

# S T U D I A

## UNIVERSITATIS BABEȘ-BOLYAI

### NEGOTIA

#### 1

---

EDITORIAL OFFICE: Republicii no. 24, 400015 Cluj-Napoca ♦ Phone 0264-40.53.52

---

#### CUPRINS - CONTENTS - SOMMAIRE

DJULA BOROZAN, SANJA PFEIFER, Unveiling Croatian International Competitiveness Through Export Performance .....	3
ILONA OBRŠÁLOVÁ, SIMONA BÖHMOVÁ, MARCELA KOŽENÁ, ROBERT BAĀA, Environmental Accounting at the Corporate-Level .....	15
ELEKTRA PITOSKA, Networking and Cooperation of Small and Medium Sized Firms in Cross - Border Regions .....	23
SDROLIAS L., SIRAKOULIS K., TRIVELLAS P., POULIOS T., Applicability of Project Management Techniques in Smes: Evidence from Greece .....	41
JAN STEJSKAL, TOMÁŠ VLASÁK, Business Climate Survey in Romania Results and Analysis .....	51
GH.GH. IONESCU, CLAUDIU EMIL IONESCU, About the Marketing - Design Relationship .....	63
MAGDALENA VORZSAK, CRISTIAN CHIFU-OROS, Strategic Management Problems for Romanian Tourism Companies - a Short Inventory.....	71
CORNELIA POP, SMARANDA COSMA, Cluj Hotels' Distinctive Features .....	79
NICOLAE MARINESCU, Empirical Research on the Economic Efficiency of Trade and Tourism Smes in the City of Brasov .....	91

ADINA NEGRUSA, CLAUDIU IONESCU, Design Implications in Creating a Competitive Advantage for Hospitality Small Business .....	99
MARIUS BOTA, The Impact of the Accession to the Ue on the Romanian Textile Industry.....	109
ELENA-BIANCA NEGOMIREANU, The Agricultural Field - from sustenance to Development.....	115
MARIA – ANDRADA GEORGESCU, Leasing, Capital Structure and Debt Displacement .....	121

## UNVEILING CROATIAN INTERNATIONAL COMPETITIVENESS THROUGH EXPORT PERFORMANCE

DJULA BOROZAN<sup>1</sup>, SANJA PFEIFER<sup>2</sup>

**ABSTRACT.** Exports attract special attention in the economic literature and practice due to its contribution to the stability and long term development of any economy, particularly small one as Croatian economy. Also, its role is additionally augmented in the contemporary context of increasing global competition.

The multifold contributions of exports are particularly evident in accelerating of economic growth not only directly through production, but also indirectly, through facilitating the imports of goods and services, transferring and spreading out of new ideas, knowledge and technologies, i.e. through forcing all stakeholders to more innovative behavior and increased productivity. Furthermore, it contributes to resolving of macroeconomic problems like unemployment and external debt which is of significant importance when their current dimension in Croatia is considered. Export volume and structure portray export performance of an economy and indicate the level of its international competitiveness.

Export performance of Croatian economy is extremely weak, implying at the same time its poor international competitiveness. The main purpose of this paper is to explore the reasons for such weak export performance as well as to discuss issues facing the export enterprises in Croatia. The special attention is given to the exploration of small and medium sized-enterprises' contribution to the total Croatian exports.

**Key words:** trade performance, competitiveness, Croatia, export enterprises

### 1. Introduction

Exports attract special attention in the economic literature and practice due to its contribution to the stability and long term development of any economy, particularly small one such as Croatian economy. Also, its role is additionally augmented in the contemporary context of increasingly powerful global competition.

The multifold contributions of exports are particularly evident in accelerating of economic growth not only directly through production, but also indirectly, through facilitating the imports of goods and services, transferring and spreading out of new ideas, knowledge and technologies, i.e. through forcing all stakeholders to more innovative behavior and increased productivity. Furthermore, it contributes to resolving of macroeconomic problems like unemployment and external debt which is of significant importance when their current dimensions in the most of the Central and Eastern European (CEE) countries are considered. Export volume and structure portray export performance of an economy and indicate the level of its international competitiveness.

The competitiveness of nations is a vague concept. There are plenty of definitions trying to explain its meaning (see for review Garell, 2003, Annex II). The following one is usually

---

<sup>1</sup> Professor, J.J. Strossmayer University in Osijek, Faculty of Economics in Osijek, Croatia, borozan@efos.hr

<sup>2</sup> Associated Professor, J.J. Strossmayer University in Osijek, Faculty of Economics in Osijek, Croatia, pfeifer@efos.hr

used in literature: “*Competitiveness of nations looks how nations create and maintain an environment which sustains the competitiveness of its enterprises*” (Garell, 2003). This definition puts emphasis on the role of economic policy in shaping the business environment. International competitiveness refers to the ability of a nation to compare its competitiveness with competitiveness of other nations, i.e. to compete successfully for export markets. If country's performs well internationally, this could be a sign of its sound international competitiveness. Michael E. Porter criticizes the traditional description of the competitiveness, where nation's competitiveness is measured by exchange rates, interest rates, government deficits and the like. The competitiveness of the nations is not coherently explained by existing theories. According to Porter, “*the only meaningful concept of competitiveness at the national level is productivity. Seeking to explain competitiveness at the national level is to answer the wrong question. What must be understood are the determinants of productivity and the rate of the productivity growth*” (Porter, 1990, 160-161). For Porter the competitiveness of the nations are complex outcome of the forces described as factor conditions, context and rivalry conditions, demand conditions, and supporting industries – cluster conditions. Porter's diamond theory provides a holistic concept which helps all stakeholders in a country to consider competitiveness in its complexity and to communicate constructively about improving the environment for raising competitiveness. This theory stresses the importance of macroeconomic issues. But, the sound macroeconomic environment is only precondition; the improvement and sustainability of the country's competitiveness is rooted in its microeconomic conditions, and abilities of the local firms to gain superior productivity in some industries.

There is no consensus among economists on the question: “Do nations really compete?” Although some economists (e.g. Krugman, 1994; see for discussion also Reiljan at al., 2000) put the usefulness of the concept into question, and deny the ability of nation to compete among themselves, because this can be done only by enterprises, several international studies such as the World Competitiveness Yearbook, the Global Competitiveness Report (GCR), Global Entrepreneurship Monitor (GEM) confirm that the government can shape the favorable environment in which enterprises operate, and consequently contribute to nation-competitiveness.

The level of openness for international trade and the success in foreign trade lead to an increase in country's economic performance, and reflect country's competitiveness. The world experience indicates the less the country is, the more open for international trade it is. This fact holds also for Croatia. Croatia is a small country with slightly less than 4,5 million of inhabitants and 6,220 EUR of gross domestic product (GDP) per capita (PPP). Although the Croatian macroeconomic authorities have recognized the importance of exports for its economic performance and growth, they failed in shaping favorable business environment for Croatian export enterprises. Consequently, this contributes to poor export performance of Croatian economy, implying at the same time its poor international competitiveness. The main purpose of this paper is to explore the reasons for such feeble export performance, i.e. manufactured trade performance, as well as to discuss problems facing the export enterprises in Croatia. Because, the most of Croatian enterprises, approximately 99% when defined by numbers of employees, can be described as small or medium-sized, the special attention in this paper is also given to the exploration of small and medium sized-enterprises' contribution to the total Croatian exports.

## **2. The short review of relationship between export performance and international competitiveness**

Export performance and trade openness can be important for enhancing economic growth. A number of studies have explored the relationship of the trade and economic performance (Sachs and Warner, 1995; Dollar and Kraay, 2000) and showed that the trade

openness in general, can raise economic growth rates. However, inconsistent results for developing countries indicate that variation in national experiences stems from differences in the internal conditions of the country. Different set of the macroeconomic and microeconomic conditions result in different types of the competitive strategies and advantages for the particular enterprise and particular country. Although export performance is only one facet of the international competitiveness, it seems valuable to investigate the Croatia export performance and its relationship with competitiveness.

There is a self feeding relation between export performance and international competitiveness. Exports are first level of international competitiveness affirmation. The improvement in the export performance leads to an increase in country's competitiveness. This effect is a result of the enterprise's skills, knowledge, propensity to innovate and use new technology, ability to exploit technological opportunities in a successfully commercial way, etc. On the other hand, in striving to achieve successful exports in highly competitive global markets, a country is forced to improve its competitiveness. The more competitive a country is, the more economically powerful it is. Consequently, it is more capable to compete on global market, to attract people with the highest level of knowledge, skills, to buy new technologies, etc., and to improve its export performance as well as to achieve better export results. This can be propitious for additional innovations and in general to improvement in its competitiveness. Consequently, export performance and competitiveness should not be considered in isolation, totally independently from one another; they are mutually interdependent.

A review of available theoretical literatures and empirical evidences support notion that competitiveness can be explained to some extent by the country's ability to export (see for example Fagerberg, 1986, Dollar and Wolff, 1993). However, competitiveness should not be equated only with the country's ability to export; it should reflect all its dimensions such as technology and price. According to Porter (1990) the ability to produce goods and services which can be sold internationally seems to be the first sign of the enterprise's international competitiveness in particular national economy. However, this ability is usually driven by different economic rationality. Dynamics of the international competitiveness is characterized as the transition from the factor driven economy, through investment driven economy, to innovation driven economy. The ultimate stage of the competitive development is the ability of the enterprises to provide innovate products and services, to compete with distinctive strategies that provide unique values.

### **3. International Competitiveness of Croatia – result reports**

There are several international projects exploring the competitiveness of nations. Croatia has been participated in the research of the Global Competitiveness Survey and consequently in the GCR since 2002. According to the GCR, Croatia worsened its competitiveness in 2004 compared with the previous years. In 2004 it took the position on the competitiveness scale behind not only the leading CEE countries included in this project (such as Estonia, Slovenia, the Czech Republic, and Hungary), but also behind, in some competitiveness dimensions, South East European countries like Romania and Bulgaria. The worsening of Croatian competitiveness position is not only the consequence of weakness in competitiveness of its economy, but the improvement of competitiveness of these other countries (see table 1).

The worsening of Croatian competitiveness can be observed in all of three indexes designed by GCR in order to measure competitiveness: the Growth Competitiveness Index, the Business Competitiveness Index and the Global Competitiveness Index (for description see GCR, 2004-2005). The worsening of the macroeconomic environment, the state of the Croatian' public institutions and its technological readiness contribute to the worsening of the

**Table 1.**

The position of selected countries according to the GCR in 2004

Country	Growth Competitiveness Index (104)	Business Competitiveness Index (93)	Global Competitiveness Index (104)	
Croatia	61	67	79	Worsening
Rumania	63	54	57	Enhancing
Bulgaria	59	70	70	Enhancing
Estonia	20	27	24	Enhancing
Slovakia	43	38	41	Enhancing
Slovenia	33	30	35	Stagnating
Hungary	39	40	46	Stagnating

Note: Total number of countries included in project is given in parenthesis.

Source: Global Competitiveness Report 2004 – 2005

growth competitiveness. The worsening of the microeconomic business environment quality contributes significantly to the worsening of business competitiveness. Administrative burdening of local authorities, administrative burdening of central government, feeble organized efforts in rising competitiveness, regional differences in business environment quality, poor transparency of governmental policies in decision making, government failures in reducing poverty and inequality, unethical behavior of enterprises are stressed by 109 interviewed enterprises in the frame of GCR research in Croatia in 2004 as the most important disadvantages of national business environment.

The results of the other international projects (such as GEM, Transparency International) indicate the similar unfavorable trends in Croatian economy, especially when they are compared with the outcomes of countries restructuring faster. The same unfavorable tendency regarding the competitiveness of Croatian economy is noticed also in the work of Fagerberg et al. (2004). Fagerberg et al. (2004) made distinction among four dimensions of competitiveness: technological (which refers to the ability of a country to compete successfully in markets for new goods and services), capacity competitiveness (which refers to the ability of a country for exploiting technological opportunities in a successfully commercial way), price or cost competitiveness (measured as unit wage costs in manufacturing), and demand competitiveness (which refers to the ability of a country to exploit the changing composition of demand, by offering attractive products that are in high demand at home and abroad).

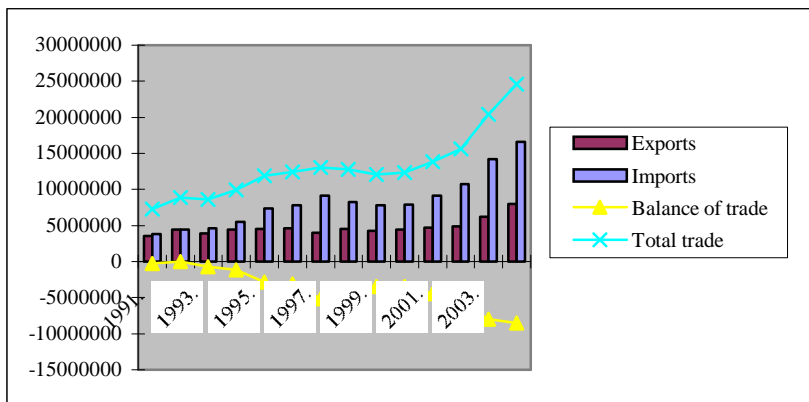
Based on the analysis of data for 49 countries from 1993 to 2001, characterized by very different development level and trends, they found out that both technological and capacity competitiveness play the most important role in explaining why some countries perform better than others. Compared GDP per capita in 1997 and average annual growth rate (1993 – 2001) they found out that Croatia belongs (among all the new EU members plus China, Korea, Malaysia and Chile) to the group of countries called "catching up", i.e. to the group which have low GDP per capita and high average annual growth rate. But, besides the poor price and demand competitiveness, the main source of feeble international competitiveness and export performance is based in poor technological and capacity competitiveness of Croatian economy. Regarding these two dimensions it belongs to the group of countries called "failing further behind". Fagerberg et al. (2004) found out that deteriorating capacity competitiveness is one of the main factors hampering low-income countries in Europe and Asia in exploiting the potential for catch-up in technology and income.

#### 4. Export performance of Croatian economy

Foreign trade of the Croatia is growing dynamically compared to the pre-war period (from 7,3 USD billion in 1991 to 24,6 USD billion in 2003). However, this increase is mainly due to the increasing imports in the foreign trade (see picture 1). During 1991-2004 exports comprised 37.8% of the total trade. Foreign trade deficit grew from 254 USD million in 1991 to 8,6 USD billion in 2004.

For a small country like Croatia, exports are basic precondition for sustaining expected growth rates and standards of living. Simultaneously, it is the precondition for achieving positive benefits of the economies of scale, as well as learning and experiences curve. After the fall of the Former Yugoslavia and Homeland war (1991-1995) Croatia was faced with the diminishing export prospect in former Yugoslavia member republics: Bosnia and Herzegovina, Serbia and Montenegro, and Macedonia. Because of the narrow domestic markets, these countries were main export destinations of the Croatian products. These markets, as well as other Eastern European markets, were due to political and security situation, closed or hostile toward Croatian export enterprises. To sustain economic growth Croatia was challenged to find new export markets.

However, exports were stagnating during 1991-2003 on the average level of 4,5 USD billion. More dynamic growth in exports were not experienced until 2003 and 2004 when the export value grew from 6,2 USD billion to 8 USD billion respectively. Unfavorable trends in the foreign trade are also indicated by diminishing rate of imports covered by exports. During the 1992 imports were 100% covered with the value of the exports. During the 2000-2003 imports were covered by exports at rate of 46.7%.



Note: Values are in 000 of US\$  
Source: Croatian National Bank

**Figure 1.** Foreign trade statistics for Croatia during the 1991-2004.

There are two negative trends in the exports. First trend is that level of the exports as part of the GDP structure is unfavorable compared to the level of imports. Exports comprise smaller part in the structure of the Croatian GDP; while imports have got the dominant share. The most favorable share of the exports as the part of the GDP Croatia achieved in 1992 (50.1%), while the bottom level of the export share in the GDP was achieved in 2003 (30.3%). The second trend is that exports grow at the slower pace than imports, so the gap is widening.

Furthermore, there are some unfavorable shifts in the export destinations, too. The share of the exports with the members of the EU is diminishing. While 1991 share of the EU members were 0.34%; at the 2000 the share was halved to 0.19%. The major influence in that was diminishing rate of the exports with Italy and Germany, two the most important export partners of Croatia. For instance, Croatian exports in 1993 as the percentage of the Italian and German imports were 1.10% and 0.49% respectively, while in 2000 the values have been diminished to 0.70% (Italy) and 0.27% (Germany) (Galinec et al., 2002). During that time the other CEE countries almost doubled their exports to Italy and Germany. This was possible due to the Croatia lagging globalization and integration processes. It was only during late 1990s that liberalization was enhanced by creating free trade agreement, forging member status with the World Trade Organization, and signing The Stabilization and Association Agreement with the EU.

However, weak export propulsiveness of the Croatian economy is to the great extent outcome of the slow industry restructuring and modernization, combined with the uncompetitiveness and unfavorable structure of the Croatian export products. The prevalent rate in the structure of the export products is the low added value products (Galinec et al., 2002, NCC, 2003). Croatia exports are inelastic and concentrated on the few groups of products. Concentration trend is evident since 1991. While in 1993 the five most important export products comprised 43% of the total Croatian exports; in 2000 they comprised almost 47% (Djukec et al., 2003). However, the reason why this concentration is not favorable is that the five most important export goods are low technology products, with low intellectual or design or innovation potential (Djukec et al., 2003). Analysis of the export product structures shows that the volume of the technology, knowledge intensive product has been reduced, while the labor intensive products have been extended in the structure of the Croatian exports (NCC, 2003; Galinec et al., 2002).

There are many ways to categorize goods by technology. According to the most commonly used method due to its simplicity, it can be distinguish as "high" and "low" technology based on their R&D intensity. OECD (1987) suggests distinguishing between resource-based, labor-intensive, scale intensive, differentiated and science-based goods. Combining these two methods Lall (2000) made distinction among resource-based, low technology, medium and high technology products.

Resource-based and labor-intensive products comprise the dominant part of the Croatian exports (Galinec et al., 2002, NCC, 2003). The technology level of the export goods is mostly low or medium. The countries or goods are competing using several key advantages: operative efficiency; unique values, customer intimacy. The products or countries that compete on the basis of the operative efficiency are most often in the zero sums game. The main competitive advantage is the low price that will attract some of the customers of the other producers. However, such moves usually trigger price wars and require large volumes of the goods and services to capitalize on the scale, learning or experience curves. Operational efficiency is also imitative and hard to protect. The Croatian export strategy is by large concentrated on supplying non differentiated, commodity type of goods with inherited natural resource base; or easy transferable competitive advantages (cheap input factors). Since labor cost in Croatia is higher than in the other CEE and Asia countries (except Slovenia) the prospect of Croatian exports is not optimistic. Empirical findings suggest the technological intensive products have better growth prospects than do others (see for discussion Lall, 2000). Consequently, a shift from low to high technologies can be noticed for manufactured trade in world context. GEM measures export orientation of the Croatian entrepreneurs, and it was found out that there is only a small proportion of the total entrepreneurial active population in Croatia oriented to export or to high tech – high growth endeavors. For instance the Croatian



high tech exports comprise only 12% of the total export while high tech exports of Ireland in the 2002 comprised 41% of the total Irish exports.

The export structure by prevailing economic use has not been changed since 1991. In average, production goods comprise 48.6%, investment goods 18.6%, and consumption goods 32.7%. These data are consistent with the export results by main industrial groupings; in 2003 export of energy comprised 9.32%; intermediate goods (except energy) 32.65%; capital goods 24.35%; consumable goods 29.92% and manufactures classified by material not classified in other activities except industry 3.47%. The structure of exports by SITC<sup>3</sup> categories is distributed between machinery and transport equipment (29.47%), miscellaneous manufactured articles (19.58%) and manufactures classified by material (14.05%). Other commodities comprise less than 10%. Such a structure is prevalent in the exports from the late 1990s when the shipbuilding industry recovered by the government support.

Croatia is faced with the challenge of modernization and redefinition of the exports in order to keep and expand export markets. The export expansions seems like the only solution to the number of problems Croatia have at a moment. For instance, foreign debt has reached the level of 30,2 USD billion in December 2004; which means 82.1% of the GDP. Furthermore, export expansion is needed to offset slow GDP growth rate (3.8% in 2004) and huge unemployment (19.3% in February 2005).

### **5. SME's in Croatia**

The role of SME's in modern economies based on knowledge and new technologies is very important because of their flexibility and ability to innovate. But, their role in exports is usually not significant. In the EU-19 SME's export only 13% of their turnover, while large enterprises export 21% of total turnover (Snijders and van der Horst, 2002). The GEM results suggest that over 50% of start-ups do not expect to export any products, and that there is a correlation between exports and necessity entrepreneurship. The more important necessity as the motive for entrepreneurship is, the higher the proportion of start-ups that do not expect to export (GEM, 2004).

In Croatia, SME sector participate in the total exports by 25%.<sup>4</sup> Solutions of the SME's most urgent needs such as: lack of adequate knowledge, inappropriate infrastructure, inappropriate entrepreneurial infrastructure, value system and social norms inadequate to entrepreneurship (see Borožan and Barković, 2005) are preconditions for the foreign markets export expansion. Although these needs are perceived as important for the large enterprises too, SMEs are faced more intensely with these issues. Therefore in the next section we present more detailed analysis of the export performance from the enterprise's point of view.

### **6. Reasons for poor export performance of Croatian economy – enterprise's point of view**

There are several reasons for the Croatian poor export performance such as those discussed in the previous section: lagging institutional reforms in the opening to the free trade, predominance of the labor or resources based goods, low or medium technology and low added value; disinvestments, high concentration of export sector, etc. Government role is to establish business conditions and framework conducive to the free trade, to reduce the possibilities for unfair competition, and to enhance the adequate macroeconomic conditions that will support exports. Hereafter, we have analyzed the perception of the convenient

<sup>3</sup> SITC = Standard International Trade Classification

<sup>4</sup> Source: Small business, Croatian Chamber of Economy, Zagreb, March 2004

sample of managers from the export oriented enterprises. The perception is solicited by the eminent business weekly magazine "Privredni vjesnik" on the annual basis. In the 2003, 101 export managers and experts from the main export companies were administrated with the questionnaire. Since the managers came from the industries that generate more than 40% of the tangible Croatian exports the sample perceptions can be regarded as representative. In the 2004 questionnaire was administered to the 108 most important Croatian companies.

Managers perceived several determinants as sources for competitive advantage in 2003. These are perceived to be: technology (26% of the sample chooses this answer), low labor cost (24.0%), exchange rate (16.6%), other costs (12.0%), promotion (11.4%), and access to the sources of financing (9.4%). The high consistency of the manager's perception, theoretical findings and empirical results are evident. Technology is perceived as the first and utmost important driver of competitiveness. The managers report that new technology adoption is one of the prime motives for investments. However, the underinvestment is still huge problem for Croatian economy together with obsolesce of technological equipment and technologies build in the goods produced by Croatian enterprises.

The most important issues managers expect to face in 2005 are related with the cost of production, increased competitive pressure, tax burdens, cost of the capital, and excess number of employees. The perception of the managers interviewed by "Privredni vjesnik" is similar to the perception of managers interviewed by the National Competitiveness Council (NCC)<sup>5</sup>. NCC identified the following problems as urgent: inefficient bureaucracy, corruption, tax regulations, inappropriate education of the labor force, and high taxes.<sup>6</sup> Scarcity of the knowledge and creative ideas for world class competitive goods and services has been perceived as one of the five top problems for Croatian managers in 2004. NCC reported diminishing quality of the macroeconomic framework as important issue since Croatia is positioned behind the main CEE countries.

Nevertheless, Croatian managers did not perceive technology obsolesce as one of the main issues in the 2005. The other problems in exports have been perceived as more urgent: overvalued national currency, uncompetitiveness due to the high public consumption, absence of government export support, absence of the export strategy, obsolesce of the technology and equipment and shortages in knowledge and innovation base needed to produce the world class competitive products (see Figure 2). Comparison of the most important issues is consistent with the perception of the main drivers of the competitive advantage gained by the foreign competitors. Majority of the participants (74.7%) in 2003 perceived foreign competitors have advantages in comparison with the domestic competitors. The main sources of competitive advantage were labor cost, financial conditions, technology, and government support (see Figure 3).

Although the technology is important part of the competitive advantage, in the 2005 the importance of technology is diminishing. Managers are perceiving technology input as less important than previously. On the other side, labor costs (such as compensation, taxes, benefits) are second most important feature in the competitive advantage, and the utmost important source of the competitive advantage of the foreign competitors. The exchange rate and overvalued national currency is closely connected to the problem of the

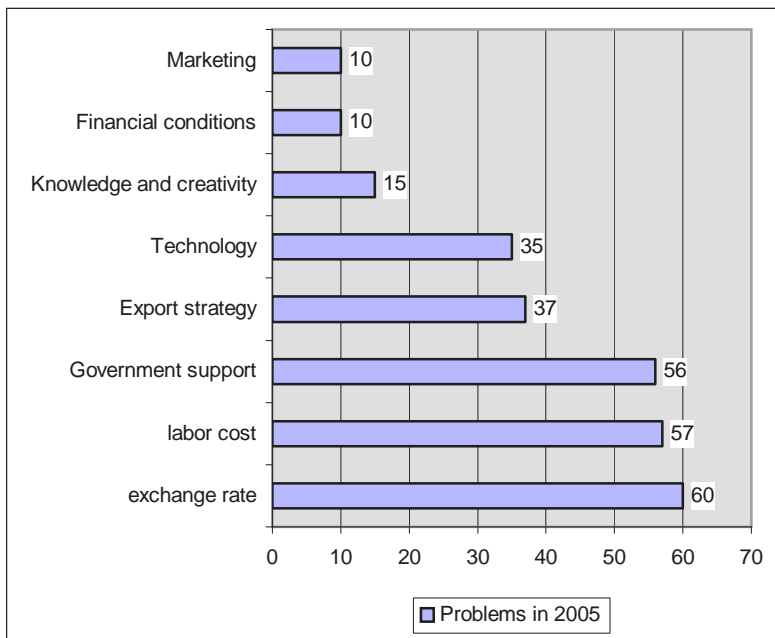
---

<sup>5</sup> National Competitiveness Council has been established upon the initiative of the business sector and Croatian employers' organization, in order to promote ideas and principles that enhance economic development and sustainable economic growth. [www.konkurentnost.hr/nvk](http://www.konkurentnost.hr/nvk)

<sup>6</sup> Lecture of the Mr. M. Vedris: "Actual economic position and competitiveness in Croatia", Faculty of Economics in Osijek, January, 29, 2005, as cited by the World economic forum (2003, 2004.). See also Gavranović, 2003., p. 10.

labor costs. Appreciation of the national currency has not been supported by the increased productivity, therefore it undermines competitiveness of the domestic goods on the international market. Consequently, the exchange rate has been perceived as an important factor of the competitiveness in 2003 and 2005. In addition, 15.4% of participants perceived it as an important source of the competitive advantage of the foreign competitors on the globalized markets.

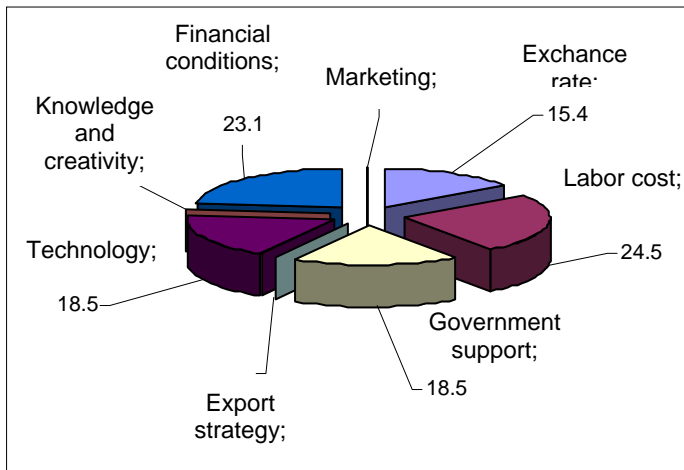
Reasons for the poor Croatian export performance are the function of the macroeconomic framework, and on the other side, there are reasons that are function of the microeconomic framework. Macroeconomic framework comprises exchange policy, labor cost, financial and monetary policy (e.g. taxes, interest rate, commercial credit lines), government support and strategy. Microeconomic conditions are research and development, technology, knowledge and innovations, marketing and promotional skills, etc.



Note: # shows % of the sample that choose the particular issue

**Figure 2.** The most important problems expected

On both occasions (in 2003, and in 2004) the managers have emphasized macroeconomic conditions as more important source of the problems and constraining factor for enhancing exports. In 2003 managers suggested several solutions for improvement: reduction of the taxes (suggested as solution from 27.8% of participants), depreciation of the national currency (22.8% of participants), more subventions (22.8% of participants), better financial conditions (17.7%), and technology enhancement investment (8.9%).



**Figure 3.** Perception of competitors' by export enterprises in 2005 advantages in 2005

In the 2004 88% of the participants were dissatisfied with the government support programs. Only 1% perceived that government did everything that was necessary. Majority of the participants (66%) did not perceive government institutions as helpful in providing support, and 83% of the participants perceived current conditions as the same or even worse than before. Enhancement in the export performance is dependent on the quality of the national macroeconomic framework. However, this quality is rather the outcome of the consistency, transparency and synergy of the closely tied network of all parts of the Porters diamond: factor input conditions, debt and scope of the clustered supportive industries, demand conditions, strategy and rivalry of the industry. All these components are influenced by the government programs and policies. However, the companies also must adopt to the fact that the key ingredient of the competitive advantage is the company with its distinctive strategy, business model, export ambitions and performances. Only by continuous investment in the competence, capability and skills, only through continuous innovation and enhancement of the operation efficiency can the company create and sustain competitive advantage. The prime sources of the competitive advantage is under the control of the company and it is either operative excellency, or product leadership, or customer intimacy. Only by creating new, excellent, differentiated, value added, innovative products companies can build up their competitiveness and export performances. Without company competitive strategy no macro or microeconomic conditions will sustain its long term performances. This fact is also recognized by the participant of the questionnaire. Although admission to the World Trade Organization and free trade agreements are enhancements in the macro and micro economic conditions, more than a half of the participants (52.3%) recognized these improvements as no enhancement for Croatian competitiveness.

### 7. Conclusive remarks

There is a high and growing concern with the export performance of many economies due to increasingly fierce global competition and impact exports have on the economic growth and welfare. Furthermore, export performance is important part of the overall competitiveness of the country.

Croatia is small country, with moderate GDP per capita, and presently in the transition from the factor to investment driven sources of the competitive advantages. Croatia export performance is lagging the majority of the CEE countries's performances as indicated by the GCR. The analysis of the trade performance of Croatia showed several unfavorable trends. The trade is growing due to the fast growth of the imports. The export level is also growing but at much slower pace. The level of the exports as part of the GDP structure is lower compared to the level of imports. Exports comprise smaller part in the structure of the Croatian GDP; while import has got the dominant share. There are significant shifts in the export destinations. The exports to the EU member countries are diminishing. Croatia exports are inelastic and concentrated on the few groups of products, such as transport equipment, chemicals, clothing, basic manufactures, and minerals. Resource-based and labor-intensive products comprise the dominant part of the Croatian exports. The technology level of the export goods is mostly low or medium. Croatia is faced with the challenge of modernization and redefinition of the exports if wants to keep and expand export markets.

The role of the SMEs in the competitiveness enhancement is critical. Export performance of the SMEs is especially important since it has some distinguishing features that enable them to act more flexible and faster. Being faster and more flexible in reaction to productivity shifts, or consumer preferences is important part of the competitive advantages. In Croatia, SME sector participates in the total exports by 25%, which compared with their predominant share of the economic structure (99% of the all enterprises are SMEs) indicates the huge potential for enhancement. However, the solutions to the problems such as lack of adequate knowledge, inappropriate infrastructure, inappropriate entrepreneurial infrastructure, value system and social norms inadequate to entrepreneurship are preconditions for the foreign markets export expansions.

Reasons for the poor export performance of Croatia are the function of the macroeconomic framework, and on the other side, there are reasons that are function of the microeconomic framework. Macroeconomic framework comprises exchange policy, labor cost, financial and monetary policy of the country, government support and strategy. Microeconomic conditions are research and development, technology, knowledge and innovations, marketing and promotional skills, etc. However, the key ingredient of the competitive advantage is the company with its distinctive strategy, business model, export ambitions and performances. Only by continuous investment in the company's competence, capability and skills, only through continuous innovation and enhancement of the operation efficiency can the company create and sustain competitive advantage. The prime sources of the competitive advantage are under the control of the company and it is either operative excellency, or product leadership, or customer intimacy. Only by creating new, excellent, differentiated, value added, innovative products companies can build up their competitiveness and export performances. Without company competitive strategy no macro or microeconomic conditions will sustain its long term performances. Analysis of the perception of the major Croatian exporters during the 2003 and 2004, as well as the results of the GCR and GEM projects suggest two main implications. First, Croatia is still lagging in the legal, institutional and macroeconomic framework conditions compared to other CEE countries. Therefore, the more legal and institutional encouragements in independent risk-taking and dynamic competition are needed, as well as enhancement in macroeconomic conditions. Second, business entrepreneurs are not willing or risk - averse to take advantage of the opportunities for development offered by modern technologies, or export markets. Therefore, the more allocation of the funds to research and development transfers, as well as major increase in investment in the education or innovations sectors are needed.

## REFERENCES

- Borozan, Dj., Barkovic, I.: Creating Entrepreneurial Environment for SME's Development: The Case of Croatia, *Silicon Valley Review of Global Entrepreneurship Research*, vol. 1, 2005, pp. 44 – 55
- Djukec, Z., Kusic, S. and Radic, D.: Cost-benefit analiza integracije Hrvatske u Europsku uniju, *Ekonomski pregled*, 54, 7-8, 2003, pp. 621-650
- Dollar, D and Kraay, A.: *Trade, Growth and Poverty*. Washington, Development Research Group, World Bank, 2000.
- Dollar, D. and Wolff, E.N.: *Competitiveness, Convergence, and International Specialization*, Cambridge, Massachusetts: The MIT Press, 1993, 227 pp.
- Fagerberg, J.: *Technology, Growth and International Competitiveness*, Norsk Utenrikpolitisk Institut, VUPI rapport, No. 95, March 1986, 35 pp.
- Fagerberg, J., Knell, M., and Srholec, M.: *Competitiveness of Nations: Economic Growth in the ECE Region*, January 30, 2004.
- Galinec, D., Jurin, K. and Lenardic, M.: *The Competitiveness of Croatian Exports to the EU, the study of Croatian Competitiveness Initiative*, 21 June 2002, Zagreb, [http://nvk.multilink.hr/english/publications/20\\_\\_Competitiveness\\_of\\_Croatian\\_Exports\\_to\\_the\\_EU.PDF](http://nvk.multilink.hr/english/publications/20__Competitiveness_of_Croatian_Exports_to_the_EU.PDF)
- Garelli, S.: *Competitiveness of Nations: The Fundamentals*, IMD World Competitiveness Yearbook 2003, 2003., pp. 702 – 713, <http://www02.imd.ch/documents/wcc/content/Fundamentals.pdf>
- GCR, *The Global Competitiveness Report 2004-2005*, editors: Porter, M.E., Schwab, K., Sala-I-Martin, X., Lopez-Claros, A., World Economic Forum, Palgrave Macmillan, December 2004
- GEM, 2002-2004, <http://www.gemconsortium.org>
- Gavranovic, A.: *Mikroekonomska konkurentnost Hrvatske – potjera za europskim standardima*, *Privredni vjesnik*, No. 3328, 17.11.2003., p. 10
- Krugman, P.: *Competitiveness: A Dangerous Obsession*, *Foreign Affairs*, 73, 1994, pp. 28 – 44
- Lall, S.: *Turkish Performance in Exporting Manufactures: A Comparative Structural Analysis*, QEH Working Paper Series, QEHWPS47, 2000, pp. 1-32
- NCC (National Competitiveness Council): *Global Competitiveness Report 2002-2003: Results for Croatia*, December 2002, Zagreb, [http://nvk.multilink.hr/english/publications/22\\_\\_Global\\_Competitiveness\\_Report\\_2002-2003\\_-\\_Results\\_for\\_Croatia\\_-\\_Summary.pdf](http://nvk.multilink.hr/english/publications/22__Global_Competitiveness_Report_2002-2003_-_Results_for_Croatia_-_Summary.pdf)
- OECD: *Structural Adjustment and Economic Performance*, OECD, Paris, 1987.
- Porter, M.: *The Competitive Advantage of Nations*, London, Macmillan, 1990.
- Reiljan, J., Hinrikus, M. and Ivanov, A.: *Key Issues in Defining and Analysing the Competitiveness of a Country*, Number 1, 2000, Tartu, pp. 1 – 59, <http://infutik.mtk.ut.ee/www/kodu/RePEc/mtk/febpdf/febawb1.pdf>
- Sachs, J. D. and Warner, A.M: *Economic Reform and The Process of Global Integration*; *Brookings Papers on Economic Activity*, 1; 1995, pp.1-118
- Snijders, J., van der Horst, R.: *SMEs in Focus: Main Results from the 2002: Observatory of European SMEs*, Observatory of European SMEs, 2002
- Vedris, M.: *Actual Economic Position and Competitiveness in Croatia*, lecture at the Faculty of Economics in Osijek, January, 29, 2005.

## ENVIRONMENTAL ACCOUNTING AT THE CORPORATE-LEVEL

ILONA OBRŠÁLOVÁ<sup>1</sup>, SIMONA BÖHMOVÁ<sup>2</sup>, MARCELA KOŽENÁ<sup>3</sup>,  
ROBERT BAŤA<sup>4</sup>

**ABSTRACT.** The paper focuses on selected problems of environmental accounting at the corporate-level. As a key term, environmental cost is identified. There are many problems connected with determination of environmental costs and evaluation of environmental benefits. Contemporary results of the research in this area in the Czech Republic and abroad are discussed. The role of companies, especially small-medium sized enterprises (SME), in sustainable development and their informational support is mentioned.

