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Koh, H. K. (2010). A 2020 vision for healthy people. *New England Journal of Medicine*, 362(18), 1653–1656

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## THE USEFULNESS OF HEALTH DISPARITY: STUMBLING BLOCKS IN THE PATH TO SOCIAL EQUITY

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A. Henry ELIASSEN<sup>1</sup>

**Abstract:** *Health disparities in the United States have declined little over the past century despite far-reaching technological advances and, especially since the 1980s, heightened consciousness of the problem. Their persistence can be explained in large part by their usefulness to those who hold and seek to consolidate power. Among other things, health disparities help in bolstering master-subservient relationships; shoring up the ideology of rugged individualism; maintaining bureaucratic structures and jobs; providing plausible public enemies; monitoring upstream social ills; and sustaining a flow of research funding. Conditions likely necessary for ameliorating health disparities include open and mutual recognition of several often veiled realities concerning power relations: money equals power; power translates into access to resources; those who hold power are reluctant to part with it; those who lack power serve as convenient scapegoats; and institutions evolve so as to ensure their own survival.*

*Health disparity will remain exceedingly difficult to eradicate so long as health inequities continue to perform useful functions in ways that seem cost effective for groups and individuals seeking to secure their power. A readiness to work around stumbling blocks in the path to equity—arrived at via frank and equitable discourse among community members and leaders in pursuit of vital community goals—will likely hinge upon heightened awareness not only of the cumulative economic burden imposed by health inequality but also of the extent to which even the most powerful are intrinsically dependent upon other members of the community.*

**Keywords:** *health disparities; healthcare reform; minority health; politics; power relations.*

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### 1. Introduction

Health disparities between more- and less-privileged groups in the United States have declined little over the past century, despite remarkable strides in overall

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health-related knowledge and technology and, especially since the 1980s, heightened consciousness of the problem on the part of researchers and policymakers alike (Jones, 1998, 2009; King, Hurd, Hajek, and Jones, 2009). Observations by W. E. B. DuBois (1899, p. 148) regarding racial disparity in Philadelphia at the end of the nineteenth century still ring true today:

*“ . . . [A] much higher death rate at present among Negroes than among whites: this is one measure of the difference in their social advancement. . . . Broadly speaking, the Negroes as a class dwell in the most unhealthful parts of the city and in the worst houses in those parts; . . . the part of the population having a large degree of poverty, ignorance and general social degradation is usually to be found in the worst portions of our great cities.”*

Granted, every society has some form of stratification that ranks individuals on the basis of characteristics deemed important, and this inevitably results in inequality of some sort. Yet, while inequality per se is unavoidable, some forms of inequality have their roots in present or past injustices and thus can rightly be described as *inequities*-or, if the differences are between groups, as *disparities*. For instance, disparities in health can be defined as those differences in outcome that result not entirely from biological differences nor from informed and unconstrained individual choices, but rather from factors over which the individual has little or no control but which systematically reflect the choices, preferences, values, and biases of powerful others, present or past (Hebert, Sisk, and Howell, 2008). In short, health inequity (from the World Health Organization standpoint) implies “differences which are not only unnecessary and avoidable but, in addition, are considered unfair and unjust” (Whitehead, 1990, p. 5).

In today’s climate of fiscal austerity, health disparities figure prominently (whether openly or covertly) in U.S. political discourse surrounding healthcare spending and entitlements. The effects of any cut in funding or realignment of priorities can be expected to vary significantly, depending upon a group’s social positioning and power, and yet the crucial dimension of *differential power* has routinely been overlooked or minimized in much previous discussion of health inequity. In this analytic essay, I argue that effective intervention strategies aimed at ameliorating health disparities will require not only identifying and coping with the *causes* of health inequity, but also pinpointing and neutralizing sources of *entrenched resistance*-starting at the community level. It is my thesis that *health disparities persist because of their usefulness to those who hold and seek to consolidate power*. Accordingly, after summarizing the ideological and political context within which current U.S. health disparities are observed, I provide a set of five working assumptions for use in considering who stands to benefit from perpetuation of health disparities: *money equals power; power translates into access to resources; those who hold power are reluctant to part with it; those who lack power serve as convenient scapegoats; and institutions evolve so as to ensure their own*

