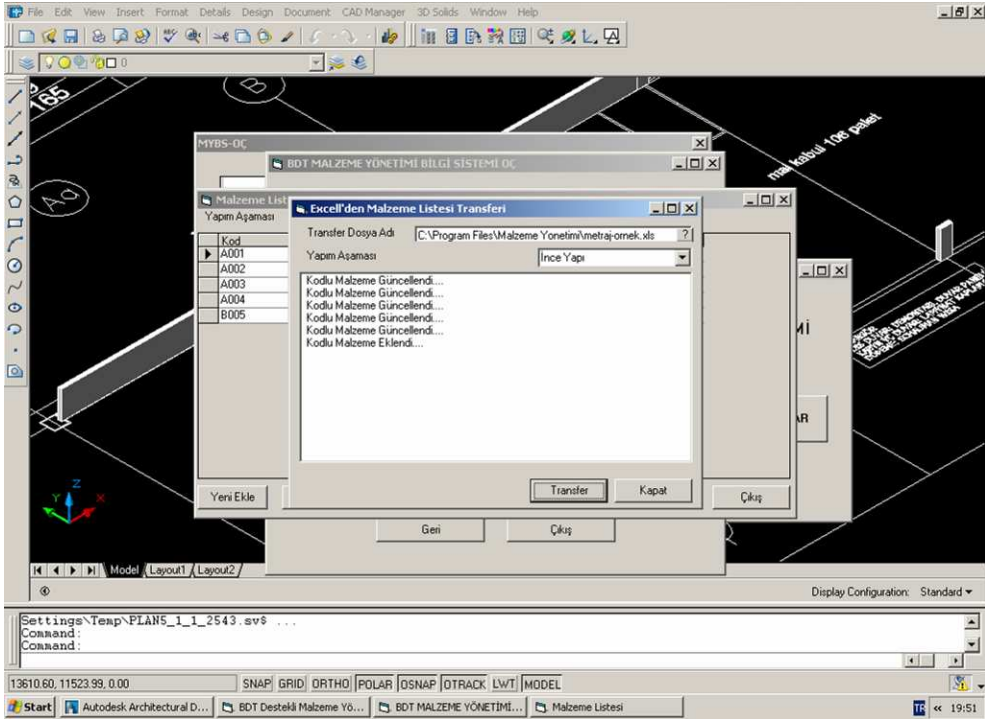
Fig. 6. Screen display of the Actual Schedule option of the Construction Schedule module
(Application steps of the model are transferred with the scenes obtained by operating the program).

Conclusion

In the study, considering the structure, finance problems and operating systems of small construction firms a model oriented for the material management phase of construction is generated and is tested with application software.

Since the model has an open structure, it is possible to share documents and to attach a module to the main module which contributes the interface of the system and to add internet based collaboration tools to the system. It is possible to achieve a general material management information system which can be realized for more than one firm and it is also possible to have changes on the model because of the discrepancies of the firms. Each firm should develop a compatible information plan to achieve their own objective in the minimum time and cost, should determine the resources and develop the information system in their own structure.

The contribution of the firm staff plays an important role at each phase of the information system developing efforts for the planned system to be operated healthy. After the management decides to develop an information system, the staff should be informed clearly at each phase. It is important to inform the staff for them to contribute to the process and gather the right information.

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As a conclusion, the model is generated in computer aided design media for material management of the Small Construction Firms' construction project applications. The model will develop theory and practice relation in between design and construction and design-construction partnership will be realized.

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ROMANIAN CLOSED-END FUNDS – AN OVERVIEW

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MIHAELA MARCU[3]

ABSTRACT. Closed-end funds are less known compared to open-end funds to most of investors. Due to their classical discounts, their behavior on the stock markets is less understood by the individual investors.

These two statements are true on the mature capital markets, but on the Romanian emerging capital market, the closed-end funds were and still are the individual investors' darlings.

The closed-end funds' position on the Romanian capital market can be – mildly – viewed as peculiar.

The present paper would try to answer several questions like:
− Why are the Romanian closed-end funds more popular than the open-end funds?
− Which was the closed-end funds' contribution to the development of the Bucharest Stock Exchange?
− How did the structure of the Romanian closed-end funds' portfolios evolved/ changed over time?
− How did the prices and premiums of the Romanian closed-end funds behave since their listing date at Bucharest Stock Exchange?

Closed-end funds or closed-end investment companies represent the first investor-owned type of organization that pooled and invested funds primarily, but not exclusively, in financial assets. Closed-end investment companies were born in Europe in the early 19th century and developed in England and Scotland during 1863-87, where investment funds are still popular today. By the late 19th century, closed-end funds appeared in US as well and peaked in popularity during late 1920s. The open-end funds were formed later, in 1924 and found the way into investors hearts in about 20 years so widely that they over passed by far the closed-end investment companies/ closed-end funds that stagnated for a long period of time - after the market crash of 1929. Starting with 1985, after decades of indifference and obscurity, new life was breathed into the industry and closed-end

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funds gained once again popularity. It was not for that long, but until 1989 when the crash provoked another round of losses. However, the late 1980s meant also the formation of a number of closed-end funds that invested almost exclusively in securities of forms located din a single, foreign country.

What makes the closed-end funds different from other corporate businesses is that they invest largely in the securities of other corporations and their core business is to manage these investment holdings for income and profit. Moreover, closed-end funds provide "contemporaneous and observable market-based rates of return for both stocks and underlying asset portfolios" [Dimson & Minio-Kozerski, 1999].

In US, at the end of 2004, as the data from table A shows, the number of closed-end funds was 620, 75% of which are bond funds. For the same period, the total number of open-end funds was 8044.

Table A

Fund Type	Fund category	Number of Funds
Equity	Domestic	95
	Global/International	62
Total Equity Closed Funds		157
Bond	Domestic taxable	138
	Domestic international	295
	Global/International	30
Total Bond Closed Funds		463
Total US Closed-end Funds		620

Source: www.ici.org/factbook , Mutual Fund Fact Book, 2005

In Romania, the situation is completely different. At the end of 2004, the number of Romanian closed-end funds was 6 all of them with mixed portfolios, dominated by equities. The number of active Romanian open-end funds was only 16. The small number of open-end funds is the result of two crises – in 1996 and 2000 – first generated by the lack of appropriate regulation for mutual fund sector and the second generated by the relaxed attitude of Romanian National Security Commission toward enforcing the regulations on 2 biggest open-end funds.

The birth date for the first 5 Romanian closed-end funds could be considered November 1, 1996 when the Law 133/ 1996 was issued. It disposed the transformation of former 5 Private Property Funds[4] in SIFs[5]. Since their transformation it was clear that SIFs situation was peculiar [Apostu, 1998]:

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[4] Those 5 Private Property Funds (PPFs) functioned based on Law no.58/ 1991 regarding the privatization process of Romanian companies. Through this law, to each of the 5 PPF a number of companies was allocated and – in theory – every PPF owned maximum 30% of capital in each company. The 5 PPFs were formed based on regional concentration of allocated companies. Until October 1996, there existed: PPF1 Banat-Crisana, PPF2 Moldova, PPF3 Transilvania, PPF4 Muntenia and PPF5 Oltenia. In November 1996, those PPFs were transformed as follow:

PPF1 – became SIF1 Banat-Crisana;

1.   they inherit the portfolios owned by the former PPFs; PPFs had no possibility to choose among the companies they owned and their portfolio structure was heavily influenced by the ups and downs of Romanian complicated privatization process, influenced by too many political interests; in November 1996, the SIFs' portfolio structure was still under discussion and negotiation with the State Ownership Fund;

2.   they had a very big number of shareholders (over 5 million each) and two 'sources' for these shareholders: there were those who subscribed since the beginning at PPFs and those added (some of them during 1997 and others in 1998) as a result of countless alterations to the laws and regulations concerning the Romanian privatization process. Many of these investors didn't even know they were SIF's shareholders. There were also many changes in the investors' data (e.g. changes of names and addresses, deaths) which were not even tracked.

During 1997 and 1998, the SIFs administrators had the difficult tasks to identify all their shareholders and to solve the situation of their portfolios[6].

Table B – SIFs' number of shares[7]

	1996	1999	2000	2001	Sept.2004
SIF1 Banat-Crisana	481,989,395	548,849,268	548,849,268	548,849,268	548,849,268
SIF2 Moldova	522,083,890	519,089,588	519,089,588	519,089,588	519,089,588
SIF3 Transilvania	546,071,666	546,071,666	546,071,666	546,071,666	546,071,666
SIF4 Muntenia	564,573,277	628,485,262	696,149,985	807,036,515	807,036,515
SIF5 Oltenia	563,246,040	580,165,174	580,165,174	580,165,174	580,165,174

Sources:
For 1996 – Piata Financiara no.7-8/ 1999.
For 1999 – Ogica, 1999.
For 2000 & 2001 – SIFs' Annual Reports, where available and Piata Financiara no.7-8/2002.
For September 2004 – Intercapital, 2004

PPF2 – became SIF2 Moldova;
PPF3 – became SIF3 Transilvania;
PPF4 – became SIF4 Muntenia and
PPF5 – became SIF5 Oltenia.

[5] The abbreviation comes from the Romanian name of these companies: **S**ocietati de **i**nvestitii **f**inanciare. The direct translation in English is Financial Investment Companies, but we considered that using the abbreviation: SIF -generated by the Romanian name- would make everyone's life easier. Searching these companies on the Internet or in specialized publications under the SIF name has better chance of finding results.

[6] The process of compensating the SIFs' portfolios took place in 1997 and 1998. Only at the beginning of 1999, through a Government Emergency Ordinance no.54/ 1998, the situation of SIFs portfolios was clarified.

[7] The face value of SIFs shares is 1000 ROL (0.1 RON). By multiplying the number of shares with their face value, the capital amount can be seen.

Table C – Number of companies in SIFs' portfolios (end of the year)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
SIF1 Banat-Crisana	2147	919	907	n/a	729	663	619	576	527
SIF2 Moldova	1052	725	682	601	n/a	545	397	371	353
SIF3 Transilvania	1352	594	573	536	491	n/a	n/a	393	377
SIF4 Muntenia	1183	446	468	n/a	n/a	n/a	340	310	290
SIF5 Oltenia	1172	389	375	n/a	302	271	262	256	251

Note: the cells highlighted with blue contain data for June that year.
Sources:
For 1996, 1997 and 1998 – Piata Financiara no.7-8/ 1998 & no.9/ 1998.
For 1999 to 2004 – SIFs' Annual Reports, where available.

In table C, for 1996 appears the number of companies transferred from PPFs to SIFs. By the end of 1997 the companies' number decreased dramatically due to compensation process with the State Owned Fund. Since 1997, the number of companies in SIFs portfolios decreased continually, as their managers decided to sell those companies, close them, to restructure or to liquidate others.

By the time when SIFs emerged on the Romanian financial market (November 1996), there were several regulations under which those peculiar closed-end funds could function: Law no.31/ 1990, the general law on Romanian companies, Government Ordinance no.24/ 1993 and the Romanian National Security Commission (CNVM)[8] Regulation no.9/ 1996 on Romanian investment funds. But it was clear from the beginning that even if the SIFs structure was similar to closed-end funds, their situation was peculiar and a special law on these investment funds was necessary. The laws and regulations concerning Romanian capital market changed in 1994 (Law no.52/ 1994), in July 2002 (Law no.525/ 2002 and Law no.513/ 2002) and, again, in June 2004 (Law no.297/ 2004). To all these laws, a number of Regulations and Instructions issued by CNVM were to be added. At the present time, SIFs existence is based on Law no.297/ 2004. Unfortunately, neither the laws nor the other regulations manage to clarify the special statute of SIFs and until July 2005, no special law was approved and issued, which created a lot of confusion among those who tried to understand the intimacy of SIFs mechanisms.

Despite all these problems, due to the big number of shareholder, there was a constant pressure for SIFs to be listed at Bucharest Stock Exchange (BVB)[9]. Some sources [BERG, 1999] stated that the first deadline for SIFs to be introduced at BVB

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[8] Further we will use the abbreviation generated by the Romanian name of this commission for the same reason mentioned in footnote 2.
[9] Again, we will use the abbreviation generated by the Romanian name – Bursa de Valori Bucuresti or BVB. We decided not to use the BSE abbreviation due to the fact that this is the same for Budapest Stock Exchange and we want to avoid any confusion.

was the Fall of 1997. Then, the deadline was moved to February 1998, to June 1998 and September 1998. All deadlines passed and SIFs were still not listed. During 1999 another problem appeared that of stolen shares. The solution found by SIFs – to introduce a special code which every shareholder who wants to trade his/ her shares must ask for it. This situation delayed again the SIFs presence at BVB quote.

Before the start of their listing at BVB, the administrators of the 5 SIFs discussed over a controversial decision: to limit or not the limit of the ownership of their shares/ shareholder to 0.1%. The main argument which the administrators provided: SIFs are investment funds with a large number of small shareholders and in order to protect them, the limit of 0.1% was necessary[10]. The hidden argument was that those administrators feared they would loose the power and control over the SIFs they managed for so long [BERG, 1999; Simion, 2004]. We must add that in 1999 chairmen for the 5 SIFs were the same persons who managed the 5 PPFs since 1992 and the decision of their nomination was mainly a political one [Tornea, 1999].

SIFs listing at BVB first tier[11] started November 1, 1999 - 3 years to the date they were created.

The condition imposed by BVB when accepted the listing of SIFs was that in 6 months after the listing started, the ownership limit of 0.1% should be increased to 5% [Tornea, 1999; BERG, 1999].

Despite the imposed limit and their blurry image created by the lack of clear regulations and transparency, SIFs managed to find a way in the hearts of many investors.