**Key words:** environmental accounting, environmental management system, company, costs, external costs, environmental information

### Introduction

Historically first studies of environmental/ecological accounting began with corporate level approaches in 70's years of the last century (Müller-Wenk, Ullmann, later Schaltegger and many others). The development of research activities was encouraged by requirements of newly implemented systems EMS/EMAS (Environmental Management Systems) and in connection with regulation of IPPC (Integrated Prevention and Pollution Control) in the last years.

### 1. Current Approaches to Environmental Accounting

The concept of sustainable development creates a new space and possibilities for entrepreneurship. New legal measurements from the government regulate activities of companies not to get environment worse and determinate certain framework for long-term prosperity. On the other side, strategy of sustainable development creates important opportunity to increase competitiveness by respecting the environmental protection as one of the strategy aims and enforcing principles of sustainable development to all activities of the company.

The green entrepreneurship develops many tools for management decisions making. [10, p. 120] differentiate these tools according to the types of focus (analytical tools, tools for action, tools for communication) and areas of focus (green entrepreneurship/environment; efficient entrepreneurship/economic and environment; and responsible entrepreneurship/social, environmental and economic).

The term **environmental accounting** has been relatively newly taken in environmental management and there has been broadly used in different contexts. This paper deals with its utilization as an important tool for management decision-making, it deals with environmental management accounting (EMA). EMA can be defined as the identification, collection, estimation, analysis, internal reporting, and use of materials and energy flow information, environmental cost information, and other cost information for both conventional and environmental decision-making within an organization [8]. The costs related to environment can be

---

<sup>1</sup> Faculty of Economics and Administration, University of Pardubice, Czech Republic, ilona.obrsalova@upce.cz

<sup>2</sup> Faculty of Chemical Technology, University of Pardubice, Czech Republic

<sup>3</sup> Faculty of Economics and Administration, University of Pardubice, Czech Republic

<sup>4</sup> Faculty of Economics and Administration, University of Pardubice, Czech Republic

described as costs within internal management account, or external financial accounts or other public reports.

EMA serves business managers in capital investment decisions, cost calculations, process or product design decisions, performance evaluation and lots of other forward-looking business decisions. [7, p. 39]. EMA was developed due to limitation of conventional management accounting approaches that did not provide management with useful information for management activities and decisions involving significant environmental costs and (or) significant environmental impacts.

The most important tasks of EMA are:

- EMA focuses on accounting of environmental costs, on internal costs of a company;
- information from the system of EMA is important also for other types of management decisions but the most important aim is to support proactive and preventive environmental activities.

It is necessary to note that EMA is a broad set of principles and approaches that provides materials, energy flows and cost data critical to succeed in environmental management activities. A systematic use of EMA principles facilitates finding hidden environmental costs in the general accounting system. If the hidden costs are not identified, the product pricing does not reflect all costs of the product and it can be sold undervalued. Implementing of EMA can also multiply the benefits gained from other environmental tools. EMA requires better understanding of physical environmental impacts of a company and therefore EMA implementation is not the task only for accountants but it requires close cooperation of technicians, environmental engineers and managers in order to properly evaluate economic impacts on environment due to business activity. Burritt et al, 2001 describes a multi-dimensional framework of EMA in the distinctions between dimensions: internal-external, physical-monetary classification, past and future timeframes, short and long-terms, and ad hoc - routine information (Table 1).

**Table 1.**

**Framework of EMA**

	Monetary EMA		Physical EMA	
	Short- term focus	Long-term focus	Short- term focus	Long-term focus
<b>Past oriented</b> <i>Routinely generated information</i>	Environmental cost accounting (e.g. variable costing, absorption costing, and activity based costing)	Environmentally induced capital expenditure and revenues	Material and energy flow accounting (short term impacts on the environment-product site, division and company levels)	Environmental (or natural) capital impact accounting
<i>Ad hoc information</i>	Ex-post assessment of relevant environmental costing decisions	Environmental lifecycle (and target) costing	Ex-post assessment of short-term environmental impacts (e.g. of site or product)	Lifecycle inventories Post-investment assessment of physical environ. investment appraisal
<b>Future oriented</b> <i>Routinely generated information</i>	Monetary environmental operational budgeting (flows) Monetary environ. capital budgeting (stocks)	Environmental long-term financial planning	Physical environmental budgeting (flows and stocks) (e.g. material and energy flow-activity based budgeting)	Long-term physical environmental planning
<i>Ad hoc information</i>				



ENVIRONMENTAL ACCOUNTING AT THE CORPORATE-LEVEL

	Relevant environmental costing (e.g. special orders, product mix with capacity constraint)	Monetary environ. project investment appraisal Environ. lifecycle budgeting and target pricing	Relevant environmental impacts (e.g. given short run constraints on activities)	Physical environmental investment appraisal Lifecycle analysis of specific project
--	--	--	---	--

(Source Burritt et al 2001)

The key term is **Environmental Cost**. The description of this concept is broadly discussed with various approaches [6, 5, 3, 1, 9.]. There are many difficulties associated with identification and allocation of the environmental costs. Systemization of the environmental cost categories in the companies describes Table 2.

**Table 2.**

**Environmental Costs**

Environmental Cost/Expenditure Categories				
Waste and Emission Treatment	Prevention and Environmental Management	Material Purchase Value of Non-Product Output	Processing Costs of Non-Product Output	Environmental Revenues
Depreciation for related equipment	External services for environmental management	Raw materials	Labour costs	Subsides, Awards
Maintenance and operating materials and services	Personnel for environmental management activities	Packaging	Energy costs	Other earnings
Related Personnel	Research and Development	Auxiliary materials		
Fees, Taxes, Charges	Extra expenditure for cleaner technologies	Operating materials		
Fines and penalties	Other environmental management costs	Energy		
Insurance for environmental liabilities		Water		
Provisions for clean-up costs, remediation				

Source: [Schaltegger et.al., p.19]

According to US EPA [6,11], the definition of environmental cost depends on utilization of information in a company and the environmental costs can include conventional costs (raw materials and energy costs with the environmental relevance), potentially hidden costs (costs which are captured by accounting system but then lose their identity in overheads), contingent costs (costs in a future time - contingent liabilities), and image and relationship costs. For exact accounting, it is necessary to explain these terms in detail. For the environment cost tracking key drivers, have to be identified: toxicity of emission and waste treatment, volume of emissions and waste, environmental impact added to volume of treated emissions, the relative costs of treating different kind of emissions [5, p.136].

Many other systems or techniques describing environmental costs are published [3, 7, 8, 9 and others]. **Total Cost Assessment (TCA)** is a tool for the valuation of cases like: project selection among numerous alternatives, project final analysis, supplemental environmental projects, budgeting for alternatives. **Life Cycle Assessment** was also adopted for

the logistic chains in companies. Another system is, for example, **Full Cost Accounting**. A technique based on the **input/output analysis (mass balance)** was described for the companies' environmental costs. Process flow charts can help to trace inputs and outputs of the process, in particular, waste, and can bring together technical and cost accounting information. Flow cost accounting can make material flows transparent using different information. For the environmental accounting process, it is necessary to use different kinds of information (for example, physical unit information from primary measurements, conversion factors etc.). Environmental **Activity Based Costing (ABC)** allocates all internal costs to the cost centres and cost drivers based on the activities causing the costs [8]. Overview of current methods of environmental costs is shown in Table 3.

**Table 3.**

**Current methods of addressing of environmental costs**

	Costs of environmental protection		Costs of material and energy flow	
	Past and present costs	Future (potential) costs	Past and present costs	Future (potential) costs
<b>Separate calculations</b>	Emission reduction costs	Environmental budgeting		
<b>Full-cost accounting</b>	Full-cost of environmental reduction	Consideration of the costs of environ. risks	Costs of remaining material	
<b>Direct costing</b>	Environ. oriented direct costing, multistage direct costing	Costing of future environmental costs		
<b>Process costing</b>	Activity based costing	Activity based costing	Costing oriented towards material and energy flow; Activity based costing oriented towards material flow	Activity based budgeting oriented towards material and energy flow

## 2. Current Situation in EMS and EMA Acceptation in the Czech Republic

In the recent years, the Czech Republic has seen increased attempts of companies to reduce the negative impact of their activities on the environment by introducing environmentally friendly technologies. Preventive approaches are being preferred (wastes formation prevention) to end-of-pipe technologies (wastes disposal). The point of the environment protection has become an integral part of decision-making. A wide range of voluntary initiatives and activities has been operating in the domain of environment protection, the environmental management systems implementation, in particular. The number of organizations operating with ISO 14001 and EMAS certification/validation (990) in the Czech Republic indicates an important need of information data for decisions about environmental costs and benefits.

For the purpose of environmental management and for the search for an environmentally friendly solution, which would comply with the economic objectives of the company as well as with sustainability principles, it is necessary, as we said before, to stress the importance to the identification of costs related to protection of and damage to the environment. According to survey of environmental management in the Czech companies [9,14,15], the enquired companies largely identified the environmental costs as follows:

- costs of wastes disposal,
- costs of wastes transportation,

- fees for the environmental protection,
- fines and penalties related to the environment damaging,
- payment to external organizations for services related to EMS implementation, certification and re-certification,
- operating costs of end-of-pipe technologies i.e. waste water treatment plants, incinerators, etc.

It is obvious what type of cost is usually traced - namely costs related to the treatment of wastes, of wastewaters and to emissions into the air, fees for environmental protection, sanctions for the environment destruction and costs for external services related to environmental management systems. 76% of the examined enterprises answered that they do track environmental costs. Environmental costs are tracked out of the accounting system more frequently.

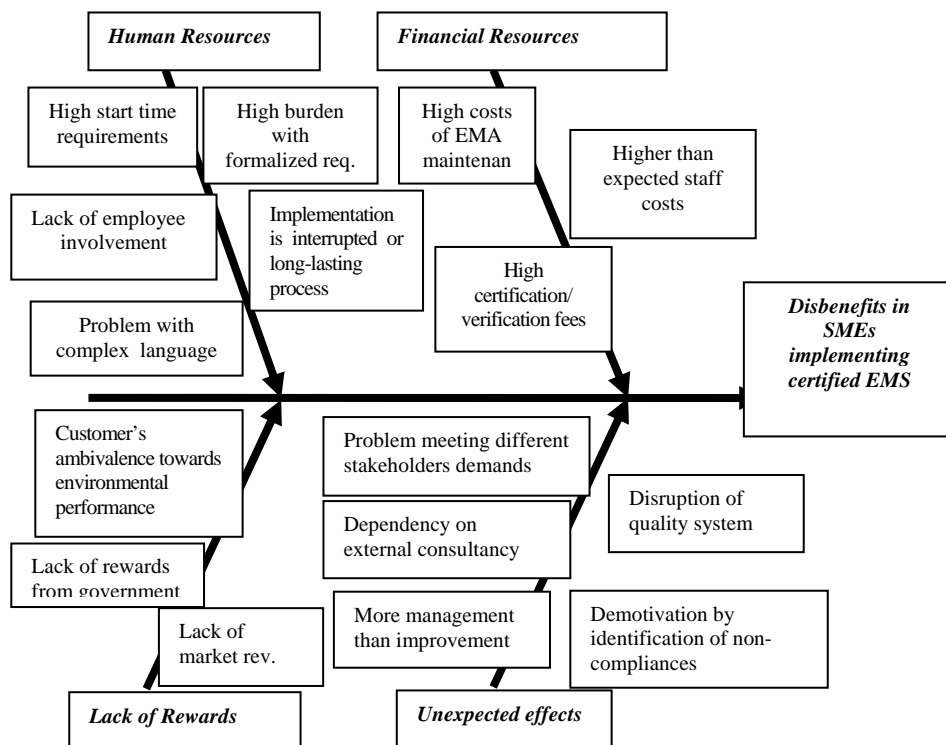
The result of the research reflected unambiguously that the larger the enterprise is the higher number of companies track environmental costs. This is closely related to the fact that the size of enterprises requires correspondingly complex accounting system (the number of accounting transactions grows, the transparency deteriorates). To support decision-making processes in large companies, it is useful to track and evaluate important cost items. Undoubtedly, environmental costs belong to important cost items.

Over 85% of respondents declared that information about environmental costs was useful for the company management. The survey showed that the importance of information was increasing with the size of enterprises. Most of large enterprises with regarded information about environmental costs as useful for the company management. Therefore, it is obvious that environmental costs in large companies should be considered as important cost items, which need to be tracked and controlled.

According to our experiences, we can say that systems of environment accounting if they exist in companies have usually been developed by enterprises themselves without any significant support from external parties and that the concept of environmental cost has not been explicitly defined. Special, analytical accounts can be encounter within companies monitoring environmental costs. The problem lies in a proper posting of original accounting documents which are conducted the employees of the accounting department but accountant usually are not the experts in the field of environmental management. Another problem is connected, for example, with environmental investments that are not always declared as environmental, which results in situation that their depreciation is not included in the operational environmental costs.

### **3. Selected Further Research Problems**

There are many approaches how to create EMA system. SME need special help for creating this tool - it has been tailored for selected companies and industry branches but not as a general system. A formal framework for the environmental management system is represented by ISO family 14 00X and EMAS, but the companies, especially SME do not accept broadly this concept. Some studies point out on the causes of low number of certifications/valuations in these companies. If EMA should support environmental management, it is necessary to analyse why the number of companies with such system is still so low. (Fig.:1).



Source: [UNSD, p.124]

Figure 1. Drawbacks of EMS Implementation in SME

In the case of small and middle-sized enterprises, the **missing data compensations** are very important. There are some approaches available to obtain data and to make easier decisions in practice. Kennedy [3, p.39] refers to the following methods:

- Estimation based on similar processes within the facility (for example similar use of material in the chemical processes);
- Estimation based on end-product composition (potential to derive data using basic chemistry principles);
- Conduct a survey or benchmarking;
- Take an educated guess;
- Leave it blank (either to minimize the amount of time spent on the accounting or to limit inaccuracies in the calculation).

There are available the methods developed to evaluate and prioritize liabilities, for example, Pareto analysis, risk matrix, analytical hierarchy process and other qualitative methods. As an integral part of management system rating criteria must be identified and used for costs valuations.

Contemporary management techniques use point of view that is more pragmatic in the continual improving. As a special case for decision-making, a calculation of efficiency of investment project can be used. There are many standard indicators for the calculation as net

present value, payback period, internal rates of return and others. Conventional accounting system cannot offer the sufficient information for the **valuation of risks**. Such costs should be taken into account - hidden, contingent and image costs (non-product material costs, reporting or training costs, compensations and penalties, good-will benefits and costs, external costs etc.).

Broadly discussed is the circumstance that EMA does not include external costs to individuals, society, or the environment for which company is not legally held responsible. In the case of **externalities**, the company will internalize the costs by regulation, charges or taxes, but it cannot include monetary non-valuable items. The most difficult problem is also to calculate the environmental benefit. In such cases, it is recommended to use multicriteria analysis for the valuation of non-market benefits and preferring of the environmental friendly investments [4]. For the further extension of the EMA, it is necessary to consider the environmental revenues/benefits – not the internal only but the benefits from the averted damage.

### **Conclusion:**

The evaluation of impacts related to company activities is expensive and therefore the efficiency criteria (the added value of a new IS have to be higher than its costs) should be considered in creation of an environmental information system for the management decisions. The critical valuation of meta-analytical studies will help for additional information about contemporary conditions to support EMA and to create typology of possible transfer of results.

The environmental accounting can be a very important support for the companies with connection to environmental management systems and can realize win-win solutions based on eco-efficiency procedures.

## **REFERENCES**

1. Burritt L.; Hahn T.; Schaltegger S.: Current Developments in Environmental Management Accounting-Towards a Comprehensive Framework for EMA. Universität Lunenburg 2001 ([http://www.uni.lueneburg.de/eman/pdf\\_dateien/Burritt/Hahn.pdf](http://www.uni.lueneburg.de/eman/pdf_dateien/Burritt/Hahn.pdf))
2. Farský M.; Ritschelová I.; Vomáčková H.: Životní prostředí z pohledu účetnictví. Univerzita J.E. Purkyně v Ústí n.Lab. Ústí n. Lab. 2001
3. Kennedy M.L.: Total Cost Assessment for Environmental Engineers and Managers. J.Wiley and Sons, Inc., New York 1998
4. Obršálová I.: Environmental Investments Appraisal – Some Problems of Efficiency Calculations. E+M Ekonomie a Management, Special Issue, 2002
5. Schaltegger S.; Burritt R.: Contemporary Environmental Accounting. Greenleaf Publishing, Sheffield 2000
6. UNDSO: Improving Government's Role in the Promotion of Environmental Managerial Accounting, United Nations, New York 2000
7. [www.emawebsite.org](http://www.emawebsite.org) 5.11.2004
8. [www.acca.org.uk](http://www.acca.org.uk) 5.11.2004
9. Kožená M.: Konkurenceschopnost podniku při respektování strategie udržitelného rozvoje. Disertační práce, VUT FP, Brno 2002
10. Bleischwitz, R; Hennicke P.: Eco-Efficiency, Regulation and Sustainable Business. Edward Elgar, Cheltenham 2004

11. UNDSO: Environmental Management Accounting, Procedures and Principles, UN, New York 2001
12. Schaltegger et al.: Innovatives Management staatlicher Umweltpolitik. Birkhäuser, Basel 1996
13. Souček E.; Obršálová I.; Ježdík V.: Peněžní indikátory ochrany životního prostředí v České republice. Univerzita Pardubice, Pardubice 2003
14. Ritschelová I.; Obršálová I.; Tošovská E.; Ščasný M.: Application of Environmental Accounting. VaV IC 4/17/04 Ministry of the Environment of the Czech Republic, Prague 2004
15. Fedorová, A. et al.: Environmental Costs Information for Environmental Management, Research Report on Project of Grant Agency of the Czech Republic (no. 402/02/0092), Brno 2002

## NETWORKING AND COOPERATION OF SMALL AND MEDIUM SIZED FIRMS IN CROSS - BORDER REGIONS

ELEKTRA PITOSKA<sup>1</sup>

**ABSTRACT.** During the last twenty years, and in the frame of rapid globalisation, technology is causing significant changes to the organisation of firms. In the European Union these significant changes have reinforced the European economy, though they have also led to reclassifications and a rise in competition within the Union, and they have created significant problems in less competitive regions.

The transitional process in former socialist countries has created (or uncovered) inequality levels that are a completely new phenomenon for Europe. The course of events has resulted in winners and losers. Presently and following the market unification and the enlargement of the E. U., many border regions have found themselves at the centre of development, while others have become even more marginalized and are undergoing profound changes.

The fordist system has gradually lost its significance and alternative models have been developed. Among these, it is believed that “flexible specialisation” offers the shortest route to development, especially for regions undergoing a phase of crisis and restructuring. Market mechanisms seem to reward flexible and innovative corporate organisation strategies. A corporate model involving intensive networking and cooperation is being promoted, whereby relatively smaller firms are being invited to play a more important role with respect to the past.

An empirical study was carried out with the use of questionnaires in order to examine the model of flexible specialisation and networking by small and medium sized border firms. The study covers tourism firms that are active within the geographic triangle of Greece – Albania – Former Yugoslav Republic of Macedonia.

Through the processing and cross-referencing of the study data it has been possible to develop a “model for the cooperating small and medium sized tourism firm” and to identify its characteristics.

**Keywords:** small and medium sized firms, cross-border regions, networking, cooperation, flexible specialisation, competitive advantages.

### INTRODUCTION

In the past, many border, marginal and cross-border regions represented a country’s “dead ends”. Today their strategic position as communication and transaction poles inside an internationalized economy is recognized. In parallel to the promotion of economic integration, “regional identities” are also being reinforced today. Border regions are in a position to move from isolation to integration and small and medium sized enterprises operating in these zones can exploit the range of available production and labour choices that technology currently offers.

Undoubtedly, the introduction of new technologies in the framework of rapid globalisation causes significant changes to the organisation of firms. Market mechanisms seem to reward flexible and innovative strategies concerning corporate organisation. Despite the

---

<sup>1</sup> Lecturer Dr., Financial Applications Department, School of Management & Economics, Technological Education Institute of Western Macedonia, KOZANI, GREECE, ipitoska@yahoo.gr

absence of iron rules and strict determinism, the overriding trend seems to favour a decrease in firm sizes, an increase in workers' technical skills, an increase in the importance and role of external suppliers and firm collaborators, and an increase in the significance of services rendered towards firms. Essentially, an intensive networking and cooperation business model is gaining recognition, whereby relatively smaller firms are being asked to assume a more important role with respect to the past.

Small firms that operate in border zones and are organised in accordance with the innovative model of "flexible specialisation" and the preconditions and suitability of the model with respect to regional economies, in addition to networking strategies, increase the competitiveness of SMEs.

Following an empirical approach to the phenomenon of flexible specialisation and networking by small and medium sized border firms in South Eastern Europe, it is concluded that multiple attempts at cooperation are being carried out, there is intensive mobility and a tendency for cooperation – networking. In addition, sustainability and growth prospects are being created for these firms, which are active and operate in a fluid and difficult environment in a region that is undergoing a phase of crisis and restructuring.

External networking, which is hardly a new phenomenon for academics, is equally old practice for the wider cross-border area of South Eastern Europe. Informal, formal or mixed forms of networking are based on joint efforts and objectives, trust, cooperation and the desire, which is shared jointly by both parties, to systematically increase their competitiveness.

### **1. FLEXIBLE SPECIALISATION AND SMALL FIRMS**

Flexibility constitutes a tool for ensuring the ability to adjust effectively to demand shifts at all times.

Adjustability is achieved through three means: a) by supplying a wider range of different products that correspond to separate small market segments and individual clients (whether they are firms or consumers), b) by ensuring greater efficiency and productivity in the operation of the production unit in order to minimise dead time between shifts from one product to another, particularly since the life cycle of each good is becoming increasingly shorter, c) by adopting an administrative and organisational principle founded on the belief that competition should be based on technology and not on perpetual cost cuts that are devastating to workers and are forms of labour intensification and overexploitation [Antigoni Lymperaki: "*Flexible specialisation: Crisis and restructuring in Greek industry*", Publ. Gutenberg, Athens 1991, in Greek].

The regulatory system is complemented both by inherited and historically shaped principles of production culture and by organised institutions and rules. The sum of these ideological and institutional rules, practices and regulations bears the stamp of the local or regional characteristics associated with the area where small firms are concentrated and interweave their production operations [Storper & Christopherson, 1987, Storper, 1987, Storper & Scott, 1988].

Therefore, flexible specialisation provides a useful analytical framework for examining the dynamics and prospects of small industry (and not only). Although flexible specialisation belongs to the field of theoretical research on crisis and restructuring, it is innovative in two respects. Firstly, it focuses on small firms and, secondly, it attributes analytical significance to the tradition of small industries, in the form that it was created in the past and survives to the present day. Hence, from an analytical point of view, a synthesis is achieved between historical, economic, social and institutional levels of analysis, which is aimed at the close examination of the characteristics of a "misunderstood and unvalued" economic category: small industry<sup>2</sup>.

---

<sup>2</sup> Antigoni Lymperaki: "Flexible specialisation: Crisis and restructuring in Greek industry", Gutenberg, Athens 1991, in Greek



In certain cases, branches and historic-sociopolitical conjunctures Flexible Specialisation, which is based on small firms, constitutes an alternative solution to mass production. It does not seek to forecast the next stage of industrial structure along teleological lines of thought by supporting the view that fordism will necessarily be followed by Flexible Specialisation. It simply identifies an eventuality, a possibility among others. In other words, supporters of Flexible Specialisation do not propose that this model will apply generally, leading to the substitution of mass production everywhere<sup>3</sup>. In the same way that there is no linear evolution from small scale to mass production techniques, a general and complete transition from mass production to flexible specialisation should not be expected [Joffe,1987].

## 2. FLEXIBLE SPECIALISATION FOR REGIONAL ECONOMIES.

From the viewpoint of developing economies, at first sight flexible specialisation seems appealing for a number of reasons relating to the focus that is placed on small scale production, the belief that small scale production methods can lead the way to prosperity, the significance of flexible and adjustable technology, etc. In addition, it reflects part of the idealisation of the so-called unofficial or informal sector that came close to dominating in the 1970s.

Moreover, it promises creative continuity without rifts, it offers a developmental blueprint that goes beyond the model of “western fordism”, it distances itself from the obsession with “modernism” and it attributes greater significance to historical and geographical characteristics. In other words, it may be considered that flexible specialisation offers the shortest route towards development. In particular, this flexible path is opening up at a time when it is becoming increasingly apparent that mass production is “not getting off the ground” in developing economies and that its capacity to create workplaces has been lower than anticipated. Does the undertaking of flexible specialisation then constitute a present-day passport to development?<sup>4</sup>

The attempt, however, to ascertain the sustainability of Flexible Specialisation in a developing economy comes up against many obstacles and methodological problems. Firstly, developing economies do not compose a uniform and single group and therefore, the act of grouping runs the risk of obscuring significant differences between them (market size, industrial tradition, endogenous technological capacity, inherited industrial structure, the means of integration into the international division of labour, etc.).

Secondly, the strategy of Flexible Specialisation itself is not clearly defined. And since a sole formula does not exist, the main issue is who chooses (subject-vehicle) which version of flexible specialisation. Consequently, it becomes clear that all economies (irrespective of the way in which they are integrated into the international market and the type of developmental experience they have acquired) and all people in general (irrespective of class, gender and ethnic differences) are not faced by a single package of restructuring choices<sup>5</sup>.

And thirdly, the spectrum of possibilities for “voluntary social action” is often closed to a regional economy by the hierarchical structure of the international economy. Without undermining the significance of the range of feasible strategies, and particularly in

---

<sup>3</sup> Antigoni Lympiraki: “Flexible specialisation: Crisis and restructuring in Greek industry”, Gutenberg, Athens 1991, in Greek

<sup>4</sup> Antigoni Lympiraki: “Flexible specialisation: Crisis and restructuring in Greek industry”, Gutenberg, Athens 1991, in Greek

<sup>5</sup> Antigoni Lympiraki: “Flexible specialisation: Crisis and restructuring in Greek industry”, Gutenberg, Athens 1991, in Greek

order to maximise the range of feasible strategies, one should have a clear understanding of the restrictive mechanisms he is faced with<sup>6</sup>.

### 3. NETWORKING STRATEGY

Organising production on the basis of networking constitutes a widespread practice aimed at managing the uncertainties entailed by present transitional times. From an analytical perspective, networking is gaining increasing attention both as a corporate strategy for transcending uncertainties and crises and as a vehicle and tool for regional development. The debate concerning the so-called “networking paradigm” constitutes less of an attempt to construct a complete “theory”. It is more concerned with depicting the search for an analytical framework aimed at understanding the new trends in corporate spatial development. [Cooke & Morgan 1993: 543].

Networking is not a completely new trend. The new element is the frequency with which it appears and the dynamics it seems to possess as a means for managing economic fluidity and uncertainty. The practice of networking refers both to mechanisms that are developed inside firms and to relations that are developed between different firms. The objective of networking is to assist firms in effectively managing the dual risk of accelerating technological progress on the one hand and the intensity of uncertainty on the other hand.

The advantage afforded by networking, as an interface for economic coordination between the market and the firm, is summarized by Cooke & Morgan (1993):

When economic transactions relate to complex, uncertain or/ and repetitive activities (technological transactions are probably the best example), markets constitute a poor medium for the diffusion of technological knowledge, especially undocumented knowledge. Moreover, in times of significant technological changes and market insecurity, the hierarchical structure of the classic fordist period also falls short of finding the ideal solutions. The supporters of networking as a form of coordination maintain that for certain activities, networking are in a position to surpass both market imperfections and the rigidities of vertically and hierarchically structured configurations. In short, market and hierarchy restrictions have brought agreements between firms to the forefront of corporate strategy<sup>7</sup>.

### 4. BORDER REGIONS: FROM ISOLATION TO INTEGRATION.

For some time now, border regions have constituted “laboratories” for European integration, which they also promoted, since the first acknowledged forms of cross-border cooperation date back many centuries. The diversity of boundary conditions was and remains significant to the interior of the E.U., since natural and political geography, history, languages, cultures and traditions intervene as factors of integration in complex combinations. Border regions, which are particularly vulnerable to external decisions and developments, are presently being called to face the integration of the single market, the creation of a European Economic Area and the E.U. enlargement by exploiting the favourable conditions

---

<sup>6</sup> Antigoni Lymperaki: “Flexible specialisation: Crisis and restructuring in Greek industry”, Gutenberg, Athens 1991, in Greek

<sup>7</sup> Antigoni Lymperaki: “Flexible specialisation: Crisis and restructuring in Greek industry”, Gutenberg, Athens 1991, in Greek

that prevail for the development of cross-border cooperation [Georgios N. Magoulios, *“The role of Thessaloniki in Balkan economic cooperation”*, Thessaloniki, University Studio Press].

Formerly areas of conflict, Community frontier regions that share borders with CECs are undoubtedly subject to the most profound changes. These border zones are faced with a number of problems such as:

Income variations on either side of the borders constitute an instability risk (illegal immigration, relocation of firms).

Institutional differences and different political attitudes render the development of cooperation difficult.

Different infrastructure levels mean that border regions occupy a special position in trans-European network plans.

Despite these problems, or perhaps because of them, border cooperation is in active development, though manifested in varying forms.

The notion of cross-border cooperation must be understood in its entire diversity: cultural, linguistic, legal, economic, technical, administrative and geopolitical.

## **5. EMPIRICAL FINDINGS FROM A STUDY ON CROSS- BORDER ZONES IN SOYTH- EASTERN EUROPE.**

### ***5.1. Field study***

In order to understand the “Flexible Specialisation” and “networking” phenomena in a border SME in South Eastern Europe, and in the framework of a doctorate thesis, an empirical study with the use of questionnaires was carried out in 2000.

The study’s main objective was to identify cases of flexibility, networking and cooperation among SMEs in frontier cross-border regions of South Eastern Europe and the expected competitive advantages.

The study area encompasses the geographic triangle of three countries: Greece, Albania and the Former Yugoslav Republic of Macedonia. The area was defined more precisely based on morphological characteristics (accessibility, the road network, etc.), the uniformity of the economic area in the past and the selected entrepreneurial activities. From Greece, a section of the Prefectures of Kastoria and Kozani is included, in addition to the entire Prefecture of Florina. From the Yugoslav Republic, the Municipalities of Bitola, Ohrid, Resen and Kavadarci, which belong to the wider region of Bitola, were included. From Albania, the Municipalities of Bilisht, Koritsa and Pogradec, which belong to the region of Koritsa, were included.

### ***5.2. A brief picture of cross-border region.***

Three countries are found In the cross-border region of Florina, "in the humid borders",. Greece, Albania and the former Yugoslavian Republic of Macedonia. Each of the three countries, until 1989, followed a different economic and social system. Since 1989 the changes have been rapid. Greece,a member of E.U., converges steadily to the European completion. The former Yugoslavian Republic of Macedonia obtains its independence from Yugoslavia. Albania "opens" its borders and passes through big socio-economic states. Each one of the three countries is found in a different level of economic growth and faces different structural problems.

The differences of speeds and economic growth of three countries are impressed indicatively in the tables that follow.

**Table 1.****Demographic composition and GNP of Greece - Albania - FYROM**

Country	GNP 1997			Population 1997		
	In millions dollars	Percentage on the GNP Balkans	Percentage on the GNP The EU	In mill. residents	% on his Population the Balkans	% on the population the EU
Albania	2276,0	1,01	0,03	3,20	4,66	0,85
FYROM	2061,0	0,92	0,03	2,10	3,06	0,56
Greece	119111,0	52,92	1,47	10,50	15,31	2,75

Source: Giorgos Petrakos, "The growth of Balkans", Volos, Greece, 2000

**Table 2.****level of growth of countries: Greece - Albania - FYROM**

Country	GNP at head 1997		
	In dollars	His percentage on GNP at head The Balkans	His percentage on GNP at head The EU
Albania	711,25	21,67	3,29
FYROM	1090,00	33,20	5,04
Greece	10828,27	329,89	50,04
EU	21640,00		100,00

Source: Giorgos Petra'kos, "the growth of Balkans", Volos- Greece 2000.

**Table 3.****level of growth and Indicators of prosperity of Greece - Albania - FYROM**

Country	GNP at head 1997 in MAD			Natural indicators of prosperity		
	In dollars	His percentage on GNP at head in MAD Balkans	His percentage on GNP at head in MAD E.E	At head Consumption Electric Energy (1995)	Children's mortality (1996)	Telephones Per 1.000 Residents (1996)
Albania	1452,0	26,0	7,2	623,0	40	19
FYROM	2871,0	51,3	14,2	2443,0	18	170
Greece	12353,0	220,9	61,2	3259,6	19	509
EU	20188,0		100,0	6092	6	505

Source: Giorgos Petra'kos, "The growth of Balkans", Volos- Greece, 2000

It should be noted that each cross-border zone has a different form of administrative division and it was therefore selected by carrying out a synthesis of the above criteria.

**5.3. Design of Questionnaires for Firms**

The questionnaire was structured in such a way that it includes five (5) units of questions, divided into further question groups.

The question units are:

- A. Identity of Firm
- B. Availability of Factors of Production
- C. Domestic and International Markets
- D. Cooperation and Forms of Cooperation
- E. Firm Perspectives and Strategies

The data that arises from the question groups, following their processing and cross-referencing, provide answers to the following fundamental questions:

- *What are the general and specific characteristics of firms?*
- *What are the prospects for cooperation, including their level, trends and the chosen network types?*
- *What competitive advantages do SMEs gain through cooperation and networking?*

A total of seventy questionnaires were completed through on site visits and personal interviews.

The questionnaire design was based on Porter's theory on competitive advantage, which is further defined by the factors of "Porter's Rhombus", in combination with the "Multilateral Model for Entrepreneurial Adjustments", as formulated and tested by Iossif Chassid in 1994 ["Adjustments and competitiveness of the Greek Industry", Foundation for Economic and Industrial Research (IOBE), Athens]. 60 questionnaires were distributed and 46 were answered.

#### **5.4. Conclusive remarks**

##### **Present status of cross-border cooperation among firms of the Greek zone**

In the tourism sector 53.85% of Greek firms cooperate with firms of the Albanian zone and 84.62% with firms of the F.Y.R.O.M. zone.

69.23% of firms in the Greek zone report to have established cooperation in the services sector with the cross-border zone of F.Y.R.O.M. and 23.08% with the Albanian zone. Moreover, 7.6% report that they have established cooperation with both of the bordering zones in the distribution/ promotion sectors.

Cooperation is informal for 61.54% and 23.08% of firms cooperating with the F.Y.R.O.M. and Albanian zones respectively.

Long-term cooperation is established with firms of the F.Y.R.O.M. zone (46.15%) and the Albanian zone (7.69%). The duration of cooperation initiatives with the Albanian zone are indefinite. 7.9% of firms have established subcontracting relations with the F.Y.R.O.M. zone, which started off as a fixed term cooperation initiative and was extended to a long-term form of cooperation. No subcontracting has been reported with the Albanian zone.

##### **Present status of cross-border cooperation among firms of the F.Y.R.O.M. zone**

Cooperation initiatives have been developed by 57.69% of tourism firms in the F.Y.R.O.M. cross-border zone with the Greek zone and by 50% with the Albanian zone. 57.69% of the initiatives relate to cooperation in the service sector with the Greek zone and 38.46% with the Albanian zone.

Cooperation in distribution amounts to 23.08% with the Greek zone and 11.54% with the Albanian zone.

With the Greek zone, 38.46% of cooperation initiatives are formal and 30.77% informal. An equal percentage of indefinite and fixed term cooperation initiatives have been reported (23.08%). With the Albanian zone, 46.15% of cooperation initiatives are informal

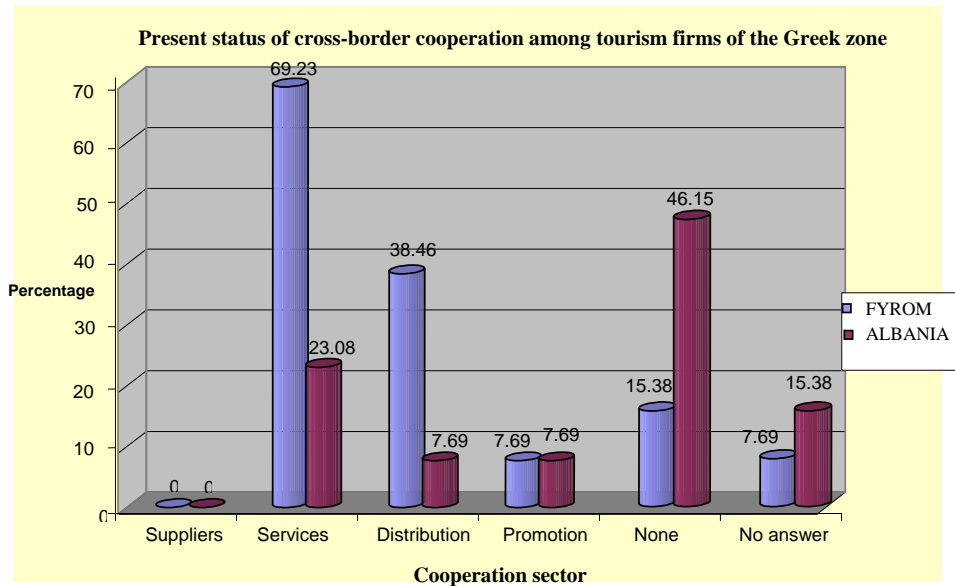
and 15.8% are formal. Fixed term cooperation initiatives (26.92%) are preferred to long term initiatives (15.38%).

No subcontracting relations have been established with the Greek zone for 61.54% of firms. The corresponding percentage with respect to the Albanian zone amounts to 92.31%.

Error!