*survival*. Next, I describe six positive functions of health disparities in order to illustrate various ways in which health inequity, which is more than simply a manifestation of underlying social inequality, can itself be instrumental in aggravating that inequality. Finally, I show how community-based intervention strategies can provide a window of opportunity for promoting health equity—at least to the extent that the establishment of basic trust, prerequisite to effective community-based participatory research (Burhansstipanov, Christopher, and Schumacher, 2005), implies full and mutual recognition of the power dynamics at play. Overall, by highlighting the role of power relations at many levels in perpetuating health inequities, this essay stands to make an important contribution toward staking out pathways whereby health equity might eventually be attained.

## 2. Contested perspectives on fairness and equity

An initial stumbling block in the path to health equity stems from basic differences in value judgments as to what constitutes “fairness.” The question has to do with the relative importance placed on *equality of results* (a criterion favored in much of Europe) as opposed to *equality of opportunity* (generally preferred in the United States) (Dye, 2003, pp. 32–33). Whereas Europeans tend to stress equitable distribution of resources within the community, Americans most often adhere to the ideal of just reward for individual effort and investment (Esping-Andersen, 1999).

However, many U.S. social scientists, health professionals, and others close to the issues surrounding health disparity do embrace the World Health Organization perspective that health at the highest attainable level is a fundamental human right (Marmot, 2007). As such, this ideal implies a duty on the part of governments and other responsible agents to take corrective action on behalf of groups and individuals left behind. However, the broader U.S. culture is thoroughly permeated by an individualistic, free-market worldview that looks upon most forms of governmental intervention with suspicion. It sees health as essentially a marketable commodity and fairness as occurring only when each person is fully entitled to the fruits of his or her own productive endeavor. This attitude, in its extreme form (Rothbard, 1982/1998)<sup>1</sup>, boils down to the notion that *taxation* (i.e., the taking of private property for public use via governmental coercion) *is theft*. Such an anti-statist, laissez-faire perspective provides ideological underpinnings—often with widespread public acceptance—for much of today’s political discourse

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<sup>1</sup> Rothbard exemplifies the extreme *anarcho-capitalist* version of libertarian philosophy that calls for a stateless market economy.

that in fact defers largely to the interests of the privileged (such as tax breaks for the wealthy, privatization of Social Security, and cutbacks in “costly” social services such as Medicaid).

### 3. The political climate: Obstacles to “getting it done”

Ever since the Reagan years (1981–1989) that brought increasingly amenability to welfare state retrenchment (Pierson, 1994) researchers and practitioners confronting the destructive consequences of health disparities face an uphill struggle within the current U.S. political climate when it comes to translating their concerns into a consensual *will for political action*. They soon learn that it is simply not enough to stake out an activist moral high ground and then hope to enlist the powerful and influential in a fight for health equity. This point was emphatically driven home during the 2009 debates over U.S. healthcare reform. Given the economic troubles of that period, with thousands of middle- and working-class families losing their employment-based health coverage through layoffs and thousands more reporting increased uncertainty, a certain degree of scholarly optimism prevailed concerning prospects for widespread support and passage of reform (Ornstein, 2009). Yet town hall meetings called by members of Congress repeatedly faced disruption from angry anti-reform protesters-many of them apparently orchestrated by conservative lobbying groups with heavy financial support from industry groups and wealthy individuals (Egger and Rucker, 2009; Urbina, 2009).

Realistically, busy citizens and civic leaders focus primarily on their own immediate and pressing worries-such as making the house payment, staying in business, or getting reelected. They distance themselves from issues they do not perceive as directly relevant to their daily livelihood. As an example, many either fail to comprehend the scope and complexity of societal problems traceable to health disparities, or else simply do not believe that health inequity ranks high on a list of problems calling for funding through tax dollars.