We will let the figures speak for themselves:

Table D – Evolution of BVB total capitalization and SIF capitalization (end of period)

	1999	2000	2001	2002	2003	2004	July 2005
BVB total capitalization (billion ROL)	6931.3	10956.4	38573.2	91580.2	121865.5	341473.7	446968.0
SIFs' capitalization (billion ROL)	1206.5	1553.2	3555.8	8199.3	10924.2	23726.2	40701.4
% of SIFs capitalization in BVB total capitalization	17.41	14.18	9.22	8.95	8.97	6.95	9.10

Source: www.bvb.ro /summary of trades

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[10] After the limit of ownership of 0.1% was introduced, during the fall of 1999 the 5 SIFs demanded an inquiry among their shareholders and the responses were amazing: 62% declared they wanted to hold their shares; only 8.4% declared they wanted to sell their shares right away after SIFs listing starts [Tornea, 1999].

[11] First tier is the official name BVB used to designate its first category, were the best Romanian companies are listed.

Table E – Comparative evolution for BVB and SIF trades, volume and value

	1999	2000	2001	2002	2003	2004	July 2005
Average trades/ day – total BVB	1611	1968	1416	2680	1776	2494	4273
Average trades/ day – SIFs	-	1390	637	1396	897	1089	1916
Average volume/ day – total BVB (million shares)	4.1	7.1	8.9	16.1	15.4	51.2	66.9
Average volume/ day – SIFs (million shares)	-	3.2	2.5	3.8	3.3	4.2	7.3
Average value/ day – total BVB (billion ROL)	5.5	7.3	15.3	28.5	39.5	94.9	254.8
Average value/ day – SIFs (billion ROL)	-	1.5	1.9	8.3	9.6	23.9	87.5

Source: www.bvb.ro for the primary data

Table F - % of SIFs in total BVB trades, volume and value

% of SIFs in	Nov.1999- July 2005	1999	2000	2001	2002	2003	2004	July 2005
BVB trades	51.46	79.63	68.36	44.43	50.87	49.69	43.15	44.98
BVB volume	36.09	67.82	63.98	45.15	30.08	30.08	17.71	16.03
BVB value	34.02	43.07	36.78	28.10	34.19	34.99	31.92	38.59

Source: www.bvb.ro for the primary data

As the tables D, E and F show, the SIFs capitalization is an important part of BVB total capitalization (in average for the all period 10.7%), represent 51.46% of BVB trades, 36.09% of BVB volume and 34.02% of BVB trades' value.

Graphics no.1 and 2 show BET and BET-FI evolution, respectively SIFs price evolution

BET is the first official index calculated at BVB since the Fall of 1997; its portfolio includes the best 10 companies at BVB, except SIFs. Due to the fact that BET has 10 companies in its portfolio, in some graphics it would be named BET-10.

BET-FI is the official index calculated at BVB only for SIFs since November 2000.

The correlation between the relative values of BET and BET-FI for the period November 2000 – July 2005 is 0.433232.

Graphic no.1 – BET and BET-FI evolution
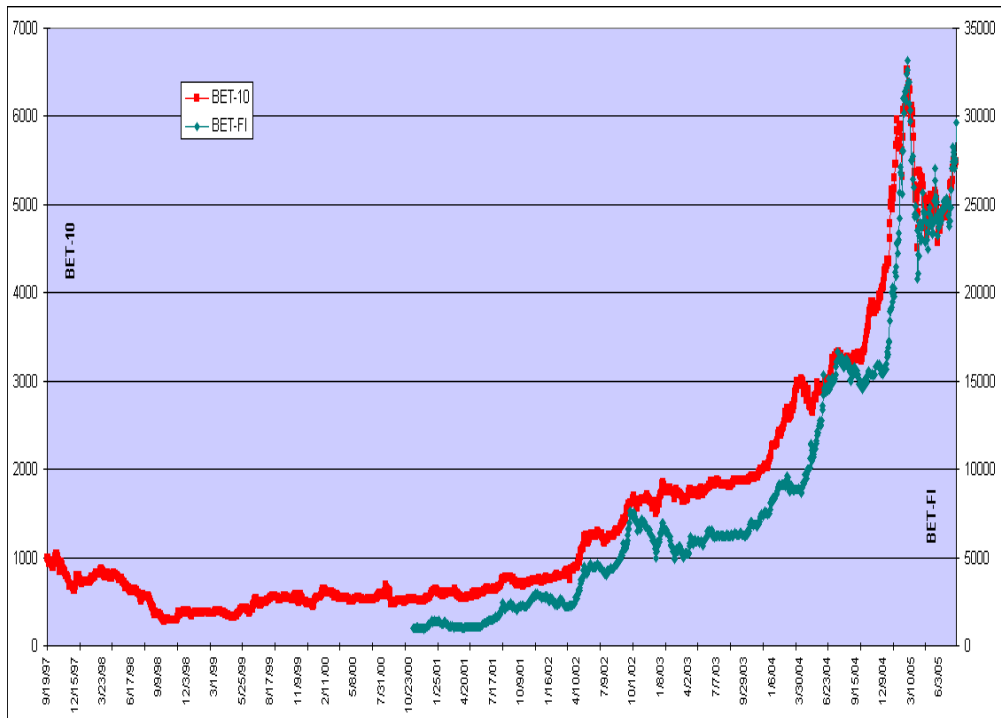
Data presented in tables D, E, F and graphics no.1 and 2 suggests a possible causality relationship between these two variables.

In order to check the type of this relation, a Granger causality test is performed on the two indices over the period November 1, 2000 – July 29, 2005 (both on the brut indices and on their logarithm zed rates of return[12]). The entire test is presented in the Appendix 1.

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[12] The logarithm zed rates of return for the indexes were used because $\ln(1+r)$ is a good approximation for r (when r is the return rate of an index I such that $r = \frac{I_t - I_{t-1}}{I_{t-1}} > 0$). The variables

used are $\ln(1 + \frac{bvb_t - bvb_{t-1}}{bvb_{t-1}}) = \ln(\frac{bvb_t}{bvb_{t-1}})$ and $\ln(\frac{fi_t}{fi_{t-1}})$.

Graphic no.2 – SIFs' prices evolution
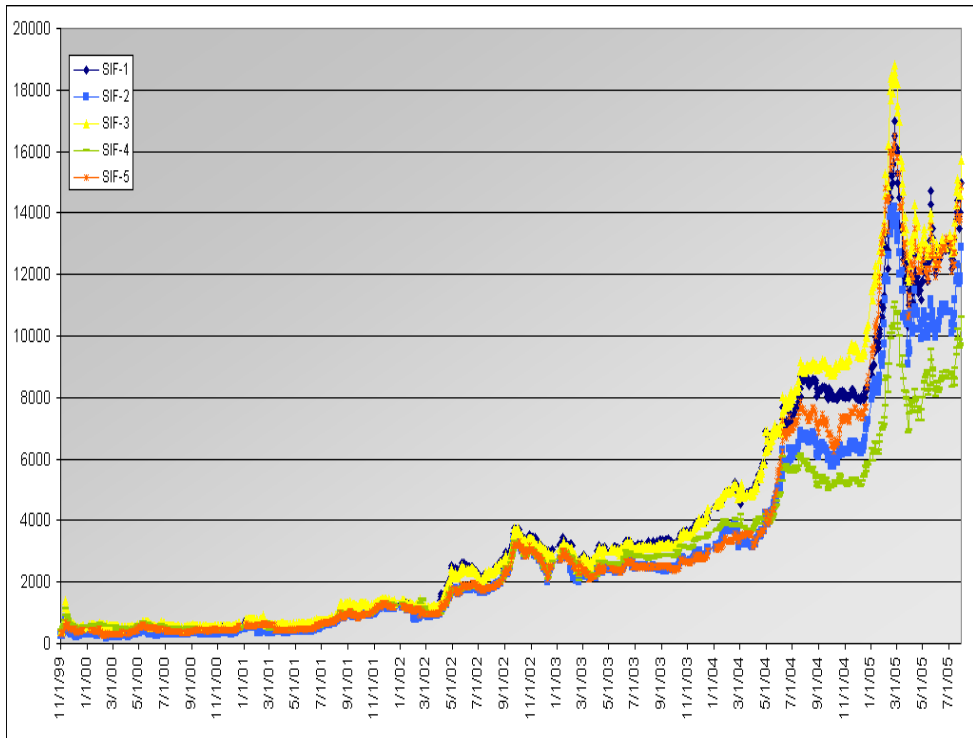
To assert a causal relationship between a variable[13] x and a variable y we must find that in the system of equations:

$$\begin{bmatrix} y_{1t} \\ y_{2t} \end{bmatrix} = \begin{bmatrix} \mu_1 \\ \mu_2 \end{bmatrix} + \begin{bmatrix} \alpha_1 & \alpha_2 \\ \beta_1 & \beta_2 \end{bmatrix} \cdot \begin{bmatrix} y_{1t} & y_{2t} \end{bmatrix} + \begin{bmatrix} \varepsilon_{1t} \\ \varepsilon_{2t} \end{bmatrix}$$ we have $\alpha_2 \neq 0$ (previous movements in x

do not help explain movements in y even in the presence of a lagged value of y). This fact, in itself, is not sufficient to assert a causal relationship. Complications with this causality test: the model may be missing either intervening variables or additional lagged effects that should be present but are not. For the first of these, the problem is that the finding of a causal effects might equally well result from the omission of a variable correlated with both of (or all) the left-hand-side variables. Granger test is a no causality test.

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[13] Here the variables are *bvb* (the index BVB BET) and *fi* (the index BET FI). The lagged variables have the order of the lag in the beginning of the name of the variable (for example, l.bvb is bvb with lag of 1, and l2.fi is fi with a lag of 2). Since the fi and bvb are set as daily data, the lag of order 5 appears as a lag 7 (because the 6th and the 7th day of the week are non-working days). When testing on the log-return of the indexes, the variables used are: ln_bvb=ln(bvb)-ln(l.bvb) and ln_fi=ln(fi)-ln(l.fi)

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When applied on the brut indices, the hypothesis **that BVB BET does not Granger cause BET FI is rejected** (see Tables 2-6), for lags of up to 5 days. So the information included in the BVB BET could be either independent of or a cause for the levels of the BET FI index from the next week (or 5 working days). Another interpretation of this result could be that the two indices are influenced by a third variable, which could be their common cause.

This result (that BVB BET does not Granger cause BET FI is rejected) is only confirmed for the lag of one day (see Table 7) by the **acceptance of the hypothesis that BET FI does not Granger cause BVB BET**). For the lags of 2 and up to 5 days, the hypothesis that BET FI does not Granger cause BVB BET **is rejected** (see Tables 8-11**).**

So it might be that BVB BET is a Granger cause for BET FI for the horizon of one day (from one day to the next day), but for a longer horizon (2 up to 5 days, maybe even on the long run) these two indices have a common cause (a third variable).

When applied on the logarithmized rates of return of the indices, the Granger test generates results contradictory to the ones previously obtained by applying it for the brut data. The hypothesis that the logarithmized rates of return of BVB BET do not Granger cause the logarithmized rates of return of BET FI is only rejected in the long run, for lags of 3 and up to 5 days (see Tables 14-16). For shorter horizons lags, of up to 2 days (see Tables 12-13) this hypothesis is accepted.

Moreover, the logarithmized rates of return of BET FI do not Granger cause the logarithmized rates of return of BVB BET for all horizons except for the one day lag one (see Tables 17-21).

Consequently, the Granger test is not conclusive.

Even if the Granger test is not conclusive, the data in tables D, E, F suggests that the 5 SIFs played – and still play – an important role at BVB.

Some of the reasons for their popularity are not connected with the quality of their portfolio or/ and their management:

•   they were launched on the Romanian financial market after the first big crises of Romanian mutual funds in the Spring and Summer of 1996;

•   their listing at BVB started during a period when the stock exchange was struggling to stay alive;

•   there were not too many investment opportunities on the Romanian financial market for any type of investors.

Other reasons for SIFs popularity were connected with their management process and performances:

•   the SIFs managers struggle to change their inherited portfolio structures and to transform them quality portfolios; the process was and still is difficult due to a big number of special situations generated by the companies

statute and the Romanian accounting regulations which does not allow SIFs to show their true portfolio market value[14]; the evolution of SIFs portfolios can not be presented due to the fact that all the 5 SIFs use other types of reports; but we can say that between 1997 and 1999 SIFs portfolio were concentrated mainly on industrial companies; a change occurred in the last 2-3 years when several Romanian banks become important assets in SIFs' portfolios; SIF3 Transilvania, also, declared its interest in tourism industry and around 20% of its portfolio is represented by hotels and travel agencies;

- SIFs performances speak for themselves – see table G;
- SIFs are among very few companies at BVB which constantly paid dividends since 1997 and they paid those dividends in a relative short time after announcement -see table H;
- SIFs were considered cheap investments as their PER evolution shows - see table I;
- Applying Benford Law test we can conclude that SIFs prices were not manipulated, even is some problems exist in the case of SIF3 Transilvania – see Appendix 2 for test results;
- Even if their transparency have to be improved, SIFs offer reasonable information on their websites, compared to other BVB listed companies;
- Their liquidity is good and allows rapid entries and exists, as the average volume shows – see table E.

Table G – Comparative rate of returns

	1999	2000	2001	2002	2003	2004
Inflation rate (%) – end of the period	54.80	40.70	30.30	17.80	14.10	9.30
Risk free rate[15] (%)	66.60	52.35	42.18	27.18	16.23	17.85
Average annual rate for bank deposits (%)	45.40	32.44	26.16	18.39	10.78	11.34
BET return (%)	15.21	18.25	35.71	117.52	27.13	93.15
BET-FI return (%)	-	-	109.92	113.14	24.72	106.94
SIF1 Banat-Crisana (%)	-	111.16	132.95	146.71	47.17	91.67
SIF2 Moldova (%)	-	117.91	182.59	137.23	30.51	149.26
SIF3 Transilvania (%)	-	62.55	128.50	123.58	53.51	147.84
SIF4 Muntenia (%)	-	39.63	170.60	128.54	41.76	69.27
SIF5 Oltenia (%)	-	85.18	147.41	121.34	23.64	187.54

Notes:

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[14] Some problems arise from CNVM Instruction no.4/ 1999 which does not allow SIFs to present their portfolio at the market value when the reports are made, but at an average value over last 12 months. Another problem is represented by those companies in SIFs' portfolio which are not listed on any market.