**Table 1.**

**Present status of cross-border cooperation among tourism firms of the Greek zone**

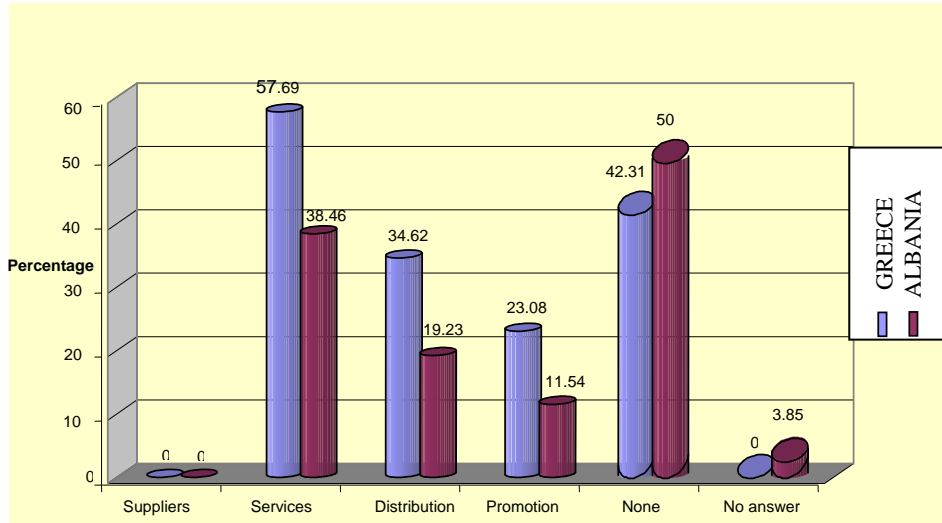


The subcontracting relations that have been developed by an extremely small percentage of firms relate to out-sourcing activities.

**Present status of cross-border cooperation among firms of the Albanian zone**

92.31% of tourism firms that operate in the specific cross-border zone have established cooperation initiatives with Greece and 84.62% with F.Y.R.O.M. In both zones the cooperation initiatives are related to the provision of services. In addition, cooperation initiatives/ close relations have been reported with the bordering zones in the supplies sector. Equipment is supplied by the Greek zone and consumables are supplied by the F.Y.R.O.M. zone.

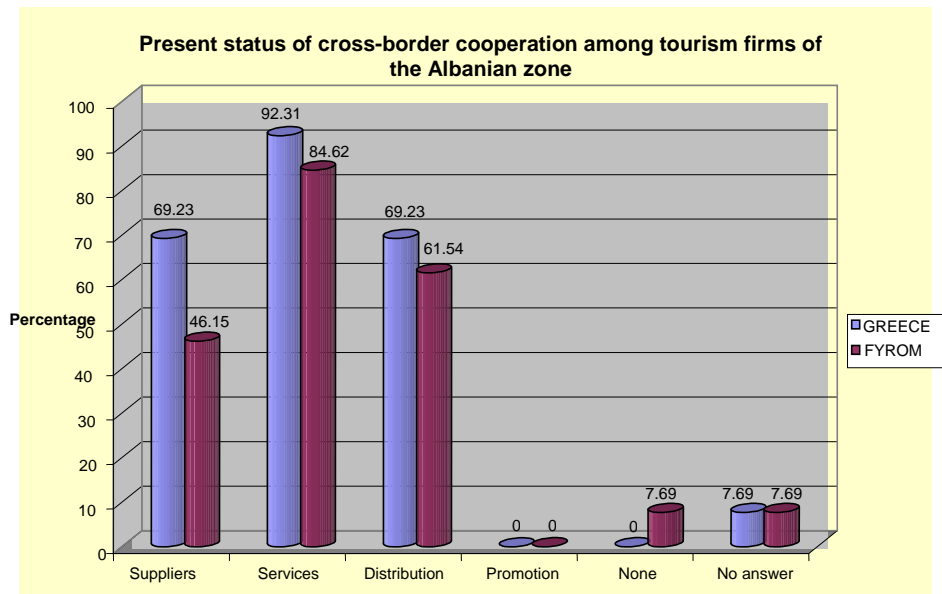
**Table 2.**  
**Present status of cross-border cooperation among tourism firms of the F.Y.R.O.M. zone**



Cooperation is informal for 76.2% of cases with Greece and 61.54% of cases with F.Y.R.O.M.

The duration of cooperation initiatives is fixed and no subcontracting activities have been reported.

**Table 3**  
**Present status of cross-border cooperation among tourism firms of the Albanian zone**



### **Prospects for cross-border relations in the tourism sector**

Following the processing of the questionnaire answers, it arises that the willingness for cooperation in the tourism sector of Greece amounts to 61.54% for the services and distribution/ promotion sectors, while only 7.69% refuses to establish any form of cooperation.

The willingness for cooperation among firms of the F.Y.R.O.M. zone amounts to 96.15% for the services sector and 73.08% for the promotion sector. It is obvious that the willingness for cooperation with Greece and the corresponding perspectives are greater for firms in F.Y.R.O.M. To a certain extent, this willingness can be accounted for by the region's need to become more outward-looking and its positive attitude towards the neighboring European country.

The Greek zone reports a preference for formal types of cooperation (69.23%), while informal types of cooperation gather a more limited degree of preferences (53.85%). Moreover, long term cooperation initiatives are preferred (69.23%). Long term initiatives are also preferred by F.Y.R.O.M., though no preference is indicated between formal and informal types of cooperation.

Greek tourism firms display a trend towards the establishment of subcontracting activities, which amount to 7.69% for out-sourcing and undertaking activities respectively and 15.38% for both types of activities on a long-term basis. The corresponding trends for F.Y.R.O.M. are 3.85% for out-sourcing activities, 0% for undertaking activities and 69.23% for both types of activities.

The willingness for cooperation by tourism firms in the Greek cross-border zone with corresponding firms in the Albanian zone amounts to 15.38% for the services sector and 23.08% for promotion, while 46.15% is negatively disposed.

On the contrary, 92.31% of firms in the Albanian zone express a willingness to cooperate with corresponding firms in the Greek zone and no firm is negatively disposed.

The services sector and the distribution/ promotion sectors amount to 92.31%.

This great difference in intentions between the two zones (Albanian – Greek) is caused by the insecure conditions that are prevalent in Albania and the divergent economic levels of the two regions.

Greek firms, with a percentage of 38.46%, prefer formal types of cooperation with Albanian firms and, to a lesser extent, informal types. Correspondingly, the Albanian zone also indicates a strong preference for formal types of cooperation (84.62%). The Greek zone is only interested in long-term cooperation initiatives, while short-term initiatives are of no interest. The Albanian zone indicates more or less the same level of preference for fixed-term and long-term/ indefinite cooperation initiatives.

No intention has been reported for the establishment of subcontracting relations, covering either out-sourcing or undertaking activities, between Greece and Albania.

23.08% of tourism firms in F.Y.R.O.M. are not willing to enter into any type of cooperation with corresponding firms in the Albanian zone. 61.54% of firms are willing to cooperate in the provision of services and 42.31% in the promotional sector.

84.62% of firms in the Albanian zone desire to cooperate with firms in the F.Y.R.O.M. zone in the services sector, while 53.85% desire to cooperate in promotion.

Albania's willingness to cooperate with the bordering zone of F.Y.R.O.M. is higher than the desire expressed by F.Y.R.O.M. The difference in willingness, however, is clearly smaller than the one formulated between the Greek and Albanian zones.



It should be noted that the geographic distance between the areas of Ohrid (F.Y.R.O.M.), which has developed its tourism, and Pogradec (Albania) is small. In addition, they are located on the shores of the same lake and customs facilities are in operation.

Moreover, the areas of Ohrid and Strouga form a multicultural mosaic and many citizens of F.Y.R.O.M. are Albanian.

Firms in F.Y.R.O.M. report the same level of preference for formal and informal types of cooperation. They are not interested in short-term cooperation initiatives and state a preference for long-term initiatives.

The Albanian zone clearly prefers formal types of cooperation (76.92%) as opposed to informal ones (23.08%) and illustrates the same level of preference for fixed and long-term cooperation initiatives.

F.Y.R.O.M. illustrates very limited levels of preference (3.85%) for subcontracting relations covering out-sourcing and undertaking activities. F.Y.R.O.M. also illustrates a preference, amounting to 46.15%, for subcontracting activities that involve the simultaneous out-sourcing and undertaking of projects. The Albanian zone has reported no preference between subcontracting types.

**Table 4**

**Willingness to cooperate by tourism firms of the Greek zone**

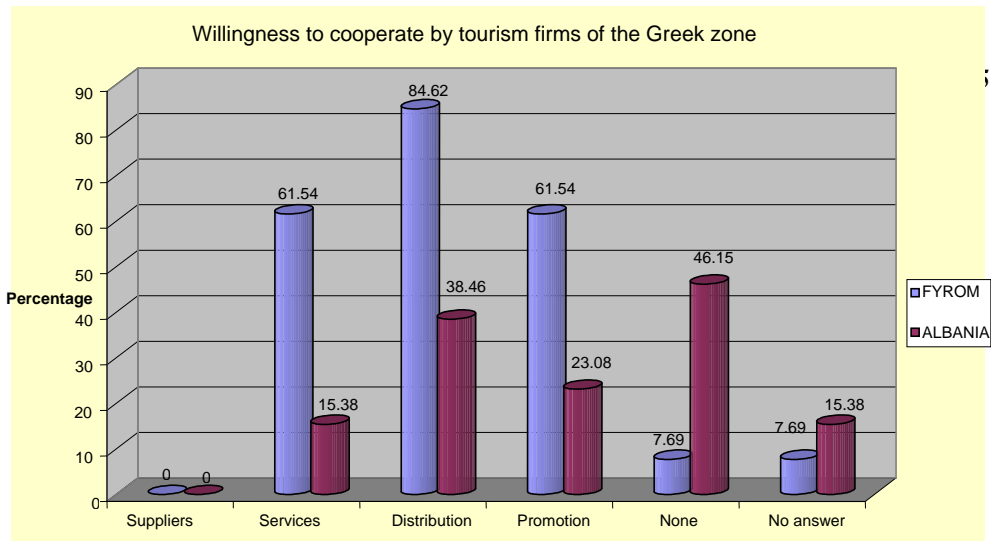
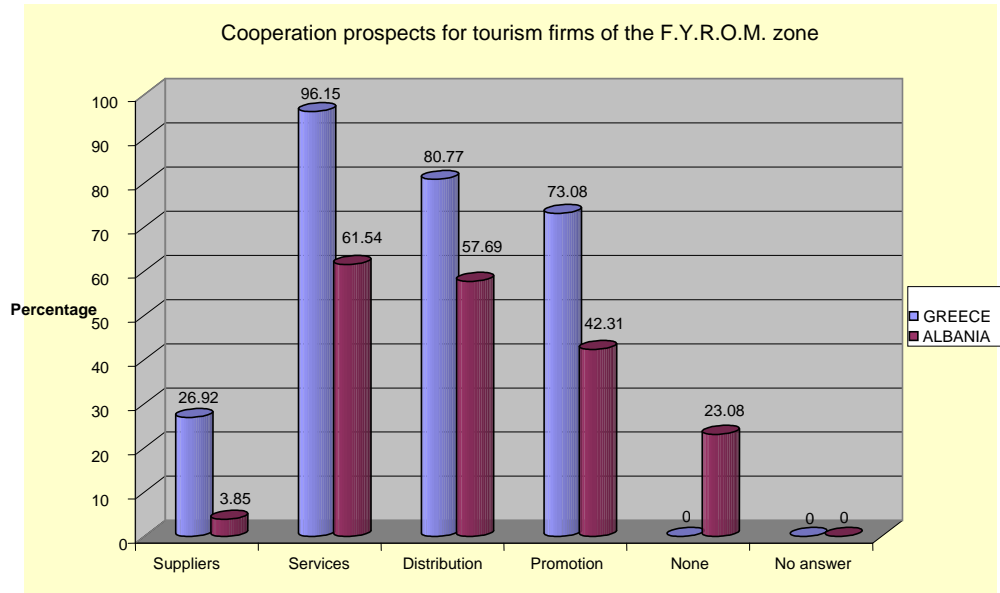


Table 5

**Cooperation prospects for tourism firms of the F.Y.R.O.M. zone****Appraisal of advantages to firms of the Greek zone**

Greek tourism firms that are active in the specific cross-border zone believe that a possible cooperation initiative with F.Y.R.O.M. firms will prove to be advantageous regarding new clients (76.9%), support issues (53%), representations (30.7%) and the joint provision of services (19%).

In a corresponding appraisal of the advantages arising from cooperation initiatives between Greek firms and the Albanian zone, 38% believe that they will lead to benefits regarding new clients, 23% regarding support issues, 23% regarding the joint provision of services and 7% regarding representations.

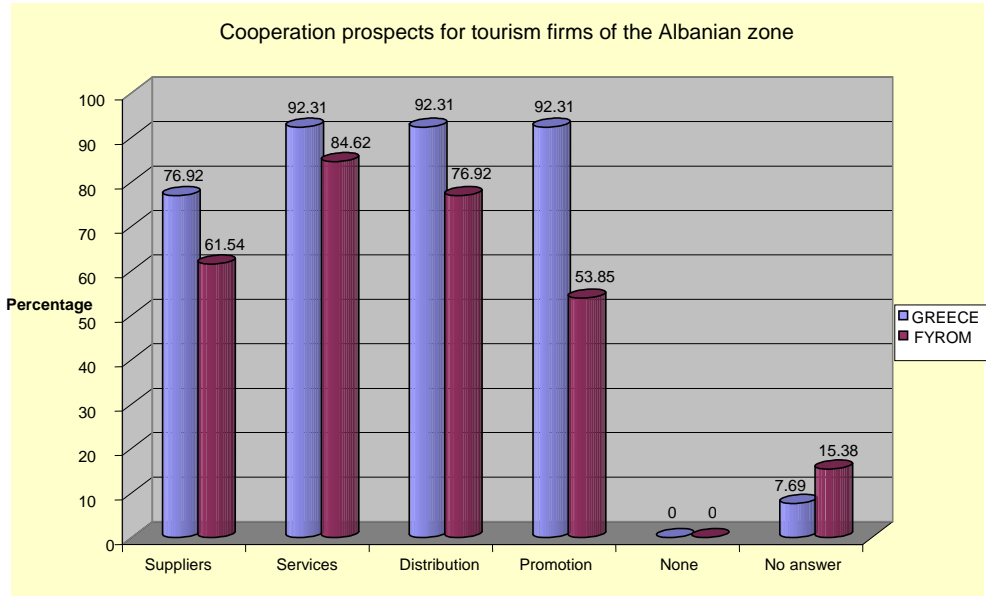
Different expectations are depicted with respect to each region. More specifically, large deviations in expectations have been ascertained regarding new clients and representations.

The percentage of Greek firms that do not expect any advantages from cross-border business cooperation initiatives with the F.Y.R.O.M. zone is just 7.6%, while it amounts to 23% with the Albanian zone.

It should be noted that the development of the tourism sector in the two regions (Albania – F.Y.R.O.M.) is characterized by different growth rates and infrastructure levels.

**Table 6**

**Cooperation prospects for tourism firms of the Albanian zone**



**Table 7**

**Appraisal of Advantages to Greek Firms from possible cross-border cooperation initiatives**

TOURISM		
	FYROM	ALBANIA
New Client	76.9 %	38 %
New Supplier	23,0 %	15 %
Joint Provision of Services	19,0 %	23 %
Support	53 ,0%	23 %
Representations	30.7 %	7 %
None	7.6 %	23 %
No Answer	7.6 %	30 %

**Appraisal of advantages to firms of the F.Y.R.O.M. zone**

Tourism firms in the F.Y.R.O.M. zone believe that their cooperation with firms of the Greek zone will prove to be advantageous with respect to the joint provision of services (84.6%), support issues (80.7%), new clients (65.3%) and representations (61.5%). They also expect benefits from their cooperation with the Albanian zone, though of a lower level

when compared to the Greek zone. They amount to 57% for the joint provision of services, 38% for new clients, 46% for support issues and 34% for representations.

23% of entrepreneurs believe that cooperation initiatives with Albania will lead to no benefits.

#### **Appraisal of advantages to firms of the Albanian zone**

An absolute majority of tourism firms in the Albanian zone believe that their cooperation with bordering regions will be advantageous. The assessment of advantages from cooperation initiatives with Greece amount to: 84% for new clients, 92% for the joint provision of services and 84% for support issues. The corresponding percentages for the F.Y.R.O.M. zone are: 84% for new clients and the joint provision of services and 76% for support issues.

### **6. THE MODEL OF «COOPERATING CROSS-BORDER ENTERPRISE IN CROSS-BORDER REGIONS»**

After a second processing of the survey results and a classification with correlations, the classification of tourist enterprises of cross-border region in "enterprises of three speeds" resulted. The criteria of classification:

- the existing cross-border cooperation
- the intention of growth of cross-border cooperation
- the size of enterprise according to the number of workers
- the age of enterprise (years of activation in the sector)

From the enterprises of "first speed" results the profile of the **"Cooperating cross-border enterprise in cross- border region"** and its characteristics.

The characteristics that were co-examined are:

- Expected competitive advantages from the cooperation
- Dealt Objects of the enterprise
- Level of specialisation of workers and needs of training
- Type/form of existing and proposed cooperations
- Level of cross-border relations
- Degree of accessibility in credits/telecommunications
- Strategies of enterprises.

### **THE PROFILE OF THE «COOPERATING CROSS-BORDER ENTERPRISE "OR "THE FIRST SPEED ENTERPRISES"**

The enterprises that are or appear to be more dynamic concerning the cross-border cooperation have:

- size from 1-10 workers,
- 1-15 years of activation,
- exclusive preoccupation with the provision of services (at its highest percentage)
- already developed informal and formal cross-border collaboration, ( they continue to estimate the informal type but they definitely prefer the formal type)
- They are not interested in subcontracting relations
- They avail a high level of specialisation of workers and consider essential the continual training of workers and their further specialisation.
- They have realised a lot of visits in the adjacent areas as well as in enterprises of sector

- They schedule adaptations that concern the collaborations, the manpower, the provided services and the markets.
- They estimate that with the cross-border collaboration they strengthen their competitive advantages in the discovery of new customers, in the joint provision of services, in the discovery of new suppliers, in the support and the delegation.
  - The majority (67%) has an average extroversion from 1-10%.
  - They have a mediocre access in banking services
  - They estimate that their telecommunications service is mediocre.

From the total of 45 enterprises that have or wish the growth of cross-border cooperation, the 21 (percentage 46,6%) belong to this category.

### GREEK BIBLIOGRAPHY

- Antonio Vasquez Barquero, Athens 1991, "Local Development – A strategy for the creation of employment", Papazissi.
- Chassid Iossif, "Adjustments and competitiveness of Greek Industry", IOBE, Athens.
- Chatzimichalis Kostis, Athens 1992, "Regional Development and Policy, Documents from International Experience", EXANTAS.
- "Development Programme of the Border Region of Albania», Kozani Development Company (AN.KO.), Kozani 1993.
- Ermidis P. – A. Egipitiadis, Thessaloniki 1993, "Albania – Bulgaria – Romania, The Present Economic and Trade Environment", Hellenic Organisation for External Trade.
- "European Framework Treaty on the Cross-border Cooperation of Local Authority Organisations and Supplementary Protocol".
- Genitsaris A., Thessaloniki 1996, "The private sector and its role in promoting Greek exports", presentation at the Conference "Greece and the economy of the F.Y.R. of Macedonia: new cooperation perspectives"
- Gialouridis Chr. - St. Alifantis, "The Balkans at the crossroads of current developments", Athens 1988.
- Gramsci A. (1989) "Americanism and Fordism", Athens, Asynehia.
- Investment Guide "Albania '96", National Bank of Greece.
- "Investment Guide on Albania", Athens 1996, Hellenic Organisation for External Trade.
- "Interreg II, Cross-Border Programme 1994 – 1999", Ministry of National Economy, Athens 1995.
- Karafotakis Vangelis, "The new developments brought about by globalisation", Naftemporiki newspaper, special annual publication, September 1997, p. 65.
- Karafotakis Vangelis, Athens 1996, "The economic situation of the F.Y.R.O.M. and its perspectives with respect to the Balkans", presentation at the International Conference "Greece and the economy of the F.Y.R. of Macedonia – Cooperation Perspectives", Institute of International Economic Relations.
- Karafotakis E. - I. Milonakis, Athens 1997, "Globalisation trends by the economies of SE Europe through the creation of Regional Development and Cooperation clusters", journal "Agora choris Sinora Institute of International Economic Relations.
- Lymperaki Antigoni, Athens 1991, "Flexible Specialization: Crisis and restructuring in small industry, Gutenberg.
- Lymperaki A. – A. Mouriki, Athens 1996, "The Silent Revolution: new forms of production and labour organisation", Gutenberg.

- Lymperaki A. (1992) "The Challenge of Small Scale Development: economic flexibility and social rigidity", Papazissi.
- Magoulios G., Thessaloniki 2000, "The role of Thessaloniki in Balkan economic cooperation", University Studio Press.
- Maravegias Napoleon, "The European Domestic Market and the dynamics of regional inequalities".
- Martinos Ch. – M. Gratsia: "Report on the implementation of "Interreg I" and the implications for "Interreg II"", Gronau 1992, Association of European Border Regions.
- Michalopoulou A. – P. Tsartas – M. Gianissopoulou – P. Kafetzis – E. Manoglou, Athens 1998, "Macedonia and the Balkans, Xenophobia and Development", National Center for Social Research, Alexandria publications.
- Papadakis V., Athens 1999 and 2002, "Business Strategy: Greek and International Experience", E. Benou.
- Papadaskalopoulos Athanassios, Athens 1995, "Regional development models and policies", Papazissi.
- Papakonstantinou I. – A. Bouloulegos, Athens 1998, "Trade relations between Greece – F.Y.R.O.M.", journal "Agora choris Sinora", Institute of International Economic Relations.
- Papaspiliopoulos Spilios, Athens 1995, "The Balkans in a United Europe, the contribution of Greece", An anthology of texts. Library of International and European Studies.
- Third Community Support Framework, Region of Central Macedonia.
- Tsarlanidis Charalambos, Athens 1996, "The economic relations of Greece – Former Yugoslav Republic of Macedonia, cooperation perspectives", Library of International and European Studies – I. Sideris.
- Valten Sotiris, Athens 1991, "Greece – Yugoslavia, the birth and evolution of a crisis", Themelio.
- Valten Sotiris, Athens 1991, "Greece and the Eastern Countries 1950 - 1967: Economic Relations and Policy" 2 volumes, Odysseus – Foundation for Mediterranean Studies.
- Valten Sotiris, Athens - Komotini 1995, "The economy of the former Yugoslav Republic of Macedonia", Hellenic Centre for European Studies, Sakloulou.
- Valten Sotiris, Athens 1994, "The Macedonian Issue and the Balkans 1991 - 1994, the stalemate of Greek Policy", THEMELIO.
- Valten Sotiris, Athens 1996, "Bilateral trade", presentation at the International Conference "Greece and the economy of the F.Y.R. of Macedonia – Cooperation Perspectives".
- Zikas Pavlos, Athens 1992, Study "Cooperation opportunities between Greek Industry and corresponding industries in bordering countries" Ministry of Industry.

## INTERNATIONAL BIBLIOGRAPHY

- Agenda 2000, Supplement 5/97, καθώς και Supplement 6,7,8,9,10,11,12,13,14,15 / 97.
- «Albanie : Structure et Fondionnement de la democratie locale et regionale», Janvier '98.
- Angjeli margarita - Assimakopoulou Anna, Metsovo 94, «Albania : Basic features», Egnatia Epirus Foundation.
- Amin, A. (ed.) (1994), Post-Fordism, a reader, Oxford: Blackwell.
- Amin, A. & M. Dietrich (1991), «From Hierarchy to «Hierarchy»: the dynamics of contemporary corporate restructuring in Europe», στο Amin & Dietrich (eds.), Towards a New Europe? Structural Change in the European Economy, Aldershot: Elgar.
- Amin, A. & N. Thrift (1994), «Living in the Global», στο Amin & Thrift (eds.), Globalisation, Institutions and Regional Development in Europe, Oxford: Oxford Univesity Press.
- Amin, A. & A. Malmberg (1994), «Competing Structural and Institutional Influences on the Geography of Production in Europe», στο Amin (ed.).
- Basic provisions of the system regulations in the field of foreign economic relations - Skopie 1996.

- Benjamin, W. (1985), *Illuminations*, New York: Schocken Books.
- Best, M. (1990), *The New Competition: Institutions of Industrial Restructuring*, Cambridge: Polity.
- Bianchi, P. & M.G. Giordani (1993), «Innovation Policy at the Local and National Levels: the case of Emilia-Romagna», στο *European Planning Studies*, 1(1).
- Brusco, S. (1992), «Small and the Provision of Real Services», στο Pyke & Sengenberger (eds.). «Buletin», No 2. 3.4., Korca 1998, Periodik I dhomew se tregtise dhe Industrise Corse.
- Business Central Europe. The Annual 1997 / 98. The Economist Group. Jan. 1998.
- Business without Borders, Korce - Ohrid 2000, Gredo.
- Christensen, R. (1990), «Here we go into the 'high-flex' era», *Across the Board*, July/August.
- Claveski T. , «Macedonian economy in transition», Skopje 1995.
- Cooke, P. & K. Morgan (1993), «The Network Paradigm: new departures in corporate and regional development», στο *Environment and Planning D: Society and Space*, vol. 11.
- EU Country Report, 1994, «Macedonia», The Economist Intelligence Unit Limited, 94.
- EU Enlargement. Belgrade: Institute of Economic Sciences, 1997.
- Freeman, C. & C. Perez (1988), «Structural Crisis of Adjustment, Business Cycles and Investment Behaviour», στο Dosi et al (eds.).
- Graham, J. (1992), «Post-Fordism as Politics: the Political consequences of narratives on the left», στο *Environment and Planning, D: Society and Space*, no.10.
- Gramsci, A. (1989), *Αμερικανισμός και Φροντισμός*, Αθήνα, εκδ. Α/συνέχεια.
- Hirst, P. & J. Zeitlin (1991), «Flexible Specialisation versus Post-Fordism: theory, evidence and policy implications», στο *Economy and Society*, 20(1).
- Hywel G. Jones «An introduction to modern theories of economic growth», Ed. Nelson. «Information on Small Companies», Skopje 1996, Facts.
- Law for Transformation of socially owned enterprises», Skopje 1996.
- Libri i SHOQERIVE TREGTARE DHE INDUSTRIALE TE RRETHIT TE KORCES- Korce 1997.
- Lipietz, A. (1994), *Post-Fordism and Democracy*», στο Amin (ed.).
- Lyberaki, A. & V. Pasmazoglou (1994), «Mirages and Miracles of European Small and Medium Enterprise Development», στο *European Planning Studies*, vol.2, no.4.
- Lyberaki, A. & A. Mouriki (1997), «Flexible Work and Quality of Life: the uncertainties of the postindustrial era», στο βιβλίο που επιμελούνται οι Γιαννιάς και Ρομπόλης *Quality of Life, Environment and Ecology, Initiative for a Cooperation in Economics*.
- Macedonia Basic Economic Data, Vol. 13, Skopje 1995.
- «Macedonia : Facts and figures», Skopje 1992, Statistical Office of Macedonia.
- Montly Statistical Bulletin of the Republic of Macedonia, vol. 9, Skopje 1995.
- Murdoch, J. (1995), «Actor-Networks and the Evolution of Economic Forms: combining description and explanation in theories of regulation, flexible specialization and networks», στο *Environment and Planning A*, vol.27.
- Murray, R. (1991), *Local Space: Europe and the New Regionalism*, CLES and SEEDS.
- Nenovski Tone, Skopje 1995, «Banking System and Banking supervision in the Republic of Macedonia», Facts.
- Petkovski M. - G. Petreski - T. Slaveski, «Stabilization efforts in the Republic of Macedonia», RFE / RL Research report, Vol. 2 No 3, 15 / 1 / 1993.
- Perez, C. (1985), «Microelectronics, long waves and world structural system: new perspectives for developing countries», *World Development*, 13.
- Petkovski Mihail, Skopje 1996, «The Macedonian Stabilization Programme».
- Piore, M. & C. Sabel (1984), *The Second Industrial Divide*, New York: Basic Books.
- Piore, M. (1995), *Beyond Individualism*, Cambridge MA: Harvard University Press.
- Resurgent Irredentism «Documents on Skopje - «Macedonian» Nationalist Aspirations 1934 - 1992. Thessaloniki 1993, Institute for Balkan Studies.
- Sabel, C. (1989), «Flexible Specialisation and the Re-emergence of Regional Economies», στο Hirst & Zeitlin (eds.).

- Schmitz, H. (1992), «On the Clustering of Small Firms», IDS Bulletin, vol.23, no.3, July.
- Sideri S., «Globalization and Regional Integration», The European Journal of Development Research, Vol. 9 , No 1, June 1997, σ. 38.
- «Transition - the first ten years. Analysis and lessons for eastern Europe and former Soviet Union», Washington D.C. 2002, The World Bank.
- United Nations Library on Transnational Corporations , volume 9 «TRANSNATIONAL CORPORATIONS AND REGIONAL ECONOMIC INTEGRADION», United Nations - Department of Economic
- Wallden Sotiris, Athens 1992, «The impact of Changes in Albania, Bulgaria and former Yugoslavia on Greece and its regions», 3 Parts Study prepared for the Commission of the European Communities.



## APPLICABILITY OF PROJECT MANAGEMENT TECHNIQUES IN SMEs: EVIDENCE FROM GREECE

SDROLIAS L.<sup>1</sup>, SIRAKOULIS K.<sup>2</sup>, TRIVELLAS P.<sup>3</sup>, POULIOS T.<sup>4</sup>

**ABSTRACT.** Greek Small and Medium size Enterprises (SMEs) are an important factor for the socio-economic development of the country. This fact is mirroring in the participation of SMEs in the Greek GDP, but also in terms of employment. The extended relevant literature provides also the significant importance for the sector. The accession of Greece in European Union and the so called phenomenon of globalization create both opportunities and treatments for the local entrepreneurs. Many multi-level transformations were needed, so they are able to adapt in the new era. In most cases these transformations had several difficulties to be accepted by SMEs.

This paper focuses on organizational and managerial issues that SMEs faced by the evaluation of the factors, which affect Greek enterprises in applying PM methodologies and tools in their operational procedures. Specifically it examines the level of applicability of project management techniques and tools by the enterprises.

Empirical data were selected through a questionnaire-based research involving over 100 enterprises, most of them located in the Thessaly region of Greece.

The paper presents an assessment of the gathered results, which, in turn, provides a portrayal of the current situation in applying project management methods in Greece.

The paper addresses questions like: in which of the enterprises the application of project management is more appropriate? In cases where project management seems to be appropriate is it actually applied? What are the factors that affect enterprises in using or not project management techniques? Are these factors qualitative or quantitative? The main body of questions is answered by the use of descriptive statistics, while principal components are determined by applying multivariate statistical techniques.

**Keywords** – Small and Medium Enterprises, Project Management, PM Methods, Tools and Techniques, PM maturity

### INTRODUCTION

Greek Small and Medium size Enterprises (SMEs) play an important role in the socio-economic development of the country. This fact is mirroring in the participation of SMEs in the Greek GDP, but also in terms of employment. The extended relevant literature confirms also the significant importance for the sector. The participation of Greece in the European Union and the so called phenomenon of globalization create both opportunities and treatments for the local entrepreneurs. Many multi-level transformations were needed,

---

<sup>1</sup> Department of Project Management, Technological Education Institute of Larissa, Greece, [lsdrolias@teilar.gr](mailto:lsdrolias@teilar.gr)

<sup>2</sup> Department of Project Management, Technological Education Institute of Larissa, Greece, [sirakoul@teilar.gr](mailto:sirakoul@teilar.gr),

<sup>3</sup> Department of Accounting, Technological Education Institute of Larissa, Greece, [ptrivel@teilar.gr](mailto:ptrivel@teilar.gr)

<sup>4</sup> Department of Accounting, Technological Education Institute of Larissa, Greece, [poulios@teilar.gr](mailto:poulios@teilar.gr)

so they are able to adapt in the new era. In most cases these transformations had several difficulties to be adopted by SMEs.

The first problem is the definition of an SME. For this paper purposes, we define the SMEs firms as: an independent owner/managed business organization of limited significance within the industry, employing less than 250 employees, where the owner/manager's omnipresence creates a highly personalized management style. Other criteria used to classify a firm as an SME are sales volume, asset size, type of customer and capital requirements and sheer organizational size or industry market share (Kadri et al, 2004).

According to Wyer (1990), small firms face potential unique problem types derived from owner-manager and size related characteristics (Smallbone and Wyner, 1994) which may well contradict the commonly perceived high flexibility, fast responsiveness traits frequently propounded as key sources of competitive advantage for the small firm (Chisnall, 1987). As an example, owner-manager related characteristics and constraints can be demonstrated by focusing on the motivations, values, attitudes and abilities of owner-manager (Smallbone and Wyner, 1994). This is the main reason for selecting as key informant in our research the owner of it's SME.

The SMEs' management is a function of the owner/manager and his/her managerial skills principles and expertise, and the structure of the firm (McCartan-Quinn and Carson, 2003). The ownership and the control of capital are usually in the hands of the decision maker who is able to exert a powerful influence on the way the firm pursues his or her own objectives. This contrasts fundamentally with the large corporate firms in which there is a distinction between ownership and control. Many of problems faced by SMEs are inevitably centred on the owner-manager.

As organisations and firms define more of their activities as projects project management (PM) has emerged as a field of practice that is being used increasingly by organisations to achieve their business goals. This paper focuses on organizational and managerial issues that SMEs faced by the evaluation of the factors, which affect Greek enterprises in applying PM methodologies and tools in their operational procedures. Specifically, it examines the degree of implementation of project management techniques and tools by the enterprises.

There are several approaches about the way that PM affects organizations function. Recently Crawford (2005) reports on the results of a research which suggest that there are differences in views of project managers and senior managers concerning those aspects of project management competence that distinguish the "right" project manager. Under the assumption of a positive relationship between performance and standards, as a measure of project management competence, and perceptions of effective workplace performance, research was undertaken, using empirical methods, to explore validity of these assumptions. Results of this research suggest that there is no statistically significant relationship between performance against the standards selected for study, in their entirety, and perceived effectiveness of workplace performance. Patterns of both positive and negative relationships between performance against parts of the standards and perceptions of workplace performance are evident. A different aspect in perceptions and expectations of project management competence between project managers and their supervisors, senior management, is suggested.

From the scope of risk management Small and Medium sized Enterprises are usually reluctant to take up the effort to develop a software tool that will fit exactly to their needs, so the selection of an off-the-self product is usually the preferred and probably the best solution. Due to the authors, it is suggested that including such software tools in the project

management quiver is a strategic positioning for an enterprise. Especially for SMEs the benefits are even more important since, because of their size, they cannot afford project cost overruns (Leopoulos et al, 2003).

Loo (2002) used a random sample of 150 organizations both from private and public sector in order to focus on the best practices in project management in Canada. Overall the paper shows as effective technical competencies the following: centering on project planning, scope management, project control especially over costs/budgets, and having a project management system and documentation; and effective people competencies centering on communications and client/ stakeholder participation. The results of the paper focus on several PM areas that need improvement like the integration and the dissemination of PM practices throughout the organization or the implementation of more effective budget management.

As it appears from the literature (White and Fortune, 2002) there is a mismatch between what PM techniques promised and the corresponding outcomes delivered. This is certain reason that explains why companies treat PM as a risk in itself. In the survey, which is presented by White and Fortune, the PM software reported as tool with the most limitations and that, a serious proportion of project managers did not apply the proposed PM tools in the real projects.

Finally Abbasi and Al-Mharmah (2000) detected by questionnaire survey that in Jordan, there is a lack of knowledge of the PM techniques. Among them, Gantt chart is the most widely used. According to their research “a significant amount of time and money is wasted in project planning, but not enough effort is spent in reporting and controlling”. It must be noted here that the survey involved mainly the Jordanian public sector.

This paper attempts to explore the main factors that affect the PM application in SMEs in Greece. In the following section the methodology and the findings of statistical analysis are presented. Finally the paper summarizes the main conclusions.

## **Material and method**

### *1. Sample*

A random cross-sectional sample of 160 Greek industrial firms was selected from the population of 430 SMEs. The average size of the respondents' firms was 10 employees.

### *2. Questionnaire development*

The questionnaire design was based on the critical review of the literature on project management and in particular tools and techniques, as well as on key organizational context factors related to project implementation success.

The questionnaire was first pretested using a panel of five academic instructors, then a pilot field research was conducted to 20 respondents. Only minor revisions required in order to remove ambiguities and slight changes were made in order to improve questionnaire readability.

### *3. Procedure and analysis*

The field research was conducted through personal interviews with the owner of each SME during the winter-spring 2005.

## **Discussion**

The response rate which considered high, was 37.2 % with 160 of 430 SMEs returning usable questionnaires for analyses. Many company owners were interested in participating in this research, reflecting the great importance that was assigned in project management issues. A wide variety of SMEs are represented in the responding organizations:

non metallic ores and products (20), food & beverages (21), metallic products (11), services (35), education (10), manufacturing (27), and other industries.

The respondents consider as one of the most characteristic attribute of project management definition the project uniqueness (41,2%).

The analysis revealed that the 52,7 % of the respondents (87) apply project management techniques, and the 64.2% of the respondents (106) consider the contribution of project management techniques' on firms' performance of critical importance.

As it is shown (table 1), most of the projects in SMEs are focused on sales, new product development, investment and equipment acquisition decisions.

**Table 1**

The most often occurring areas of performing project management

<i>Most of the projects are focused on:</i>	Number of cases	%
Sales	84	50,9
New products	80	48,5
Investment	77	46,7
Equipment acquisition	75	45,5
Marketing	70	42,4
Production	68	41,2
Constructions	57	34,5
Human resources	32	19,4
Inventory	21	12,7

Also, it is worth noticing, that most of SMEs are more familiar with performance analysis and risk assessment tools, than PERT/CPM or MIS (table 2).

Table 3 shows the percentage of SMEs that are using any of the listed techniques. The SMEs owners in our sample, indicated investment, new product development and ISO certification as the most frequent implementation activities for project management tools and techniques.