Indeed, during times of economic hardship with declines in tax revenue, pragmatic concerns such as balancing the budget and reducing deficits are likely to overshadow philosophical differences regarding proper functions of government. Healthcare programs-as well as such upstream contributors to health as education, nutrition, and environmental safety-tend to be framed (notably, by those who *already have* access to needed resources) as dispensable luxuries or at the very least as *negotiable*. Thus, interventions looked upon as existing mainly for the benefit of disadvantaged minorities often end up bearing the brunt of calls for belt-tightening and spending cuts at all levels of government.

Under the circumstances, it is not surprising that the ambitious overarching goal of the federal Healthy People 2010 initiative to “eliminate health disparities” remains unmet (Koh, 2010; Sondik, Huang, Klein, and Satcher, 2010). Still, the federal bureaucracy continues to affirm the salience of striving for health equity through institutional measures such as setting Healthy People 2020 goals “[e]mphasizing ideas of health equity that address social determinants of health and promote health across all stages of life” (U.S. Department of Health and Human Services, 2010) and elevating the National Center on Minority Health and Health Disparities to full Institute status within the National Institutes of Health (National Institutes of Health, 2010). These steps are of more than merely symbolic importance because grants from the National Institutes of Health provide much of the lifeblood for ongoing research aimed at closing the gaps. But, as Gilbert Friedell and Lovell Jones have repeatedly cautioned, “If you always do what you have always done, you will always get what you already have” (King et al., 2009, p. S27).

More and more, health disparities research and intervention strategists are seeking out innovative ways to break free from a hit-and-miss (albeit readily fundable) traditional paradigm that focuses on various specific disease outcomes through the lenses of narrow disciplinary specialties (King et al., 2009; Syme, 2008). Increasingly, they are adopting interdisciplinary, biopsychosocial approaches by collaborating closely with members of specific at-risk communities to address pressing health needs identified within those communities—thus taking health disparity out of the shadowy realm of statistical abstraction (King et al., 2009; Syme, 2004). One thing still lacking in much published commentary on health inequity, however, is frank discussion of *power relations* underlying the perpetuation of health disparities.

In the long run, a successful intervention strategy will demand more than simply identifying and coping with the *causes* of health inequity. From a realistic standpoint, it will be equally important to pinpoint, bring to light, and finally neutralize likely sources of *entrenched resistance* to the amelioration of health disparity. In this paper, I propose that health disparities persist not so much because we cannot afford to eliminate them (after all, we do manage to come up with billions of dollars for the military and for corporate bailouts), but rather because they are so *useful*. My perspective here is to some extent intentionally ironic—so as to highlight important consequences (i.e., hidden costs) of maintaining health disparities—consequences usually conveniently overlooked or deemphasized by powerful stakeholders seeking to maintain their vested interests. A key to eventual success in establishing health equity, then, might well be readiness to work together with these stakeholders—mutually recognizing the power dynamics

at play-to develop alternative pathways toward fulfilling the positive functions of health disparities while at the same time minimizing their hidden costs.

#### 4. How are health disparities useful-and for whom?

Some years ago, sociologist Herbert Gans published a series of Mertonian functional analyses (Merton, 1968)<sup>1</sup> detailing the *uses* (or *positive functions*) of poverty and the underclass in American social life (Gans, 1971, 1972, 1994). While poverty is usually thought of as a social evil or blight, Gans pointed out that it nevertheless serves very well the needs of existing institutions-to such a degree, in fact, that its *elimination* (such as through legislation to equalize income) would be massively disruptive. Among other things, having a poverty-stricken underclass ensures ready supplies of (1) cheap labor to perform work that is in demand but either undesirable or illegal, (2) scapegoats and negative examples to shore up societal values and illustrate the dire consequences of deviance, and (3) professional and clerical jobs created to deal with social problems linked to poverty (Gans, 1994).