[15] We should assimilate the T-bills offered by Romanian National Bank with risk free rate instruments due to the fact that the Romanian Ministry of Finance does not have a strategy in issuing bonds and no yield curve is available.

1. the risk free rate for 2004 (highlighted in grey) is calculated based only on the data available for January to August; since September until December 2004 no T-bills were issued.
2. SIFs rates are calculated using capital gains and dividends.
Sources: Romanian National Bank Annual Reports (www.bnro.ro) and www.bvb.ro for the primary data on BET, BET-FI and SIFs

Table H – SIFs' dividend value and payout ratio

	1999	2000	2001	2002	2003	2004
SIF1 Banat-Crisana - dividends (ROL)	130	240	330	400	480	500
Payout ratio for SIF1 (%)	69.61	67.34	73.89	73.27	76.40	68.15
SIF2 Moldova - dividends (ROL)	111	218	330	430	494	600
Payout ratio for SIF2 (%)	88.06	87.35	59.42	95.56	65.41	68.08
SIF3 Transilvania - dividends (ROL)	144	240	265	340	420	650
Payout ratio for SIF3 (%)	64.30	83.68	75.99	76.52	65.10	43.61
SIF4 Muntenia - dividends (ROL)	177	220	283	379	421	500
Payout ratio for SIF4 (%)	75.37	63.86	91.57	88.91	92.30	79.67
SIF5 Oltenia (%)	100	210	300	300	370	650
Payout ratio for SIF5 (%)	56.94	71.95	73.65	69.58	74.41	54.26

Sources: www.bvb.ro for the primary data

Table I – SIFs' PER (average/ year)

	1999	2000	2001	2002	2003	2004
SIF1 Banat-Crisana	n/a	n/a	3.9	5.6	6.4	11.5
SIF2 Moldova	n/a	n/a	4.8	4.6	5.2	8.1
SIF3 Transilvania	n/a	n/a	4.0	7.0	8.0	12.9
SIF4 Muntenia	n/a	n/a	3.9	6.6	7.9	10.8
SIF5 Oltenia	n/a	n/a	4.0	5.3	6.0	12.0

Sources: www.bvb.ro for the primary data

As their names suggest, closed–end funds' capitalization is closed, meaning that they issue a fixed amount of stocks and their price is a result of the demand and supply like for any other securities traded on the market. Interestingly, their prices do not necessarily equal their net asset value (NAV)[16] per share, of the underlying portfolio. This apparent 'anomaly' has been for decades and still represent the focus of extensive amount of academic research.

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[16] NAV= market value of the securities held less the liabilities, all divided by the number of shares in issue.

The closed-end fund discount represents "the difference by which the price of a fund is lower than its net asset value per share" [Herzfeld, 1993].

Discounts can be substantial, long-lasting and variable, and are, perhaps, the most interesting aspect of closed-end investment companies.

In general, shares of closed-end funds are issued at a premium to net asset value. In US, premiums go as high as to 10%; in Great Britain the premiums amount to at least 5%. These premiums represent the fees paid to the underwriters and start-up costs associated with the floatation. After a few months (around 6 months) following their IPO, the shares prices decline. The shares trade at a discount which persist and fluctuates according to a mean-reverting pattern.

In case of liquidation or open-ending, the funds share prices rise and discounts disappear.

In Romania, due to the SIF particular formation, functionality and emerging on the stock market (3 years after their existence), the prices did not (and could not) follow this trend. The NAV was reported starting with November 1999 but the information is not properly available until June 2000 (more than 6 months after their launching on the market).

By that time, all of the 5 SIFs traded at discounts to their NAV, as it can be seen from Graphic no.3, 4, 5, 6 and 7. In these graphs, NAV is represented with dark blue (series1), the discount is represented in orange (series 2) and the closing price is represented in yellow (series 3).

Moreover, in SIFs situation there is was no case of liquidation or open-ending for these companies As a result, no evidence can be brought in this regard in terms of discount evolution.

We choose not to go – for the moment - into a deeper analysis of SIFs discounts due to the fact that their NAV is calculated using a peculiar CNVM Instruction no.4/ 1999 and it is still not clear at what extent the IAS are applied in calculating SIFs' NAV. To these problems another was added: the lack of frequency in NAV reporting and the delay – sometimes over one week – between the market value and reported NAV.

Graphic no.5
SIF3 Transilvania

Graphic no.6
SIF4 Muntenia
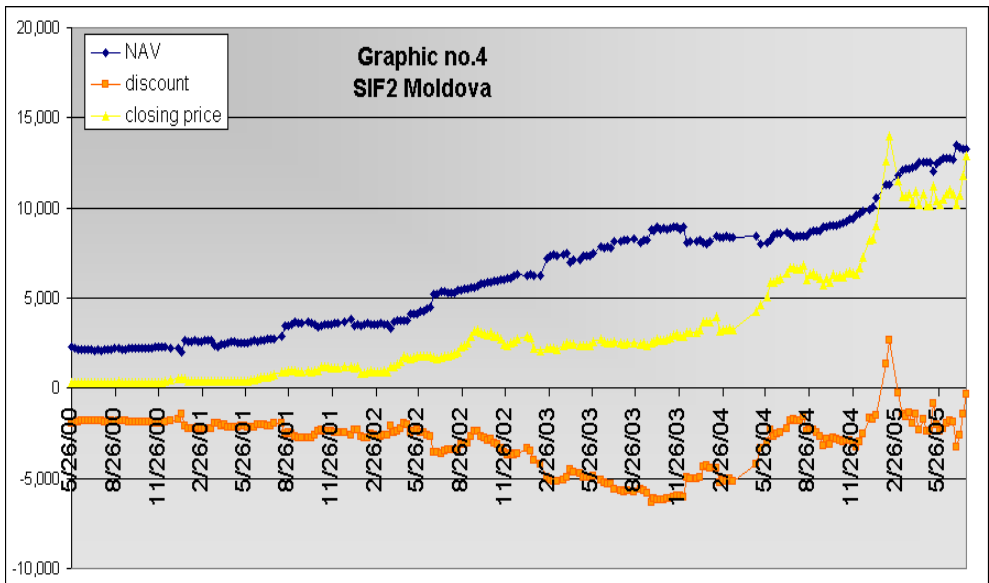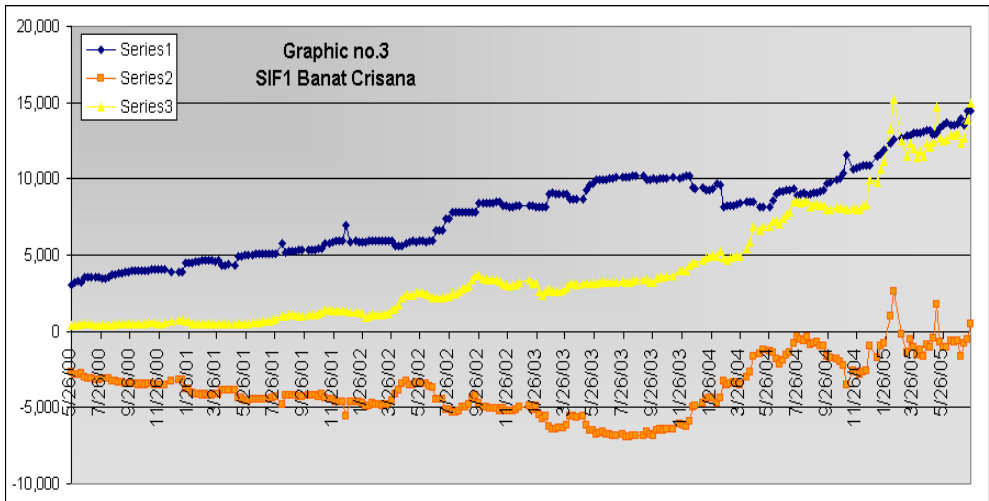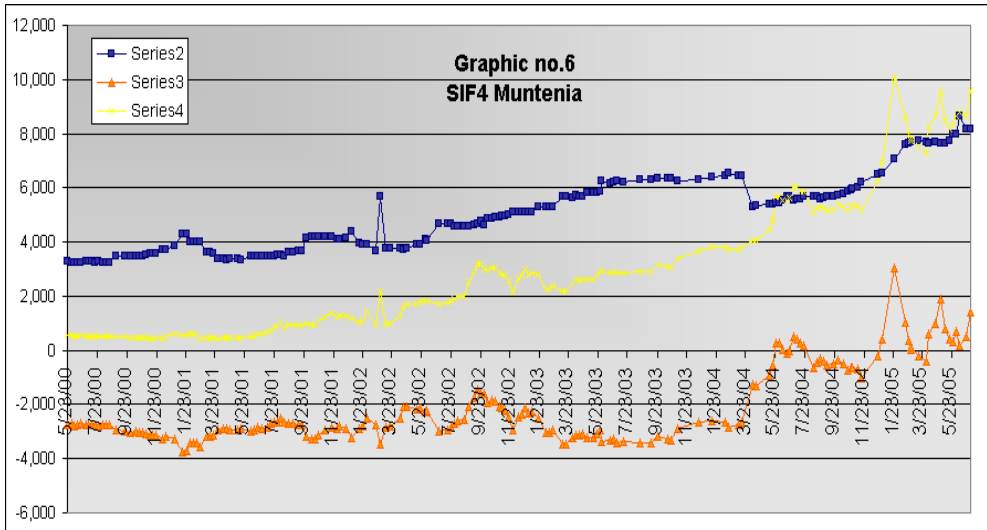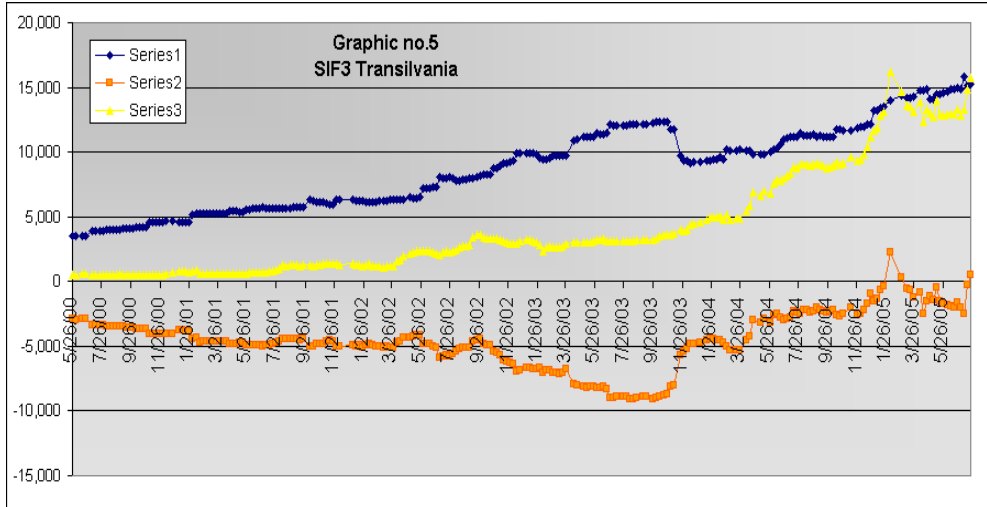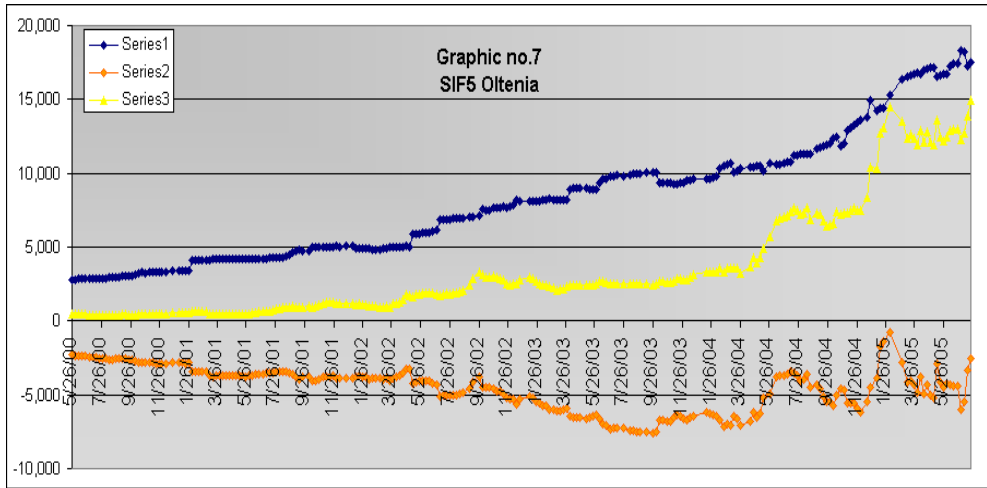
Conclusions:

- Why are the Romanian closed-end funds more popular than the open-end funds?

  - as we highlight above: external reasons and internal reasons; they were (and still are) considered 'BVB pearls' [Investitori institutionali, July 2004)

  - we must add that among the small investors, very few understand the way of an investment fund is working; they buy the returns and the dividends; we consider it is important that at BVB the number of active investors is small (around 25.000) and the Romanian brokers constantly recommend SIFs as good investments;

  - SIFs popularity would, probably, increase further due to Government Ordinance no.41/ 2005 – starting with August 2, 2005 the ownership limit at SIFs was raised to 1% of outstanding shares[17]; during the month of August 2005 some brokers stated that foreign investment funds bought SIFs shares[18].

- Which was the closed-end funds' contribution to the development of the Bucharest Stock Exchange?

  As the tables D, E and F show the SIFs contribution to BVB development as important; their listing at BVB triggered a bigger interest for the Romanian main stock exchange. This conclusion could be maintained even if the Granger test is not conclusive.

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[17] The discussions about raising the ownership limit of 0.1% were long and difficult to follow for any outsider. CNVM and BVB tried to find ways to persuade SIFs administrators to raise that limit since 2000. The solution was found only when a Government Ordinance was issued in July 2005.