**Table 2**

The familiarity of SMEs with project management tools and techniques

	Number of cases	%
Performance analysis	72	43,6
Risk assessment	68	41,2
Work breakdown structure	63	38,2
Total Quality Management	55	33,3
Gantt chart	53	32,1
PERT - CPM	32	19,4
MIS	24	14,5
Other	13	7,9

A critical point is that the least mentioned activity for project management tools application was technology diffusion.

**Table 3**

Activities that involve project management tools and techniques

<i>Most often we implement project management in...</i>	Number of cases	%
Investments	61	37,0
ISO certification	60	36,4
New products	57	34,5
Study	52	31,5
Information systems	52	31,5
Founded projects	51	30,9
Technology transfer	43	26,1
Other	19	11,5

In the section of the questionnaire exploring the importance of project management techniques, respondents were presented with a list of four critical outcomes culled from the study of the literature identifying those that believed to be critical to the outcome of a project. As it is shown in table 4, project management techniques and tools have great impact on cost reduction and quality improvement.

**Table 4**

Impact of project management tools and techniques on firm aspects

<i>PM tools &amp; techniques impact on...</i>	Number of cases	Mean	Std. Deviation
Cost reduction	153	1,7190	1,0160
Quality improvement	153	1,9346	1,1161
Human Resources Management	150	2,3267	1,1262
Time scheduling alignment	150	2,3600	1,1602

Likert type scale, ranging from 1 (great impact) to 5 (no impact)

In the section of the questionnaire exploring the difficulty of PM tools and techniques application, respondents were presented with a list of 7 tools and techniques culled from the study of the literature believed to be critical to the outcome of a project. The evaluated the degree of easiness in their application, in 7 point Likert type scale-items.

As shown in table 5, the respondents find easier to implement TQM, Work breakdown structure and MIS, in contrast with PERT-CPM.

**Table 5**

The degree of easiness in PM tools & techniques application

PM tools & techniques	N	Mean	Std. Deviation
TQM	93	4,4086	2,1174
Work breakdown structure	98	4,2857	2,1871

PM tools & techniques	N	Mean	Std. Deviation
MIS	76	4,2237	2,2006
Risk Assessment	97	3,9588	1,8536
Gantt	89	3,7640	2,0727
Performance analysis	99	3,3939	1,9837
PERT – CPM	80	3,2375	2,0760

Likert type scale, ranging from 1 (most difficult) to 5 (most easy)

The obstacles facing the extensive implementation of project management techniques and tools are shown in table 6. The most crucial obstacle in the implementation process is high cost and the least one is firm size.

**Table 6**

Implementation obstacles

Obstacles	N	Mean	Std. Deviation
SMEs Size	136	2,9118	1,3079
Technical Immaturity	135	2,5556	1,1504
Personnel shortage	135	2,4963	1,1517
High cost	138	1,8913	1,1184

Likert type scale, ranging from 1 (most frequent) to 5 (least frequent)

As it is shown in table 7, the SMEs executives' perception (probably those of the owner that manages the firm) mainly shape the direction, the scope and the resource allocation of the projects that will be implemented.

**Table 7**

Project scope and direction in SMEs are formed by

	Number of cases	%
Executives perceptions	92	55,8
Competitors actions	72	43,6
Head project leader	48	29,1
Stakeholders perceptions	35	21,2

During the initiation phase of a project, the key decision makers in SMEs are taking into consideration mainly the financial analysis results, the project goals and objectives and the time horizon, in order to move to the next stage of project approval to implementation, as listed in table 8.

**Table 8**

The variables that SMEs take into consideration during the initiation of a project.

	Number of cases	%
Financial analysis	105	63,6
Project goals & objectives	98	59,4

APPLICABILITY OF PROJECT MANAGEMENT TECHNIQUES IN SMEs: EVIDENCE FROM GREECE

	Number of cases	%
Time horizon	95	57,6
Risk assessment	80	48,5
Participants - Partners	62	37,6
Alternatives	50	30,3
Concise project description	43	26,1
Project leader	38	23,0
Political processes	20	12,1
Others	9	5,5

As listed in table 9, SMEs owners in our sample, are based on planning, information collection and pursuing project goals and objectives, along with quality and control in order to implement effectively a project.

**Table 9**

During the implementation of a project, SMEs owners take into closest consideration the following attributes

	Number of cases	%
Planning	105	63,6
Information collection	105	63,6
Project goals & objectives	104	63,0
Quality	102	61,8
Control Systems	102	61,8
Duration	98	59,4
Project modules	97	58,8
Analysis	95	57,6
Resources	95	57,6
Project mapping	95	57,6
Reports	94	57,0
Test	93	56,4

Correlation coefficients among the different PM tools & techniques, their impact on the firm, the obstacles faced, are presented in the following tables (10 & 11). It is noted that cost reduction and quality improvement are not related significantly with the degree of easiness in pm techniques and tools implementation. The degree of easiness in MIS application is positively and significantly related to HRM impacts. The negative correlation between performance analysis and high cost obstacles, confirms that this tool limit high cost factors as obstacles.

**Table10**

Pearson Correlation Matrix among easiness of PM techniques & tools application, their obstacles and their impact on different firm aspects

Easiness of PM application	Obstacles				Impact on firm aspects			
	High cost	Personnel Shortage	Technological Immaturity	Firm Size	Cost Reduction	HRM	Time scheduling alignment	Quality Improvement
PERT	,218**	,066	,041	-,019	-,045	,285**	,119	-,024
CPM	,245**	,170	,068	,074	,060	,223*	,243**	,024
Performance analysis	-,205**	,197*	,311***	,095	,046	-,094	-,003	,027
Risk Assessment	,027	-,047	,088	,225**	,141	-,021	-,097	-,121
Gantt	,146	,125	,128	,131	,000	-,124	-,038	,011
Work breakdown structure	-,029	-,011	,035	,173	-,001	-,130	-,149	-,033
TQM	,007	,174*	,108	,205**	-,020	,059	-,092	-,038
MIS	,152	,201*	-,036	,004	-,084	,403****	,036	-,028

Significance at level \* p< (0,1), \*\* p< (0,05), \*\*\* p<(0,01), \*\*\*\* p<(0,001),

It is worth noticing that most of the areas of PM techniques & tools implementation are related significantly to firm size and high cost as obstacles, and cost reduction as an impact.

**Table11**

Pearson Correlation Matrix among the areas of PM techniques & tools application, their obstacles and their impact on different firm aspects

	Obstacles				Impact on firm aspects			
	High cost	Personnel shortage	Technology immaturity	Firm size	Cost reduction	HRM	Time scheduling	Quality Improvement
Funded projects	,040	-,040	,160*	,232***	,032	,035	-,090	,001
Study	,002	-,079	,170*	-,002	-,038	-,190**	-,135	-,070
Investments	,193**	,067	,054	-,237***	-,049	-,060	,032	-,123
ISO certification	,202**	-,058	,107	,258***	,193**	,088	,045	-,138
Technology transfer	,160*	,051	,107	-,036	,239***	,041	,052	-,129
Information systems	,210**	,055	,140	,114	,157*	-,139	,064	-,042
New products	,040	,061	,114	-,204**	,143*	,089	,090	-,266***

Significance at level \* p< (0,1), \*\* p< (0,05), \*\*\* p<(0,01), \*\*\*\* p<(0,001),

### Conclusion

According to management literature small firms face potential unique problem types derived from owner-manager and size related characteristics which may well contradict the commonly perceived high flexibility, fast responsiveness traits frequently propounded as key sources of competitive advantage for the small firm

The owner/manager and his/her managerial skills principles and expertise formulate the SMEs' management. The decision making process is centralized to SMEs' owners, so as the initiation and the implementation of PM. The statistical analysis revealed that the majority of the SMEs in the sample apply project management techniques and they appreciate their contribution' on firms' performance.

It is indicative that most of the projects in SMEs are focused on sales, new product development, investment and equipment acquisition decisions.



The SMEs owners in our sample, indicated investment, new product development and ISO certification as the most frequent implementation activities for project management tools and techniques. A critical point is that the least mentioned activity for project management tools application was technology diffusion.

The results confirm that project management techniques and tools have great impact on different firm's aspects, especially on cost reduction and quality improvement. Also, the respondents find easier to implement TQM, Work breakdown structure and MIS, in contrast with PERT-CPM.

The most crucial obstacle facing the extensive implementation of project management techniques and tools is high cost. As it was expected the SMEs executives' perception (probably those of the owner that manages the firm) mainly shape the direction, the scope and the resource allocation of the projects that will be implemented.

During the initiation phase of a project, the owners' decisions are based mainly on the financial analysis results, the project goals and objectives and the time horizon, in order to move to the next stage of project approval to implementation.

In the case of implementing projects, the owners seems to consider heavily on planning, information collection and pursuing project goals and objectives, along with quality and control. It is worth noticing that most of the areas of PM techniques & tools implementation are related significantly to firm size and high cost as obstacles, and cost reduction as an impact.

## REFERENCES

- Abbasi, G., Al-Mharmah, H., 2000. Project management practice by the public sector in a developing country. *International Journal of Project Management* 18. 105-109.
- Chisnall, P.M., 1987. *Small Firms in Action. Case Histories in Entrepreneurship*. McGraw Hill, Maidenhead.
- Crawford, L., 2005. Senior management perceptions of project management competence. *International Journal of Project Management* 23. 7-16.
- Kadri C. A., Iylker A., Hasan S., Hicabi C., 2004. The financing preferences and capital structure of micro, small and medium sized firm owners in forest products industry in Turkey. *Forest Policy and Economics*. (to be published)
- Leopoulos, V., Kirytopoulos, K., Malandrakis, C., 2003. *Risk Management for SMEs: Tools to use and how*. Working paper NTUA.
- Loo, R., 2002. Working towards best practices in project management: a Canadian study. *International Journal of Project Management* 20. 93-98.
- McCartan-Quinn, D., Carson, D., 2003. Issues which impact upon marketing in the small firm. *Small Business Economics* 21, 201– 213.
- Smallbone, D., Wyner, P., 1994. SMEs and exporting development of an analytical framework. *Small Business and Enterprise Development Conference*. Manchester Bass, San Francisco.
- White, D., Fortune, J., 2002. Current practice in project management-an empirical study. *International Journal of Project Management* 20. 1-11.
- Wyer, P., 1990. The effects of varying forms and degrees of government intervention on the effective competitiveness of UK small business. Unpublished PhD thesis. Asion.

## **BUSINESS CLIMATE SURVEY IN ROMANIA RESULTS AND ANALYSIS**

**JAN STEJSKAL<sup>1</sup>, TOMÁŠ VLASÁK<sup>2</sup>**

**ABSTRACT.** This text focuses in the analysis of the business climate in Romania and some comparison with other states. Before the analysis was took place the survey conducted among employers of residents in 7 judets and 2 additional cities in the second half of 2003 and in two additional judets in the first half of 2004. The survey was realized by Bermangroup - international economic development consulting firm and the analysis also with University of Pardubice, Faculty of economics and Administration.

The objective of the survey was to provide useful and credible information concerning the attitudes of those who invest and create jobs in respective judets and cities. Survey items included the history and status of the business, the nature of its business, labor and employee matters, business facility information, government services and relations and overall impressions of a town and judet as a place to do business.

Romania is becoming an attractive country for investors because of its available work force working for very low salaries. This is not sustainable model for further economic development, however the benefit of this comparative advantage has to maximized now. At the same time companies in Romania rank work force quality lower than in competing CEE countries (especially in Slovakia) where salaries are on a slightly higher but comparable level. The growing lack of skills (especially in technical professions, financial services and marketing) belongs also among important weaknesses of the Romanian economy.

Companies complain about the situation in national economy in a similar way as Czech and Slovak firms did several years ago. On the other hand investment plans are very optimistic and predicted expansion (in relative figures) at current location is higher not only than in the Czech Republic and Slovakia but also higher than in the U.S.A.

### **I. INTRODUCTION**

Under the GRASP program a business climate survey was conducted among employers of residents in 7 judets and 2 additional cities (judets Arad, Bihor, Braila, Giurgiu, Harghita, Iasi and Salaj, cities Caracal and Mioveni) in the second half of 2003 and in two additional judets (Craiova, Sibiu) in the first half of 2004. The objective of the survey was to provide useful and credible information concerning the attitudes of those who invest and create jobs in respective judets and cities. Survey items included the history and status of the business, the nature of its business, labor and employee matters, business facility information, government services and relations and overall impressions of a town and judet as a place to do business. Several answers were town-specific, however majority of information gathered within the surveying can be generalized and useful information about business climate in Romania can be derived. Although surveying of 680 companies cannot definitively reflect the attitudes of the entire business

---

<sup>1</sup> Ing., Faculty of Economics and Administration, Institute of Economy and Management, University of Pardubice, Czech Republic, jan.stejskal@upce.cz

<sup>2</sup> Ing., Bermangroup - international economic development consulting firm, <http://www.bermangroup.cz>, tvlasak@bermangroup.cz

community, these firms, large and small, traditional and new, employ significant part of the economically active work force in each judet, especially in industrial medium-sized companies.

## **II. METHODOLOGY**

680 surveys were completed in cooperation with local chambers of commerce and local government mostly in November and December 2003 and then in March and April 2004. Each judet (town) was represented by at least 40 companies. The list of companies to be interviewed included the largest employers in the judet, as well as many smaller firms with less than 25 employees each. The aggregated responses of all 680 companies are included in this report.

To encourage complete and frank responses from employers, those interviewed were assured that this report would not include references to specific businesses, and the survey forms would remain confidential.

The 680 firms employ a total of 121,613 employees. 19 companies employ more than 1,000 employees, twenty-seven other firms employ between 500 and 999 each. Significant differences were found among responses of companies in different sectors of economy (heavy industry and machinery, light industry, textile and shoes production, agriculture and food industry, transportation, construction and service sector), and much of the data was analyzed making this distinction. The group of 78 companies owned by foreign entities was also studied separately.

## **III. RESULTS OF THE SURVEY**

### **1. Status of Businesses**

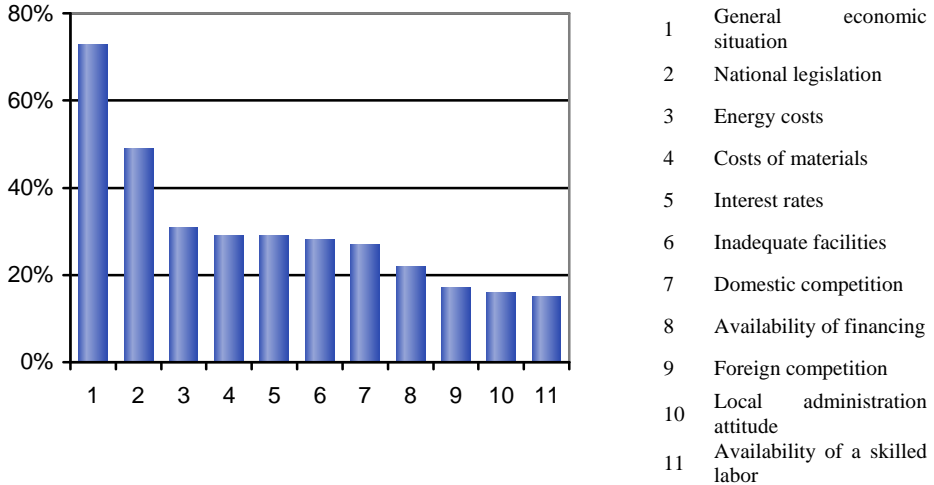
Of the 680, 576 companies were founded since 1990. The highest share of newly established companies is in service sector and also in light industry, while in food industry and construction there are mainly traditional firms. This indicates both vitality of entrepreneurship in the area and influence of restructuring and privatizing of national economy. 78 companies employing 27% of surveyed sample are now owned by foreign capital, only twenty companies (employing less than 11% of surveyed sample) remain state owned. The majority of companies surveyed is owned by physical persons and domestic legal entities.

### **2. Businesses in General**

In most of the judets we can find the following structure of local economy: (1) textile and shoe production industry, often owned by foreign investors; (2) strong heavy industrial clusters, especially in machinery, (3) important individual light industrial companies, e.g. in packaging, furniture and/or electrotechnics, (4) agriculture and food industry, (5) transportation and construction companies and (6) smaller and medium sized trade and service companies started by local entrepreneurs. Foreign owners employ 27% of employees within this sample, however this number is strongly influenced by Dacia company, without it this would be only 18% which is also an average for "normal" judet. Foreign capital entered mainly textile and shoes production (31 out of 78 FDI owned companies within this sample), transportation, wood processing and machinery (car parts).

Companies were asked to name the factors having a negative impact on current and future development (see chart 1) of their products and services. In order of priority (1) general economic situation was the most important factor since mentioned by 73% of firms, especially from machinery and food industry (both up to 80%); (2) national legislation is a problem for 49% of companies (most often mentioned in textile and service sector), (3) energy costs for 31% of firms (over 40% of machinery and light industry companies). Construction and

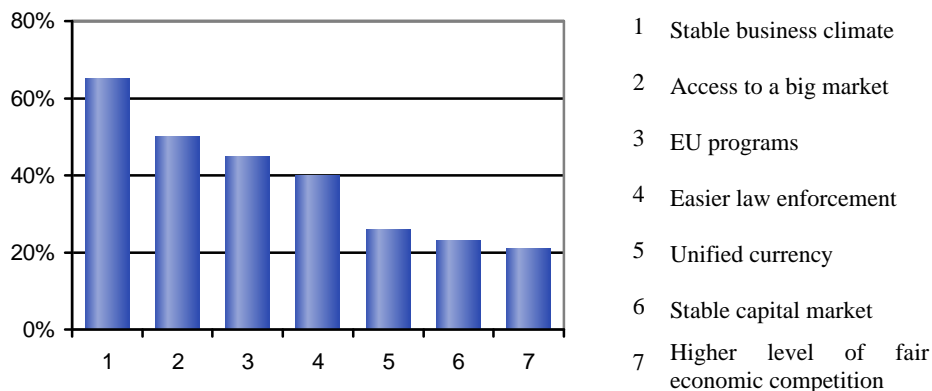
**Chart 1 – Barriers to further development**



machinery companies have also problems with costs of materials (40%, while average of all firms is 29%). Domestic competition is the most serious in service sector. Interest rates and availability of financing represent a problem mainly for construction and textile companies. Companies in service sector also complain on availability of skilled labor (20%, while average of all firms is 15%). On the other hand environmental constraints, transportation problems and distance to markets are a problem for less than 6% of firms. Foreign owned companies have generally less problems with financing (interest rates and availability of financing is mentioned significantly less often) and more with foreign competition. Local administration attitude is mentioned three times more often by small companies than by large firms (18% : 6%).

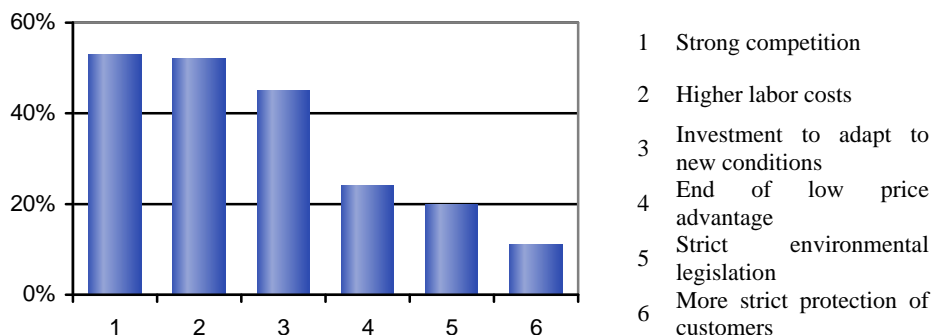
Entry into EU is expected rather positively, however companies are also aware of negatives (see charts 2 and 3). Stable business climate (65% of respondents, 80% in machinery) and access to a big market (50%, mostly for exporters from textile industry) were mentioned most often among the positives. More than 55% of machinery (and 50% of food processing) companies expect opportunities connected with participation on EU programs. Easier law enforcement will be appreciated by 45% of light industry companies. Foreign owned companies are not so eager to participate in EU programs (only 28%) but 53% of them would like to see easier law enforcement instead.

**Chart 2 – Positives of EU entry**

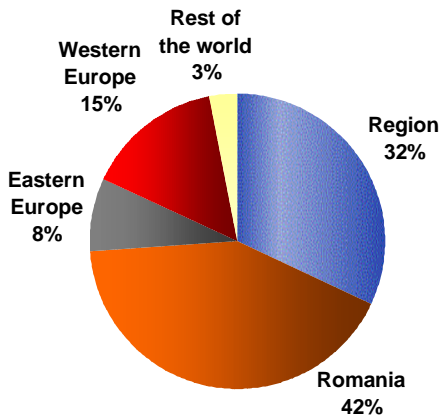


On the other hand 53% companies are afraid of strong competition (most often in food and agricultural sector, least often in textile). 52% expect higher labor costs (mainly in textile – up to 80%) and 45% of investments to adapt to new conditions (and over 60% in food industry). End of low price advantage will create problems to almost 30% of service sector and construction companies. Strict environmental legislation may threaten mostly machinery and construction firms. Higher labor costs represent the main problem for foreign owned companies (mentioned by almost 60% of them).

**Chart 3 – Negatives of EU entry**



### 3. Customers

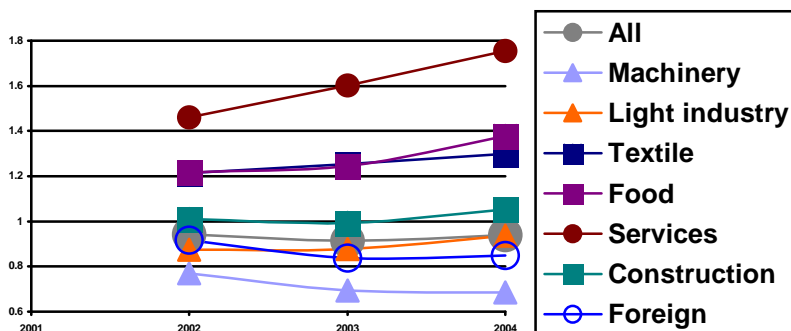


Almost all firms provided information about geographic distribution of their customers (chart 4). Only 112 companies reported that they export more than one half of their goods and services out of Romania and less than one hundred export at least 10%. That is why less than 30% of total sales go outside of Romania even if the foreign owned companies are strong exporters with 56% of sales abroad. Both textile and light industry companies are significantly export oriented with 70%, resp. 50% of sales out of country. On the other hand construction, agricultural, food processing and service companies serve almost exclusively to Romanian market.

#### Chart 4 – Export orientation

Vast majority of companies expect (often more than 20%) increase of sales in 2004 related to 2003, however, several of the construction and service companies report decrease in sales. The overall expectation is very optimistic, the aggregated sales in the entire sample should be increased by more than 22%. An average sale per employee is about 925 million lei, the highest (over 1600) in service sector and the lowest (about 400) in textile. Foreign owned companies report almost twice as high numbers (1865). Customers are also the main reason for 57% companies to be located in their place – very often for service sector, 41% firms reported that they have suppliers of raw materials (majority of food industry and agriculture companies) and only 24% report suppliers of components. Research and development within the judet is mentioned only by 10% (usually machinery) of companies.

#### 4. Labor and Employment Matters

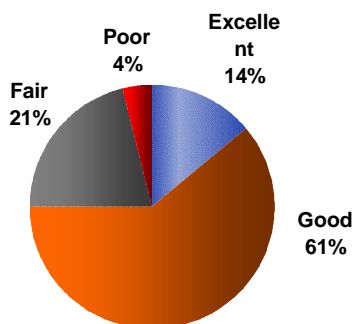


**Chart 5 – Relative change of employment in sectors**

The total number of full time employees in these 680 firms is 121,613, compared to 124,779 last year. Chart 5 shows relative changes in employment in individual sectors. New jobs were created mainly in service sector, textile and food industries when at the same time several other large manufacturers (machinery) were losing jobs. The trend in last 2 years is relatively stable and when asked on new investments, companies answer that they plan to create over 8,600 (!) of new jobs. This increase is planned mostly (relatively to number of employees) in food industry and services (and in small companies rather than in large ones). Foreign owned companies went through some downsizing but the situation seems to be changing right now and investors also predict to create new jobs.

The good diversity of economic structure is also proved by the fact that about 48% of employees are women (over 80% in textile). Share of university graduates rose up to 9.5% partly also because of the downsizing which kept the more qualified positions in companies. Commuting to work is also an important pattern in Romania with at least 25% of commuters in every town and judet. The average number of employees per surveyed firm in 2003 is 163 compared to 205 in 1998. This is mainly because several of the small and medium-sized did not exist 5 years ago and it also proves the growing importance of the SME sector.

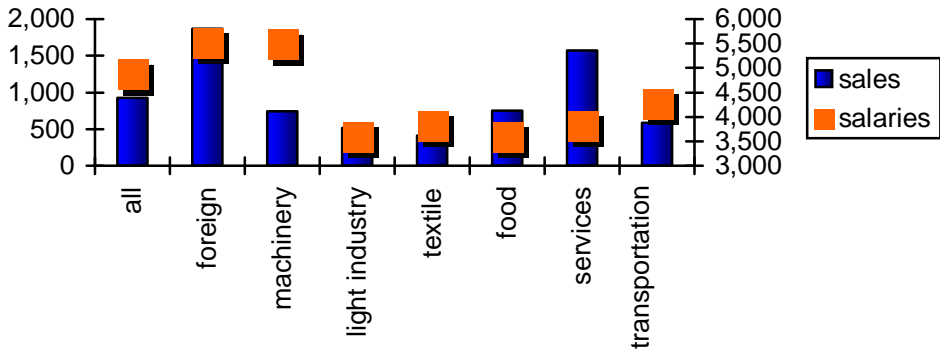
Employers are quite satisfied with the quality of their work force. Overall, 14% of



workers are excellent, 61% are rated good, 21% fair and 4% poor (chart 6). The highest number of excellent workers is reported from service sector (28%). Construction companies also tend to be very satisfied (80% either excellent or good) while food industry and machinery report over 30% of fair and poor workers. Foreign investors report the relatively lowest level of satisfaction (13-57-25-5), however they several times mentioned importance of work force quality as a factor for their decision to locate in Romania.

**Chart 6 – Work force quality**

**Chart 7 – Average salaries (in thousands of ROL) and sales per employee (in mil. of ROL)**



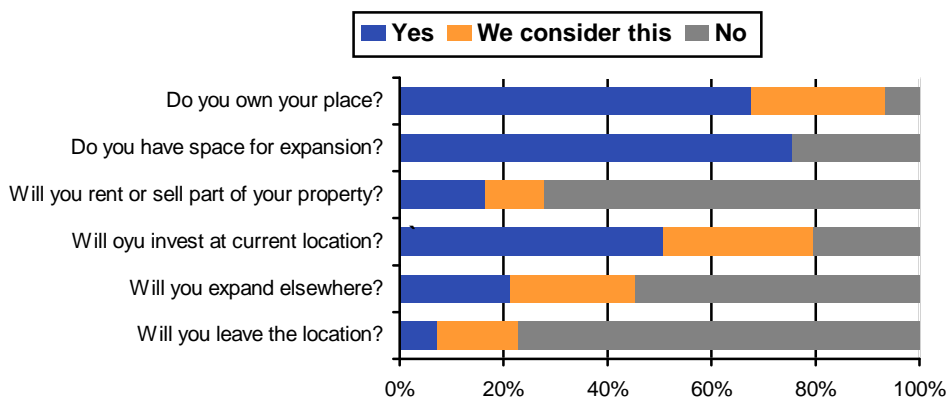
The average monthly wages paid by all surveyed are 4,873,000 lei, the lowest in services, food and light industry and the highest in machinery (chart 7), when less than 20% of companies pay in average more than 5,000,000. Foreign owned companies report the highest wages even if they are not that much represented in machinery (the best paying sector). However, comparison of sales and salaries shows that there is also high productivity in these firms.

37% of companies (in all sectors but mostly in machinery and light industry) are missing specific professions and skills, which are important for their future development and 22% expect to have this problem in future. The best situation seems to be in construction and transportation where 57% report no problem. Also 53% of foreign owned companies is satisfied. The highly qualified technically oriented professions – engineers, designers, IT specialists, financial and marketing experts are mentioned most often as missing.

### **5. Business Facility Information**

Situation in this area has both positives and negatives (see chart 8). While current situation may be sufficient, insufficient room for expansion may become a problem for number of companies. Many (especially in service sector) on the other hand plan to invest substantially in facility improvement. 459 of the 680 companies own their facilities and 44 both own and rent, the highest share of owners is in food processing industry, the lowest in services. 511 companies report that they own sufficient property to allow for expansion as needed, however situation of several others is so bad that they are even considering relocation because of inadequate facilities (besides of service sector there is also unsatisfying situation in machinery). Only 16% of companies plan to sell or rent part of their property. Foreign owned firms are generally in better position, own their property more often and also more often have space for expansion.





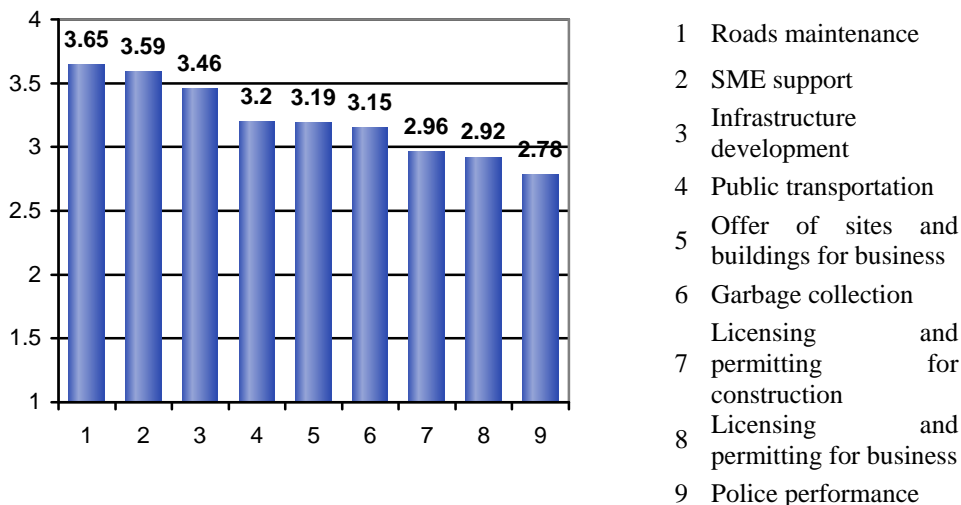
**Chart 8 – Business property information**

It is very positive that 342 companies plan to modernize or improve existing buildings, mostly during this and the next year. Expected investments range from 80 million lei to hundreds of billions. In aggregate, these new investment exceed 4,500 billion lei and will create about 8,650 permanent jobs, especially in food processing, textile and service sector. 140 companies (21%) intend to expand elsewhere in the country and 159 (24%) are considering this (mainly in machinery and service sector). 48 firms (7%) intend to move their operations because of changing market conditions and inadequate facilities and infrastructure at site. The worst situation is logically among small firms (10% intend to move and 19% consider this). Since 105 other companies (15%) at least think about replacement of their operations, both local and state government should adopt an active approach in order to keep jobs and investments at home. Companies when asked answered that changed attitude of local government, lower fees and taxes and improved infrastructure would make them change their minds.

## 6. Government Services and Relations

The companies were asked to rate nine municipal government services on a scale of 1 to 4 (1 = excellent, 4 = poor). There were no substantial differences among individual judets so the results can be used for Romania as a whole. On average, these services were rated rather "fair" at 3.20 (see chart 9). Some satisfaction was always expressed with Police performance (2.78), licensing and permitting for business (2.92) and for construction work (2.96). The companies were very unsatisfied with Roads maintenance (3.65), SME support (3.59) and infrastructure development (3.46). The most satisfied were the construction companies (average 3.07) and the less satisfied are the textile and service sector companies (both 3.26). Foreign owned companies are even more unsatisfied with road maintenance (3.82) and somehow more satisfied with offer of business property (3.09), however the differences are too small.

**Chart 9 – Evaluation of local government services**

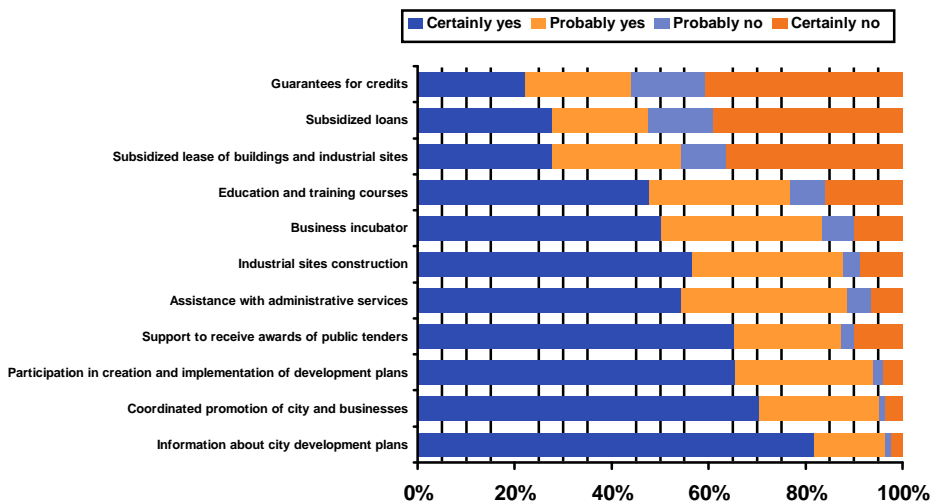


Overall, the responses to this question indicate that businesses recommend initiatives that might be taken especially in the area of SME support through better cooperation with local government and bureaucracy reduction. Among the comments were most often the following:

- ✘ better access to financing for SMEs, giving bank credits with lower interest rates;
- ✘ help with access to EU funds and programs;
- ✘ infrastructure improvements;
- ✘ direct investments into business property and infrastructure;
- ✘ better road maintenance;
- ✘ lower bureaucracy, more transparent policy;
- ✘ transparent public tenders;
- ✘ better information providing to businesses;
- ✘ closer cooperation between local government and local businesses.

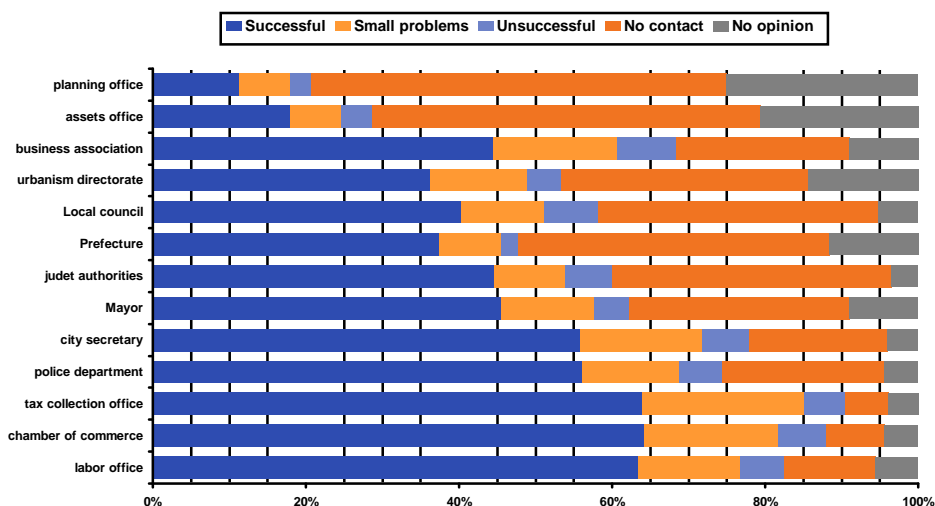
The companies were also asked which services to businesses should the local government provide. Chart 10 shows that firms do not support that much direct or indirect financial assistance and strongly welcome activities which can be provided for almost no costs – cooperation, information and joint promotion. Construction of industrial sites and Business incubator are recommended by more than 85% (resp. 80%) of companies as a very visible activity to improve the local business climate and attract new job creating investments. It is interesting that 100% of foreign owned companies support industrial sites construction! They also support more than domestic companies the idea of training of work force. The companies also opened the sensitive issue of public tenders.

**Chart 10 – Recommended business assistance services / interventions**



Companies evaluated contacts with government individuals and organizations. Results may vary among individual cities but generally are rather positive as seen at chart 11. Chamber of Commerce, Tax collection and Labor offices received everywhere very positive grades and are being visited very often. Foreign owned companies also report positively about contacts to city secretary. Planning office, assets office and business association on the other hand belong among those not contacted very often. Companies reported some problems while dealing with urbanism directorate, local councils and mayors and judet authorities.

**Chart 11 – Contacts to local authorities**



## 7. Overall Impressions

The firms were finally asked to give their overall impressions of their local government. Municipal government was usually rated better than prefecture and than county council. The companies were also asked about their overall opinion of the town as a place in which to do business. These responses were not very positive.

Examples of positive elements of local business climate mentioned by the companies are usually the following three:

- ✓ Qualified and inexpensive labor force;
- ✓ Geographical position (no matter which judet), foreign owned companies often mention the border proximity;
- ✓ Industrial tradition and existing ties and contacts (for domestic companies).

There are usually more negative factors identified in each judet that are mostly concerned with business climate and technical infrastructure. Companies expect local government to adopt a more proactive approach in creating better business climate in the town:

- Not transparent public tenders
- Corruption and bureaucracy
- Lack of the business facilities, poor infrastructure (roads in county)
- Low purchasing power, small market
- Not enough of external investors
- Lack of some specialized skills
- Lack of communication and cooperation between LG and SME.

## IV. CONCLUSIONS

*(The following comments are based on business surveys completed in Czech Republic, Slovakia and Poland since 1997, USA Corporate survey 2002 and 2003 and OECD numbers about FDI).*

FDI inflow to Romania has been low in comparison to the size of the country and other CEE countries. Romanian FDI figures are mainly linked to the start of privatization-related selling of state owned companies to foreigners. Majority of FDI stock is located in the manufacturing industries, the rest mainly in trade and financial services. Textile and machinery followed by light industry belong among industries where investors own a significant share of the entire sector. On the other hand food industry, agriculture, construction and transportation are still mainly domestic companies.