[18] The limited ownership made difficult for any foreign investment fund to invest a reasonable amount of money in SIFs shares.

• How did the structure of the Romanian closed-end funds' portfolios evolved/ changed over time?

Unfortunately, we were not able to find sufficient and accurate information to compare either the portfolios' structure using economic sectors or portfolios' asset structure. What we could extract from the data SIFs display in their annual reports are the following trends:

- a constantly decrease in the number of companies due to selling, closing, mergers, acquisitions or spin-offs;

- after the industry sector, the financial sector is well represented in SIFs portfolios (over 15% for every SIF) due to their investments in Romanian banks;

- SIF3 Transilvania declared its interest for the tourism industry and reshape its portfolio to reflect this trend;

We have to add the fact that there are a couple of limitations regarding the investment policy guidelines. Among them, there are two which could represent a problem in the future: SIFs are not allowed to invest on foreign capital markets and in the shares of open-end mutual funds. Due to the fact that SIFs have impressive dimensions (their capitalization as we can see from the tables are important stakes of the BVB capitalizations) the Romanian capital market offerings are still poor, the market has a reduce capacity of absorption, the fact that SIFs are not allowed to invest on mature foreign capital markets could become a problem. At this point, probably, the managers of the 5 SIFs are not much concerned about this aspect but of the fact that they are not allowed to invest in open-end funds shares. These limitations could influence SIFs position and their future after Romanian accession to European Union.

• How did the prices and premiums of the Romanian closed-end funds behave since their listing date at Bucharest Stock Exchange?

Graphs no.3 to 7 present this evolution. SIFs discounts seems to behave in a classical manner, with the exception of several picks when the closing prices – due to a sharp increase - were above NAVs.

The future of SIFs – from juridical point of view - is still unclear. A special law for them is still expected and its necessity is under discussion. We should not forget that their portfolios still includes majority positions and companies inherited from PPFs, most of them of low quality and difficult to be eliminated. SIFs concentrate in their portfolios ownerships to important Romanian companies and their decision regarding these ownerships could have an important impact on Romanian economy.

If the special law would decide that SIFs would remain listed closed-end funds, the restructuring process of their portfolios would be painful and – in some analysts opinion (Simion, 2004 but not only) – SIFs would lose their competitive advantage.

One analyst (Simion, 2004) consider that SIFs are financial:

➤ holdings from structural point of view

➤ private equity funds combined with venture capital fund from their portfolios structure point of view;

and Simion consider that they should be allowed to continue to exist like that, but for the right shareholders – those who understand the investment risks involved; but this oriented the discussion on the ownership limit. The fact that this limit was raised it is a step in the right direction. A second step – it remain to be seen in which direction – would be made when the decision to buy-back the shares owned by the residual shareholders[19] would be taken.

Until a decision on the future of SIFs would be taken – and this is a difficult process where a lot of political interests and some group of investors interests would play their part – we believe that SIFs would remain among the BVB blue-chips and very popular among those who invest on Romanian capital market in the absence of other opportunities.

Appendix 1

(Table 1). Descriptive statistics for the variables *bvb* and *fi*

```
Variable |   Obs    Mean  Std. Dev.   Min    Max
---------+-------------------------------------------------------
   bvb |  1171  2122.865  1518.72   501.18  6525.08
    fi |  1171  8536.863  7624.664  944.72  33155.81
```

---

[19] The residual shareholders: those shareholders who received between 5-40 shares as a result of capitalized dividends between 1992 and 1996. Their situation was (and probably still is) the following:

	SIFs total number of shares	No.of shares owned by every one small shareholder (considered residual shareholder)	Shares cumulated by the small shareholders	
			%	Number of shares
SIF1 Banat-Crisana	548,849,268	6	9.20	50,494,133
SIF2 Moldova	519,089,588	5	11.00	57,099,855
SIF3 Transilvania	546,071,666	8	16.40	89,555,753
SIF4 Muntenia	807,036,515	38	46.87	378,258,015
SIF5 Oltenia	580,165,714	10	15.00	87,024,857

Source: Capital no.24/ June 10, 2004

1. TESTING ON THE BRUT DATA:

1.a. Does bvb influence fi?

(Table 2). Regressing fi on l.fi l.bvb
Adj R-squared = 0.9987   Prob > F   = 0.0000
```
----------------------------------------------------------------------------
fi      |   Coef.  Std. Err.   t  P>|t|   [95% Conf. Interval]
-------------+--------------------------------------------------------------
fi      |
     L1 |  .9872417  .0070085  140.86  0.000   .9734873  1.000996
bvb     |
     L1 |  .0756275  .0351362   2.15  0.032   .0066717  .1445832
_cons   | -30.92872  20.83178  -1.48  0.138  -71.81164  9.954201
----------------------------------------------------------------------------
```

(Table 3). Regressing fi on l.fi l.bvb l2.bvb
 Adj R-squared = 0.9986   Prob > F   = 0.0000
```
----------------------------------------------------------------------------
fi      |   Coef.  Std. Err.   t  P>|t|   [95% Conf. Interval]
-------------+--------------------------------------------------------------
fi      |
     L1 |  .9887128  .0083843  117.92  0.000   .9722508  1.005175
bvb     |
     L1 |  .9304065  .2447635   3.80  0.000   .449831  1.410982
     L2 | -.8566359  .2417953  -3.54  0.000  -1.331383  -.3818882
_cons   | -36.67046  24.94519  -1.47  0.142  -85.64856  12.30763
----------------------------------------------------------------------------
 test l.bvb l2.bvb
 ( 1) L.bvb = 0.0
 ( 2) L2.bvb = 0.0    F( 2,  686) =  7.91    Prob > F =  0.0004
```

(Table 4). Regressing fi on l.fi l.bvb l2.bvb l3.bvb
 Adj R-squared = 0.9986   Prob > F   = 0.0000v
```
----------------------------------------------------------------------------
fi      |   Coef.  Std. Err.   t  P>|t|   [95% Conf. Interval]
-------------+--------------------------------------------------------------
fi      |
     L1 |  .9796773  .0101402  96.61  0.000   .9597493  .9996053
bvb     |
     L1 |  .3548208  .3076459   1.15  0.249  -.2497766  .9594182
     L2 | -.9964699  .5147176  -1.94  0.053  -2.008012  .0150726
     L3 |  .7620177  .3203447   2.38  0.018   .1324641  1.391571
_cons   | -50.80312  30.43528  -1.67  0.096  -110.6157  9.009457
----------------------------------------------------------------------------
test l.bvb l2.bvb l3.bvb
 ( 1) L.bvb = 0.0
 ( 2) L2.bvb = 0.0
```

```
 ( 3) L3.bvb = 0.0   F( 3,  451) =  3.72    Prob > F =  0.0115
```

(Table 5). Regressing fi on l.fi l.bvb l2.bvb l3.bvb l4.bvb
```
 Adj R-squared = 0.9990       Prob > F  = 0.0000
--------------------------------------------------------------------------
--
fi     |   Coef.  Std. Err.   t P>|t|   [95% Conf. Interval]
-------------+------------------------------------------------------------
--
fi     |
     L1 |  .9817257  .0123983  79.18  0.000   .9572897  1.006162
bvb    |
     L1 |  1.012195  .345674   2.93  0.004   .3309046  1.693486
     L2 | -2.343834  .6063724  -3.87  0.000  -3.538937 -1.148731
     L3 |  3.285636  .8968959   3.66  0.000   1.517939  5.053333
     L4 | -1.842897  .5127544  -3.59  0.000  -2.853487  -.8323061
_cons   | -58.48869  37.24557  -1.57  0.118  -131.8962  14.91882
--------------------------------------------------------------------------
--
test l.bvb l2.bvb l3.bvb l4.bvb
 ( 1) L.bvb = 0.0
 ( 2) L2.bvb = 0.0
 ( 3) L3.bvb = 0.0
 ( 4) L4.bvb = 0.0   F( 4,  218) =  5.53    Prob > F =  0.0003
```

(Table 6). Regressing fi on l.fi l.bvb l2.bvb l3.bvb l4.bvb l7.bvb
```
 Adj R-squared = 0.9990       Prob > F  = 0.0000
--------------------------------------------------------------------------
--
fi     |   Coef.  Std. Err.   t  P>|t|   [95% Conf. Interval]
-------------+------------------------------------------------------------
--
fi     |
     L1 |  .9839154  .0126606  77.71  0.000   .9589579  1.008873
bvb    |
     L1 |  .8903219  .3604583   2.47  0.014   .179761  1.600883
     L2 | -2.149084  .6169667  -3.48  0.001  -3.365292  -.9328752
     L3 |  3.104854  .9017458   3.44  0.001   1.327269  4.882439
     L4 | -1.996488  .5445925  -3.67  0.000  -3.070027  -.922949
     L7 |  .2545325  .2836475   0.90  0.371  -.3046134  .8136784
_cons   | -59.95484  37.82981  -1.58  0.114  -134.5276  14.61794
--------------------------------------------------------------------------
--
test l.bvb l2.bvb l3.bvb l4.bvb l7.bvb
 ( 1) L.bvb = 0.0
 ( 2) L2.bvb = 0.0
 ( 3) L3.bvb = 0.0
 ( 4) L4.bvb = 0.0
 ( 5) L7.bvb = 0.0   F( 5,  211) =  4.34    Prob > F =  0.0009
```

1. b. Does fi influence bvb?

(Table 7). Regressing bvb on l.bvb l.fi
```
 Adj R-squared = 0.9992       Prob > F  = 0.0000
--------------------------------------------------------------------------
--
```

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```
bvb    |   Coef.  Std. Err.    t P>|t|   [95% Conf. Interval]
-------------+----------------------------------------------------------------
--
bvb    |
     L1 |   1.003581  .0055015  182.42  0.000   .9927837  1.014377
fi     |
     L1 |  -.0003539  .0010974  -0.32  0.747  -.0025075   .0017997
_cons  |   .4005242  3.261752   0.12  0.902   -6.00075   6.801798
------------------------------------------------------------------------------
--
```

(Table 8). Regressing bvb on l.bvb l.fi l2.fi
 Adj R-squared = 0.9992   Prob > F   = 0.0000
```
------------------------------------------------------------------------------
--
bvb    |   Coef.  Std. Err.    t P>|t|   [95% Conf. Interval]
-------------+----------------------------------------------------------------
--
bvb    |
     L1 |   1.015052  .0064131  158.28  0.000   1.00246  1.027643
fi     |
     L1 |   .0206228  .0058073   3.55  0.000   .0092205   .032025
     L2 |  -.0233446  .0057503  -4.06  0.000  -.0346349  -.0120543
_cons  |  -4.152578  3.799448  -1.09  0.275  -11.61252  3.307366
------------------------------------------------------------------------------
--
test l.fi l2.fi
 ( 1) L.fi = 0.0
 ( 2) L2.fi = 0.0    F( 2,  686) = 9.97    Prob > F = 0.0001
```

(Table 9). Regressing bvb on l.bvb l.fi l2.fi l3.fi
 Adj R-squared = 0.9992   Prob > F   = 0.0000
```
------------------------------------------------------------------------------
--
bvb    |   Coef.  Std. Err.    t P>|t|   [95% Conf. Interval]
-------------+----------------------------------------------------------------
--
bvb    |
     L1 |   1.022112  .0076747  133.18  0.000   1.00703  1.037195
fi     |
     L1 |   .0135734  .0065813   2.06  0.040   .0006396   .0265071
     L2 |   .0016712  .009864   0.17  0.866  -.0177138   .0210562
     L3 |  -.0195523  .007261  -2.69  0.007  -.0338219  -.0052826
_cons  |  -5.870782  4.56979  -1.28  0.200  -14.85151  3.109943
------------------------------------------------------------------------------
--
test l.fi l2.fi l3.fi
 ( 1) L.fi = 0.0
 ( 2) L2.fi = 0.0
 ( 3) L3.fi = 0.0    F( 3,  451) = 6.90    Prob > F = 0.0001
```

(Table 10). Regressing bvb on l.bvb l.fi l2.fi l3.fi l4.fi
 Adj R-squared = 0.9994   Prob > F   = 0.0000
```
------------------------------------------------------------------------------
--
bvb    |   Coef.  Std. Err.    t P>|t|   [95% Conf. Interval]
```

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```
------------+------------------------------------------------------------
--
bvb     |
     L1 |  1.036094  .0096208  107.69  0.000   1.017133  1.055056
fi      |
     L1 |  .0247741  .0083207    2.98  0.003   .0083747  .0411734
     L2 | -.0211337  .0108983   -1.94  0.054  -.0426132  .0003458
     L3 | -.0077965  .0153897   -0.51  0.613  -.0381282  .0225353
     L4 | -.0031248  .0105412   -0.30  0.767  -.0239006  .0176509
_cons   | -12.76338  5.737158   -2.22  0.027  -24.07078  -1.455984
------------------------------------------------------------------------
--
 test l.fi l2.fi l3.fi l4.fi
 ( 1) L.fi = 0.0
 ( 2) L2.fi = 0.0
 ( 3) L3.fi = 0.0
 ( 4) L4.fi = 0.0    F( 4,  218) = 7.56    Prob > F =  0.0000
```

(Table 11). Regressing bvb on l.bvb l.fi l2.fi l3.fi l4.fi l7.fi
 Adj R-squared = 0.9994   Prob > F   = 0.0000

```
------------------------------------------------------------------------
--
bvb     | Coef.  Std. Err.   t  P>|t|   [95% Conf. Interval]
------------+------------------------------------------------------------
--
bvb     |
     L1 |  1.033331   .009958  103.77  0.000   1.013701  1.052961
fi      |
     L1 |  .0278714  .0085274    3.27  0.001   .0110615  .0446813
     L2 | -.0246589  .0110258   -2.24  0.026  -.0463938  -.0029241
     L3 | -.0063018  .0158958   -0.40  0.692  -.0376368  .0250332
     L4 | -.0131592  .0120606   -1.09  0.276   -.036934  .0106155
     L7 |  .0094244  .0070052    1.35  0.180  -.0043847  .0232335
_cons   | -11.08946  5.864997   -1.89  0.060  -22.65095  .4720397
------------------------------------------------------------------------
--
 test l.fi l2.fi l3.fi l4.fi l7.fi
 ( 1) L.fi = 0.0
 ( 2) L2.fi = 0.0
 ( 3) L3.fi = 0.0
 ( 4) L4.fi = 0.0
 ( 5) L7.fi = 0.0    F( 5,  211) = 6.18    Prob > F =  0.0000
```

2. Testing on the log-return of the indexes

2. a. Does ln_bvb influence ln_fi ?