Low numbers of follow-up (expansion) and green-field investments indicates slow restructuring of Romanian economy. However, there is a substantial difference among individual parts of the country. We can see an increasing green-field investment activity mainly of medium-sized companies located along the Western border and engaged in processing while Eastern and Southern parts are still lagging behind. Exports are increasing over the last three years, although the export orientation of local and regional economies remains lower than in more progressive CEE economies (Czech Republic, Slovakia, Hungary, Slovenia). The structure of exports has not yet shifted towards higher value-added products and services much but remained confined to labor intensive sectors such as textiles, clothing and leather goods.

Future development of Romanian economy is dependent on achieving continuous high growth of productivity levels. This can be done by focusing on research and development and introduction of new technologies in the production and service provision processes. So

far the situation – compared e.g. to the Czech Republic or Slovakia - reflects considerable stagnation. The number of companies using Internet for active contact with customers or e-business direct sales / procurement solutions is lower than in other countries of Central and Eastern Europe as well as the number of firms which have their research and development activities within the region.

Romania is becoming an attractive country for investors because of its available work force working for very low salaries. This is not sustainable model for further economic development, however the benefit of this comparative advantage has to be maximized now. At the same time companies in Romania rank work force quality lower than in competing CEE countries (especially in Slovakia) where salaries are on a slightly higher but comparable level. The growing lack of skills (especially in technical professions, financial services and marketing) belongs also among important weaknesses of the Romanian economy.

Companies complain about the situation in national economy in a similar way as Czech and Slovak firms did several years ago. On the other hand investment plans are very optimistic and predicted expansion (in relative figures) at current location is higher not only than in the Czech republic and Slovakia but also higher than in the U.S.A. So far Romanian domestic companies have not yet started noticeable expansion abroad.

One of the biggest problems mentioned by many of the responding companies is cooperation with local government and transparency of decisions made on local level. Substantial share of contacts to local government is reported to be influenced by bureaucracy and corruption.

This Business Climate Survey reflects the accumulated opinions of the major employers in 11 Romanian judets. Their collective attitudes towards government and its practices can be seen as a proxy of current business climate in Romania. Quality of this climate that allows businesses to trade and grow in a free market economy will determine whether Romanian economy will grow, stagnate or decline. This is why the trends and attitudes observed within the survey shall be carefully studied and addressed by politicians, state institutions and business associations.

## ABOUT THE MARKETING - DESIGN RELATIONSHIP

GH.GH. IONESCU<sup>1</sup>, CLAUDIU EMIL IONESCU<sup>2</sup>

**ABSTRACT.** In our paper, design is considered briefly in different contexts – product and manufacture, service and retail – and for different purposes: product design and corporate communications. Links with marketing are made, essentially by examining how design affects elements of the marketing mix. Finally, evidence is presented to support the argument that design makes a positive contribution to business performance. In other words, design investment affects the bottom line, but only if design is integrated into the business process and managed well. Our paper concludes with a general model of design management. This model is not intended to be prescriptive but to provide a checklist of the range of activities and information that is required to manage design effectively.

### 1. Introduction.

Each year, 7,000 design graduates leave UK universities, and UK – trained designers are to be found working throughout the world for leading companies across all industrial sectors. It has been well documented that UK companies have been slow to adopt design, despite successive government campaigns targeted at companies to create awareness of design's commercial role (Farr 1955; Heskett 1980; Sparke 1986). Given the competing demands for resources, design is often treated as an activity that can be bought as and when required in an “on-off” way and may be regarded as a dispensable luxury. Firms may view their projects as a one-off investment into their long-term strategy. James Dyson's (designer/manufacturer) view is that, “Manufacturers should not think of design as a bolt on thing. It's the total product – how it's used, how it is made, how reliable it is that all shine out” (Design 1995:38-39).

None the less, ample evidence exists to suggest that design investment has a positive commercial benefit (Pilditch 1987; Service et al. 1989, Potter et al. 1991). Over the past few years, major studies have been conducted to measure the returns on investment in design expertise. A survey of 221 small and medium-sized UK manufacturers which received a government subsidy to employ a professional design consultant to help develop new or improved products or graphics showed that 60 per cent of all projects and 90 per cent of the implemented ones were commercially successful. Other benefits included the firms gaining design management skills and some impact on the UK trade balance. However, there is still a long way to go before industry makes full use of Britain's design expertise. Also the survey shows that the costs of design investment were assessed at a project level. The results supported the case that investment in design has commercial value. Key results were:

- ✘ 90 per cent of projects that were implemented in the market were profitable;
- ✘ there was a 40 per cent increase in sales of redesigned projects, compared with the projected sales figures if no design work had taken place;
- ✘ there was a 13 per cent increase in exports;
- ✘ there were other benefits, including reduced manufacturing costs, stock savings, enhanced company image.

---

<sup>1</sup> Professor, Faculty of Economics, West University of Timisoara, Romania

<sup>2</sup> Lecturer, Faculty of Arts, West University of Timisoara, Romania

The results of this study provide a very good case for investing in design projects. The degree of risk varied across different types of design projects. Graphic design projects appear to involve little technical uncertainty or financial risk. Yet in product or engineering design a relatively high risk of failure exists at the start of a project; once a project has been implemented, the prospect of a rapid return on the investment becomes very good. The risk of financial loss is low for all types of design.

The more successful projects in the Roy and Power (1993) study gave insights into effective design management practices, some of which have been echoed by other studies, notably Service et al. (1989). The key factors were:

- ✘ clear project objectives;
- ✘ comprehensive design briefs that included information about the target market;
- ✘ regular communication with design;
- ✘ top-level commitment;
- ✘ sourcing of appropriate design skills;
- ✘ integration of design with other corporate activities.

## 2. The marketing - design relationship

Marketing and design are interrelated activities. Product planning, market research, competitor analysis and control of budgets are the realm of marketing professionals and these marketing issues affect design. Typically, marketing is a “trigger” for a design change, for example, a decline in market share may stimulate a review of the product portfolio and lead to a design modification or a promotional activity to stimulate sales.

Table 1 shows how market changes can “trigger” different types of design.

**Table 1.**

**Market triggers of design**

Market objective	Design outcome
<ul style="list-style-type: none"> <li>➤ Company seeking to launch the product on the market for the first time.</li> <li>➤ Company seeking to increase market share.</li> <li>➤ Company seeking to regain last market share.</li> <li>➤ Company seeking to diversity into a new product market for the company.</li> <li>➤ Company seeking to diversity into a new product market for the company.</li> <li>➤ Company responding to customer request.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Industrial design of casing for innovative cheque – writing machine.</li> <li>➤ Graphic/styling design work for a range of garden tools.</li> <li>➤ Engineering design for a new design of bus shelter.</li> <li>➤ Packing design for new product- chilled cooked meats.</li> <li>➤ Engineering design of a wire-joining device.</li> <li>➤ Design of a computerized control mechanism for a pottery-kilo booster.</li> </ul>

Design can be viewed as a marketing resource that deals with the choices and decisions that determine the value and quality of the product. Whether technical performance, style, reliability, safety, ease of use or some combination of attributes is emphasized, the design of the product can offer quality and value for money in the eyes of the consumer. Consumers’ perceptions and their willingness to buy are influenced by the design configuration of the product and its ability to convey “value for money” in comparison with competing

offerings. In addition, a unique design can create a desire in the consumer to purchase (Alessi's Kitchen utensils) and so contribute to the competitiveness and business success of the company.

Design can be used as a market positioning tool: for example, Braun offers classical design in the consumer goods market as a play to maintain a position as a premium supplier. Failure to keep pace with market trends and to design attractive products may well threaten survival, as was the case with the UK toy company Airfix, which supplied model – making kits targeted at boys and which could not survive the onslaught of cheaper and more appealing products from the Far East.

### 3. The impact of marketing decisions on design.

The study conducted by Roy and Potter (1993) shows clearly that marketing decisions can have grave implications for the project outcome. Projects could be suddenly aborted because of changing market – circumstances (e.g. a competitor launched a better design), and in other cases the projects may not be implemented because the promotional costs may not have been built into the estimates for the project. The success of a project does not rely solely on design, but on broader market considerations, such as identification of a target market, effective budgeting, market research that is conveyed in a meaningful way to design and so on.

The main areas of design management skills for marketing professionals, revolve around:

- ✓ awareness of the need for design;
- ✓ sourcing of appropriate design skills;
- ✓ preparation of a clear and detailed brief;
- ✓ monitoring design and design budgets and schedules;
- ✓ evaluation of the design outcome.

a) **Marketing mix and the design.** Design has a connection with each of the elements of the marketing mix, as follows:

**1. Product:** Design influences quality, function usability and appearance. It contributes to product features, which add value to the product for the consumer. Design affects all of the differentiating features of products, such as performances, reliability, style, etc. Compare, for instance, a pair of shoes and a telephone: each must be functional, ergonomically and aesthetically appropriate. The designer contributes to each of these elements to varying degrees, depending on the nature of the product.

For service companies, insurance companies, for instance, use design to provide the information and evidence of the service, from policy document and chequebooks to the sales literature. Design is used for image differentiation by the provision of memorable corporate identities that are implemented on packs, logo, stationery uniforms, environments and that create a visual harmony for the organization.

**2. Price:** products can be devised that are economical in terms of materials, energy and manufacture. Product enhancement, by adding a feature such as embroidery on towels and linen, or a call memory facility on a telephone, can affect the perceived value of product, allowing it to be sold at a higher price.

**3. Place:** distribution considerations may affect the design, so that a product's pack may have a shape that facilitates storage and display. Shelf appeal is critical for FMCG goods – hence the importance of design elements such as color, illustrations and shape.



**4. Promotion:** most promotional activities rely on their visual qualities to convey the company's message. Pack aging, promotional and sales literature, all forms of media advertising, point-of-sale displays and retail environment all involve the skills of designers.

Design for service and retail areas is considered briefly here, before moving on to consider product design and corporate communications in more detail.

**b) Innovations and design.** "Good design can significantly add value to products, lead to growth in sales and enable both the exploitation of new markets and the consolidation of existing ones" (HMSO 1995:143).

At the heart of technological innovation is design. Caldecote refers to design as "the process of converting ideas into information from which a new product can be made" (Caldecote, 1979). Product development is necessary to replace and update existing products, to diversity into new markets and to create new opportunities by innovation.

Figure 1 shows the design interfaces in the product development process.

It is well established that marketing has a critical role in the product development process, particularly during the early stages, which Cooper and Kleinschmidt (1986) refer to as the "front-end" of product development. Marketing has a role in concept evaluation and the testing of detailed designs, and must also plan the market launch from the onset to ensure that the distribution channels are established and that the launch strategy has been considered (Biemans and Setz, 1995). Design translates market requirements into concepts and develops these into detailed design of products, it also provides the graphic design skills for print and promotional material to support the new product.

R&D is the domain of technologists, engineers and scientists who are concerned with developing new knowledge that can be incorporated into new products and processes. Designers, in this context, may use such knowledge in conjunction with existing design skills and expertise to generate new product concepts. In terms of innovation, then, design expertise often contributes to the delivery to the market of new technology in a form which can be used, for example the development of shape-memory alloy into bra under-wires. Both R&D and marketing can drive innovation and product development.

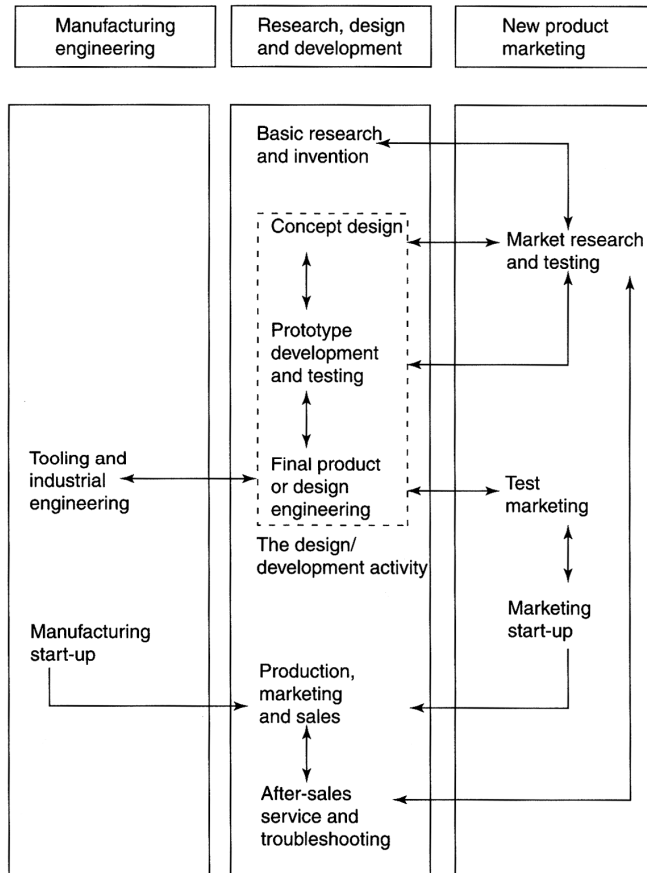
It has been widely recognized that the interface between R&D and marketing is critical for effective product design (Gupta and Wileman 1988), the same goes for that between design and marketing (Cooper and Jones 1995). Poor communication between marketing and design may result in unfocused design and failure to exploit design's potential for product development and launch.

**c) Design and the corporate identity.**

"It is virtually impossible to detect quality differences between the products of major financial service companies, or petrol retailers or the various chemical companies, for instance. This means that companies and their brands have increasingly to compete with each other on emotional rather than rational grounds. The company with the strongest, most consistent, most attractive, best implemented and manifested identity will emerge on top in this race" (Olins 1990:70).

With the growth or mergers and acquisitions, the launch of new companies and privatization of public organizations, corporate identity and corporate communications have experienced an upsurge of interest. In the UK, for instance, corporate identity is a major component of professional design services. The merger of building societies, the launch of trust hospitals and the creation of new universities have provided investment in corporate

ABOUT THE MARKETING - DESIGN RELATIONSHIP

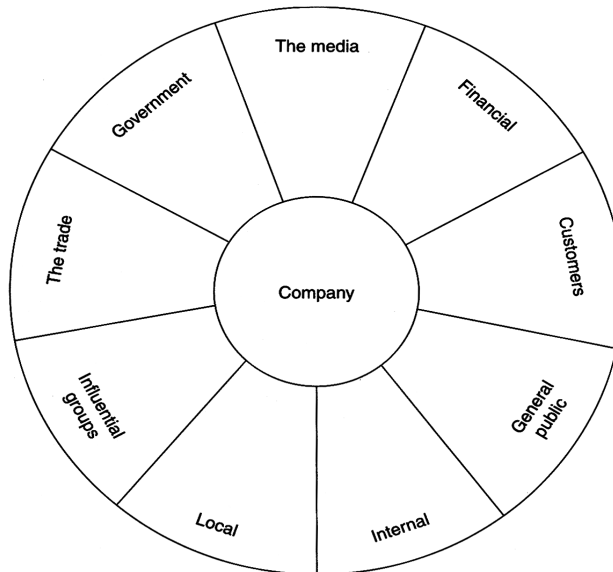


Source: Roy and Bruce (1984)

**Figure 1.** The process of technological or industrial innovation, showing the place of the design and development activity

identity design. When two companies merge and create a new organization, decisions have to be made as to whether to subsume the identity of one of the organizations into that of the other or to create a completely new identity. The acquisition of Philips by Whirlpool is an interesting case. In Europe Whirlpool was not known brand yet Philips was regarded as having a high reputation, and the converse was true in the USA. Managers of Whirlpool decided to run the two names in tandem in Europe, building the Whirlpool brand image through promotion and graphic design, until consumers had begun to recognize Whirlpool and to associate this name with the good reputation that Philips had always enjoyed. Eventually, the name Philips was withdrawn in Europe and Whirlpool became an acknowledged brand.

Corporate identity is the sum of the ways in which an organization presents itself to its various publics (see Figure 2) and includes transport, publicity, advertising, environment, architecture and products.



Source: Bernstein (1984)

**Figure 2.** The nine publics of a company image

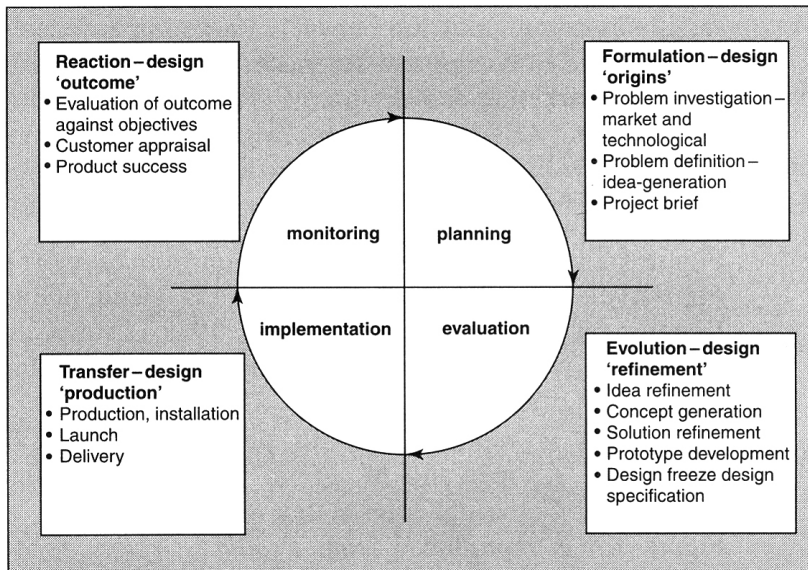
Corporate identity is concerned with the entire communications plan and is integrated into the organization's philosophies, policies and activities. Michael Beirut, one of the Partners of the UK Office of Pentagram, a UK group, refers to corporate identity in this way: "...in its fullest sense, corporate identity is the character of an institution or corporation as projected in its communications, its products and service, its property and facilities and in the attitudes and behavior of its personnel. It is the sum of the ways in which the institution represents itself formally, as well as symbolically" (in Bruce 1994: 11).

#### **4. The model of design management.**

Design management for a marketing professional is concerned with utilizing design expertise so as to achieve marketing's goals effectively. One definition of design management is that: "it is about managing those corporate expressive activities that generate products, services and corporate communications which aim to optimize customer satisfaction and business success". Cooper and Press suggest that "the management of design includes planning, organization, implementation, monitoring and evaluation" (Cooper and Press 1994).

In terms of using design effectively, marketing professionals need to consider how design fits into their business, which design specialisms to use, the contribution design can make to their business, as well as developing skills in sourcing, briefing, liaising and evaluating design. The detail of managing design will of course vary from design discipline to design discipline and is also dependent upon whether design is insourced or outsourced Figure 3 illustrates the design process and the issues which need to be managed by marketing professionals when working with designers. Essentially the design process can be broken down into four broad categories: Formulation; Evolution; Transfer and Reaction (Bennet et

al. 1988). Formulation is concerned with identifying the design need and planning the problem definition, Evolution deals with the idea, concept and detailed design generation, Transfer covers implementation of the design and Reaction addresses the outcome of the design, for example customer acceptance.



Source: adapted from Bennet et al. (1988)

**Figure 3.** Four stages in the design process

### Conclusions

Our intention has been to encourage marketing professionals to:

- understand the value of design to marketing and business;
- provide marketing information in a way that supports design and facilitates communication between marketing and design;
- be empathic to design and so encourage on effective relationship between marketing and design.

### REFERENCES

1. **Biemans W. and Setz H. J.**, (1995), "Managing new product announcements in Dutch telecommunications Industry", in M. Brucee and W. Biemans (eds), *Product Development: Managing the Challenge of the Design – Marketing Interface*, Chichester: John Wiley & Sons.
2. **Bruce M.**, (1994), *Changing Corporate Identity: The Case of a Regional Hospital*, Cambridge, Mass: Harvard Business Press.

3. **Cooper R. G. and Kleinschmidt E. J.**, (1986), "An investigation into the new product process: Steps, deficiencies and impact", *Journal of Product Innovation Management*, 3 (1) 71-85.
4. **Farr M.**, (1959) *Design in British Industry, a Mid- century survey*, Cambridge, Cambridge University Press.
5. **Gupta A. K. and Wileman D.**, (1988), "The R&D marketing interface in hi-tech firms", *Journal of Product Innovation Management*, 5: 20-31.
6. **Heskitt J.**, (1980) *Industrial Design*, London, Thames and Hudson.
7. **HMSO** (1995), *Forging Ahead: White Paper on Competitiveness*, London: HMSO.
8. **Ollins W.**, (1990), *Corporate Identity*, London: Thames & Hudson.
9. **Pilditch J.**, (1987), *Winning Ways*, London, Harper & Row.
10. **Potter S., Roy R., Capon C., Bruce M., Walash V. and Lewis J.**, (1991), *The Benefits and Costs of Investment in Design: Using Professional Design Expertise in Product, Engineering and Graphics Projects*, Design Innovation Group Report 03, Milton Keynes: Open University.
11. **Power C.**, (1992), "Flops", *International Business Week* (13 August).
12. **Service L., Hart S. and Baker M.** (1989), *Profit by Design*, London: Design Council.
13. **Sparke P.**, (ed) (1986) *Did Britain Make it? British Design in Context 1946 to 1986*, London, Design Council.
14. \*\*\* *Design* (1995 Winter): 38-39.

## STRATEGIC MANAGEMENT PROBLEMS FOR ROMANIAN TOURISM COMPANIES - A SHORT INVENTORY

MAGDALENA VORZSAK<sup>1</sup>, CRISTIAN CHIFU-OROS<sup>2</sup>

**ABSTRACT.** Romania is known for its tourist resources. Why, then, Romanian tourism did not become yet the engine of the national economy? This is the starting question of this research. We started with the idea that we have to look for the roots of all problems at the microeconomic level not at the macro one. We have studied a sample of companies involved in tourism field and we applied a questionnaire to their management board. The most important thing to highlight was if the management decisions are strategically orientated or not. The conclusions reveal a sum of problems that Romanian tourism companies are facing. The most important problem is a lack of strategic approach in management process. Further, we made a short sketch of the scenario that might be followed and we revealed the advantages and disadvantages of the possible alternatives for the Romanian tourism companies.

**Key words:** tourist companies, strategic management orientation, strategic problems.

### *1. General problems that the tourist companies from Romania are deal with*

Romania has a big tourist potential but in spite of this, if we analyze the Romanian tourist industry, we realize that it is dealing with many problems. This study wants to reveal some possible causes of this situation.

Analyzing statistical data and the existing literature, we could find some essential aspects that characterize the Romanian tourist industry in the present period.

A positive aspect is an increase in number of small and medium size private companies in tourist field due to the privatization process, creation of new companies and to reconverted enterprises from other sectors. Unfortunately, phenomena like mergers and acquisitions, which are characteristics of a dynamic sector, are very rare. This is one of the first problems that we have identified.

A second problem regards the human resources. The tourist field seems to be not very attractive for those who have knowledge and education in tourism. A reason for this is the relationship between *work* volume and *salaries*, which is unbalanced. Due to this, we assist at some “invert selection” of human resources; those who apply for a job in the tourist field are either without any qualification or with other qualifications but unemployed for the moment. Therefore, the quality of human resources in Romanian tourist companies is below the average of other sectors and this has negative consequences for the quality of tourist services.

Low quality of tourist services and the prices that the tourist companies charge, along with Romanians’ low purchasing power has led to a dramatic decrease of the internal tourist services demand. Despite to the low purchasing power we assist to an increase of the demand for external tourist services and, also, the external offers increase.

In the same time, we could observe a decrease of overnight staying and an increase of offers for weekend tourism. Now days the number of Romanians who are spending the

---

<sup>1</sup> Professor, Faculty of Business, Babes-Bolyai University, Cluj-Napoca, Romania, vorzsak\_m@yahoo.com

<sup>2</sup> Lecturer, Faculty of Business, Babes-Bolyai University, Cluj-Napoca, Romania, cochifu@tbs.ubbcluj.ro

holiday at the Black Sea is continuously decreasing because most of them choose other destinations like Slovakia, Slovenia, Turkey, Greece or others, where the balance price/quality is better than offered by the Romanian tourist companies. The same situation could be observed for the mountain resorts due to the lack of entertainment facilities.

Romanian natural tourist potential remains, in this way, unused and the most important reason for this is the bad management of available financial resources (which multiplied since 2002).

On the other hand, Romanian tourist products are not promoted in spite of the existence of the Fund for Tourism Promotion administrated by Romanian Ministry of Finances from 01.01.2001.

## ***2. The objective of the research***

Our purpose was to reveal why we cannot see clear benefits of tourism development in Romanian economy. We have chosen a sort of unconventional way and we did not start the research from analyzing the situation at the macroeconomic level. On the contrary, we have studied the problem at the microeconomic level being interested by the tourist firms.

The management of these companies, especially the strategic management, was interesting for us because we believe that the problems of Romanian tourist industry lie at organization's management level.

We started with the idea that the purpose of any research is to find those informations that companies need to solve a problem, but the solutions must come from the management teams. In this way, we want to bring to the attention of the decision factors the problems that they had to solve immediately. If we would be able to do this, then our study has reached its purpose.

A problem in our study was the size of the sample that we must use for an accurate scientific research. Due to our limited resources, we did not intend to achieve a study at a macroeconomic level. This was the reason which restrained our research to tourist companies registered in the city of Cluj and our belief that the problems of Romanian tourist companies are the same all over the country, so our conclusions can be easily generalized using statistic tools.

We have intended to include in our study all companies that offers tourist services but from all targeted companies only 18 (72%) accepted to collaborate to our research.

The research method used was the direct interview based on a questioner; this allowed us to collect both formal and informal information in order to observe elements like attitudes, hesitations, embarrassed or optimistic smiles, mentalities. We consider all these elements very useful in the diagnose of the management type applied in the researched companies.

First, we collected data regarding the managers age, managers' level of education, type of company, ownership, turnover, number of employees and location. From the responses we have received, the following data regarding the companies emerged.

### Conclusions:

- 80% of the managers are below 35 years old and 60% of them have studied in tourist or economic field;
- 89% of the companies are privately owned, 70% of them are of Limited liability type (Ltds) and 51% of them have a turnover between 1 and 10 billions ROL.
- 47% of analyzed companies have between 5 and 6 employees, and most of these (70%) have the activity limited only to city of Cluj area.

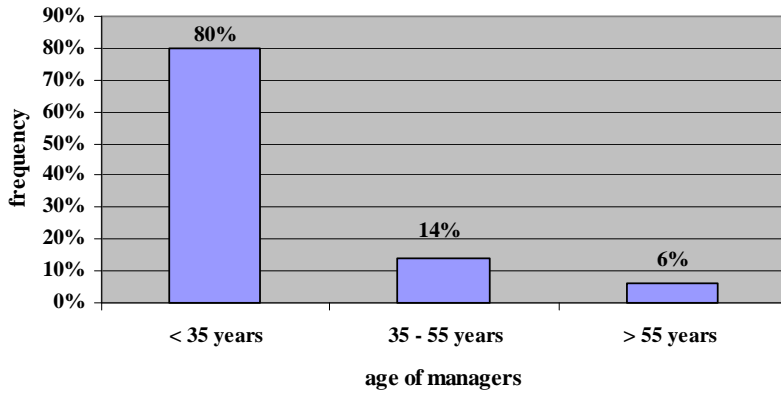


Figure 1. The managers age

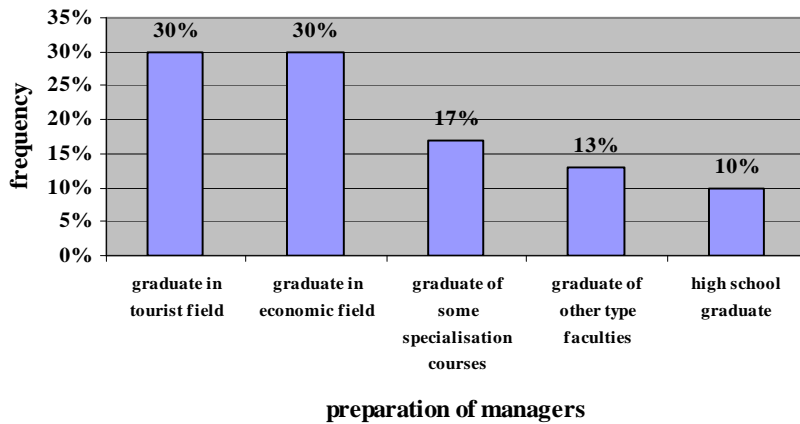


Figure 2. The level of studies

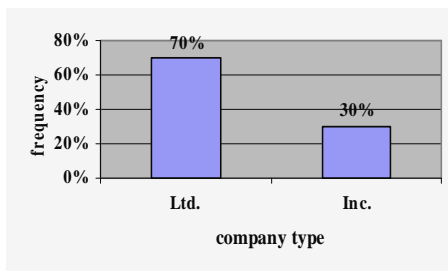


Figure 3. Company type

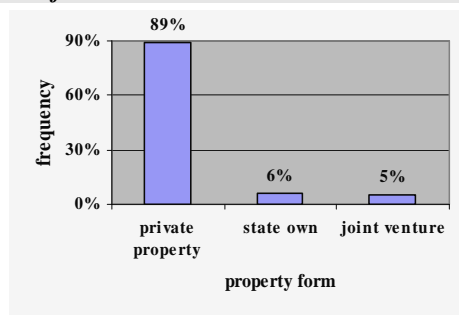
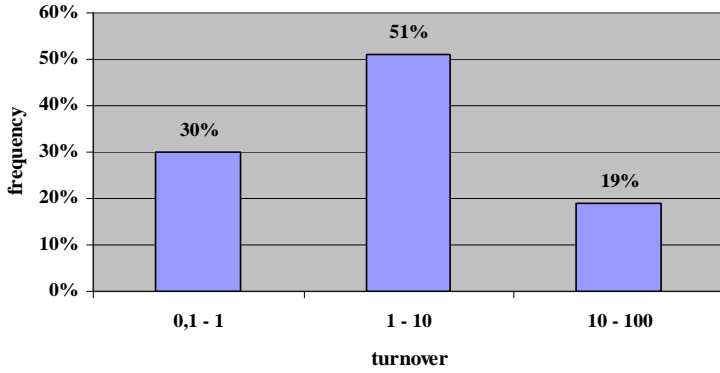
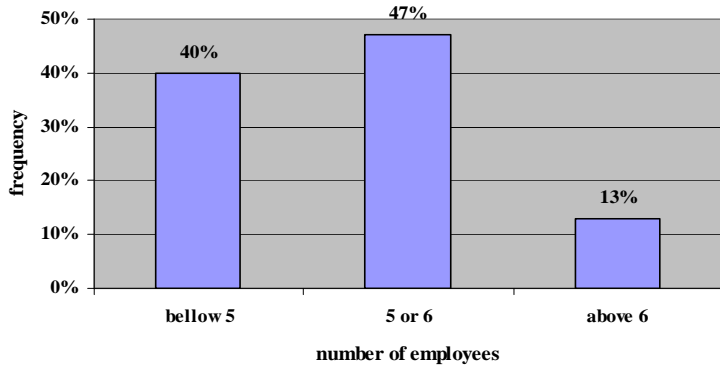


Figure 4. Ownership

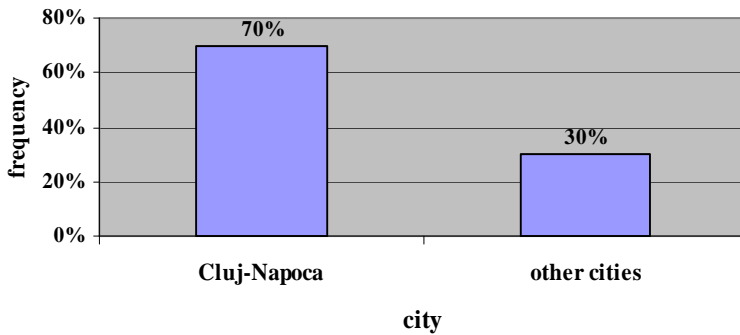




*Figure 5. Turnover (billions ROL)*



*Figure 6. Number of employees*



*Figure 7. Location*

### ***3. Conclusions revealed by the questioners***

Trough the basic questions from the questionnaire (15 from 22) we wanted to extract some information regarding the situations of the strategic management in Romanian tourist companies.

We have reached to the following conclusions based on the answers to the questionnaire:

#### ***Conclusions regarding the opinion of the managers about the necessity, the purpose and the content of strategic management***

A gladding ascertained fact is that 95% of managers are fully aware of the importance of a strategic orientated management, while just 5% are not convinced of this situation. However, in their opinion, strategic orientation has different acceptations.

✓ 63% consider that strategic orientation means a better capacity to adapt to their clients demands;

✓ 37% think that strategic orientation means just an efficient development of the company's activity.

From the 63% of the managers presented above:

✗ 33% of managers consider that strategic orientation means to elaborate, to choose and to implement a corporative strategy, or continuous interest for adopting modern ways for conducting the activity in their companies;

✗ 33% of managers consider that strategic orientation means a unitary vision of the management about the entire activity of the company.

Half of the interviewed managers think that strategic orientation of the management must characterize exclusively the activity of the company management, while the other half consider that the strategic orientation must be found in the activity of all employees.

25% of managers think that the starting point of the management must be the mission of the firm, while 6% consider that the strategic orientation of the management is not quite necessary for the moment.

More than a half of managers (57%) have declared that they know exactly which are the persons from the company involved in elaboration and implementation of corporative strategy, while 43% of them barely know or they do not know at all who those persons are.

44% from the investigated companies have at least a draft of a strategic plan; but 19% of the managers did not know if they have some kind of plan and the others did not answered at this question. 32% of the managers have declared that the company's activity, to a certain degree, is developed following a management strategy formally elaborated; 58% of them declare that the most of the company's activities follow a strategic plan, while 10% declare that the activity follows entirely a strategic plan.

Concerning the strategic management implementation modalities, 63% of the managers consider that it is necessary to have some employees prepared for this implementation process; the opinion of 38% of the managers is that they need to employ experts in this field while the others consider that they must appeal to some consulting companies.

#### ***Conclusions regarding the managers' level of information regarding the strategic aspects of their activities***

Only 63% of the managers have declared that they know where their company is situated on the tourist market, while this aspect of the activity was not important for the others.

91% of the managers admitted the importance of constructing a good client portfolio; but the role of this portfolio is seen in different manners. For 51% of the managers the client portfolio plays an important role in the increase of sales; for the other 49%, the client portfolio is just a management tool.

In opinion of 94% of the managers, the links between partners have a positive influence on the quality of their own tourist offer. The other 6% denied this.

All of the interviewed managers have declared that they know which their competitors are, but none of them gave to much importance to the study of those. The vast majority of them think that the competition on the tourist market is not so fierce (for the moment) and it not causes insurmountable problems.

All managers admit that a differentiation between their company and their competitors is necessary, but regarding the criteria of differentiation, the opinions are divided. Thus, 54% think that the most important thing is the level of client satisfaction, followed by the quality of offered services (39%), type of the tourist product they offer, the quality of employees (21%), prices (5%), the company's image on the market (5%), the firm endowments (5%).

The main priorities for the tourist companies, in their manager's opinion, are the followings: tourist product offer (64%) which has to be original, divert, extensible and flexible; growth of the service quality and affordable prices (18%); the actions connected with the company's activities such as acquisitions and maintenance (12%).

The main competitive advantages revealed by managers are: their own product offer (a good, original, diverted and flexible one), quality of services, employees professionalism (seriousness, promptitude, empathies), affordable prices, a good quality/price ratio and advertising.

Generally, the managers recognize the importance of the marketing activity, but they put the accent mostly on advertising, fairs participation and promotion of their own tourist packages. Unfortunately, the main elements of the modern marketing such as intern marketing, relational marketing, sincro-marketing, strategic marketing, transactional marketing did not find any place, yet, inside the Romanian tourist companies.

The main strengths of a tourist company are, in its manager opinion: the product offer (33%), prices (27%), commercial position (40%), the existing endowments (25%), relationship with clients (26%), image (13%), advertising and publicity (14%), employees professionalism (18%) and last but not least a very clear objectives setting (14%). On the other hand, the main weaknesses of a tourist company may be:

- ✓ insufficient advertising and publicity (51%);
- ✓ the lack of ticketing activity (25%);
- ✓ a very small number of employees (26%);
- ✓ the lack of own tourist packages and of a destination specialization (21%);
- ✓ the managers overloading (19%);
- ✓ a bad commercial position (outside the commercial zone 27%);
- ✓ inappropriate spaces (7%);
- ✓ high prices (8%);
- ✓ a lack of medium term forecasting (11%).

These are the results obtained from the sample.

If we try to generalize all these results, at a significance level of 5%, we obtain the following:

- Between 73,5% and 99,91% of the tourist company managers are fully aware about the importance of strategic management;
- Less then 68,8% of the tourist companies developed a strategic plan;
- Less then 84% of the managers know their company position on the market;
- Between 68% and 99% of the managers admit the importance of the client portfolio;
- Between 72,1% and 99,8% of the managers admit that the links between partners has a positive influence for the company's activity.

As we can see from the statistics many tourist company managers *know* and *admit* the *importance of...* so, were are the problems?

#### **4. Final conclusions**

Analyzing the conclusions generated by the study, we were able to formulate the following problems with which Romanian tourist companies are confronted:

➤ Persons without a proper training in the tourist field are in charge with the management of many of these companies. Even if we admit that the business feeling and the intuition are indispensable, the lack of knowledge in the field is a serious problem.

➤ Romanian tourist companies “live from a day to another” because the managers are not aware, yet, of the necessity of strategic management. For most of them the sense of the concept and/ or its purposes are not very clear.

➤ Most of the tourist companies did not elaborate a formal strategy, being orientated mostly to solving the operative and tactical problems. This situation led (past of lead) to a neglect of the strategically problems.

➤ The companies did not pay sufficient importance to the internal and external strategically diagnosis, under evaluate the strategy of their competitors, being unable to identify their own strengths. Therefore, they become impersonal and cannot keep their clients.

➤ The number of persons involved in elaborating, implementing a corporative strategy is very small, and it is not involved in the coordination of the actions required by strategically plans.