(Table 12). Regressing ln_fi on 1.ln_fi 1.ln_bvb
 Adj R-squared = 0.0131   Prob > F   = 0.0000

```
------------------------------------------------------------------------
--
ln_fi   | Coef.  Std. Err.   t  P>|t|   [95% Conf. Interval]
------------+------------------------------------------------------------
--
ln_fi   |
     L1 |  .1085207  .0400736    2.71  0.007   .0298393  .1872021
ln_bvb  |
```

```
      L1 |  .0454606   .0603732   0.75 0.452  -.0730775   .1639986
_cons   |  .0025942   .0008352   3.11 0.002   .0009542   .0042341
----------------------------------------------------------------------
--
```

(Table 13). Regressing ln_fi on l.ln_fi l.ln_bvb l2.ln_bvb
 Adj R-squared = 0.0134   Prob > F   = 0.0000
```
----------------------------------------------------------------------
--
ln_fi   |   Coef.  Std. Err.    t  P>|t|   [95% Conf. Interval]
-------------+--------------------------------------------------------
--
ln_fi   |
     L1 |  .1459433   .0497962   2.93 0.004   .0480826    .243804
ln_bvb  |
     L1 | -.0530822   .0742846  -0.71 0.475  -.1990682   .0929038
     L2 | -.0482946   .0752811  -0.64 0.522   -.196239   .0996498
_cons   |  .0035192   .0010404   3.38 0.001   .0014745   .0055639
----------------------------------------------------------------------
--
 test l.ln_bvb l2.ln_bvb
 ( 1) L.ln_bvb = 0.0
 ( 2) L2.ln_bvb = 0.0    F( 2,  452) =  0.54  Prob > F =  0.5825
```

(Table 14). Regressing ln_fi l.ln_fi l.ln_bvb l2.ln_bvb l3.ln_bvb
 Prob > F   = 0.0053 R-squared   = 0.0648
```
----------------------------------------------------------------------
--
ln_fi   |   Coef.  Std. Err.    t  P>|t|   [95% Conf. Interval]
-------------+--------------------------------------------------------
--
ln_fi   |
     L1 |  .1534153   .0639825   2.40 0.017   .0273151   .2795156
ln_bvb  |
     L1 |  .0485203   .0891116   0.54 0.587  -.1271058   .2241464
     L2 | -.0714579   .1061111  -0.67 0.501  -.2805875   .1376717
     L3 |  .2822563   .1028564   2.74 0.007   .0795411   .4849714
_cons   |  .001501    .0014082   1.07 0.288  -.0012743   .0042763
----------------------------------------------------------------------
--
test l.ln_bvb l2.ln_bvb l3.ln_bvb
 ( 1) L.ln_bvb = 0.0
 ( 2) L2.ln_bvb = 0.0
 ( 3) L3.ln_bvb = 0.0    F( 3,  219) =  2.57   Prob > F =  0.0552
```

(Table 15). Regressing ln_fi l.ln_fi l.ln_bvb l2.ln_bvb l3.ln_bvb l7.ln_bvb
 Prob > F   = 0.0042 R-squared   = 0.0773
```
----------------------------------------------------------------------
--
ln_fi   |   Coef.  Std. Err.    t  P>|t|   [95% Conf. Interval]
-------------+--------------------------------------------------------
--
ln_fi   |
     L1 |  .1344453   .0649978   2.07 0.040   .0063204   .2625702
ln_bvb  |
     L1 |  .0780974   .0909031   0.86 0.391  -.1010924   .2572872
     L2 | -.0909552   .1105328  -0.82 0.412  -.3088393   .1269289
```
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```
    L3 |  .328378  .1061137   3.09  0.002   .1192048   .5375512
    L7 |  .186016  .1087634   1.71  0.089  -.0283804   .4004123
_cons   |  .0010992  .0014479  0.76  0.449  -.0017549  .0039533
------------------------------------------------------------------------------
--
test l.ln_bvb l2.ln_bvb l3.ln_bvb l7.ln_bvb
 ( 1) L.ln_bvb = 0.0
 ( 2) L2.ln_bvb = 0.0
 ( 3) L3.ln_bvb = 0.0
 ( 4) L7.ln_bvb = 0.0    F( 4,  212) =  2.76   Prob > F =  0.0288
```

(Table 16). Regressing ln_fi on l.ln_fi l1.ln_bvb l2.ln_bvb l3.ln_bvb l7.ln_bvb l8.ln_bvb
```
    Prob > F  = 0.0104      Adj R-squared  = 0.0496
 ------------------------------------------------------------------------------
---
ln_fi   |   Coef.  Std. Err.   t  P>|t|   [95% Conf. Interval]
-------------+----------------------------------------------------------------
--
ln_fi   |
    L1 |  .1360958  .0663813   2.05  0.042   .0052331   .2669585
ln_bvb  |
    L1 |  .0768339  .0913336   0.84  0.401  -.1032193   .2568871
    L2 | -.0878431  .1110344  -0.79  0.430   -.306734   .1310478
    L3 |  .3182889  .1069515   2.98  0.003   .1074469   .5291308
    L7 |  .2075124  .1144118   1.81  0.071  -.0180367   .4330616
    L8 |  -.028202  .0860882  -0.33  0.744  -.1979144   .1415104
_cons   |  .001288  .0014698  0.88  0.382  -.0016096  .0041855
------------------------------------------------------------------------------
--
test l.ln_bvb l2.ln_bvb l3.ln_bvb l7.ln_bvb l8.ln_bvb
 ( 1) L.ln_bvb = 0.0
 ( 2) L2.ln_bvb = 0.0
 ( 3) L3.ln_bvb = 0.0
 ( 4) L7.ln_bvb = 0.0
 ( 5) L8.ln_bvb = 0.0   F( 5,  209) =  2.14    Prob > F =  0.0620
```

2. b. Does ln_fi influence ln_bvb?

(Table 17). Regressing ln_bvb on l.ln_bvb l.ln_fi
Adj R-squared = 0.0398 Prob > F   = 0.0000
```
------------------------------------------------------------------------------
--
ln_bvb   |   Coef.  Std. Err.   t  P>|t|   [95% Conf. Interval]
-------------+----------------------------------------------------------------
--
ln_bvb   |
    L1 |  .1674001  .0392712   4.26  0.000   .0902942   .244506
ln_fi   |
    L1 |  .0419236  .0260668   1.61  0.108  -.0092566   .0931038
_cons   |  .0017072  .0005433  3.14  0.002   .0006405   .002774
------------------------------------------------------------------------------
--
```

(Table 18). Regressing ln_bvb l.ln_bvb l.ln_fi l2.ln_fi
Adj R-squared = 0.0122 Prob > F   = 0.0356

```
----------------------------------------------------------------------------
--
ln_bvb    |    Coef.   Std. Err.    t  P>|t|    [95% Conf. Interval]
------------+---------------------------------------------------------------
--
ln_bvb   |
     L1 |  .0967102   .0498467   1.94  0.053  -.0012499   .1946702
ln_fi    |
     L1 |  .0407944   .0336278   1.21  0.226  -.0252918   .1068806
     L2 |  .0079427   .0320266   0.25  0.804  -.0549969   .0708823
_cons    |  .0020867   .0006986   2.99  0.003   .0007138   .0034596
----------------------------------------------------------------------------
--
 test l.ln_fi l2.ln_fi
 ( 1) L.ln_fi = 0.0
 ( 2) L2.ln_fi = 0.0    F( 2,  452) =  0.78    Prob > F =  0.4613
```

(Table 19). Regressing ln_bvb on l.ln_bvb l.ln_fi l2.ln_fi l3.ln_fi
Adj R-squared = 0.0549 Prob > F   = 0.0025

```
----------------------------------------------------------------------------
--
ln_bvb    |    Coef.  Std. Err.    t  P>|t|    [95% Conf. Interval]
------------+---------------------------------------------------------------
--
ln_bvb    |
     L1 |  .1893521   .0546972   3.46  0.001   .0815519   .2971523
ln_fi    |
     L1 |  .0216471   .0393305   0.55  0.583  -.0558676   .0991618
     L2 | -.0064976   .039063   -0.17  0.868  -.0834851   .0704899
     L3 |  .0202424   .0375784   0.54  0.591  -.0538193    .094304
_cons    |  .0008362   .0008547   0.98  0.329  -.0008482   .0025207
----------------------------------------------------------------------------
--
test l.ln_fi l2.ln_fi l3.ln_fi
 ( 1) L.ln_fi = 0.0
 ( 2) L2.ln_fi = 0.0
 ( 3) L3.ln_fi = 0.0    F( 3,  219) =  0.20    Prob > F =  0.8943
```

(Table 20). Regressing ln_bvb on l.ln_bvb l.ln_fi l2.ln_fi l3.ln_fi l7.ln_fi
Adj R-squared = 0.0497 Prob > F   = 0.0072

```
----------------------------------------------------------------------------
--
ln_bvb    |    Coef.   Std. Err.    t  P>|t|    [95% Conf. Interval]
------------+---------------------------------------------------------------
--
ln_bvb    |
     L1 |  .1853532   .0556054   3.33  0.001   .0757429   .2949635
ln_fi    |
     L1 |  .0210719   .0399048   0.53  0.598   -.057589   .0997329
     L2 | -.0107123   .0395752  -0.27  0.787  -.0887235    .067299
     L3 |  .0270737   .0386243   0.70  0.484  -.0490631   .1032105
     L7 | -.0033751   .0423876  -0.08  0.937  -.0869303   .0801801
_cons    |  .0007628   .0008838   0.86  0.389  -.0009794   .0025049
----------------------------------------------------------------------------
--
test l.ln_fi l2.ln_fi l3.ln_fi l7.ln_fi
 ( 1) L.ln_fi = 0.0
```

```
 ( 2) L2.ln_fi = 0.0
 ( 3) L3.ln_fi = 0.0
 ( 4) L7.ln_fi = 0.0    F( 4, 212) =  0.21    Prob > F =  0.9319
```

(Table 21). Regressing ln_bvb l.ln_bvb l.ln_fi l2.ln_fi l3.ln_fi l7.ln_fi l8.ln_fi

```
Adj R-squared = 0.0607 Prob > F   = 0.0039
--------------------------------------------------------------------------
--
ln_bvb   |   Coef.  Std. Err.   t  P>|t|   [95% Conf. Interval]
-------------+------------------------------------------------------------
--
ln_bvb   |
     L1 |  .1748123  .055603   3.14  0.002   .0651977  .2844269
ln_fi    |
     L1 |  .0073906  .0402958   0.18  0.855  -.0720476  .0868289
     L2 | -.0222509  .0397673  -0.56  0.576  -.1006473  .0561455
     L3 |  .0320779  .038525   0.83  0.406  -.0438696  .1080254
     L7 |  -.028114  .0443703  -0.63  0.527  -.1155847  .0593568
     L8 |  .0772627  .0403327   1.92  0.057  -.0022483  .1567737
_cons    |  .000624  .0008875   0.70  0.483  -.0011257  .0023737
--------------------------------------------------------------------------
--
test l.ln_fi l2.ln_fi l3.ln_fi l7.ln_fi l8.ln_fi
 ( 1) L.ln_fi = 0.0
 ( 2) L2.ln_fi = 0.0
 ( 3) L3.ln_fi = 0.0
 ( 4) L7.ln_fi = 0.0
 ( 5) L8.ln_fi = 0.0   F( 5, 209) =  0.91    Prob > F =  0.4745
```

Appendix 2

Benford's Law Test

Benford's law is also called the first digit law. Benford's law states that in any series of data, the digit 1 tends to occur with a probability of approximately 30% and the probability decrease for the other digits (2 to 9) [http://matworld.wolfram.com/BenfordsLaw.html]

We use the Benford's law in our attempt to spot any manipulative actions over SIFs prices. We applied the test to SIFs daily returns; we applied the test to the 'original' series of returns, without taking into account the BVB closing days and to the 'extended' series where we included the closing days at BVB. For those closing days the return was calculated by dividing the first return which occurred after a closing period and this return was divided by the number of closing days.

The results show some differences, but not very important, as it can be observed in tables no.22 and no.23 .

Table no.22 – Benford's Law for 'original' series

	% frequency of first digit apparition						
	Benford Law	BET-FI	SIF1	SIF2	SIF3	SIF4	SIF5
Digit 1	30.10	32.54	37.37	32.83	42.80	39.05	33.36
Digit 2	17.61	18.69	16.86	21.59	14.40	17.52	20.96
Digit 3	12.49	11.73	11.21	11.78	14.40	12.19	12.32
Digit 4	9.69	9.44	8.57	7.14	5.70	6.57	7.63
Digit 5	7.92	6.88	5.74	6.60	8.60	7.33	7.08
Digit 6	6.69	6.61	7.57	4.73	3.80	4.38	7.35
Digit 7	5.80	5.20	5.01	5.53	5.50	3.05	4.50
Digit 8	5.12	4.76	3.46	6.33	3.30	4.76	4.41
Digit 9	4.58	4.14	4.19	3.48	1.50	5.14	2.39

Table no.23 – Benford's Law for 'extended' series

	% frequency of first digit apparition						
	Benford Law	BET-FI	SIF1	SIF2	SIF3	SIF4	SIF5
Digit 1	30.10	29.45	32.80	28.17	35.61	31.19	29.48
Digit 2	17.61	18.94	16.46	20.27	13.65	17.31	21.50
Digit 3	12.49	13.68	13.04	13.08	13.86	13.11	9.18
Digit 4	9.69	10.27	10.99	7.60	6.22	8.47	10.43
Digit 5	7.92	7.17	6.27	8.19	13.32	8.72	7.17
Digit 6	6.69	5.85	7.45	7.07	4.35	8.15	9.37
Digit 7	5.80	6.75	6.77	6.31	6.63	3.88	4.27
Digit 8	5.12	3.82	3.11	4.36	2.88	4.26	5.34
Digit 9	4.58	4.06	3.11	4.95	3.48	4.90	3.27

We completed this test results with the correlation coefficient between the returns at the moment t and at the moment t+1 (next day). The results are presented in table no.24. These are very weak and cumulated with Benford's law test results, we considered that SIFs prices were not manipulated.

Table 24 – correlation coefficient

	BET-FI	SIF1	SIF2	SIF3	SIF4	SIF5
correlation of return at t and return at t+1	0.110834	0.0102285	0.1172921	0.107239	-0.009579	-0.031775

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PROMOTION STRATEGIES AND THEIR EFFICIENCY IN THE CASE OF BRANDING TRANSYLVANIA AS A TOURIST DESTINATION

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ABSTRACT. The current paper is dedicated to present the promotion strategy (the international marketing and communication plans) and the evaluation of the branding implementation process [both referring to Transylvania]. The steps that we considered to undertake were the implementation of the brand and the communication strategies, the evaluation of the results, and the periodical adjustment of the strategy.

In order to be able to fulfill our objective of promoting the brand *Transylvania, the Heart of Europe – International Multicultural Ecotourism Destination*, we consider that three strategies are needed. For ensuring an efficient implementation of the strategies, we need also to consider testing and evaluating them.

Introduction

Our intent is to analyze the current situation regarding Transylvania's promotion as a tourist destination. Until now, none of the national, regional, or local authorities have considered to brand and to promote Transylvania as an international tourist destination. In fact, only a few months ago there have been initiated, at governmental level, a national branding strategy; but things are still at the beginning (in the phase of discussions) and nothing has been seriously undertaken. When it comes to the case of Transylvania, we need to state the fact that branding the region has not been considered.

Materials and Methods

Our research has focused on gathering information referring to the promotion of Transylvania as an international tourist destination. First of all we have analyzed specialized literature in order to identify the elements that need to be used in branding and promoting regions and places as tourist destinations. We have then focused on analyzing the statistical data referring to the numbers of international visitors who have come to Transylvania between 1990 and 2005. Another fact that has concerned us was to determine the numeric evolution of the region's international visitors. Then we have tried to determine the peoples' and

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region's identity, as well as the region's tourism potential, in order to be able to best positions the destination on the international tourism market. Determining the foreigners' perception towards the region has been another fact of high importance for our approach. Thus, we have made use of tools belonging to marketing, communication, branding, statistics, sociology etc. We have also considered varied evaluation methods, with the purpose of best implementing our branding, promotion, and communication strategies, and also to adjust the implemented strategies.

Results and discussions

Unfortunately, the main results that our researches have offered us show the fact that tourism promotion in Transylvania is not a priority of any of the authorities. The Romanian National Statistics' Institute has not made any studies referring to the international visitors of our region; the only data collected by the institution present the whole tourism activity of Transylvania. The great variety of natural beautiful places and the cultural heritage that Transylvania hosts, as well as the multicultural character of the region, grant us the possibility to consider promoting it as an ecotourist destination and also as a cultural destination. Until now, the authorities have made small efforts to promote the region, and only within the national strategies of tourism promotion.

Under these conditions, we may note that Transylvania's international tourism has not been a priority for the authorities and no one has ever considered elaborating any coherent strategy in this respect. Therefore, we believe it is necessary to take initiative. We would suggest establishing three different promotion and communication strategies and their evaluation possibilities.

The first one is going to be a short-term strategy; it will aim changing the foreigners' perceptions and attitudes towards Transylvania. The second is going to be a medium-term strategy; it is going to run in parallel with the first one (only during the second part of the first strategy); it will assess to launch Transylvania's region brand. First of all we need to change the publics' perceptions, and only after the first favorable results are to be seen, we may initiate the second strategy, that of promoting the region's identity which will sustain the previous approach. Finally, after having launched the region's brand, we may proceed to implementing the third strategy, a long-term strategy that aims to promote Transylvania as an international multicultural ecotourism destination, to strengthen and consolidate the brand, and to identify new co-branding opportunities [5, 6].

Phase 1 – the short-term strategy (6 months; it may be longer if necessary) will aim to improve the way Transylvania is perceived; its steps are:

⅄ the separation of Transylvania's image from that of Romania, which sometimes negatively affects it;

⅄ to discourage those who are multiplying sometimes negative image, created and promoted by dissatisfied international tourists, through the use of the power of positive examples; in this respect we suggest collaborating with the tourism

operators, in order to identify the satisfied tourist and the loyal ones (who constantly come to the region), and, with their agreement, to promote them as positive and successful examples;

⅄ the cancellation of the myth of foreigners' insecureness, by presenting the official statistics regarding felony and criminality (which in our country register lower rates than in the EU, USA or in other countries);

⅄ the promotion of the region's positive aspects: economic (stability of economic policies, monetary stability, high attractiveness of the region due to the optimal quality/price ratio), and political (governmental, political and social stability, respect of human/minority rights, foreigners' possibility to make investments in Transylvania and Romania – that, in our case, is the chance to buy or build holiday houses etc); these factors determine the decisions and choices of foreign tourists (according to some Romanian NTO's, these persons like to own their accommodation facilities, thus Transylvania might interest them due to its market conditions);

⅄ to exploit and to promote Transylvania's attractive quality/price ratio;

⅄ to point out the multicultural character of the region; promoting the values of multiculturality.

The messages of the campaign will focus on the fact that Transylvania has changed (the public ought to understand and learn that the stereotypes are not valid) and that it is European (geographically, socio-politically and from the tourism point of view).

Phase 2 – the medium-term strategy (a year and a half) – will run alongside with the first one, during its second half; it will focus on Transylvania's regional brand. The region's identity will be the main element promoted through the previously launched brand.

The main theme of the campaign will be the brand: *Transylvania – The Multicultural Heart of Europe, International, Ecotourism Destination*; the great variety of offers, objectives and beauty spots (all belonging to ecotourism) that the region possesses will also be promoted.

As possible taglines, we would suggest:

⅄ Transylvania, the Multicultural Heart of Europe;

⅄ From Portugal to the Ural Mountains, through Transylvania;

⅄ Natural and Multicultural Transylvania;

⅄ Archaic and Modern: Transylvania;

⅄ Transylvania, where Hospitality Was Born [5, 6].

Phase 3 – the long-term strategy (5 years) – will aim to consolidate Transylvania's assumed position – *Transylvania, the Multicultural Heart of Europe, International, Multicultural Ecotourism Destination* –, and to promote its tourism offers; it is going to start after the second one has finished.

The phase implies the elaboration of a long-term international marketing strategy for the ecotourism international destination; it will cover the next steps:

(1) The competitive analysis of the international tourism market: On this market,

there is a harsh competition; therefore, it is essential to position correctly and advantageously Transylvania, comparing with its main competitors. We wish to emphasize the opportunities offered by positioning the region as a multicultural ecotourism destination.

(2) Identification and selection of the existent and potential local attractions: The region's ecotourism potential must be exploited at its maximum capacity, emphasizing its multiculturality and the elements of the mix, which offer essential differentiation means; the studies undertaken by the Romanian NTO's are very useful in this respect.

(3) Identification of the target segments: This may be done according by using the following matrix: Segmentation Variables for the Tourists Market [8]

Desired attractions	Market localizations	Tourists' features	Advantages
Mountain, Sport	Abroad	Age	Price
Natural beauty/ Wild landscapes	- global range: USA/ Asia (Japan, China)	Income	Convenience
Recovery	- continental range: Europe (EU and non EU)	Families	Accessibility
Hunting	- regional range: neighboring countries	Single	Comfort
Culture/History/People	Seasonality: during the whole year	Practitioners of a profession	Quality
Events		Lifestyle	Food
Theme parks		Ethnic/Religious group	Services
Exclusivity		Seasonality	Diversity
Arranged facilities			Arranged facilities
Unique products			Region's character

Regarding present tourists, the following pieces of information will be gathered, by the tourism services providers, border authorities and tourism operators: *Where do they come from?*; *Why do they come?*; *Which are their demographic features?*; *How satisfied are they with the provided services?*; *How many of them are loyal clients?*; *Which is their expenditures' volume?*; *Which are the attractions they are interested in?*; *The length of the stay?*; *The visits' frequencies?* etc. [2]. These facts are also going to be used in the segmentation process.

(4) Coordination of the local authorities' efforts with those of the tourism operators: Coordination is an essential element of the promotion strategy of Transylvania's image as an international ecotourism destination; it has three components:

↟ *Development of tourism packages* – tourism operators include in their offers the objectives promoted by the local and regional authorities, thus the public administration has to consider investing in local patrimonies and infrastructure;

↟ *Promotion of tourism destinations* represents the effort of the collaboration of

the authorities with tourism operators for advertising certain areas or objectives; it depends of the authorities' willingness to invest money in promotion activities;

✦ *Providing for sustainable tourism* is the result of the first two actions, and assumes the definitive entrance of beauty spots in the tourism circuit [2].

(5) International marketing – promotion strategy: "Tourism destination international marketing is *the effort of a team*" [2] and is carried out by different communication means and with the support of stakeholders. There are several actors of the urban marketing [8]. Adapting this list to region branding, we may present the actors of the region's promotion:

✦ Local actors: the mayor and the city hall's employees (services of: tourism, culture, education, transportation and cleaning); the bureaus for tourism, conference organizing, and public information.

✦ Private sector actors: the region's promoters; tourism agencies and tour-operators; professional associations of service providers (accommodation and alimentation); travel agencies; economic institutions and agencies; other economic agents (from the small investors, to utility providers and multinational companies that have businesses in the area); taximeter/cab companies, water transportation (normal and motor boats, ships, hydrobicycles etc), old fashioned transportation (slow miniature trains, carriage) or traditional transportation (wagon, cart, sledge).

✦ Regional actors: prefects and county councils' presidents and employees of their institutions; regional agencies for tourism development and promotion; regional tourism bureaus and offices.

✦ National actors: central public administration representatives (especially the Tourism Ministry and the Romanian National Agency for Tourism); the National Development Agency; the country's NTO's (National Tourism Office) and National Tourism Associations (Romanian National Association of the Tourism Agencies; National Association of Rural, Ecological and Cultural Tourism; Romanian Federation of the Hostelling Industry; Romanian Federation of the Tourism Patronages) etc.

✦ International actors: the country's embassies and consulates; the public administrations of settlements fraternized with Transylvanian towns/villages; the Romanian Diaspora; the international tourism agencies, the tour-operators, and the travel agencies; the international tourism associations; the foreign partners; the *lobby* and *advocacy* groups.

Offices for tourism, conference and workshops organizing can usually be found in big cities [8] but we consider that, in our case, they can also appear at a regional level, because they are separate institutions that handle ordinary tourists, respectively business tourists; most of the time they compete each other for public financing.

Another aspect extremely important for any brand and marketing strategy is the promotion budget. Due to reasons linked to the impossibility of obtaining all the information regarding the real costs of implementing such strategies, and because of the area's complexity, we consider that we should not dare suggest a

promotion budget. It is a known fact that the important media packs bought by governments are negotiated at top levels [for example, the huge scandal, that tied Ion Iliescu's name to the album *Eterna şi fascinanta Românie*, financial situation not yet clarified], and only people responsible of such tasks know the exact costs.

We shall only show that, in the case of each stage, there are personnel costs; organizational and logistic costs; evaluation costs (past, present, and future events); advertising and communication costs; payment costs – for the collaborators; traveling costs, relevant for the region's branding process etc.

In order to cover these costs, there can be identified several financing sources: budgetary (national/state budget) and non-budgetary (nonrefundable funds from the EU, EBRD and from other institutions; PHARE funds; a part of the costs may be covered by tour-operators, tourism agencies and all the direct and indirect beneficiaries of the branding campaign). Alternative financing sources are also to be identified.

In the strategies' designing, one should know that these have to be very flexible, in order to easily and fast adapt them to any changes, and to be able to make necessary corrections, in case there appear errors.

The next aspect we need to focus on is choosing the communication and message promotion channels; we have considered identifying them for each of the phases [5, 6].

For the first phase we have chosen the following promotion and communication means:

⚔ All formal and informal communication channels of the national, regional, and local authorities shall be used;

⚔ The Saxons are a very important asset for Transylvania's promotion;

⚔ Diaspora and international lobby and advocacy groups are to be used;

⚔ Advertising in written international media (*Financial Times*, *Fankfurter Zeitung*, *Le Figaro*, *The Times* etc – the main papers that are distributed in airplanes and trains, and that are usually read by most of the foreigners); thus, twice a week, for 6 months, there will be published positive articles (advertising interviews and reportages) referring to Transylvania's evolution; at the same time, advertising space will also be bought, in order to publish ads created on the region's brand essence (multicultural ecotourism international destination); advertising in the *National Geographic* (monthly magazine) will also be considered for the same time span of 6 months;

⚔ TV advertising: a 30 second TV spot will be created; advertising time will be bought on the following channels: Discovery network (Classic, Civilization, Travel and History), National Geographic, TV5, BBC, CNN, Euronews and Eurosport, for a 6 month long time span, twice a day, on Sundays and Saturdays; advertising interviews and reportages will also be used;

⚔ Radio advertising: 30 seconds spots, thrice a day, on the main radio stations from the EU, USA and Asia; BBC will for sure be one of them, due to its high credibility and quasi-global coverage;