➤ Managers are not used to be interviewed. Some of them are afraid of it and try to avoid, with diplomacy, but categorically such situations. Questions seem to be inconvenient and they do not want to reveal some “secrets”. They are not convinced that this kind of study has positive effects on their activity.

➤ Most of the managers do not have a proper training in tourist field. They often mix management with marketing or with publicity and they do not know how to evaluate their position on the market. They do not give the necessary importance to the study of competitors or of their clients and they do not have an accurate database for learning from their or others mistakes. They are not preoccupied with the internal and relational marketing.

These conclusions confirm the idea we started with: namely that the inadequate situation of Romanian tourism has its roots at the microeconomic level. These are the factors to blame for the actual situation: that Romanian tourism is far away from being the engine of the national economy.

We can conclude that the problem number one of the Romanian tourism is the necessity of a radical change in the management process of the tourist companies.

The questions are: how to realize this change? From where to start?

In our opinion, this change must begin with human’s way of thinking, but this is a difficult process to initiate because it implies a changing process at a personal level for those who are involved. On the other hand, this process represents a challenge for the managerial teams, which must assure the needed development on different stages required by the implementation of a strategic plan.

We discuss here about the creation of an organizational culture favorable to change due to the fact that any change generate, in most cases, employees’ resistance or opposition. The identification of the resistance factors and transforming them in change triggering factors assure that this process will be successful.

A permanent and intense communications between the persons involved will be required and the starting moment must be choose with great care. The transition must be supervised and coordinated otherwise, it will be end with a big failure.

The change must be made according to a plan established in advance based on a complex analysis of the business environment and on a correct evaluation of the internal capacity of the organization to face these changes. The change must start with the managers, and go from top to bottom.

The answers to the questioners revealed that there are three different ways to implement the strategic management, each one with its advantages and disadvantages but all of them very expensive from the costs point of view.

One of these modalities can be the training of some employees in field of management. This can be made through postgraduate courses. This way has the advantage that the people involved know the activity of the company and are involved in it but there is a risk that after the graduation they can quit the company.

A second modality consists in hiring of some specialists, already formed. New salary expenses will follow this for the company. The risk that we presented above can be avoided but it highlights another problem; the period of accommodation is necessary.

Finally, the use of specialized consulting companies means that the tourist firm has supplementary costs. On the other hand, if the employees do not trust the consultants it is possible to refuse to give any information to these. In this case, without information, the solution will not be efficient.

As a final conclusion, the implementation of strategic management in Romanian tourist companies is a necessity and should become a number one priority but at the same time is a complex and difficult process that has to be conducted with responsibility.

## REFERENCES

1. Glăvan, V., *Turismul în România*, Ed. Economică, București, 2000.
2. Naneș, M., *Managementul strategic al întreprinderii și provocările tranziției*, Ed. ALL Beck, București, 2000.
3. Stăncioiu, A.F., *Strategii de marketing în turism*, Ed. Economică, București, 2000.
4. Stănculescu, G., *Managementul operațiunilor de turism*, Ed. ALL Beck, București, 2002.
5. \*\*\*\*, *Stratégies des opérateurs touristique sur le marché du voyage*, Direction du Tourisme, IREST, 2003.

## CLUJ HOTELS' DISTINCTIVE FEATURES

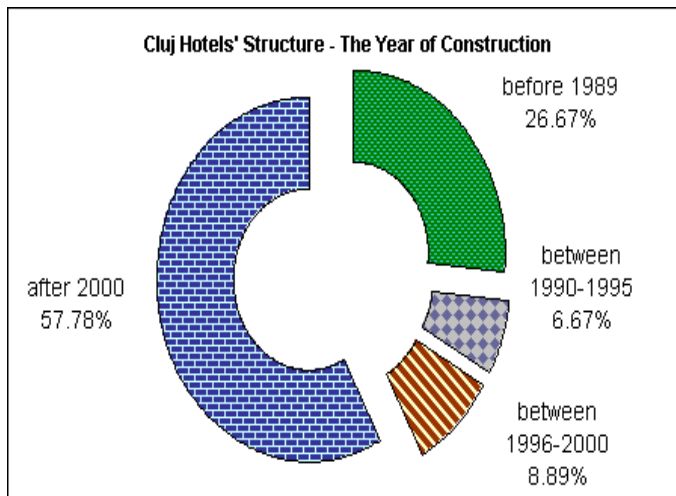
CORNELIA POP<sup>1</sup>, SMARANDA COSMA<sup>2</sup>

**ABSTRACT.** The City of Cluj was and still is considered to be the 'capital of Transylvania' due to the fact that it is an important cultural and business center. Though, Cluj's historical buildings and sites could not compete with those of Sibiu and Brasov they are interesting; its cultural life is rich and its business opportunities are complex. All those factors make from Cluj an important tourist destination for various type of tourist. But what is the situation of Cluj lodging capacities? Between 1990 and 1999, the number of hotels in Cluj grew slowly from 10 to 17 during this period. By the end of April 2005 we were able to identify 45 operational lodging capacities in Cluj and over 50% were open between 2002 and 2005.

The present paper would investigate the causes of this 'explosion' of Cluj lodging capacities and if this quick development generated hotels/ lodging capacities with distinctive features, capable to compete on a crowded market.

### Introduction

The development of Cluj lodging capacities was triggered by the need for various types of accommodation services and by an easier access to financial resources (bank loans mostly) between 2000 and 2005. Graphic no.1 present Cluj lodging capacities' structure using the year of construction:

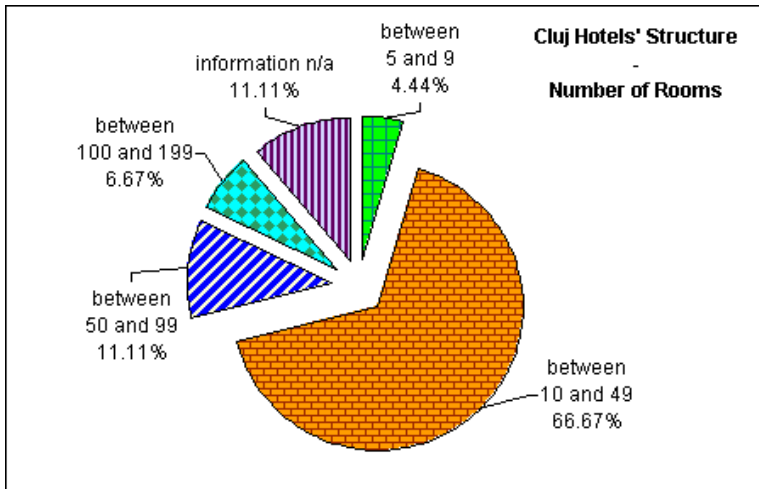


Graphic no.1

<sup>1</sup> Professor, Faculty of Business, Babes-Bolyai University, Cluj-Napoca, Romania, cpop@tbs.ubbcluj.ro

<sup>2</sup> Lecturer, Faculty of Business, Babes-Bolyai University, Cluj-Napoca, Romania, smaranda@tbs.ubbcluj.ro

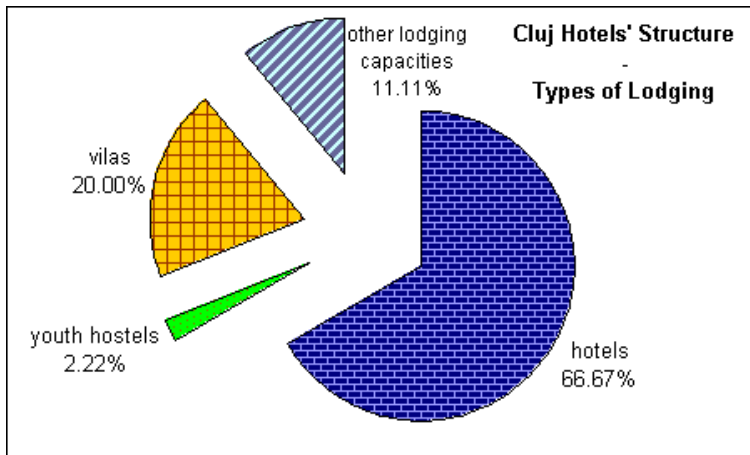
Our study revealed that 71.11% of the operational lodging capacities are small, offering between 5 and 49 rooms, as the graphic no.2 shows.



Graphic no.2

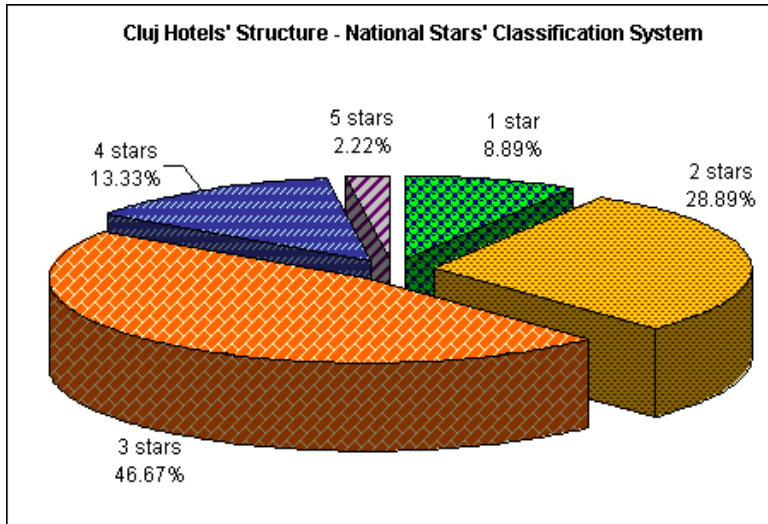
We consider that it is appropriate to present our study here because only 5 of 45 hotels are owned by big, incorporated companies (and this are hotels present on Cluj market before 1989<sup>3</sup>) and one – Hotel Victoria – is owned by the local authorities. The other 39 hotels are owned by small companies – at least from the number of employee point of view.

Our study, also, revealed that around 67% of Cluj lodging capacities are hotels and almost 50% of these lodging capacities are included in 3 stars category – using the National Stars' Classification System. Graphics no.3 and no.4 present these situations.



<sup>3</sup> Cluj Continental Hotel is owned by the Continental Inc.; Unita Turism Inc. is the owner of other 4 lodging capacities in Cluj: Vila Casa Alba, Hotel Transilvania (Belvedere), Hotel Sport and Hotel Vladeasa.

Graphic no.3



Graphic no.4

### Material and methods

For our investigations we used:

- personal (face to face) interview based on a short questionnaire (5 clear, unambiguous questions; they were structured and unstructured); the information we got was neither sensitive, nor threatening; we got responses from 34 lodging capacities out of 45 (75.55%);
- visits at the lodging capacities;
- web-sites analysis (accessibility, originality, information);
- other materials used to promote the hotel/ lodging capacity.

### Discussions

The information gathered through the interviews and some analysis of web-sites, was used for the construction of a positioning map. This positioning map uses 2 dimensions: the price (axis Oy) and the number of services (axis Ox) offered by Cluj hotels. The prices are between 22 EUR and 116 EUR (average 46.52) and the number of services varies between 5 and 22 (average 15.52).

The positioning map shows the position desired by the hotel on the market; it does not represent the customer point of view on the hotel services' quality and prices. The map has 4 quadrants:

- in the high-high quadrant there are 14 hotels/ lodging capacities;
- in the high-low quadrant there are 2 hotels/ lodging capacities;
- in the low-high quadrant there are 5 hotels/ lodging capacities;
- in the low-low quadrant there are 13 hotels/ lodging capacities.

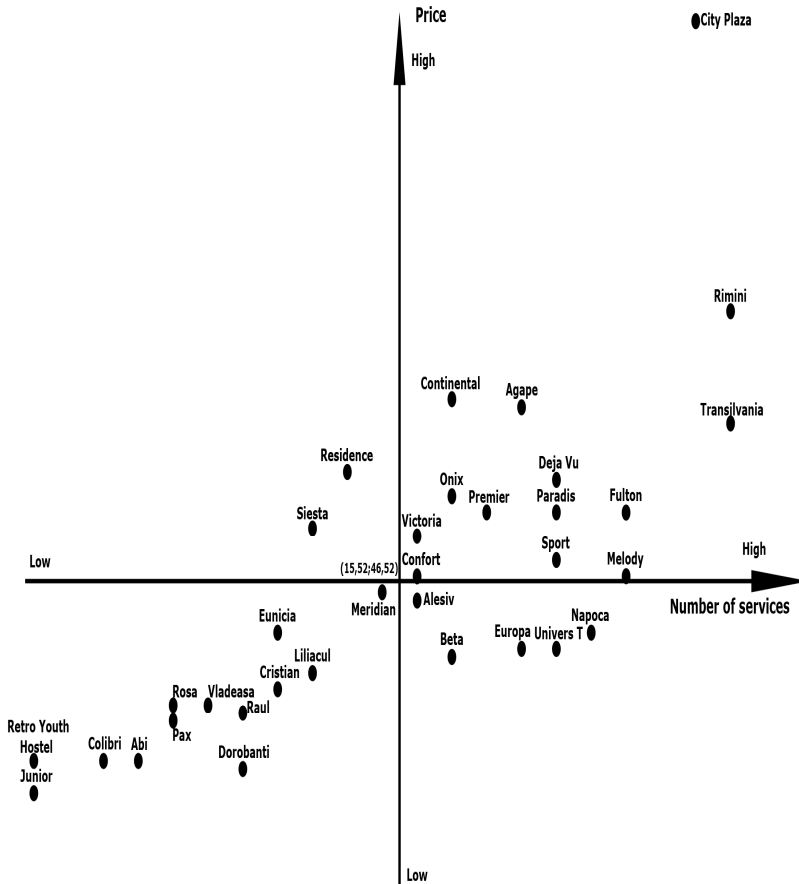
The map shows that the correlation exist between prices, number of services and hotel/ lodging capacity category (number of stars). The most crowded quadrants are high-high and low-



low, but there is enough space for new hotels, if they choose a right balance between services and prices. The quadrant low-high, also, shows that the existing and/ or new hotels could offer more satisfaction to their guests. Unfortunately, two lodging capacities (Vila Residence – 4 stars; Vila Siesta – 3 stars) are in the high-low quadrant, where they should not be.

This negative situation – from the consumer point of view – could be explained by the fact that in the positioning map we considered all the lodging capacities which existed on the Cluj market by the end of April 2005 and those lodging capacities are considered ‘vilas’ and not hotels.

We like to highlight that the average prices are relatively high (46.52 EUR – around 18% from the average wage/ Romanian economy in 2005) and the average number of services is relatively low – in fact very few lodging capacities in Cluj level the international standards for their category<sup>4</sup>. This situation is generated both by a level of demand above the market offer and by a low level of clients’ expectations regarding the number of services and brand name.

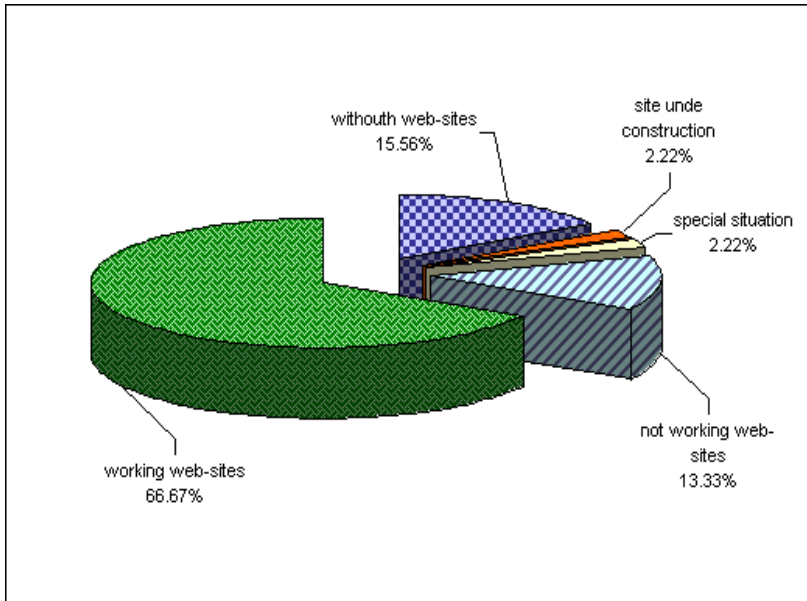


Graphic no.5 – The Positioning Map

<sup>4</sup> This situation must be appreciated with a lot of flexibility, due to the fact that the classification systems vary widely all over the world and – sometimes – these systems are not compulsory.

## CLUJ HOTELS' DISTINCTIVE FEATURES

In our attempt to identify distinctive features for Cluj's hotels, we analyzed their presentation materials (printed) and their web-sites where it was possible. These sources of information are the most common nowadays – this was the main reason for our choice. Analyzing the web-sites availability, we found the following structure:



Graphic no.6

The hotels/ lodging capacities without web-sites are: Hotel Liliacul, Hotel Olimp, Hotel Pax, Hotel Abi, Pensiunea Colibri, Pensiunea Dorobanti and Vila Residence.

We considered Hotel Continental in a special situation due to the fact that at the end of April 2005 it was an operating hotel and by the time when we analyzed the web-sites – June 2005 – the hotel was closed and rumors about a take-over of Hotel Napoca by the Continental Inc. started to surface. When we tried to find out some information on Continental Inc. site ([www.continentalhotels.ro](http://www.continentalhotels.ro)) we had the surprise to see that Cluj was no more among the cities where this company own hotels.

None of the 30 available sites could be considered original or very attractive; several sites just replicate the presentation materials, others are more elaborated. Considering the information contained by the web-sites and the images we decided to highlight only the very few negative situations:

- Pensiunea Junior had the worst web-site;
- Vila Rosa's web-site contain just one image with the lodging capacity building;
- the web-site for Hotel Confort has a very long and boring introduction you can not skip;
- the web-site of Vila Eunicia must be reloaded for every information;

Some other findings regarding are:

- the web-sites of 7<sup>5</sup> hotels/ lodging capacities do not include any information about their location neither maps indicating the location;
- the web-sites of 4<sup>6</sup> hotels/ lodging capacities do not offer a virtual tour and for one hotel (Hotel Opal) the virtual tour is included in the general presentation through a constant change of images, but this situation can confuse the potential client; the web-sites for 5<sup>7</sup> hotels allow a complete virtual tour; the other 20 web-sites allow only very limited or restrictive virtual tours;
- the web-sites for 3<sup>8</sup> lodging capacities do not include any information on rooms' type nor rates/ room/ night;
- all hotels with working web-sites allow reservation through e-mail;
- only 9 hotels/ lodging capacities with working web-sites do not allow on-line reservations;
- the web-sites for 5 lodging capacities are written only in Romanian language; this is the case of Vila Rosa and for the four hotels owned by Unita Tourism Inc. (Hotel Transilvania, Vila Casa Alba, Hotel Sport and Hotel Vladeasa).

Analyzing the Cluj lodging capacities location, the conclusions are mixed:

- 12<sup>9</sup> hotels/ lodging capacities are situated in the city center, but the location for 6 of these hotels/ lodging capacities can be considered hidden (those hotels are not situated on main streets or on open places); a strange situation can be observed for Hotel Cristian (2 stars) which is located in the very hart of Cluj market; we consider that this location limits the type of potential clients for this hotel;
- 6 hotels/ lodging capacities are situated near city center, 3 of them having also a hidden location;
- 3 lodging capacities (Hotel Pax, Hotel Beta and Pensiunea Junior) are situated very near Cluj's railway station and other two can be considered near this station, but with hidden location (Pensiunea Casa Raul and Pensiunea Picola Italia);
- the location for other 16 hotels could be considered hidden; a peculiar situation for Hotel Olimp – its location is behind a construction material warehouse and many potential clients ignore the hotel.

If the hotels opened between 1990 and 1999 could choose a hidden location due to the lack of lodging capacities during that period and an increasing demand – allowing them to keep their clients, the hotels opened after 2000 could not afford to copy that behavior without a good strategy and without a good co-operation with travel agencies. Their only strength – when a hidden location situation is discussed – is the small lodging capacity, often under 50 rooms.

Further, we analyzed the architectural profile of hotel/ lodging capacities buildings, the interior design and if any of the hotels/ lodging capacities tried to develop a design or chromatic themes to differentiate them from their competitors.

---

<sup>5</sup> Those lodging capacities are: Hotel Rimini, Hotel Bestwestern Topaz, Pensiunea Deja-Vu, Pensiunea Junior, Hotel Meteor, Vila Meteor, and Hotel Premier.

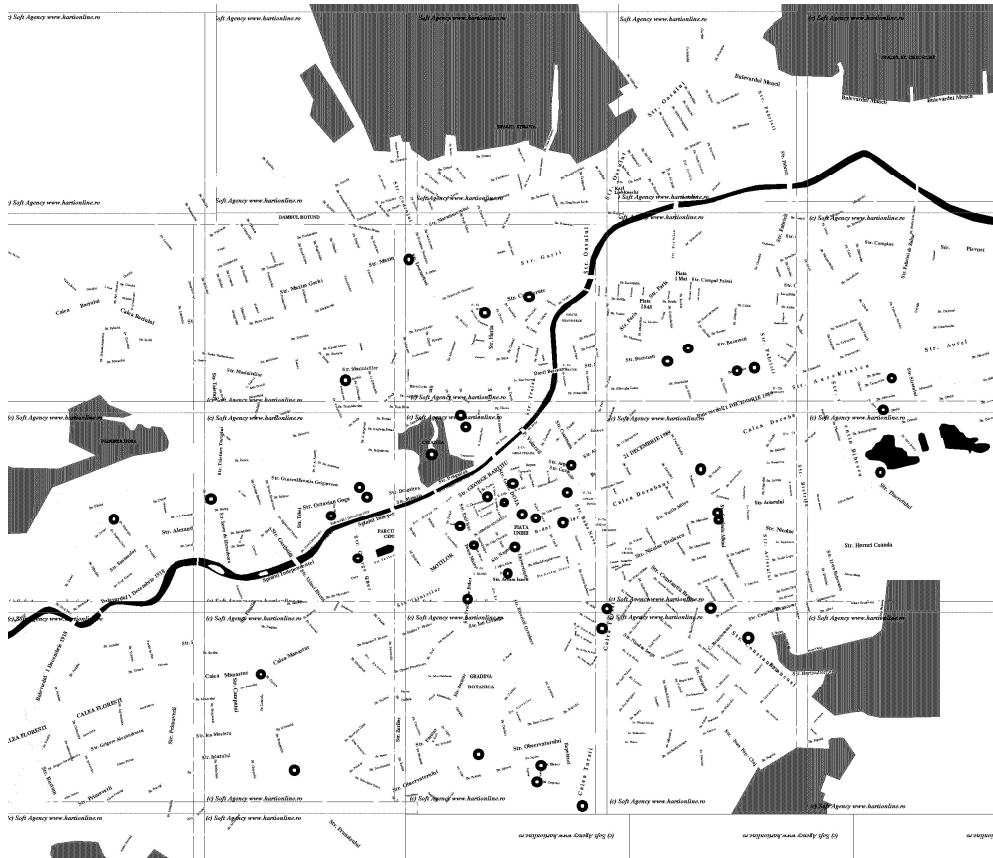
<sup>6</sup> Those lodging capacities are: Hotel Napoca, Hotel Meteor, Vila Meteor and Vila Rosa.

<sup>7</sup> Those lodging capacities are: Hotel Central Melody, Hotel Fullton, Hotel Premier, Hotel Transilvania (Belvedere) and Pensiunea Deja-Vu.

<sup>8</sup> Those lodging capacities are: Pensiunea Casa Raul, Pensiunea Junior and Hotel Premier.

<sup>9</sup> Hotel Agape (hidden location), Hotel Meteor, Vila Siesta (hidden location), Hotel City Plaza (hidden location), Hotel Continental, Hotel Victoria, Hotel Melody Central, Vila Eunicia (hidden location), Hotel Fullton (hidden location), Hotel Cristian, Hotel Vladeasa, Retro Youth Hostel (hidden location).

## CLUJ HOTELS' DISTINCTIVE FEATURES



Graphic no.7 Localization Map

As we mentioned above, we used mainly the information presented by the hotels/ lodging capacities in their prints and on web-sites.

We could not analyze at all 4 lodging capacities (Pensiunea Colibri, Hotel Abi, Hotel Pax and Pensiunea Picola Italia; they represent 8.9% of total of 45) due to the lack of both presentation material and absent or not working web-sites. We were not able to analyze the rooms at Vila Rosa and Hotel Napoca due to the fact that their web-sites do not allow virtual tours and due to the lack of presentation materials.

We concentrated our findings in the following table:

DIFFERENTIATING ELEMENTS THROUGH DESIGN	
Positive distinctive features	<p><b>Hotel Napoca</b> – the silhouette of its building remember the classic houses in Apuseni Mountains near Cluj<sup>10</sup>.</p> <p><b>Hotel Transilvania</b> (Belvedere) – its location dominates</p>

<sup>10</sup> The Hotel Napoca building architecture is explained on its web-site: <http://pages.astral.ro/hotelnapoca/>. But no other hotel gives any peculiar information about the building.

DIFFERENTIATING ELEMENTS THROUGH DESIGN	
	<p>the city center and the building is unique for Cluj.  <b>Hotel Melody Central</b> – its location and historical building.  <b>Vila Casa Alba</b> – its name and the color of its building; white also seemed to be a chromatic theme in interior design.  <b>Hotel Vladeasa</b> – its old building resembling to old inns.  <b>Pensiunea Deja-Vu</b> – through its entire concept: a very coquette house; a decorative element repeated all over the public spaces; a chromatic theme.  <b>Hotel Olimp</b> – its unique interior design for every room.  <b>Hotel Agape</b> – due to its 3 rustic (Hungarian style) restaurants.  <b>Hotel City Plaza</b> – its lavatories of glass are unique in Cluj, for the moment.  <b>Vila Siesta</b> – its consistent chromatic theme.  <b>Hotel Fullton</b> – its coffee terrace which highlight a portion of the old citadel wall.  <b>Vila Residence</b> – thematic design using the cube (starting with the building and continuing with the shape of chairs and armchairs)  <b>Hotel Bestwestern Topaz</b> – due to its affiliation to Bestwestern and through its rustic restaurant Ciuleandra.  <b>Retro Youth Hostel</b> – through its affiliation to Hostelling International and being recommended by Lonely Planet. Also through including the old citadel wall as a decorative element in the rooms.</p>
Negative distinctive features	<p><b>Complex Hotelier Rimini</b> – due to the kitsch present in all interior decorations.  <b>Pensiunea Junior</b> – a horrible combination between red of the roof, pink of the building and turquoise of the window frames.</p>
Same chromatic palette in interior design	<p>The following hotels/ lodging capacities use a combination of <i>earth colors</i> (maroon, yellow, orange, beige and white) which can generate a confusion for a client who use several of these capacities:  Hotel Victoria  Hotel City Plaza  Hotel Agape  Vila Europa  Hotel Zimbrul  Hotel Sport  Pensiunea Deja-Vu  Hotel Melody Central  Vila Residence  Hotel Opal  Vila Meridian  Hotel Olimp (lobby)  Hotel Capitolina (only in the restaurant)  Hotel Cristian (lobby and restaurant)  Hotel Premier (lobby, restaurant, some rooms)  The following hotels used <i>red and dark-red</i> for decorating their public spaces and their rooms:</p>

CLUJ HOTELS' DISTINCTIVE FEATURES

DIFFERENTIATING ELEMENTS THROUGH DESIGN	
	Complex Hotelier Rimini Hotel Pami Pensiunea Casa Raul (public spaces) Hotel Capitolina (mainly rooms)
Same colors for building exterior	<b>Orange and yellow</b> were used for the building exterior of the following hotels/ lodging capacities: Vila Meridian Vila Meteor Vila Europa Pensiunea Casa Raul Hotel Confort Hotel Zimbrul Hotel Liliacul Hotel Opal Complex Hotelier Rimini Hotel Premier Hotel Cristian Hotel Paradis Hotel Capitolina <b>Pink</b> is the color for the building of: Pensiunea Junior Vila Rosa Pensiunea Dorobanti
Negative impression due to interior decorations	The room decorations create a sensation of discomfort or reflect the bad taste of those who decided on these matters: Pensiunea Dorobanti Pensiunea Junior Vila Monis Vila Europa Hotel Beta Hotel Confort Hotel Liliacul Vila Eunicia Hotel Vladeasa

We must add that 3 hotels (Hotel Sport, Hotel Univers T, and Hotel Transilvania) either have old fashion decorations (trendy during 1970s and 1980s) or combine in a bad manner old fashion decorations with new ones.

In one hotel (Hotel Pami) we were able to detect a chromatic theme which, unfortunately, was lost when the rooms were decorated.

Hotel Fullton can be considered a special case: the intentions of its owners were to decorate each room in a unique manner; the presentation material and the virtual tour on the web-site do not give enough information to confirm the initial intentions.

The situation is not so bad as we expected: 14 hotels/ lodging capacities (representing 31.1%) have some distinctive features. But many management teams are not aware of these distinctive features and do not develop them any further.

The number of hotels which use same colors for interior design (19 – representing 42.2%) and exterior design (16 – representing 35.6%) is too big. This situation reflect not

only the lack of imagination, but a trend observed in Romanian behavior in the last 5-6 years: to copy what other competitors have, not to be creative. The reasons can be various: from the current trend in interior design, personal taste (which mix the education background with a lot of other elements) and last, but not least, the money available for interior decorations.

But in the hospitality industry being different from your competitors is a must, if you want to keep your clients and to attract new others.

### **Conclusions**

At international level since 1990s the trend in hotel development and design was to differentiate any new hotel from the existing others. Even big integrated hotel chains capitalize this differentiation strategy playing with local architecture and design elements when they open hotels abroad. The strategy to be different is more important for small hotels, if they want to compete in a crowded market. If we add to this the trend which suggest that any hotel must be – in its own way – the ambassador of its town or region through architectural and/ or design elements, interior decorations, the use of lobby and other public spaces as art galleries and through its atmosphere, we have an almost complete picture of what a modern hotel must be.

In our study we included localisation, number of services, architecture and design elements in our trial to identify distinctive features for Cluj hotels, as part of a differentiating strategy. As we already revealed at the end of our discussions, we were able to identify 14 hotels in Cluj with some distinctive features, which can make them different from their competitors. It became gradually clear for us that the management teams of Cluj hotels do not have in mind a differentiating strategies, otherwise those hotels with some distinctive features would have capitalized those features through thematic design and would have include those elements in their presentations. Hotels with names of precious or semiprecious stones (Topaz, Onix, and Opal) did not use the idea suggested by their names for their interior design. Hotels functioning in historical buildings (Hotel Continental, Hotel Vladeasa, Hotel Melody Central) did not use the idea of historical past in their interior decorations and were not able to create an atmosphere were clients would like to come back. Hotel Napoca and Hotel Transilvania did not use the special shape of their building to continue a special theme in interior design. All these hotels lost, for the moment, the opportunity to become independent tourist destinations.

Of course, a thematic design – in correlation with architecture and the client target - require not only a clear idea for what the hotel would become, but also the involvement of a team of professional designers and architects. And, of course, financial resources allocated for this purpose. For many hotels in Cluj (mostly for those opened after 2000) the use of professional designers and architects was not an option (claiming limited resources). This situation generated plain buildings, wrong colors mix, the use of personal taste of owners in interior decorations with the tendency to copy what they have seen elsewhere, not daring to be different. As a matter of fact few Cluj hotel owners even think to a differentiating strategy through architecture and design elements. There are in this business to make money quick – and if this work even when their hotel is almost identical with a competitor, that does not matter. Many of these hotel owners/ managers do not have a long term strategy and they do not know where they would be in 10 years from now. Such an attitude comes from the fact that the Cluj hotel business is not dominated by professionals, but by business people which developed hotels as secondary (or even lower rank) alternatives to their group of small firms.

Cluj is an important tourist destination, but it competes with other tourist destination all over Europe. Of course, the quality and unique features of Cluj lodging capacities are important. If the lodging capacities available for Cluj would not develop distinctive features, Cluj as tourist destination would loose momentum and its lodging capacities would have to face a gloomy future. Even with 45 hotels the Cluj hotel market seemed crowded, but during the months of May and June 2005 we were able to identify other 8 working lodging capacities and other 5 under construction and we not sure (due to lack of official accurate information) that the figures are not even bigger (we found some lodging capacities absolutely by chance, walking some streets).

With almost 60 hotels/ lodging capacities on the market, to be different is a must. But for the moment this idea is far away from owners/ managers mind.

We must wait and see if some Cluj hotels would really dare to be different or they would play the same 'copy the competitor' attitude and what this would bring for Cluj hospitality market.

## REFERENCES

1. Cosma, S.; Bota, M. – Bazele marketingului, Ed.Alma Mater, Cluj, 2005
2. Pop, C.; Bako, D.; Cosma, S. – Prezentă societăților hoteliere din România pe pietele bursiere românești și perspectivele lor de evoluție, volume Specializare, Dezvoltare și Integrare – secțiunea Economie, Relații economice internaționale, Integrare europeană, Cluj-Napoca, Ed.Sincron, 2003 pg.166-176
3. Pop, C.; Bako, D. - European Hospitality Industry Development. The 21<sup>st</sup> Century Perspectives, volume of the Second International Symposium 'Economics and Management of Transformation', Timisoara, Ed.Mirton, 2004, pg.897-908
4. Pop, C.; Cosma, S. - De ce lipsesc marii investitori din industria hoteliera din România?, Studia Negotia nr.1/ 2004, pg.15-22
5. Pop, C. - Posibilități de finanțare pentru IMM-urile din industria hoteliera din România, Studia Negotia nr.1/ 2004, pg.35-44
6. Pop, C.; Cosma, S. – Is There a Strategy for Tourism Development at Regional Level? Cluj Hotels' Case, volume Aktualni Otazky Rozvaje Regionu, Univerzita Pardubice, 2005, pg.241-246
7. Ransley, J.; Hady, I. – Developing Hospitality Properties and facilities, Butterworth-Heinemann, Oxford, 2001



## **EMPIRICAL RESEARCH ON THE ECONOMIC EFFICIENCY OF TRADE AND TOURISM SMEs IN THE CITY OF BRASOV**

**NICOLAE MARINESCU<sup>1</sup>**

**ABSTRACT.** This paper examines the economic efficiency of SMEs active in the field of trade and tourism. The paper draws on survey evidence from SMEs in Brașov city. The research has been conducted between April-May 2005 on a number of 133 SMEs. According to a statistical database, research has been limited to 114 trade SMEs and 19 tourism SMEs, which account for approximately 13% of the total number of SMEs in the two fields mentioned above, and which, additionally, have at least one employee. Managers from the chosen SMEs were required to fill in a semi-structured questionnaire, most of the questions being of closed type. Respondents have also been allowed to write their views on a number of open questions. The focus of the research has been put on the management of SMEs, including managerial behavior, success factors and barriers regarding the firm's activity, as well as the competitive position of the firm. Some of the questions were particularly concerned about the efficiency and growth of the firm, as one of the major aims of the research is to enquire about the relationship between efficiency and growth in SMEs.

### **1. Introduction**

To get a relevant overview of the activity, management and efficiency of SMEs in trade and tourism, an extended empirical research has been conducted for a period of two months between April – May 2005 in Brașov city.

Statistical data suggests that out of 6,201 active SMEs in Brașov city, a number of 3,528 firms, i.e. over half of them, are active in trade and 343 firms in tourism.

Besides eliminating from the research SMEs that didn't have an existing turnover for the last year, those without at least one employee were also dropped from the research, as the managerial aspects would have been not relevant or would have missed completely in those cases. The majority of SMEs don't have any employee, so that to fulfill the purposes of the research left over a number of 874 eligible SMEs in trade and 147 eligible SMEs in tourism. These figures constituted the total available number of firms.

### **2. Methodology**

Out of the total population, 13% of SMEs have been targeted for research. The resulting figures for the SMEs to be included in the research are: 114 in the case of trade SMEs and 19 in the case of tourism SMEs.

The selection of the targeted SMEs has been made using a data base from the last edition of the Yellow Pages. To generate a random distribution of the firms, the mechanical pace has been chosen as sampling method.

Of all the firms approached, a number of 55 SMEs in trade and 14 SMEs in tourism have answered positively. As a consequence, valid answers rose up to just 48,2% in the case of trade SMEs and 73.7% in the case of tourism SMEs. Nonetheless, the size of the resulted sample can be considered representative from a statistical point of view. It makes out 6.3% of the total available number of firms for trade and 9.5% for tourism.

---

<sup>1</sup> Lecturer, Faculty of Economics, Transilvania University of Brasov, Romania, marinescu@unitbv.ro

To collect data from the 133 SMEs included in the research, a questionnaire has been designed with a specific part for trade and another one for tourism.

The questionnaire was targeted at owners or managers and comprised 25 questions, most of them of closed type. Some questions have been left open-ended to give the possibility to respondents to express their views on a number of issues.

The completion of the questionnaire has been made on the spot, with the necessary assistance from the interview operator or has been postponed for a later time in case the manager has not been found at that particular moment. This method was preferred to mailing or interviews by phone because of its accuracy and its higher rate of response.

The questionnaire investigated the organization and management of the firm, success factors as well as barriers to the activity and the importance awarded to different indicators. Some questions tried to pinpoint the competitive position of the firm. Other questions were concerned with the concept of efficiency and growth and the present paper will detail some of the findings. The last part of the questionnaire dealt with general financial indicators as well as specific indicators for trade and tourism and their evolution.

The 55 trade SMEs and the 14 tourism SMEs constituting the sample are extremely heterogeneous by the products and services offered, thus reflecting a general feature of the SME sector. By size, SMEs from the micro category dominate the sample. The most often number of employees found was two. The distribution of SMEs from the sample reflects statistical data, the number of SMEs being in inverse relation to the number of employees.

**Table 1.**

Distribution of SMEs by Size

	Micro (1 – 9)	Small (10 – 49)	Medium (50 – 249)	Total
Trade	37	16	2	55
Tourism	7	7	-	14
Total	44	23	2	69

### 3. Findings

An important part of the questionnaire dealt with the concept of economic efficiency in SMEs, comprising different scales to measure financial indicators of the firm as well as open questions to investigate the view of the managers concerning this aspect.