⋏   On-line advertising: a web site is going to be created and launched; it will be linked to the ones of the local and international tourism operators, government, ministries and public agencies and institutions; the promoted idea will focus on the fact that Transylvania changes regarding offered services' quality, and also on the region's brand – the promotion of an international, multicultural, ecotourism destination.

For the second phase, we have considered a similar promotion and communication strategy, as follows. A 30-second long TV spot will be advertised under the conditions above. The spots are going to focus on the promotion and illustration of the multicultural character of the region and on the promotion of Transylvania's ecotourism patrimony. The sound/musical background may be based on traditional and folkloric creations, interpreted by the artists of "Transylvania" State Philharmonic or of the Transylvanian String Quartet.

Other promotion instrumentss would be the creation of a web site for the region, this time focusing on ecotourism; the strategies regarding this site will be similar to the ones previously presented. The site is also going to offer a discussion forum on a given topic: *Transylvania, the Multicultural Heart of Europe, International Ecotourism Destination*. In this case too, we consider using the members of the Diaspora and all the other formal and informal communication channels. Moreover, local authorities will also play an important role in the promotion of the region's brand – due to their fraternization projects – etc.

A very useful way to realize the promotion of tourism destinations is to include them in the manuals published by prestigious editing houses. Cultural and artistic events are also important for the promotion of an ecotourism destination.

Finally, for the third phase – the most important one – we have identified the following international communication channels:

⋏   *Formal channels* are specific to the state and administration institutions;

⋏   *Informal channels* are based on settlements' relationships of fraternization;

⋏   *Media channels* (international TV stations, national and regional TV stations that also broadcast internationally; radio stations – especially, BBC; written media – we have already detailed these aspects in the above paragraphs);

⋏   *Ethnic communities* (Hungarians and, especially, Germans who left the region and established abroad; and the Romanian Diaspora); they constitute another important resource for the promotion strategy;

⋏   Romanian NTO's (National Tourism Organizations) opened on the main target markets (EU, USA and Asia);

⋏   Bureaus for tourism and tourism information offices (in Transylvania and in Romania);

⋏   Associations of national and international tour operators, and their specific means of communication;

⋏   Internet – the most advantageous means of communication; it offers global coverage at minimum costs;

⋏   Tourism fairs and exhibits – one of the most important means of communication

and promotion for tourism destinations (we shall focus both on global fairs, as well as on regional and local ones);

⚔ Tourism workshops and seminars – very efficient communication and promotion instruments for tourism destinations;

⚔ Trips for journalists offer the possibility to promote the region through the representatives of the media – who due to such trips, they get the chance to visit and discover the region, and then write about it;

⚔ Trips for opinion leaders generate similar effects as the ones above;

⚔ Advertising tourism through philately may represent another solution for the region's promotion; postal cards and stamps are typical materials that can be produced – with the theme: *Ecotourism in Transylvania*; evidently, such an approach has a limited impact at the level of people who collect stamps and cards; also a more important effect is generated at the level of the persons who still use classical correspondence.

The following advertising materials are going to be used: leaflets, brochures, maps, tourism guides etc. We are proposing 30-second TV spots that will periodically be adjusted in order to promote the region's very diverse tourism offers. These are going to be presented during the first 11 months of the first year (out of the 5), three times per week (of which at least once during the weekend), twice a day, on the above mentioned TV channels. During the last month of the first year, there will be created a reminding 30-second TV spot, which will contain information and images from the previous ones; advertising frequency will be the same as before. Audio spots are going also to be created, similarly to the previous cases. Ads are going to be inserted in written media: advertising materials, interviews and reportages, twice a week, in the above-mentioned publications. Authorities are going to permanently actualize the web site: *Transylvania – International Multicultural Ecotourism Destination* that will offer varied information about the region and about ecotourism, and also about the mentioned discussion forum; the site is going to give the possibility to evaluate several aspects: the region's and campaign's degree of notoriety; the level of tourists' satisfaction; the rating of facilities, services and objectives. This strategy will also focus on identifying co-branding opportunities.

Further on we are going to focus on presenting the measurement possibilities for the efficiency of a region's branding promotion campaign. This is actually the last step of the region's branding process: evaluation of results and the continuous adjustment of the strategy.

Evaluating the whole impact when creating and promoting the region's brand: *Transylvania – the Multicultural Heart of Europe, International Ecotourism Destination* can only be done after 8 to 10 years form the brand's launching moment. Still, beginning with the first steps of this complex process we are going to be able to measure the effects generated by the different implemented strategies (of international marketing, of international communication etc). We may measure

their impacts generated upon the targeted segments, by the periodical quantification of the international visitors' number who travel to Transylvania.

The evaluation of Transylvania's region brand's efficiency will focus on the brand and on the positive image that it manages to promote through its implementation. The feedback of the international marketing and communication campaigns, realized with the purpose of promoting Transylvania as an international multicultural ecotourism destination will cover the used promotion strategies.

For evaluating the effects of the promotion of a tourism destination, we need to take into consideration at least the following aspects:

⚔ Quantitative and qualitative evaluation, through monitoring the way in which the international media have managed to perceive the essence of the communicated messages and the way in which they have further transmitted these messages;

⚔ Quantitative and qualitative evaluation, with the help of the opinion polls, surveys, inquiries, interviews and focus groups; these will aim to determine the way in which the target have perceived the messages of the promotion campaigns, conducted through the written instruments of communication and through the TV and radio advertisements; another aspect that needs to be evaluated regards the way in which the branding campaign's messages have improved the perception of the foreigners concerning Transylvania;

⚔ Opinion surveys and inquiries among the foreign visitors of Transylvania;

⚔ Using the Internet as the main instruments for collecting information referring to the effects of the initiated attempt to promote Transylvania as a tourist destination; for our specific case, the Internet represents a very efficient media, due to the low costs of using it but, still, it also implies a disadvantage that needs to be taken into consideration: not all the tourists use virtual networks;

⚔ The e-Mail may also be used both for promoting the region and for carrying out inquiries but its main inconvenience is given by the fact that the users may consider that these messages belong to the category of *spam*;

⚔ Tourism services' providers, tourism agencies, national and international tour operators, and the custom and border authorities can be used. We would need to focus on gathering information and data concerning the following facts: the reasons that have determined the tourists to choose Transylvania as a destination; the degree in which Transylvania's promotion campaign has influenced their decision; their level of satisfaction; their intent or wish to return here; their negative experiences (in case there were any); their desire of having certain facts changed; the measure of their agreement with the way the region is promoted abroad; their agreement to be involved in the region's promotion (as positive examples);

⚔ Evaluating the situation at the place of the targeted publics – by realizing inquiries, surveys, and interviews at the tourism fairs and exhibits where Transylvania is promoted as an international tourist destination;

⚔ Collecting information through the Romanian embassies and consulates, through the NTO's opened abroad;

⅄   Quantitative measurement of the persons who have accessed the promotion sites of Transylvania as an international multicultural ecotourism destination; as well as the qualitative evaluation of the messages posted on the discussion forums;

⅄   The best indicator of the success of the strategies' implementation is given by the increase of the foreign tourists who choose Transylvania as their destination;

⅄   The increase of the length of the stays of the foreign visitors in Transylvania, may also be considered an indicator for the measurement of the success of the promotion campaigns;

⅄   The increase of the number of international visitors during the times of different cultural, folkloric etc. events offers us another instrments to evaluate the impact of the promotion of the destination through ecotourism.

The evaluation or feedback of the international marketing and communication campaigns, carried out for the region's promotion, will focus on the strategies that have been implemented. Evaluation methods used here will be: continuous, during the implementation, and final tests. The evaluation during the implementation process is extremely important because it helps to identify problems and errors of the implementation process, and to make the necessary corrections, thus granting the maximum flexibility of their implementation. We would like to present the usual measurement methods of promotion campaigns, because we believe that they are appropriate for each of the three strategies we have suggested.

Burnett and Moriarty consider that in order to determine the impact of promotional activities, it is necessary to identify the answers to the following questions: *What should be tested? Is it worth testing? If yes, when should it be tested?* and *How should it be tested?* [3]. We believe that in our case the following aspects should be tested: the relationship between the increase of the region's notoriety and the decisions of the tourists to visit it; the measure in which advertising has managed to change the target publics' perceptions; the evaluation of the chosen communication instruments' efficiency; the relationship between the competitors' evolution on the market and the region market share development; the communication efficiency, through the analysis of the communication factors [the variables of advertising messages (title, words, music, visual elements, color, shape), the variables of information sources (the popularity of the persons who present the information and messages etc), the variables of communication channels (mass-media, Internet, outdoor advertising, billboards etc; in these cases, there will be both a quantitative and also a qualitative analysis) and through the analysis of behavioral factors (intention to buy; respectively, intention to visit Transylvania, and brand loyalty, as well as loyalty towards the region – as a tourist destination – by determining the number of stays intended to be made here)] [3].

Referring to the second question, we consider that all the above actors are worth to be tested, even though such an activity implies certain costs; it is obvious that these costs are lower than the ones of the campaign implementation. In the case of testing procedures absence, errors may occur. If errors are not identified

and corrected, they may lead to important image and financial costs. The moments of the testing, as already shown, are supposed to be before, during and after the region's promotion campaign. Referring to the last question, we are now going to present a few testing methods.

Evaluation of advertising activities' efficiency is very important for the correct implementation of the strategy; it assures a smooth carrying out of branding and advertising processes. A first aspect that needs to be taken into consideration is the measurement of the advertising campaigns' efficiency. For this we can consider determining the following indicators: the cost of the advertisement per thousand (CPT or the cost of the advertisement for every 1000 targeted tourists, per each instruments of communication), the percentage of public touched by each means of communication, the publics' opinion referring to the contents and the efficiency of the advertisement, and the cost of one request of information; residual effects of the advertising campaign also need to be tested etc [4]. The elements that are usually used in the research of the efficiency of advertising are: media factors (coverage, GRP – gross rating point, CPT as against the target public, the average frequency and the frequency's distribution), sources of the audience's determination, evaluation of the effects of communication (degree of remembering, degree of exposure to advertising, advertisement cognition and the attention granted to advertising) [4].

Communication instruments that have been used need to be evaluated from the following perspectives: their capacity to reach the target public, their capability to send out the messages and their capacity to valorize the message [4].

Measuring of the efficiency of Transylvania's promotion campaign will develop at the following stages: pre-testing, testing during the campaign and post-testing. The pre-test measures communication and behavioral factors; it can be carried out through different methods.

A first method is offered by the measurement of the opinion or of the cognition [4]. This is based on the use of sociological tools, especially the questionnaires. It aims to determine the degree of the public's familiarization with Transylvania. There can be used three different types of questions: "Have you ever heard about Transylvania?", with the "Yes/No" answering options; "Are you familiar to the tourist destinations of Central and Eastern Europe?", with complex answering options; or "How well do you know Transylvania's tourism offer?", with scaled answering options: "Very well/Well/A little/Not at all". We suggest using this method because it offers two advantages: low costs and fast implementation [4].

Another approach is given by the use of laboratory methods; these ones measure emotional experiences generated by advertising (galvanometer, pupilmeter, audiometer, tacheometer, diaphanometer, and eye chamber) [4]; these methods are very difficult to be used and a lot more expensive, therefore we do not suggest their use in our case.

Psychological measurements evaluate the subliminal level of the advertisements' perception. The most commonly used tool is the unstructured

interview, with durations between one and three hours; focus groups can also be used; other techniques may also be used: visual tests, narration tests, words' association tests, and tests of sentences' completion [4]. We believe that these methods can be periodically used to measure the efficiency of Transylvania's promotion, because they imply moderate costs and offer consistent information.

The second method, testing during the carrying out of the campaign is of high importance, because the information gathered together during this time span permit the readjustment of the messages and to correct the strategies. A first way to carry out this method is the use of aleatory inquiries. These are specific to the research of cable TV users; a number of persons are telephonically asked if they watch a TV commercial that is running at that moment, on a certain TV station. We believe that the use of this method would be benefic in our case. Another way to realize this kind of testing is offered by the supervision of the attitude; it is carried out by: semi-structured interviews, options' lists, semantic differential or straight questions with simple answers. These methods could be also used in our case but they are not the most appropriate, because they have the following disadvantages: long durations for gathering of information; relatively inconsistent information etc. We believe that recording researches, as methods of testing (during the process and after it) are very useful to our case. These ones consist of the supervision of buying activities of target publics; these information are then put against the costs of promotion activities [4]. From this perspective, tourism offers a great advantage when it comes to measuring the efficiency of Transylvania's promotion, through the possibility to quantify directly the region's international visitors, to ask them questions in order to verify the measure in which their decision to visit the region was influenced by the promotion activities.

The last phase is the post-testing; this method aims to analyze communication factors and behavioral factors. Referring to the measurement of the communication factors, there are three ways to carry out this process. First of all, there is the measurement of the remembrance degree. This is the most commonly used method when it comes to measuring efficiency of advertising, because it evaluates both, the remembrance of the advertising theme and also the association to the promoted product, as well as the comprehension and credibility of the advertising message [4].

The post-testing method can be carried out either assisted or not assisted. It permits to verify the way in which the impact of advertising has raised or decreased. There are several problems related to this method: the confusion of and mistaking the promoted products; the recognition of the message during the interview is different from the one registered during the moment of the buying; the danger of misinterpreting the results. There are two other tests: the *Day After Recall* tests (carried out the day after the advertisement has been run; interviewed persons are asked to mention whether the previous day, they had been in front of their TV's, and whether, they had watched the commercial; they are then asked to: remember it without any help or with few hints, and then to detail it); and the *sort*

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and count tests (these ones consist of the sorting and counting the advertising correspondence received from the targeted public) [4]. The last method offers the possibility of gathering low cost information; it is still a known fact that only very few persons respond to such promotion activities. Anyway, we believe that these methods can also be useful for the measurement of our strategies' impact.

Regarding post-testing behavioral factors', there can be identified two methods. The first one is the post-exposure interview test that verifies the efficiency of the advertisements through the questions addressed to the people who have watched them [4]. We consider that the second method is the most appropriate to our case; it is the measurement of the results referring to sales (in our case, the number of international visitors who come to Transylvania) before and after the advertising campaign. In our case, the measurement can be carried out by quantifying the foreign visitors who come to our region.

Conclusions