Managers were asked to give a short description of “efficiency of the firm”. Most of the respondents regarded efficiency as being the ability of a SME to make a profit (34.8% of answers). Second place came customer satisfaction (14.5% of answers), given the high customer-contact profile of trade and tourism activities. Some of the managers even suggested the relationship between making a profit and obtaining customer satisfaction as defining for efficiency, thus combining the economic side with the social side into a modern design of an efficient firm.

Traditional indicators for economic efficiency as the rate of return or profit margin summed up only 8.7% of answers, whereas productivity has also been neglected (7.2% of answers). Managers in tourism cumulated more answers for these traditional indicators than managers in trade due to their superior economic background. Efficiency has also been assimilated, typically for SMEs, with gaining financial independence by the owner-manager, survival, or providing safe jobs.

As for the measurement of efficiency, most managers indicated profit as the main indicator (45%), in accordance with their answers to the previous point. Other indicators were turnover (17.4%), return on investment (15.9%) and customer satisfaction (8.7%).

A particular feature to be noticed is the relatively high rate of non-answers to the description of the term “efficiency” and to the identification of a measurement criterion in

the case of trade SMEs. The reluctance to answer open-ended questions has been due to the acute lack of time for those managers and to the lack of satisfactory economic training.

As for the importance awarded to the growth of different indicators characterizing the activity of the firm, most managers in trade put customer satisfaction as the first priority, which is an extremely positive attitude, oriented towards the consumer. All managers in the sample considered this element important, 87.3% of them ranked it as very important. Next in importance came the growth of profit, with 72.7% of managers considering it very important. Although all managers in the sample think of turnover growth as important, they don't apply the same intensity to it as in the case of profit. Only 67.3% consider it very important.

Productivity growth, a traditional indicator for efficiency measurement, is cited only by 60% of managers as very important. The explanation may reside in the specific nature of trade, where the number of employees is generally high and productivity is lower compared to other sectors.

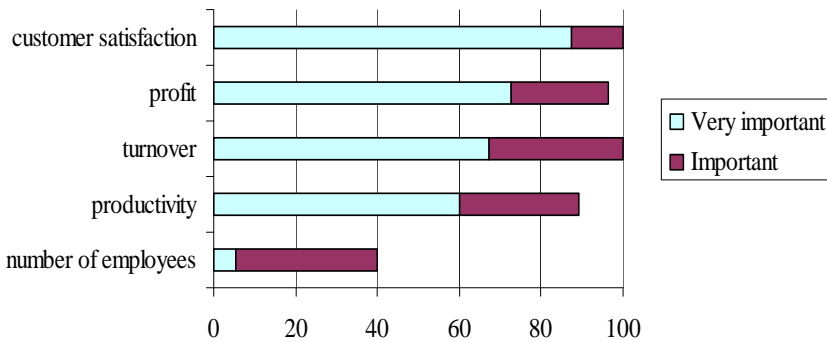


Fig. 1. The Importance Awarded to Growth of Different Indicators in Trade SMEs (%)

Table 2.

Distribution of SMEs in Trade by Different Indicators

Turnover (euro)				
< 50,000	50,001 – 100,000	100,001 – 500,000	> 500,000	non-answer
19	12	14	9	1
Productivity (Turnover in euro / sales personnel)				
< 10,000	10,001 – 50,000	50,001 – 150,000	> 150,000	non-answer
18	18	12	4	3
Net profit rate (%)				
loss	0	1-2	3-5	> 5
8	2	14	12	14
				non-answer
				5

As expected, most of the SMEs don't have impressive revenues, considering that the majority fall into the micro category. Actually, the largest part of them has a turnover under 50,000 euro. Only 16% of the firms have a turnover higher than 500,000 euro. The average turnover is higher for wholesale trade than for retail trade (approximately three times), due to bigger volumes of goods sold.

Similarly, productivity is also low. 65.4% of SMEs have a productivity under 50,000 euro measured for their sales personnel. Only 15% of firms indicated losses, which is less than the statistical average. Net profit rate is highest in retail trade, compared to the other two activities comprised in trade.

In the case of tourism SMEs, managers considered as well as those in trade SMEs that the growth in customer satisfaction is the most important factor. All the managers agreed with this, 78.6% regarded it as very important. The same goes for growth of profit, but only half of the managers felt it was very important. Superior to the growth of profit was ranked the growth of productivity (64.3% of answers). This is a sign of a better economic training than for managers in trade. Surprisingly, only 28.6% of managers said growth of turnover is very important.

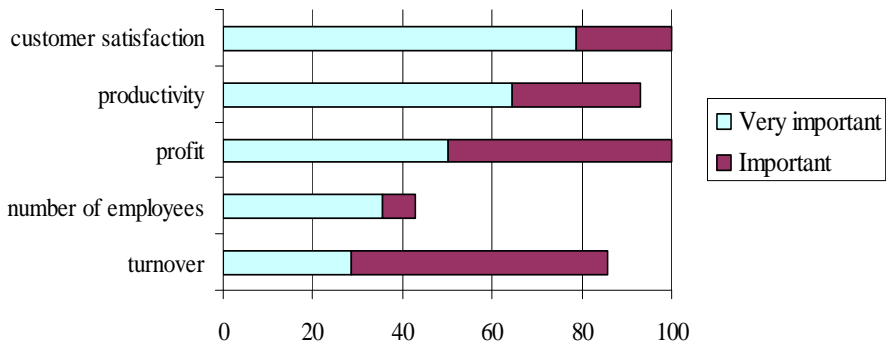


Fig. 2. The Importance Awarded to Growth of Different Indicators in Tourism SMEs (%)

Table 3.

Distribution of SMEs in Tourism by Different Indicators

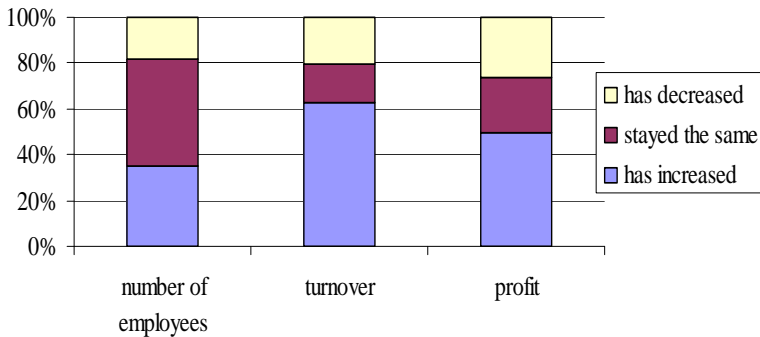
Turnover (euro)					
< 50,000	50,001 – 100,000	100,001 – 500,000	> 500,000	non-answer	
4	2	4	3	1	
Productivity (Turnover in euro / employee)					
< 10,000	10,001 – 50,000	50,001 – 150,000	> 150,000	non-answer	
7	3	2	1	1	
Net profit rate (%)					
loss	0	1-2	3-5	> 5	non-answer
-	-	4	1	4	5

In tourism, turnover is distributed almost equally among the intervals suggested, so that it is difficult to give a clear-cut answer on the average. As concerns productivity, there is no doubt that for half of the SMEs it doesn't exceed 10,000 euro. As no firm reported losses, it may be that managers weren't completely honest about this point. The high rate of non-answers regarding net profit ratio (36%) may be an indicator of this fact.

Having made some considerations about the economic efficiency of SMEs in trade and tourism, the next points investigate growth. In the evolution of a small firm, growth occupies an important place. Growth can bring about a confirmation of a good functioning and then expansion of activity comes as a logical consequence, but it can also put the firm under considerable strain in the phases of passing from a small size to a bigger one.

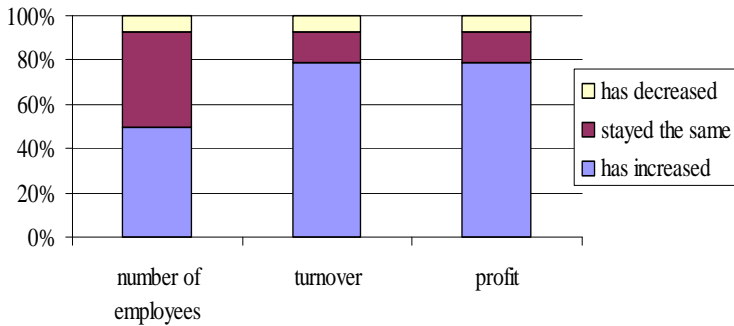
Usually, the final step to a large firm is also the decisive one for testing the financial and managerial solidity of the firm which develops. Empirical observation shows that the probability of survival is positively correlated to the size of the firm.

For the SMEs in the sample, their evolution in the last three years shows a general trend of growth. In trade, although only 34.5% of SMEs have increased their number of employees (45.5% kept the same level), for 61.8% of them turnover has grown as well as profit (49% of cases).



**Fig. 3.** The Evolution of Different Indicators for Trade SMEs

In tourism SMEs, all three indicators have increased for the majority of the firms. Number of employees has risen in 50% of firms, and turnover as well as profit increased in 78.6% of cases. These figures are proof of the growth of firms in the last period, trend that is backed by the economic growth which characterizes Romania and Braşov city.



**Fig. 4.** The Evolution of Different Indicators for Tourism SMEs

An encouraging feature appears as well in the tendency of SMEs to invest in the period to come. 72.7 % of SMEs in trade and 78.6% of SMEs in tourism expressed this.

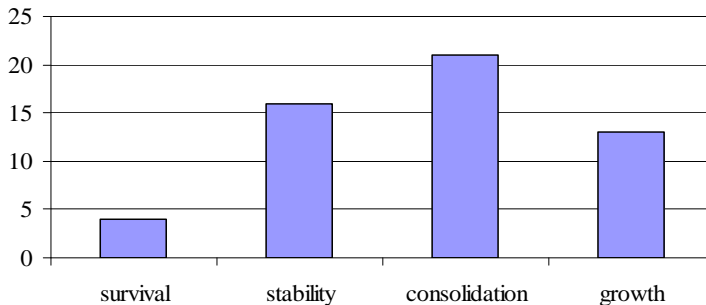
The proposed investments by trade SMEs are oriented towards:

- acquisition of commercial technology, equipment, automotives;
- modernization and arrangement of the outlet;
- opening of a new outlet;
- expansion of the sale place or of the warehousing facility;
- specialization of the personnel.

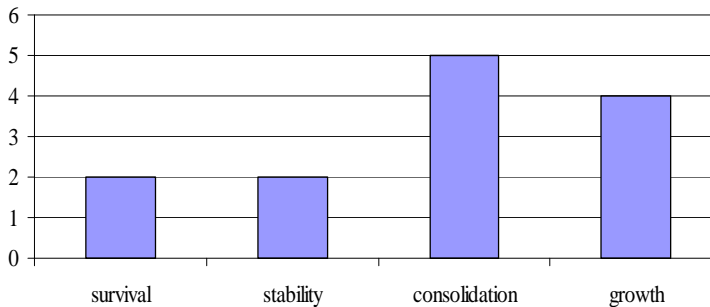
In the case of tourism SMEs, investments are geared mainly towards:

- opening of a new facility or expansion of the existing one;
- modernization by acquisition of equipment, automotives;
- training of employees.

According to the general option of firms to invest we can practically conclude that they want to grow. A specific point in the questionnaire emphasized precisely the trend of the firm. The majority of SMEs opted for consolidation or growth – 61.8% in the case of trade SMEs and 64.3% in the case of tourism SMEs. Only a small part of the managers (36.4% in trade and 28.6% in tourism) preferred a more moderate behavior, orienting themselves towards survival or stability.



**Fig. 5.** The Objective that Fits the Current Situation (no. of trade SMEs)



**Fig. 6.** The Objective that Fits the Current Situation (no. of tourism SMEs)

Taking into account the difficulties associated with growth, the tendency of managers to develop their firm is to be praised. This is a positive point, as in practice, there are often a lot of small firms that never wish to grow during their existence and don't set themselves such an objective. Normally, the growth of the firm is associated with performance, but it brings about the expansion of the workforce, the necessity of organized training, a higher organizational rigidity, the transition from entrepreneur to manager, the extensive use of delegation, the appearance of specialized managers and generally a rise in costs, which supposes a higher financing.

As for the most suitable criterion for firm growth measurement, there is not a single definition in the appropriate literature. Most experts consider that firm growth implies a turnover growth, others stress employee growth, others profit growth, or all together at the same time. Specifically for trade, growth can be measured by the number of sold products, the number

of markets served, the number of outlets or the total commercial surface. In the case of tourism, firm growth can be measured by the number of tourists served, the number of services offered, the value of assets, or the total functioning capacity.

Most of the managers in trade SMEs have assimilated growth to growth in sales / turnover (32.7%). The second option was growth of the commercial surface and number of outlets (21.8%), followed by employee growth (18.2%) and growth of profit (14.5%).

In the case of managers in tourism SMEs, two major options have been put forward: first the growth of physical capacity and number of outlets (28.6%) and only second the financial dimension through the growth of profit (21.4%). Surprisingly, managers in tourism haven't made much of a correlation between firm growth and turnover growth.

As well as managers in trade SMEs, neither the managers in tourism SMEs didn't feel that the number of employees is an important characteristic to growth. 43% considered it a little importance. This is also a consequence of the restrictive rules of the labor law and of the high taxation, which discouraged the creation of new jobs.

#### 4. Conclusions

The empirical research conducted on trade and tourism SMEs in Braşov city has provided the opportunity to get into close contact with the realities of the business environment confronting SMEs, with its positive and negative aspects.

SMEs have to cope with enough external barriers such as excessive taxation, discriminatory practices concerning public procurement, low purchasing power of the population etc. Still, there are also internal factors, which stem from the management, that contribute to the poor financial situation of SMEs.

First, there is a lack of vision and of a definite strategy in the management of the firm. The "always in a hurry" attitude demonstrated by managers leads to the idea that they rarely take their time to reflect on the direction in which the firm is going. Even if for SMEs, intuition is an important part of the managerial behavior and strategy is made up in the mind of the entrepreneur, SMEs surveyed were far from a complete strategic behavior in the real sense of the term. Strategy is more an activity, a collection of actions than a definitive plan, based on the idea to gain a competitive advantage. To most SMEs surveyed, following one of Porter's generic strategies is completely unknown. They switch from one side to the other, being caught in the "middle trap".

This comes in conjunction with the lack of a competitive behavior. Most SMEs don't really know their position against their direct rivals. A large part of the questioned managers indicated that their firm delivers products or services superior in quality to their competitors. Almost the same percentage indicated as well that prices are lower than those of competitors. A situation like this can clearly not be realistic at an aggregate level.

In many of the SMEs surveyed one could feel the fear of disclosing confidential data about the firm's activity. This is totally unjustified, considering firstly the academic scope of the research and secondly that a large part of the data "to be kept secret" is actually public information available to anyone on the website of the Ministry of Finance.

The biggest internal obstacle which has been identified is the lack of managerial and economic background and / or training. This is the case especially for managers in trade. Only 25% of managers in trade and 36% in tourism graduated an economic faculty and only 18% and 21% respectively, underwent postgraduate courses of some kind. On the whole, just 19 out of the 69 managers surveyed have a background of economic studies, situation which puts its mark on the not-so-efficient functioning of the SMEs. Most managers indicated that their training comes from the daily experience.

During the research some cases were found of managers of SMEs with a turnover of several billions of lei who didn't make a clear distinction between the concepts of turnover and profit.

In their vision, a growth of turnover is automatically joined by a growth of profit. Additionally, a small part of the managers surveyed measured efficiency by productivity or by profit ratios.

To these shortcomings we can add the misunderstanding of some market mechanisms and lack of knowledge about concepts such as economies of scale or disproportionate bargaining power of customers. In support to this comes the declaration of the owner of a small grocery, who was upset about the fact that things don't work as well as they should with suppliers. She accused the high acquisition price of goods and was astonished, how it can be that big cash-and-carry retail outlets such as Metro or Selgros, with high numbers of employees and high costs with utilities are able to display prices much lower than her own small store.

Among the most important elements for the activity of the firm didn't appear productivity or financial ratios, but the sheer level of profit. This reflects a pragmatic behavior, more of an American than European type.

As far as the measurement criteria for firm growth is concerned, at least in tourism, the physical dimension (number of outlets, capacity) prevails over the financial one (turnover, profit). To be noticed though that most of the SMEs surveyed have a general wish to grow, especially in turnover, profit or assets. Only a small part of the managers indicated a desire to increase the number of employees, but expansion of the firm's activities on the financial side is difficult to achieve beyond a certain productivity benchmark without extending the personnel as well.

Beyond doubt, growth will be very difficult, if not impossible for many of the SMEs who intended it, once we have in mind competition from the big companies which is developing very fast now.

The opening in autumn 2004 of a Carrefour hypermarket very close to the city, oriented towards individual consumers, represented, by means of a low-price policy, a severe blow for SMEs, especially for those selling foodstuffs. This fact was acknowledged also by some of the managers of SMEs in the sample.

The same goes for tourism, where the opening of a myriad of outlets in a relatively short time has boosted competition in the sector. The average occupancy rate for these outlets is currently very low, around 30%, and if managers continue to neglect competition and won't take rapid measures to attract new clients or to firmly keep existing ones, some of the firms will have to close down operations or sell the business.

Another factor of concern is the incomplete and incorrect information about opportunities and costs brought about by the future accession of Romania to the European Union in 2007, which will generate a lot of trouble to SMEs.

## REFERENCES

1. Naghi, M., Stegorean, R. – *Managementul unităților din turism și comerț*, vol. II, Ecoexpert, Cluj-Napoca, 2001;
2. Popescu, D. – *Competitivitatea întreprinderilor mici și mijlocii*, Economică, București, 2001;
3. Postelnicu, Gh. – *Economia turismului*, ediția a 3-a, Universitatea Creștină "Dimitrie Cantemir", Cluj-Napoca, 1999;
4. Reid, G. – *Small Business Enterprise: An Economic Analysis*, Routledge, 1993;
5. Russu, C. – *Managementul întreprinderilor mici și mijlocii*, Expert, 1996;
6. \*\*\* - Statistics from *Centrul de Consultanță și Management al Informațiilor pentru IMM-uri (CCMIPIMM) Brașov*, 2004;
7. \*\*\* - Statistics from *Direcția Județeană de Statistică Brașov*, 2005.



## **DESIGN IMPLICATIONS IN CREATING A COMPETITIVE ADVANTAGE FOR HOSPITALITY SMALL BUSINESS**

**ADINA NEGRUSA<sup>1</sup>, CLAUDIU IONESCU<sup>2</sup>**

**ABSTRACT.** The goal of this paper is to analyze the role of design in creating a new and strong competitive advantage for small businesses. The paper points out the specific features for the hospitality Romanian market and the specific trends in the interior design for this domain of activity. During the last period of time, the growing competition in the hospitality market, determined Romanian small businesses to identify new ways of differentiation in the market. The most dynamic and powerful element is design, unused appropriates until now in Romanian market, which can bring for small business a private identity, increasing comfort and services quality aspects for clients and assurance the efficiency of the production activities. Furthermore the paper presents each steps which should take place in the process of planning and implementation of remodeling the design elements for two hospitality small businesses and the economic and marketing results from these. In conclusion, the design elements and the process of rethinking the role of design in hospitality domain should be consider as keys drivers for development strong and well defined business in a competitive market.

### **1.Design, a strategic tool in the hospitality industry**

“Design today is a marketing move. A beautiful room means people tell their friends about it”. As the primary source of current and future profits, customer relationships are the most important assets of any firm. The continued satisfaction of these assets determines firm success. Studies show that about 5% improvement in customer retention rates result in a 25 to 100% increase in profits. Knowing this, companies spend a lot of money each year on customer research and marketing, only to see that their customers are satisfied. The key to keeping hotel best clients is to develop a compelling customer experience that keeps them coming back.

Is it possible that hotel design can have an impact on the property’s performance? We consider that it can, based on two important aspects:

□A well-designed hotel is pleasing the guests, thereby creating positive first impressions, a strong direct promotion which have an impact on occupancy through grater lengths of stay and more repeat visits. Higher guests satisfaction can also translate to the ability to charge higher room rates.

□A hotel whose back-of-house is well laid out can produce greater operating efficiencies, thereby reducing staff costs, which in general account for over 50% of hotel’s operating expenses. Also a well-designed environments that are pleasant to work can increase morale and productivity, decrease turnover and recruiting expenses.

Branding may have been a positive force in providing reliable standards and levels of service, but it has done little to encourage innovation in interior design. The brand promise of consistency has often become so rigid that hotel rooms become indistinguishable from one continent to another. But times are changing and customer demand is evolving. While the brand

---

<sup>1</sup> Lecturer, Faculty of Business, Babes-Bolyai University, Cluj-Napoca, Romania, anegrusa@tbs.ubbcluj.ro

<sup>2</sup> Lecturer, Faculty of Arts, West University of Timisoara, Romania

promise of standardized quality and service retains its advantage, evidence suggests that customers are tiring of this uniformity. A research conducted by the Summit Hotels consortium and Ouffendell West show that the traveler, particularly the business traveler, is looking for experiences, not similarity. This might not mean the end of branding-lead in design hotel, but it does show that a distinct style should be conscious by the hotel management and apply creating the image of the hotel.

More and more hotels use design and style as a way of differentiating themselves from other proprieties or brands, and as a way of attracting clients. Hotels realized that in a crowded and very competitive marketplace, in order to generate world of mouth advertising, should apply the elements of design in the entire services.

Despite all the recent attention on design-driven proprieties, the fundamentals of hotel design have not altered much. Guest rooms are still grouped together in configurations that allow for easy access and efficiency, while public areas and facilities functions are consolidated below. For most proprieties, guest rooms and associated support spaces such as corridors and elevators make up anywhere from 65 to 90% of the total building area and back-of-the-house functions take between 10 to 15%.

Guest room design still focuses on a few core functions:

- a sleeping zone that also permits television viewing from bed
- a working area that supports laptop use
- a full bathroom
- a dressing area with storage space for folded and hanging clothes.

The guest room must be able to function on a number of levels in addition to providing a comfortable place to sleep. For the business traveler, the room should be able to function as office and meeting space. At then end of the day it should also feel more like an entertainment area than strictly a bedroom.

Because of their importance in influencing the guest's perception of the hotel, developers bring innovation in the guest room and guest bath. We could identify some trends in the guest room design, determined by texture or technology used for improving satisfaction:

- communications systems will continue to evolve at an incredible rate and hotels must develop a flexible infrastructure based on TV-cable distribution system. High-speed internet access will become a standard amenity
- guest bathroom will increase in size as guests demand more spa-like features including whirlpool bath and multihead shower.
- designers will continue to explore alternatives for creating a styling in the hotel based on the growing role played art objects, artifacts and antiques.
- using artwork designers will create the “feeling of home” for the business travelers or the “element of fantasy” for the leisure travelers.
- as the public continues to show an increased interest in personal health, hotels will offer more facilities for fitness, massage and other health-related activities
- the renovations of hotels will favor environmentally friendly natural materials and building systems.
- the popularity of postmodern architecture has crested and the modern look using more and more elements that recall the past.
- the growing segment of eco-tourism will become an important competition even in the urban areas; these green hotels which utilize environmentally friendly and nontoxic materials and systems aimed at providing guests with healthier environment became in the last years, due to advances technologies, more economically feasible in urban areas.

## **2. Trends in romanian hospitality and hotel design for small businesses**

The tourism industry in Romania is about 400 million euros in 2004, expected to grow by 4,3% over the next 5 years. Romania offers a wide range of tourism products from cultural visits to key historical sites to beach vacations. Tourism is an attractive sector for development since it can positively affect rural area and related industries and it can improve the country's image as a whole outside of the country.

The current romanian tourism market can be divided into six major products> beach resort tourism, cultural tourism, health/spa tourism, adventure/eco tourism, urban tourism and rural tourism. The total number of rooms offered in romanian lodging industry raised to 170000 in 2004 and is continuing to grow.

Approximately 80% of the more 10147 companies, which are active in the tourism sector are SMEs. These are often found operating tourism agencies, small hotels, restaurant and B&B facilities. SMEs dominate the rural tourism industry which caters to tourists who are interested in spending modest amounts of money to relax in places that are usually uncrowded.

SMEs in the tourism sector come from several sources. Many tend to be companies that were formed by private entrepreneurs with small amounts of capital. Others, especially micro enterprises, are often family owned and operated businesses, such as Bed and Breakfasts. Often the families running these small bed and breakfasts have sources of income in addition to the renting out of rooms. In rural and eco-tourism, almost 100% of the companies are SMEs, mostly start-up companies begun with small amounts of capital or family owned and operated businesses.

Each of the types of SMEs found in this sector share similar weaknesses, but for different reasons. SMEs that were formed through the privatization process may have more disposable capital, but they were often purchased and managed by people who had no experience in the tourism industry. Many of these newly minted tourism managers have experience in other industries and they invested in tourism with the profits gained from other fields. They often lack industry specific knowledge and know-how. Compounding the problem of their own lack of experience in tourism is the fact that upon acquisition of tourist properties, they often replaced the existing staff of those facilities. Often times the reason for the firing was that the new owners believed that the current staff was dishonest and lacked market orientation. The replaced the staff with people who were generally less experienced and who had little or no background in tourism. Quality and customer service are the area where the lack of experiences most obvious.

SMEs formed as start-up companies may be run by people with some experience in tourism but they also tend to lack experience, especially in providing the level of customer service that is demanded by foreign tourists. Often, managers of these SMEs have experience in providing and managing lower quality accommodations, rather than the high end accommodations most attractive to the foreign tourist market.

While quality and customer service are key for SMEs in the sector, other more systematic problems are also visible. For example SMEs in the tourism sector generally lack long-term marketing strategies and have not be successful in coordinating their efforts to attract tourism. Marketing strategies for these SMEs amount to short term efforts which tend to be sporadic. They lack sophistication needed to entice foreign visitors in an increasingly competitive market. Tourism SMEs have failed to differentiate their products and thus, the consumer is likely to view some B&B as just like another, or as a commodity.

They have tended to segment the market for tourists only based on target clients' income levels rather than by appealing to other drivers of tourism purchasing such as location, customer service, nearby attractions etc. Tourism SMEs also have failed to coordinate their efforts to attract foreign tourists. A coordinated effort will be needed to raise awareness about towns and regions which are unknown to tourists who live outside of Romania.

Because the agritourism and rural tourism it is considered the most dynamic and plenty of opportunities, these weaknesses of the romanian SMEs, which activate in this sector, could be overtake through a rational and fundamental definition of their image. This image brings for them a distinguished element, helpful in creating a marketing strategy. Related to this the main part of this image is the building itself and the entire group of design elements used for creating the atmosphere.

Related to this idea following we present an example of implication of design and architecture elements for creating a touristic brand which can attract guests only by itself.

Situated in the Moeciu de sus village, Cheile Gradistei Touristic Complex is a very interesting example of how architecture and interior design could create an identity for a SME activating in a rural touristic area where the entertainment possibilities are less comparing with a ski resort.

The touristic complex is situated at the feet of these mountains, at 7 km from the Bran Castle and is composed from a small hotel and 3 villas all at a comfort of 3 stars. The entire lodging capacity is organized on 50 rooms and 7 suites. The complex Cheile Gradistei is a very interesting place where the location and the services offered here made from it a point of attraction by itself

The touristic complex is a place as a reference point for the romanian rural tourism, even if from the architecture, exterior and interior design points of view does not have special elements in order to transform it in a unique place.



The buildings' architecture for lodging were created probably only to be functional because these do not reflect some construction or decorative elements in order to placed them, as an exterior image, in the geometry of an knowing architectonic style.



The restaurant and the bar were placed in a distinguish building, which is near by to the hotel. This place intended to be a point of attraction by itself and uphold the back off activities of the restaurant in order to be more efficient. The location it is very good in the entire resort, but as visual image it suffered because of a lack of materials and surfaces alternation, which play an important role in creating an ordered and quieting view.

An element that became redundant and tiredness is wood. This element lost the role of ennobling the space or making a warm and comfortable atmosphere, because it was used exceeding almost everywhere and the view became overwhelmed.



The floor's element create an aggressiveness view, due to an unhappiness joint of marble flinders mosaic, characterized by their sharp and biting angles which set themselves against with the roundness of rolling stones used for make different levels and for walls.

But what made special for this restaurant is an artistic mix of 3 elements placed near the main entrance, inside of the restaurant. In the east side of the restaurant, on a wall, there flows a brook which springs from the heart of the mountains. The brook starts from a corner where is placed a small mill world wide unique. We appreciate that the placement of it is very good, because it is in the opposite side of the main entrance in the restaurant and, so it is obvious that will be the first element that a guest could see.



Beside this amazing element, there is an old traditional oven in order to form a special archaic corner where two seasons' symbols are joint.

Another artifact with a huge impact placed in the middle of the restaurant is a fountain balance which have also an operational role as table bar where it is deposited glasses and cans.

Regarding the interior view of the building we consider that it is necessary to be used some elements for balancing the image, for example plane concrete surfaces with the role of differenced the decorative elements.

Even if there are some discrepant aspects of interior and exterior design, the touristic complex Cheile Gradistei remain an important reference point for the rural touristic lodging because here we can identify the focus on visual aspects for create an unique identity.

### **3.Fundamental steps in projecting an interior design identity for a small property's**

#### **I.Start from sources**

Architect Marcel Breuer pointed out that the main visual features people focus on are the landscaping and the building finishes. Between this two elements the landscape is more determined.

Related to the place where will be located the property resulted another issue. If the owner wants to create a modern and commercial capacity the architecture and exterior design should bring this elements to the building and the space created near by. If the purpose is to create something traditional, more closed to the life-style of the region should analyze first the architecture style of the place and integrate this elements in the construction and exterior design of the property.



Apuseni Mountain



Two types of exterior design:

*In order to exemplify the importance of visual elements in lodging system, we present a case study for a future board and lodging placed in a rural area. The building activities for this capacity started near Arad town, in a hill area on the valley of Mures river.*

*The future board and lodging will be build on the east slope of the hillock closed to the brook Cladova, which cross the valley. The chosen location gave the advantage of natural lighting from the rise until sunset. In rise side the pick of the opposite hill offered a unique view, regarding the geographical location because is wooded by coniferous trees. So the landscape in generous and offer the opportunity for attracting tourists.*



## **II. Interior design**

For small hotels the architecture and interior design have to fit in the landscape and maintain an connection with the features of the environment. For example for tourist the main attraction for choosing a hotel for their holidays is the landscape. Based on this interior design of the hotels should bring the specific elements inside in order to maintain the atmosphere of the place.

### 1. Defining the design concept

The interior design style that a company could select is directly related to its clients and location. Before the company selects a style should take the time to explore the answers to a few important design questions:

- Who is our clients?
- What type of experience are looking for?
- Are there any interior styles that our customers would take away from?
- What image does our existing business have and is that image one that we want or should rebranding it?

- Where are we located?

- How does our locations relate to our interior design style?

*Regarding to our case study we proposed for the new lodging an interesting experience offered its guests. We think this space like a reminding atmosphere of the grand-parents house.*

*The owner think about this place like a shelter in a mountains specific area for habitants from the zone. In the architecture project of the future capacity was already included some traditional features of the geographical zone. Also it was assigned the materials which will be used in interior and exterior designed. Beside the white masonry it was chosen wood, stone and metal fittings for accessories.*

*The future board and lodging was developed through the following plan configuration:*

- *basement designed for the front desk and restaurant*
- *ground floor will be organized for 2 suites*
- *2 floor projected for offering 8 rooms*

### 2. Guest room and suite design

Guest room design entails a series of steps focuses on:

- major target market segments
- typical guest room dimensions
- room mix including number and type of suites
- typical guest room layout
- suite and special room layout
- proposed furniture, fixture and equipment.

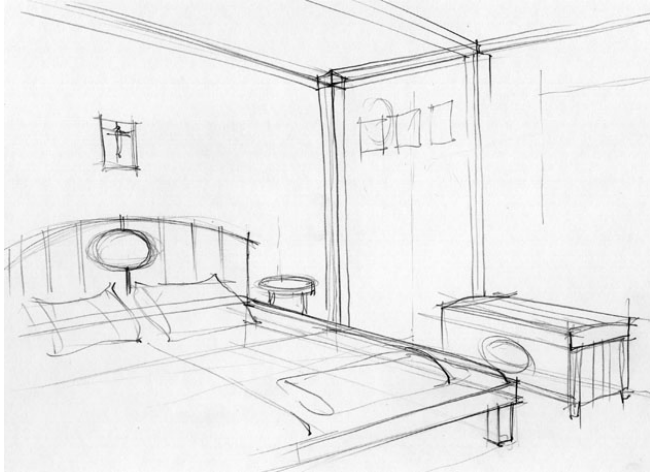
The guest room design decision which most influences the room layouts and much of the guest reaction to a hotel is the choice of three critical room dimensions: The inside or net width, the length of the room from the exterior wall to the bathroom wall and the size of the bathroom.

*For the lodging analyzed in the case study we projected for the guest suites two different spaces: a living room connected to the bedroom.*

*The guest rooms are defining through the following functions: sleeping, relaxing, entertaining and dressing.*

*In furnishing suites we choose old wood furniture with small metal fittings. These are projected for offering comfort, being enriched only with some archaic scratched symbols, from wood civilization. With the continuing increase in construction and furnishing costs, it becomes more important to develop innovative layouts for guest rooms, respectively designs that combine function and comfort within realistic budgets. For this reason we think about using fewer individual pieces of furniture and re projecting the furniture based on the features of romanian rural houses from the beginning of XX century, carefully used to not overload or overwhelm the space. The main idea is to create the visual effect of high size of guest room and suite, due to a rational used of the space.*





*The entire interior spaces will be decorated with some traditional objects and motifs.*



### 3.Public space design

While the hotel guest rooms make up the majority of the floor area in virtually all hotels, it is the public space that defines the differences among the various types. Because the lobby, restaurant, meeting and banquet space and recreation facilities vary so greatly, understanding the distinctions among the different hotel types is crucial to programming and designing a successful project. Whatever the type of hotel, an overall objective for the planning and design of the public areas is that they be clustered around the lobby. This arrangement assures that the hotel guests can find the various facilities with a minimum of difficulty and provides the opportunity for functions to overlap.

A second major objective in highrise projects is to organize the public areas with an understanding of their location in relation to the guest room structure.

The planning start points for restaurant and bars are a high visibility and efficient operations development. Design objectives follow directly from a clear and well-researched operational and marketing concept. Based on the menu and such operational aspects as the type of service, method of beverage service, chack handling and use of entertainment, designers create the desired mood, function, layout, finishes, lighting and furnishings.

### **Conclusions**

The architectural aspects of the building, of course, are the best observed and the details of the site and exterior design like: landscaping, the entry drive, the garden and other facilities, contribute to the guests' anticipation of their stay. Unlike most types of buildings, hotels and resorts are designed from the inside out, with a greater emphasis on the interior spaces and how the guests will interact within them.

Today's tourists and travelers are better educated, more selective and more socially responsible. They demand more attention to and sensitivity for, local cultural and environmental circumstances and concerns. Successful hospitality design must have a sense of style and offer a special feeling of the place. Architects and designers often have challenges in creating a meaningful image for the property. We focus on the impact that have this image for a small business, because comparing with the main competitors, it has less possibility for improving their customers oriented activities without a special identification. In order to create and think about the marketing strategies first of all the management team have to know how is different from the others, which atmosphere selling there and what types of actions are related with these types of elements.

In conclusion we consider the design activity and concept as a determined elements for all the other marketing policies.

### **BIBLIOGRAPHY**

1. Rutes, A., Penne, R. and Adams, L., Hotel Design, Planning and development, International Architectural Press, 2001.
2. Curtis, Eleanor, Hotel: interior structures, Wiley-Academy, 2003.
3. \*\*\* Better by Design, Hotel benchmark, March 2003
4. \*\*\* Smart design can improve bottom line, Hotel and Motel Management, January 2001.
5. \*\*\* Hotels: differentiating with design, Informeddesign, vol. 03, 2002.
6. \*\*\* What types of design elements create a successful hotel, www. sintact@eon.com
7. \*\*\* Designing eco-hotels, HPAC Engineering, February, 2001
8. \*\*\* Trends in hotel design, www. hotelmarketing.com

## **THE IMPACT OF THE ACCESSION TO THE UE ON THE ROMANIAN TEXTILE INDUSTRY**

**MARIUS BOTA<sup>1</sup>**

**ABSTRACT.** This paper deals with the impact of Romania's accession to the UE on the companies in the textile sector. At the moment of the EU accession and in the following period, the Romanian economic environment will be subject to a number of modifications that will most definitely affect the textile industry as well as the companies involved in this field.

### **I. Introduction**

This study deals with the impact of Romania's accession to the UE on the companies in the textile sector. At the end of 2004, there were 7,211 textile companies of which 273 large ones, 1070 medium ones, 1.478 small ones and 4.390 small enterprises<sup>2</sup>.

At the moment of the EU accession and in the following period, the Romanian economic environment shall be subject to a number of modifications that will most definitely affect the textile industry as well as the companies involved in this field.

The central part of present paper it is based on answering four questions:

1. Why was the lohn system introduced in Romania after 1990?
2. Why did the great international companies choose the lohn system and why did they choose the Romanian factories?
3. What changes will there occur in the Romanian economy upon the accession to the EU? Will these changes make the Romanian lohn system disappear?
4. What will happen to the Romanian companies after the disappearance of the lohn system?

### **II. Material and methods**

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

### **III. Discussions**

According to the declarations of the people in the field (Maria Grapini, president of FEPAIUS), over 84% of the companies involved in the textile industry work exclusively in lohn and a great part of them produce under well-known international brands (Kenzo, Givenchy, Valentino, Versace and many others). The work performed in lohn is done according to the following pattern: the foreign company uses only Romanian workforce, the raw materials, technology and know-how are imported. The worldwide textile producers have preferred to bring the raw material to their Romanian lohn partners and to take the finished products after a certain period of time established in the agreements.

The Romanian textile industry has a long tradition and experience, as well as a good fame around the world as its products are present in many countries of the world. This was possible

---

<sup>1</sup> Teaching assistant, Faculty of Business, Babeș-Bolyai University, Cluj-Napoca, Romania, botimar@yahoo.com

<sup>2</sup> Igor Drag, 345.000 de români în industria lohn-ului până în 2007, Atac 23 aprilie 2005, pag.8

due to an initial supply with modern machines and equipment most of which were imported. If, at the beginning, the technical equipment was the same as the one used abroad, during 1981-1990 there was a dramatic drop in the technology imports. On an international level, during the same period, the mechanical textile machines became completely automatic.

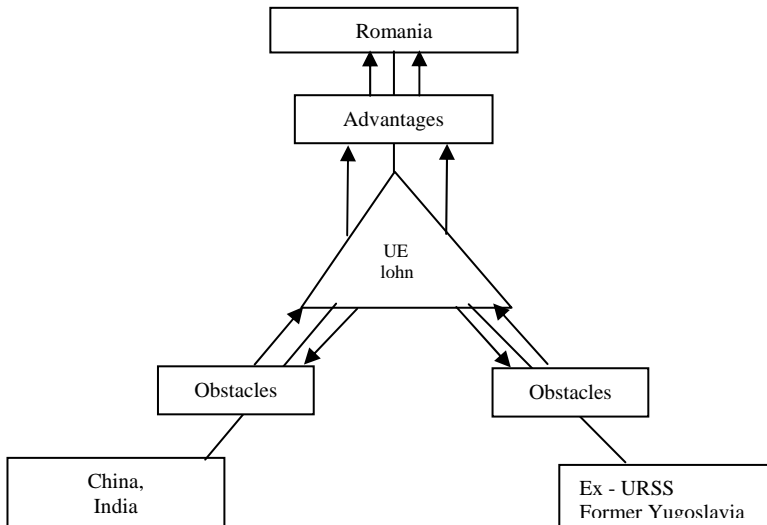
Only after 1990 was there a progress in the modernization of the Romanian textile factories. This effort, though considerable, is far from ensuring a satisfactory system of technical equipment in the Romanian textile factories.

The answer to the question „**Why was the lohn system introduced in Romania after 1990?**”, is quite simple: it was the only solution of survival for the Romanian textile industry. As mentioned before, the Romanian factories were retarded from a technological point of view in comparison to the western standards. The lack of financial resources necessary for the optimal performance, of human resources capable to manage the entire business, have determined the Romanian factories to adopt widely the lohn system.

There follows naturally the question „**Why did the great international companies choose the lohn system and why did they choose the Romanian factories?**”. Obviously, these companies look for advantages by contracting the production of other companies with lower costs. Below are the main advantages of the international companies that work in the lohn system in Romania:

1. The low cost of the workforce
2. The low costs of the utilities
3. Romania’s location near Western Europe

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



**Fig. 1.** Lohn migration

The advantages that Romania offers as well as the obstacles that hinder the lohn's migration to such destinations as China, India, the ex-soviet countries, Albania, Macedonia and others have made Romania the greatest textile lohn producer in Europe. This top position was occupied in the past by Yugoslavia who lost it because of the war.

Countries such as those mentioned above have certain advantages that the multinational companies search for the lohn application:

- The low cost of the utilities
- The low cost of the workforce.

The obstacles that were impeding the migration of the great companies to these countries are various. In the case of the Asian countries, the export quotas have kept for a long time the domestic production far from Europe. From this reason as well as because of the long distances to Western Europe, the big companies have avoided this area for a long time. We will see that this situation is about to change.

The other countries, members of the ex-URSS (Ukraine, Uzbekistan), as well as Albany, Macedonia, etc. Having lots of advantages for the lohn system, have been avoided due to the unknown character of these markets to the big companies and to the instability in these areas.

**What changes will there occur in the Romanian economy upon the accession to the EU? Will these changes make the Romanian lohn system disappear?**

The answer to this question is rather complex. Some tendencies can be clearly highlighted even this year. One may notice the tendency towards rising prices for the utilities, rising salaries due to the appreciation of the national currency in comparison to the European one. These tendencies will be more obvious around 2007 and after.

If these tendencies will be maintained and this is a sure thing, it can be easily noticed that Romania's advantages tend to disappear. It is possible that in a very short time, Romania will be forced to waive the lohn production leading position in favor of other countries where the working hours cost less. According to statistics, the Romanian employees are paid EURO 1,1 per hour, while the European average is EURO 18 per hour. Countries such as Poland with EURO 3 per hour and Turkey with EURO 2 per hour have already lost the lohn system. The most attractive countries at the moment seem to be China with EURO 0,47 per hour, India with EURO 0,43 per hour, Macedonia and Albany with EURO 0,3 – 0,4 per hour.<sup>3</sup>

It may be easily noticed a **general lohn migrating tendency** from the western to the eastern part of Europe according to the successive accession of the countries to the European Union.

The disappearance of the advantages offered by our country is not as sufficient reason for the lohn migration as it must be correlated with the total or partial disappearance of the obstacles from the destination countries.

As far as the Asian area is concerned, one of the obstacles represented by the export quotas disappeared on 1 January 2005 when, at a global level, there was implemented a measure stipulated for some time, that is the total abolishment of the quota system for the imports of textiles. This measure opened the way to the imports from Asia as well as to the interest of the big companies for the cheap workforce in these areas.

The other obstacle, namely the big distance from the production place to the sales point cannot be totally eliminated in the following period. All that can be done is the improvement of the transport systems.

---

<sup>3</sup> Doicin Anca, Aderarea la UE fatală pentru firmele de lohn, Capital Nr. 45, 4 noiembrie 2004

All the above present the Asian area as a powerful competitor as concerns the implementation of the lohn systems in those areas.

For the ex-soviet countries as well as for those in the area of the ex-Yugoslav Republic one may notice a stabilization of the political situation; things are beginning to settle, the democracy is being instituted so that the barriers existing in these areas disappear gradually. The transport from these countries to Western Europe is not a problem caused by the distance due to the situation on the continental platform.

To sum up, it is considered that the lohn system will migrate toward these areas when the **costs of migration become lower than the gains obtained from this move.**

**What will happen to the Romanian companies after the disappearance of the lohn system?**

According to the analyses performed until now, it is certain that at the moment when the price of the Romanian market rises over the price that the western companies are willing to pay, the latter will look for other markets for their operations. What we do not know is when this migration starts and how long it will take, if it has not started already.

In order to be able to provide an answer concerning the future of the Romanian companies that used to work in the lohn system after its disappearance, one should analyze the pros and cons of the adoption of lohn.

Advantages	Disadvantages
Offering certain contracts	Lack of own brand
Offering a constant gain	Dependence on a sole client in many cases
Certain sales	Lack of research departments
The benefit of modern technologies	Lack of contracts with the suppliers of raw materials
The provision of raw materials	
The provision of the capital necessary for the production as well as for the modernization of the production process	
Obtaining know-how from worldwide famous companies	
Educating and specializing the Romanian workforce	

A short time ago the Romanian textile factories functioned untroubled counting on certain contracts and depending on raw materials of good quality; the finished products were collected at the gate of the factory so that the sales were not a current issue, and the capital necessary for the production process as well as for the last minute technologies was provided, all these leading to a constant gain.

When the European partners leave, the Romanian companies will find themselves in the situation in which they will have no contracts and nothing to produce for. Having no collections of their own, no image, and the Romanian companies would have no customers even if they tried to produce something.

The Romanian companies will find it had to recover because they will have to take it all from the beginning. They will have to create their own purchasing system, create their own collections and find markets where they may construct a favorable image.

Certainly, many of these companies, especially the slams enterprises and the small companies will not be able to recover and will be shut down. For the surviving ones, there are still chances. Benefiting of modernized factories, of know-how obtained from famous companies

that act in the textile market for a long time, as well as of the qualified and educated workforce, they will have to build up a modern business that may compete with the EU companies.

The solution everyone agrees on is that the textile companies start producing under their own brand. It is easy to say, but hard to do for it takes time in order to impose a brand on the market and this is a resource that our companies do not really dispose of. Besides, the Romanian companies do not have the infrastructure specialized in acquisitions, market research, do not have the necessary capital for developing their own collections and brands and lack the possibility to procure quality fabrics on the domestic market because the factories were closed. According to official data, if in 1989 Romania had a production of 282.000 tons of threads for fabrics, in 2001 the production represented only 45.000 tons of threads, while the natural silk production that was of 90.000 tons in 1989, was stopped at the level of 2001.

The companies should create their own purchasing system of raw materials, should establish contacts with foreign suppliers, for the domestic ones are growing fewer, should create organized research and development and marketing departments.

There are some positives examples of Romanian companies which have a brand and seals on the commune market in UE. At the end of 2002, Tricotaje Someșul, together with Italian stylists, launched a new line of products for foreign markets and the domestic market. The new brand is called "Modo" – for a luxury class. About 70% of current production is being exported in Western Europe and Russia, and the lohn production was reduced to a small percentage of total exports. Another Romanian brands on European market are "Jolidon" in France and Italy, "Marion" and "Mary's Style", "Seroussi" and "IDSarrieri". After 1990 the companies that holds this brands, were producing in lohn but in time they created their own collections.

Since the great majority of the production at this moment is for export purposes, the domestic market is lost for these producers. Selling in the EU and USA markets implies the procurement of a number of quality and environment certificates.

The domestic market seems lost for these companies in the face of the Asian imports especially after the total liberalization of the world trade with textiles-clothing. There is no market in Romanian at this moment for the domestic products. Too many products are manufactured that the domestic market cannot absorb. The specialists maintain that, unless one has his own network of shops, one cannot adapt the price of the products according to the market conditions, cannot withdraw a product that does not sell; all in all, one does not have many chances.

The articles imported from Asia have a much lower price than those produced in Romania, however they are not of a very good quality. A few years ago the Japanese industry had a bad image making low quality goods. These days everybody will say that a product made in Japan, certainly is a good quality. If China and India will follow the Japanese example, they will become a strong competitor. They are addressed especially to the persons with low revenues. Another competitor on the domestic market is the second-hand market.

The EU accession will also bring about a series of advantages for the textile sector in Romania:

- ✘ The access from a market of 23 million to one of 450 million, which is on the first place in the world as concerns the import of textiles and clothing products.
- ✘ The access to other countries' markets with which the EU will sign preferential agreements.
- ✘ The access to the pre-access EU funds and, after the access, to the community funds.
- ✘ The foreign investments as a result of the EU member status.

#### **IV. Conclusions**

- ✘ Sooner or later the lohn system will be moving from Romania to another countries;
- ✘ Some of the Romanian companies will disappear and the surviving ones should make a good business strategy;
- ✘ The Asian firms will become powerful competitors on both domestic and foreign markets.

#### **And suggestions**

- ✘ The solution everyone agrees on is that the textile companies start producing under their own brand;
- ✘ Under this new brand the companies should be present on both domestic and foreign markets;
- ✘ The companies should create their own purchasing system of raw materials
- ✘ The companies should create organized research and development and marketing departments.

#### **REFERENCES**

1. Cosma Smaranda, Bota Marius, Bazele marketingului, Editura Alma Mater, Cluj-Napoca, 2005;
2. Deleanu Traian, Industria în sistem lohn amenințată de integrarea în UE, România Liberă – ediția online de Transilvania, 23 aprilie 2005;
3. Doicin Anca, Aderarea la UE fatală pentru firmele de lohn, Capital Nr. 45, 4 noiembrie 2004;
4. Drag Igor, 345.000 de români în industria lohn-ului până în 2007, Atac, 23 aprilie 2005 ;
5. New Business, Liberalizarea importurilor a dus industria textilă românească în pragul crizei, 14 februarie 2005;
6. Popa Daniel, Creșterea salariului minim scade atractivitatea industriei ușoare, România Liberă – ediția online, 27 aprilie 2005;



## **THE AGRICULTURAL FIELD - FROM SUSTENANCE TO DEVELOPMENT**

**ELENA-BIANCA NEGOMIREANU<sup>1</sup>**

**ABSTRACT.** The present paper highlight one of the most important problems which Romania have to face in the context of accession process to the European Union, this difficult problem is the Romanian agriculture. Simultaneously, there were highlighted the principal directions that must be followed so that we derive maximum advantage from accession.

### **1. Introduction**

Due to the present conditions which highlight the interdependences among countries and the development of economical regionalism, Romania joining the European Union represents a normal and natural thing. This process is useful for the Romanian society and economy, considering that we should join the European market, an economic environment without fiscal, technical or physical borders. Joining this specific competitive medium involves special efforts having important consequences on the economical and social level, thus being necessary to elaborate and implement programs on every level, starting especially with the company and ending with the whole of the national economy, while lining up to the economical, political and institutional structures of the European Union countries will be done according to the great differences between our economy and the economy of the EU partners, as well as the gap in terms of micro and macroeconomic performance.

Despite the progresses made during the last years, the Romanian society and economy are far behind the basic reference points of EU, its most prominent indicator of being the earnings per inhabitant which represents 28-30% (in terms of purchasing power parity) of the European average, as well as the rural population which represents 47%-48% compared to the Union average below 10%.

Among the negotiation chapters<sup>2</sup> that Romania must close before 2007, the survey, especially chapter 7 "Agriculture", highlights the problems of the agricultural field. Its aim is to realize an outlook on the current situation in the Romanian agriculture, showing, at the same time the measures that must be taken to create a competitive agriculture on the great EU market.

The survey's starting point is represented by the EU law and the Romanian law concerning agriculture, besides the survey realized by the European Institute from Romania and the statistics issued by the Ministry of Agriculture.

The agricultural field is the focus of all decisional powers in every country, therefore reference to the Common Agricultural Policy (CAP) has been made ever since the setting up of the European Economic Community in 1957, through 10 articles of the Agreement from Rome<sup>3</sup>, a policy which is governed by three basic principles:

---

<sup>1</sup>Teaching Assistant at Politehnica University of Timisoara, Faculty of Engineering from Hunedoara

<sup>2</sup> They are the result of dividing the communitarian acquis (out of methodological reason) and they represent all the common rights and duties which keep together all the Member Countries within the EU.

<sup>3</sup> Articles no. 38-46 became at present articles 32-38, after the modification of the Treaty of Amsterdam.

- **a unique market and unique prices;**
- **communitarian preference:** preference for the communitarian products is granted to the agricultural trade; the importers of outside products having to pay a tax;
- **financial solidarity:** all the members contribute to producing CAP financial resources and benefit from setting up CAP expenses, through which aim fulfillment is intended: to increase productivity and to ensure a fair living standard for farmers, to stabilize the agricultural market, to guarantee security and population provision with food products, to ensure reasonable prices for the Community consumers.

The reason for which CAP has been set up is due to the need of smoothing the European agricultural trade to the wish of exporting countries to be assured of having a market for their products, and to a certain doubt concerning the situation in which the manpower fired as the result of agriculture mechanization, could not be constantly absorbed by the other economical fields (a situation in which earnings would decrease more compared to those from industry).

## **2. The Current Problems of the Agriculture**

Among the Economic European Community countries, Romania plays an important part from the perspective of both natural potential and human potential of rural development. Our country is, after Poland, the second biggest agricultural producer in Central and Eastern Europe, being also favored by its important agricultural surface of 14.8 million ha.

Chapter "Agriculture" was opened for negotiation on the 1<sup>st</sup> of October 2002 and closed for the moment in July 2004, in a certain hurry from the government part, although it was well-known the fact that the problems in agriculture were far from being solved and the Romanian farmer had to deal almost always with different problems and natural calamities.

Except for the legislation concerning the veterinary and pest control fields, the chapter largely consists of regulations, which is legislation directly applicable on the joining date, which does not need transposition from the Romanian side.

Joining the EU means for Romania replacing the national agricultural policy with CAP which requires pressure towards modernizing agriculture in all its fields. The moment of CAP introduction does not mean finding the solution to the problems of Romanian agriculture. On the contrary, some problems may even get bigger if clashes between the necessities of Romanian agriculture and Communitarian policy implementation can be identified.

At present we are still dealing with the phase called "**classical**" of the **underdevelopment agriculture economy model**, which will trouble the process from many perspectives. It risks producing broken sequences and imbalances which will always be economically and socially resented.

Being one of the most complex negotiation chapters<sup>4</sup>, Chapter 7 requires considerable harmonizing efforts and considerable costs. Thus EU has encouraged Romania to accelerate the process of aligning to the *acquis*, and putting it into practice, besides developing policies and devices close to CAP, even before the joining moment. In order to apply CAP without any problems, Romania will have to prove that it has the administrative capability of implementing the *acquis* efficiently. In this respect, the last years have been characterized by an accelerated transposition of the communitarian *acquis* for the qualitative, sanitary and pest control field. However, this rhythm raises a series of problems both for farmers and

---

<sup>4</sup> The corresponding *acquis* represents approximately 40% of EU legislation.

processors, and for the government, the European Community expressing therefore its doubt about the ability to implement the new law because of insufficient human resources. All these, as well as the problems of informing generate additional cost, which may prove to be an important impediment on the farmers' way to get CAP advantages. Although as a Union member Romania should benefit complete financing from the communitarian budget to sustain CAP, some UE surveys show that EU will not be able to fulfill these obligations before 2013, which will suppose the use of Romania's own resources to apply CAP stipulations. After integration, Romania will receive from the communitarian budget 4 milliard € for the period between 2007 and 2009, besides approximately 800 million lei, a financing sum from structural funds (The European Fund for Orientation and Guarantee in Agriculture)<sup>5</sup>.

The following types of exploitation are particular to Romania:

- agricultural firms (10% of the total amount of agricultural surface);
- family associations (6%);
- individual exploitations (68%);
- companies (1%).

The average surface of an agricultural exploitation with market functions being of 21 ha. It can be easily assumed from the previous data that the **most favorite way of owning land and working it is the individual one**, and it is well-known the fact that the majority of Romanian farmers are practicing a **subsistence agriculture**. The agricultural landscape is dominated by a great number of small family farms, which exploit narrow strips of land, without the possibility of obtaining significant production, and the greatest part of the crops is meant for auto-consuming. The budgetary funds for them represent a total amount of 2,5 million lei (for a surface smaller than 5 ha) and they can be used to acquire materials for seeding, chemical fertilizers, fuel, and so on, which means that the Romanian government should make a reshaping **scheme of the subsistence farms according to some efficiency principles**.

Romanian agriculture is still in a precarious condition characterized by: very low productivity, poorly competitive products, very small income due to the primitive technical equipment of the farms, the inexistence of agricultural loan, insufficient support offered by the government, excessive land crumbling, the competition caused by foreign producers who benefit from massive subventions, the poor attractiveness of the agricultural field, etc. To solve, at least partially, these problems, it is necessary to undertake the following measures: to legalize the investment loan as a financing source complementary to the SAPARD fund; to set up rural credit banks for micro finance through public subscription and budgetary funds in equal percentages; to involve the bank and insurance system into agriculture; to raise the percent of insurance bonus support from 20% to 70%.

Free competition on the free market offers no chance at all to the small farms. Even the EU regulations include financial support only for "commercial" farms (owning more than 15 ha), and they don't take into account subsistence farms (less than 3 ha), practically most of the present farms in Romania.

Apparently, at least, the solution would be association. If they constituted themselves as associations, the new co-operative farms could represent larger farms, which would be likely to use agricultural machines and agro-technologies, obtaining thus proper performances and being eligible for financial support as firms capable of surviving from a commercial

---

<sup>5</sup> Of this sum, approximately 2.3 milliard € will be used for Romanian rural development.

perspective<sup>6</sup>. Still, constituting associations doesn't solve the farmers' problems, as they will have to look for different jobs within a few years. Associations would help to maintain workers in agriculture, not to fire them. Association could be a solution if a relatively small number of people already worked in agriculture; therefore solving the problem is to be done strictly by the capitalist method of bankruptcy and association between small producers.

In addition to this characteristic of Romanian agriculture, another one is represented by **significant manpower surplus and chronic capital absence** which have determined a deeper and higher inefficiency in resources allotting with consequences on raising competitively Romanian farmers. At present, the rural population reaches 47%-48%, about 36% of them working in agriculture, and almost 70% working or depending somehow on agriculture, under the circumstances in which agriculture ensures only 12%-13% for PIB. All these determine a strong poverty profile and a slow and contradictory evolution of the rural manpower. This is the reason for which agriculture has played and is still playing an **important social part**, providing a certain certainty for those who cannot find a job or cannot get satisfactory wages in other economical fields. In order to recover this situation (the great weight that agriculture has upon the total amount of working population), EU has suggested to apply an **early retiring scheme** which could guarantee a total income of 150.000€/farmer (in equal parts for 10 years). The Romanian authorities will have to apply this scheme which means that older farmers (at least 55 years old) stop all the commercial agricultural activities, and let younger farmers use the land; the later ones will have to prove that they can improve farm viability.

Another effect of joining the EU is represented by the revolution that will take place in the **price field for the agricultural products**, a revolution generated by suddenly introducing in the costs new industrial equipment necessary to comply with environment norms, product quality norms, consumer sanitary protection norms, as well as a lot of administrative and bureaucratic expenses. These price raises will appear when economy is not able to support them without misbalances.

For a part of the non-agricultural population these prices will be prohibitive, which will deepen the contradictions of the agricultural system within the economic gearing and will highlight the difficulties of solving the problem generated by firing approximately 3 million agricultural workers to meet the minimum of European standards. This involves raising work productivity in the field and providing a different place for agriculture in the economic structure. Running and developing a market for agricultural products will have to be preceded by establishing a unitary agricultural policy according to what is specific for each product and its destination, harmonizing their appliance and especially preventing crises, whether they are generated by over or under production and/or natural calamities which test us regularly.

An important short term constraint for Romanian farmers who are competing with the communitarian farmers is represented by **the significant technological gap** which cannot be overcome but through finance rushes.

Despite all these negative aspects, a favorable effect of the constant inexistence of real capital and finance is represented by **the potential to develop ecological agriculture** which meets the tendencies registered within the EU. Not even from this perspective Romania has fully turned to account its advantage. Although there are ecological products made in the country, they have not been certified at national level for a long time, being exported under foreign certification.

---

<sup>6</sup> The Check Republic and Hungary have reconsidered their CAP's under similar pressures.

### 3. Conclusions

In 2007, when Romania will join the EU, agriculture file would be far from being closed, and the structural problems of Romanian agriculture will still be difficult to solve. To solve them it should taken into account the fact that compared to EU-15, and to the new members, agriculture is important from the perspective of its contribution to PIB and of employed population. At that time Romania will have to completely adopt CAP and to abandon the national subvention programs, as the experience of the previous EU extension shows that support programs for rural development are more likely to be recognized as government support existing before joining because they don't disturb the commerce among the members. CAP support aims especially at rural income, and rather at rural development than at granting agricultural products.

Negotiations with EU should consider the particular conditions of Romanian agriculture.

By the joining moment Romania will have to finish the preparations concerning the founding of:

- **The Payment Agency** through which the greatest part of implementing CAP activities is to be done(payment for farmers, issuing export and import licenses, etc.);
- **The Integrated System of Administration and Control**, which represents the communitarian system used to control correct direct payment in agriculture;
- **The Network for Accountancy Information in Agriculture** through which technical data will be centralized as well as data concerning economic performance necessary to establish agricultural policies by means of a national committee which will select the data providing farms.

Throughout this approach Romanian agriculture will probably acknowledge a paradoxical situation: no matter if it will stagnate or progress, the "rural overpopulation" phenomenon will increase. From this point of view the public policy has to solve a difficult situation, which the Anglo-Saxons would call catch 22 - apparently without a way out. If agriculture stagnates/regresses in the context of getting free market, an increasing number of farmers will be out of the economical circuit. If agriculture progresses, land consolidation and productivity increasing will also demand firing manpower. Therefore, without adequate measures, Romania will be faced to a high internal migration (towards the rural areas) and to a growing of the migration towards the exterior of the country.

All these problems demand creating **financial entities specialized in rural credit and a more rigorous commercial policy, promoting ecological agriculture, encouraging farmers association** including production/trading co-operatives.

The government must use SAPARD (and other) funds for farm and rural development<sup>7</sup>, which involves the necessity to develop rural area infrastructure. This requires from the government and SAPARD Agency to promote a strong information campaign in the rural area to let people know the main categories of granted projects<sup>8</sup> and the granting priorities<sup>9</sup>. It is obvious that these things are very little if not at all known by farmers.

---

<sup>7</sup> Rural development does not necessarily suppose agriculture; small and medium enterprises, services, tourism can extend to rural areas.

<sup>8</sup> These projects are private (generating income) and public (not generating income) as those related to rural infrastructure development and improvement.

The public policy will have to ensure a lasting economy growth which will help creating new jobs absorbing thus the manpower fired from agriculture. We will need protection against unfair competition, and also important support, including financial, as well as obtaining some joining conditions which should not ignore our agricultural potential.

All these aspects require that the period of time that we have until the joining moment should be exploited to the maximum to correct the discrepancies existing now within the agricultural policy.

## REFERENCES

1. Dăianu Daniel, *Întrebarea nu mai este dacă, ci ce vom fi în Uniune*, Jurnalul Național, 24.XI.2004
2. Cristea Irina, *Fondurile europene ne dau bătați de cap*, Jurnalul Național, 13.X.2004
3. Șerbănescu Ilie, *Aderarea la UE și regimul alimentar al românului*, România Liberă, 28.VII.2004
4. Șerbănescu Ilie, *Agricultura – orfanul integrării*, România Liberă, 25.II.2004
5. Șerbănescu Ilie, *Cele două Români*, România Liberă, 19.V.2004
6. Pascariu George, *Uniunea Europeană. Politici și prețuri agricole*, editura Economică, București, 1999
7. Manoleli Dan Gabriel, Giurcă Daniela, Chivu Luminița, Câmpeanu Virginia, *Ierarhizarea priorităților de dezvoltare agricolă și rurală în România. Influențele noii reforme a Politicii Agricole Comunitare*, Studiul nr. 11, Institutul European din România, București, 2004

---

<sup>9</sup> Improving market access and providing competitive processed agricultural products; improving infrastructure for rural development and agriculture; developing rural economy; developing human resources.

## LEASING, CAPITAL STRUCTURE AND DEBT DISPLACEMENT

MARIA – ANDRADA GEORGESCU<sup>1</sup>

**ABSTRACT.** Brealy and Young (1980, p. 1249) remind us: "...the use of any lease valuation model involves a general theory of capital structure". If a user purchase an asset with a given combination of cash and borrowing, there is a clear impact on corporate capital. The impact is not so clear if the user leases the asset. A brief review of the evolution of theories on corporate capital structure – presented by Myers (1984) will assist in our discussion of how leasing analysis "involves a general theory of capital structure".

The work of Modigliani and Miller (1958) concluded that the debt-equity mix made no difference. In 1963, Modigliani and Miller corrected their earlier work by including the effect of taxes and the era of "borrow all you can" began. By the mid 1970's, "borrow all you can" was being slowly modified by the consideration of agency costs by Jensen and Meckling (1976) and bankruptcy costs. Myers (1977, p. 174) concluded his paper "Determinants of Corporate Borrowing" with "The firm should not attempt to borrow as much as possible". Turnbull (1979, p. 939) proved "...that for a firm maximizing market value, the optimal capital structure always occurs before the firm's debt capacity"<sup>2</sup>. In other words, if you "borrow all you can" the resulting debt level will be greater than the debt level that maximizes stockholders' market value. These results lead to the "trade-off" model. Finally, the "pecking order" model of capital structure has gained favor in recent years and there is ample empirical evidence to warrant this favor. The "pecking order" is: first, finance what you can with internally generated funds (retained earnings); second, debt; and finally, sell stock to raise equity capital [See Myers (1984, p. 581)].

Shyam – Sunder and Myers (1999, p. 242) provide an excellent review and critique of the literature of empirical studies of capital structure. They then proceed to test the pecking order against the trade-off model using a sample of 157 firms and conclude: "Overall, the results suggest greater confidence in the pecking order than in the target adjustment model". In a 10 year study (1984 – 1993) of leasing in over 400 firms, Kang and Long (2001, p. 54) concluded their results were "...consistent with the pecking order".

Myers, Dill and Bautista (1976, p. 804) use a capital structure based on "borow all you can" and assume "...that the debt capacity is always binding". Thus, the debt displacement rate  $\lambda$  is equal 1 and, in the lease alternative, the debt displaced is  $B(0)$  for the first period,  $B(1)$  for the second period ...  $B(M-1)$  for period  $M$ , and  $B(M) = 0$  [where  $B(t)$  is the amount of the equivalent loan at the end of period  $t$ ]. It is obvious from the literature that no one know, operationally, how to value  $\lambda$ . Myers, Dill and Bautista (1976, p. 816) state: "The narrower lease vs borrow problem considered in this paper will not be finally solved until we have a better understanding of what determines the amount of debt displaced or supported by a lease contract. In other words, what is  $\lambda$ ? Our intuition suggest  $\lambda = 1$  – i.e., that a dollar of lease liability supports or displaces a dollar of debt – but this is not obvious".

---

<sup>1</sup> PhD student, Faculty of Economic Sciences, Babes-Bolyai University, Cluj-Napoca, Romania

<sup>2</sup> It should be noted that Myers (1977) essentially proved the same outcome (a year after the Myers, Dill and bautista (1976) formula was published) but the result was not as strong as Turnbull's.

These arguments were influenced by the “borrow all you can” theory, prevalent at the time.

Since 1976, there have been a series of empirical studies that indicate  $\lambda < 0$ ; i.e., lease liabilities and non – lease debt are complements, not substitutes. The first empirical study to show that debt and leasing are complements ( $\lambda < 0$ ) was by Ang and Peterson (1984). Their results were so divergent from the orthodoxy of  $\lambda = 1$  that they titled the article “The Leasing Puzzle”. Using Standard & Poor’s Compustat data for 1976 through 1981 on approximately 600 U.S. firms and several different econometric models, Ang and Peterson (1984, p. 1063) conclude: “...leases and debt are complements: greater debt is associated with greater leasing”. This study was updated by Branson (1995, p. 17) using Compustat data from 1983 through 1988 and reached the same conclusion ( $\lambda < 0$ ). Additional studies reach the same conclusion [Finucane (1988), Kang and Long (2001) and Mehran, Taggart and Yermack (1999)], while others have estimated  $\lambda$  to be positive, but less than one<sup>3</sup> [Adedeji and Stapleton (1996, p. 80), Marston and Harris (1988, p. 161)]. In a study of a large number of British firms, stratified by size, Lasfer and Lewis (1998) concluded that  $\lambda$  is near one for small firms and negative (leasing and debt are complements) for large firms. Unfortunately, the available databases and the various models are not comparable so the substitut / complement controversy continues.

Lewis and Schallheim (1992, p. 508) give a theoretical argument that demonstrates “Within a model of optimal capital structure ... debt and leases can be complements”.

The above empirical and theoretical evidence leads to the conclusion that debt and leases can be complements ( $\lambda < 0$ ). There is overwhelming evidence that  $\lambda$  is much less than one for larger, profitable firms. But what value should be used for  $\lambda$  ?

Given the assumption of 100% borrowing and the binding debt capacity, we agree that  $\lambda$  can equal 1. However, the theoretical works by Myers (1977) and Turnbull (1979) and an empirical study by Graham (2000) indicate that one would not expect the debt capacity constraint to be binding. This would force the debt displacement factor to zero ( $\lambda = 0$ ). This interpretation will not give a true representation of the lost tax shield from interest and a careful examination of the actual interest paid in the “own” alternative is required. The concept of the equivalent loan is still applicable but the debt displacement factor now becomes that portion of the funds actually borrowed to purchase the asset. In general, the portion of debt displaced depends on the capital structure of the user. If the user firm follows the “trade-off” model, then the portion of the equivalent loan to own the asset displaces debt is simply the current capital structure ( $\lambda = \text{debt/capital}$ ). This interpretation of  $\lambda$  is consistent with Henderson (1976), Gutman and Yagil (1994), as well as part of the Myers, Dill and Bautista (1976, p. 816) discussion of  $\lambda$  .

If the “pecking order” model is used, the debt displacement rate is one minus the ratio of retained earnings to total new investment required for the year.

The above logic leads to a hierarchal decision for determining debt displacement:

- If the firm’s debt capacity is binding:

$$\lambda = 1$$

---

<sup>3</sup> Bayless and Diltz (1986) estimated  $\lambda$  as high as 1.25, but there are problems with low response rate and the survey methodology used leaving the results suspect.



- If the firm follows the “pecking order” theory:  

$$\lambda = 1 - (\text{Reinvested Retained Earnings} / \text{Total New Investment})$$
- For all others:  

$$\lambda = \text{debt} / (\text{debt} + \text{equity})$$

### Conclusions

This interpretation of  $\lambda$  as the specific links to the user’s capital structure and the lessor’s capital structure, respectively, has several **advantages**:

- ✓ The historic definition of Myers, Dill and Bautista (1976) about  $\lambda$  as the amount of debt actually displaced by one dollar of lease liability is respected and made operational for the user firm ( $\lambda_u$ ) and the lessor firm ( $\lambda_r$ )<sup>4</sup>.

- ✓ The resulting analysis of leasing includes unique characteristics of the capital structures and current conditions of the parties to the lease contract.

- ✓ The method provides an affirmation of Lewis and Schallheim’s (1992, p. 497-498) conclusion, “... a lessee firm optimally uses a greater proportion of debt with leasing than it would if it restricted itself to debt” and the lessee can benefit from leasing when the lessee and lessor have the same marginal tax rate.

- ✓ The result is a self limiting system<sup>5</sup>. If a firm continues to lease a larger and larger portion of its assets, data will feed forward and increase the future debt / asset ratio (because leases are considered debt from the accountant’s perspectives, on or off the books) The higher  $\lambda_u$  will cause fewer leases to be approved. The reverse will occur for the lessor with respect to  $\lambda_r$ .

- ✓ The “leasing puzzle” may be solved. When  $\lambda_u = 1$ , there is a one to one substitution of the equivalent loan (hence, the interest tax shield) between owning and leasing. When  $0 \leq \lambda_u < 1$  the debt used for purchase is less than the debt created by leasing, because the accountants book the entire present value of the loan equivalent to the lease as debt. The result is that leasing increase debt by  $(1 - \lambda)$  times the equivalent loan. Unless the model used to empirically estimate  $\lambda$  specifically controls for this fact, the estimated  $\lambda$  can be negative. In fact, when  $0 \leq \lambda_u < 1$ , the lease actually increases debt<sup>6</sup> without having to increase borrowing.

### REFERENCES

- Adedeji A. and Stapleton R.C. (1996)**, *Leases, Debt and taxable capacity*, Applied Financial Economics, vol. 6, no. 1, p. 71-83
- Ang J. and Peterson P.P. (1984)**, *The leasing puzzle*, Journal of Finance, vol. 39, no. 4, p. 1055-1065
- Branson B.C. (1995)**, *An Empirical reexamination of the Leasing Puzzle*, Quarterly Journal of Business and Economics, vol. 34, no. 3, p. 3-18

<sup>4</sup> The subscripts  $u$  refers to user and  $r$  to lessor.

<sup>5</sup> This is a dynamic endogenous determination of optimal leasing and capital structure, see Lewis and Schallheim (1992, p. 497).

<sup>6</sup> Where debt = borrowing + lease liabilities

- Braeley R.A. and Young C.M. (1980)**, *Debt, Taxes and leasing – A Note*, The Journal of Finance 35 (December), p. 1245-1250
- Finucane T.J. (1988)**, *Some Empirical Evidence on the Use of Financial Leases*, The Journal of Financial Research, vol. 11, no. 3, p. 321-333
- Graham J.R. (2000)**, *How Big Are the Tax Benefits of Debt*, Journal of Finance, vol. 55, p. 1901-1941
- Gutman E. and Yagil J. (1994)**, *A Comprehensive Lease/Purchase Model*, The Engineering Economist, vol. 39, no. 4, p. 333-353
- Henderson G.V.Jr. (1976)**, *On Capitalization Rates For Riskless Streams*, The Journal of Finance, vol. 31, p. 1491-1493
- Jensen M.C. and Meckling W.H. (1976)**, *Theory Of The Firm: Managerial Behavior, Agency Costs and Ownership Structure*, Journal of Financial Economics, vol. 3, no. 4, p. 305-360
- Kang S. and Long M. (2001)**, *The Fixed Payment Financing Decision to Borrow or Lease*, Review of Financial Economics, vol. 10, p. 41-55
- Lasfer M.A. and Levis M. (1998)**, *The determinants of the Leasing Decision of Small and Large Companies*, European Financial Management, vol. 4, no. 2, p. 159-184
- Lewis C.M. and Schallheim J.S. (1992)**, *Are Debt and Leases Substitutes?*, Journal of Financial and Quantitative Analysis, vol. 27, no. 4, p. 497-511
- Marston F. and Harris R.S. (1988)**, *Substituability of Leases and Debt in Corporate Capital Structure*, Journal of Accounting, Auditing and Finance vol. 3, p. 147-170
- Modigliani F. and Miller M.H. (1958)**, *The Cost of Capital, Corporation Finance and the Theory of Investment*, American Economic Review, vol. 48, no. 4, p. 261-297
- Modigliani F. and Miller M.H. (1963)**, *Corporate Income Taxes and the Cost of Capital: A Correction*, American Economic Review, vol. 53, no. 3, p. 433-443
- Myers S.C. (1984)**, *The Capital Structure Puzzle*, The Journal of Finance, vol. 39, no. 3, p. 575-592
- Myers S.C. (1977)**, *Determinants of Corporate Borrowing*, Journal of Financial Economics, vol. 5, p. 147-175
- Myers S.C., Dill D.A. and Bautista A.J. (1976)**, *Valuation of Financial Lease Contracts*, The Journal of Finance, vol. 31, no. 3, p. 799-819
- Shyam-Sunder L. and Myers S.C. (1999)**, *Testing static tradeoff against pecking order models of capital structure*, Journal of Financial Economics, vol. 51, no. 2, p. 219-244
- Turnbull S.M. (1979)**, *Debt capacity*, The Journal of Finance, vol. 34, p. 931-940
- Weingartner H.M. (1987)**, *Leasing, Asset Lives and Uncertainty:Guides to Decision Making*, Financial Management 16 (Summer), p. 5-16