To conclude, we may state that Transylvania definitely needs to be promoted as an international tourist destination. In this respect, we have suggested three different promotion strategies that are needed in the case of Transylvania and we have identified the communication channels we consider useful for carrying out our messages. The results that we have obtained through our researches have helped us identify the present day situation. We could thus offer solutions for promoting, communicating and evaluating our approaches. As we have already mentioned, different evaluations will be carried out at the beginning, during and after the implementation of the strategy. The pre-tests are meant to establish the starting point of the strategy (it is the most important landmark, in comparison to which we may establish and measure the success or fail of the strategy). The tests during the processes' implementation aim to correct, adjust and modify the strategy. The post-tests focus on quantifying the whole impact that the strategy has generated over the target public.

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THE FRAMEWORK OF GLOBALIZATION

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ABSTRACT. Globalization is a stage in the general process of political, economical and cultural development of mankind.

A few decades ago, Marshall McLuhan spoke about "the world wide village", synthesizing with this expression the essence of the phenomenon; he also mentioned the nowadays technology that makes communication easier, accessible, reduces distances, enhance integration of the financial and commercial markets, the globalization of manufacture processes, the development of transnational identities.

Globalization and consequently, the growing competition, are becoming obvious on all the markets of the world, and therefore it stimulates all the organizations to be flexible and adopt adequate structures for each and every market. Under these terms, the success of an organization is the result of a thorough understanding of the environment to which it belongs and of a successful implementation of these strategies and organizational structures that suit this situation.

When it comes to the multinational companies, the concrete establishing of the organizational structure can be done only if we take into account specific details and if we analyze the parameters that influence them, such as: the environment dynamics, the diversification range of the business and the business expansion in foreign countries through the number of branches abroad. The size of a company is no longer considered an advantage; therefore the strong point of a firm will be 'the adequate size in order to handle successfully the competitors' and the latest progresses/successes achieved by the small firms sustain this statement.

1. Introduction

P.Worsley stated that "the human society did not exist until nowadays", which means that it is only nowadays that we can speak about different forms of associations that are spread all over the world, in the sense that not all the possible actors were on the stage until now. The global system is not only an environment in which other societies develop and advance. Social, economical and political boundaries that cross the borders between states have a major influence upon each nation.

Fifteen years passed since the collapse of communism in Eastern Europe, and this is a period long enough for us to start a proper evaluation upon the causes of the failure of a system of the Soviet type, and upon the impact of the changes brought by the system on the global evolution. Reforms in Eastern Europe have surfaced the importance of two major processes that were obstructed and disrupted after the 2nd World War: integration and globalization.

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Everything seems to concern this "new ideology", globalization that has created new and different lines of development, in different environments, all over the world. In connection with this theoretical controversies and adversities arise. Some people are extremely enthusiastic about it, others are not. Due to the collapse of communism, we witness a major change in the functioning/developing of the process. I am talking here about the transition from globalization in which national states are the actors, to the globalization in which major political and economical blocks, such as the European Union or NAFTA, have the leading roles. Therefore, a new area is about to be opened for the industrial and commercial strategies. The re-opening of the world wide market (after the collapse of communist regimes), the re-engaging of a constant economical competition, the failure of the exclusive hegemony of the American capitalism, the decline of the socialist alternative and other factors have determined the states/ governments to seriously re-evaluate the role they used to play in the 30s and which consisted in protecting, guiding and even planning the investments.

The rising of the degree of dependence and of the integration of economies suggests the idea that new devices and mechanisms aiming to correlate all processes at a global scale have to be created in order to efficiently balance economical crises, to stimulate economical growth and to share as fairly as possible the benefits of development at a world wide scale.

2. Material and method

Globalization represents/ is a stage in the general process of political, economical and cultural development of humanity. This phenomenon is defined by several aspects.

As we mentioned, few decades ago, Marshall McLuhan spoke about "the world wide village", synthesizing with this expression the essence of the phenomenon; nowadays technology makes communication easier, accessible, and reduces distances, enhance the integration of the financial and commercial markets, the globalization of manufacture processes, the development of transnational identities.

However, we cannot be sure about the long term effects of globalization on the international community, but it is obvious that its impact is both positive and negative. The positive aspect is that globalization will increase communication between countries, which will consequently offer new opportunities for the development of civilization, especially concerning economics. The intensification of commercial exchanges, the increasing exchange of information regarding investments and technology, facilitating contact and being acquainted with the cultures of different nations have a benefic influence upon our civilization.

The discussion regarding globalization does not have to be separated from two processes of the former decades. We are referring to the collapse of the communist system, which meant a geographical expansion of the market economy. Secondary, we are referring to the neo liberal reforms from Western Europe, Latin America. This state of mind and action concerning public politics was encouraged by specialized international organizations which pleaded for the opening of internal financial markets, privatization and liberalization of commerce.

Something similar with what we call "globalization" is to be encountered before the First World War, when the world was divided among the main economic powers, becoming more homogenous and easy to control. The First and the Second World Wars, the revolutions that followed as well as the process of decolonization generated a slow down of the process globalization.

The emphasis on the social and economical differences has turned into a main source of global instability, due to its direct and indirect effects. This also happened in a period when the world's economy registered unparalleled growth. The global manufacture of goods has increased more than 7 times in the last 50 years. During the same period, the gap between the rich countries and the poor ones also increased. Moreover, the difference between the income of the rich and the poor is obvious even in the rich countries, threatening social tranquility. Something else is to be added to these differences: it is the discrepancy between the ones who have access to knowledge and information and those who don't, which is a penalizing aspect. In a world where wealth depends upon knowledge, innovations, new technologies concerning communication and information, the education and the quality of professional training are becoming decisive in the process of economical development and the gaps' reduction.

The free market has always generated social differences and has determined the need for the existence of social politics, developed both at a national and at a worldwide level, favorable to the ones in need and reducing of the gaps. It is up to the international organizations to find new ways for diminishing the great gaps between the rich and the poor countries.

There are several types of discourses regarding globalization, which can be connected to intellectual propensity, to group or community interests, to the tendency/mood of the age, and last but not least, to the developing/progress of events. There are also different ways of approaching the subject. There are the fundamentalists, not necessarily very influential, who either support globalization without any doubt or completely reject it. Some authors sustain this process, but emphasize the need for institutional and mental adjustment, which implies major costs. Others do not reject globalization, but simply prove that the process is full of contradictions and that it requires a proper managing.

There are several lines of development in the debate concerning globalization: the functioning of the financial and international commerce system, as well as the problem of the poor and inequality in the world.

First of all, globalization is a geo-economical process. Second, it is a geo-political and geo-cultural one. This process does imply not only proximity, an integration of the economies of several countries. The qualitative characteristics of those economies change, because they are no longer close systems, but have turned into pieces of a worldwide system. The notion of "national economy" itself is changing. A transnational corporation becomes the most important institution that sells goods/ services wherever are convenient, even if this means crossing borders.

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Globalization brings amazing opportunities, which have given some countries the possibility to capitalize on their markets opening and to assimilate new technologies. This is the case of some South and East Asian countries, especially when they are not prematurely open from the financial point of view. India also, in the last decade, through reforms, succeeded to become a positive example. Some analysts hurried in noticing the development of the most numerous democracy of the world.

Globalization stimulated and stimulates the international commerce and the production activities distribution, based on logic of the comparative advantage, applied to the global scale; it generated a significant increase of the companies with global activity.

We must not forget the fail of the totalitarian systems in Europe and partly in Asian countries. In China and Vietnam, the political systems, under the pressure of economic reforms, are becoming similar to those from other Asian countries which evolved in a positive manner in the last decades. Without losing their totalitarian reflexes, the governments from Beijing and Hanoi must be pragmatic in order to manage the coordinates of their economies which now are using more and more market mechanisms in order to allocate the resources and remunerate the production parameters.

Only a few themes are so much disputed as globalization.

Another theme under debate would be that of a uniform technological progress, that means equalizing the world's technological and economic conditions – after the logic of the neoclassic thinking. There are solid theoretical arguments and also empirical evidence which put this idea under question. This thesis of equalizing the economic conditions is not valid inside the financial markets.

Another thesis states that the globalization was the source of the economic progress in the last 50 years. This phenomenon is the result of technological evolutions, of commerce policies liberalization and of financial markets opening. Robert Wright, in his work: "Non – zero" establishes a correspondence between the progress of the mankind, as a dynamic of a game with a positive result, and globalization.

In this context, advantages of economic integration must be taken into consideration. In a world of imperfections and asymmetries, integration must be managed for the advantages to show up. This conclusion stands also for Romania which finds itself under the pressure of European Union and which also wants to join this economic and politic club. But the integration can not be automatically done and can not take place without a strategy that must consider the asymmetries and the weak aspects in the same time.

In the last 20 years, we witnessed to a substantial increase in the living standards of many countries. But, those benefits which were won, can be also lost. Many say that the problem of globalization is its lack of "human face". Probably, they are trying to say that the benefits of the globalization ignore the direct effects on people. It is obvious that commercial exchanges generate economic development. If during the 30's, the economies from Europe and North America exploded, during the 50's and 60's, the commerce obstacles have considerably decreased.

The American scientists Jeffrey Sachs and Andrew Warner from the Harvard University made a study in which they revealed that the countries with a developing open economy had in 1970 and 1980 an increase of 4.5% per year, and the countries with a centralized economy had an increase of 0.7% per year.

The fact that the globalization is considered to be a phenomenon which pushes the human aspect into the dark, it is mainly because the simple person has not a direct benefit from it. The globalization brings benefits not only to Wall Street businessmen or to managers and clerks, but, after some British scientists, also to everybody with a comfortable pension, because the savings can be spent rationally across the land and even the world. We are the ones who speak on Norwegian mobile phones, who are using Japanese cameras, driving American or German cars, drink Columbian coffee and wear Asian clothes. Among us, there are poor people who buy cheap food and clothes. These are the Indian program developers who can sell their work to big American enterprises and who can earn enough to assure their children decent education and medical treatments. These are also the people from poor countries who could enjoy certain opportunities through commerce and technology, for a better life. French farmers sell fruits in England, workers from Bangladesh make clothes for Europeans, and the Brazilian coffee farmers have spread the aroma all over the world. All these people build the real globalization.

It is true that poor countries standards can not be compared to those of reach ones. It is a tragedy that 1.2 billion people – a quarter from the world's population - survive with less than 1 USD per day, and around. 1.6 billion people live with an income of 1-2 USD per day.

Reducing such an extreme poverty is a priority for all countries. Of course, it is easy to say. But we can learn from other countries example which once had a developing economy and now, they are considered reach countries. South Korea is an example. Thirty years ago, it was a poor country, now it is as reach as Portugal. We also can mention China, where 100 million people outran poverty in the last 10 years. What have these countries in common? The answer is simple: the open commerce.

The countries with a developing economy which realize an economic growth similar to reach ones, are countries which are opened their market to the commerce; the more they are opened, the faster they reach their purpose.

The World Bank statistic shows, analyzing the economic activity of 80 countries in the last 40 years, that this market opening has reinforced the economic growth and the poor people incomes are symmetrical with the total increase.

3. Discussions

As soon as the market obstacles will fall, the competition with foreign enterprises will force local firms to specialize in more familiar fields, in order to gain more efficiency. Those who will not succeed in adapting to these new conditions, will have to reorganize or to disappear.

For Romanian firms and for East European market also, the globalization, from economic point of view, represents a chance to develop their products, to gain new markets, and to qualify their work force. On a global market, dominated by multinational companies, which posses impressive financial resources, technological and human forces, the chance for the Romanian enterprises to resist and to remain profitable, is to speculate the market niches.

If in a centralized economy, like those from the former East European communist block, the main role of the firms was to produce, regardless the costs. Now, due to globalization and the economic reforms, things will change.

The commerce liberalization, and new technologies, generates changes.

How globalization would help the Romanian companies' development, or, why the globalization is a positive thing for the firms across Europe and Romania? Multinational companies, from all over the world, from USA to Asia, are concentrating on big market segments. Because they produce on a large scale, it is not profitable for them to concentrate on the small series production. Otherwise, market segments will remain uncovered - they are small firms which need special products. And here is the opportunity for Romanian companies. We must speculate these niches. If they would do their homework, reducing the costs, respecting a technological discipline, changing the employees' mentality, there exists the capacity to design and create unique products, in small series.

These market niches exists in all fields, they only have to be discovered. The small and medium size companies, which are flexible and produce items with small costs. So, competition is born and economic growth should follow. If a Romanian company wants to remain on these market niches, it must develop continuously, it must change its mentality and keep up with technological novelties. And competition brings welfare and development. There is room for everybody on the market.

If globalization means a civilization stage that will permit a "dialogue between civilizations", we must have the intellectual honesty to accept there are no methods in place to prove that this stage does not exist. There is not a general 'recipe' to conquer these niches. Romanian companies will do it in their way, the German ones will speculate it in another way. Diversity exists, but the attempts to homogenize the national environments do not automatically assure the economic convergence.

4. Conclusions

Globalization creates amazing opportunities and brings huge progress in certain fields. Economic discrepancies and asymmetries resulting from international economic partnerships that do not always bring equal gains, require a management of globalization as well as corrections in institutional structures, which settle financial and commercial tides.

Reach countries which have the leading role on the global market, have a huge responsibility in coordinating the economic policies, as long as their economy evolutions are synchronized.

The important growth of small companies in most of the countries all over the world, represents the result of the advantages which these companies posses in their competition with big companies: dynamism, easy accommodation, crisis resistance capacity, potential of economic increase and new jobs creation. The successful combination of new technologies with the existing ones and generating new ones, allowed new preferences and needs satisfaction and also, superposition of same opportunities for different firms. For a company, to be big is no longer an advantage, so that in the future, the strength will be " the adequate dimension to successfully handle the competition".

Globalization has an enormous potential to generate development. The UNO General Secretary, Kofi Annan said: " I believe that poverty comes not from excessive globalization, but from its insufficiency".

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