Health disparities, closely associated with poverty, can likewise be productively studied in terms of their social consequences or functions. Like poverty, health disparities are conventionally looked upon as essentially dysfunctional due to the high social and economic costs they entail and the extensive suffering they bring about. But, as is the case with poverty, health inequities likely owe their considerable staying power to the positive functions they afford in stabilizing social arrangements for the benefit of powerful stakeholders in the status quo. Thus, when we speak of the *usefulness* of health disparity, we are actually talking about the positive functions of perpetuating an inequitable *system*-that is, one structured so as to help certain individuals and groups maintain their advantage over others. In analyzing the power relations that underlie health disparities in the United States, we need to consider *who stands to benefit*, whether directly or indirectly, from perpetuation of conditions that ultimately result in health disparities-and then *follow the money*. Five working assumptions underlying the ensuing analyses are as follows:

1. *Money equals power*. Money is more than simply a medium of exchange for goods and services. More importantly, from the Weberian perspective of power as the ability to realize one's aims despite resistance (Weber,

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<sup>1</sup> Merton defined *functions* as observed consequences of social arrangements that facilitate adaptation or adjustment within a system, and *dysfunctions* as consequences that impede adaptation or adjustment; he acknowledged that what is functional for some groups and individuals may be dysfunctional for others.



1904/1958), money also represents a sometimes substantial degree of control over outside forces that have the potential to challenge or lend uncertainty to one's position.

2. *Power translates into access to important resources and life-choice options* serving to foster better health outcomes (Link and Phelan, 1995)-and, more generally, to facilitate the accumulation of even more power through various processes of cumulative advantage (DiPrete and Eirich, 2006).
3. *Those who hold power over others are reluctant to part with it.* In this regard, two key maxims will continue to hold sway in the ongoing discourse on changes in healthcare delivery and related topics: "Everyone's definition of health care reform is the same-I pay less," and "Every cost reduction is someone's income" (Ornstein, 2009; Zwelling, 2012). The crucial point here is that, in order for any substantial change to be acceptable to a powerful stakeholder, it will have to offer something else of equal or greater value in exchange for whatever power that stakeholder is being asked to relinquish.
4. *Those who lack power serve as convenient scapegoats* to bear the burden of society's failures (Gans, 1994), including those failures related to health and well-being. Existing social structures are represented as being "natural" and essentially immutable; macro- and meso-level structural arrangements contributing to health disparity are framed so as to shift the primary burden of responsibility to the individual or to families-a process of *blaming the victim* (Ryan, 1976).
5. *Institutional structures and policies evolve so as to ensure the survival and continued prosperity of the institution*, regardless of its initial purpose and stated mission (O'Dea, 1961)<sup>1</sup>. Bureaucracies tend to expand exponentially, adding on layer upon layer of structural complexity in response to newly identified challenges. In this way they can present the *appearance* of taking concerted action, while at the same time "spreading the heat"-that is, shielding individuals in responsible positions from blame in case something goes wrong. This is typically accomplished through formalized procedures such as the approval process for funding. As a result of agency review, resources aimed at tackling overarching problems like health disparity frequently end up being diverted away from bold but promising initiatives with uncertain outcomes,

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<sup>1</sup> O'Dea's dilemmas of *mixed motivation*—and especially *administrative order*—apply equally well to any bureaucratic institution: "The tendency of organization to complicate itself to meet new situations often transforms it into an awkward and confusing mechanism within whose context it is difficult to accomplish anything" (O'Dea, 1961, p. 36).

and funneled toward “safe” projects of more limited scope but perhaps only tangentially related to the larger issue at hand (Kolata, 2009).

## 5. Six positive functions of health disparities

To understand why health disparities persist in the United States despite all the attention and resources being directed toward their eradication—especially since the 1985 release of the landmark Heckler Report on black and minority health (U.S. Department of Health and Human Services, 1985; Nickens, 1986)—it is indeed helpful to examine the *benefits* that health inequities offer to those individuals and groups that have a hold on power and would like to consolidate it. As previously noted, many of the factors implicated in the perpetuation of health disparities are closely related to the positive functions of poverty and the underclass as described by Gans (1971, 1972, 1994). However, consideration of health disparities *per se* reveals an additional dimension, in that health inequity can itself severely limit the potential of disadvantaged minorities to compete effectively for a share of the power.

### 5.1. *Bolstering master-subservient relationships*

Contrary to popular belief, slavery in the United States did not end with Lincoln’s Emancipation Proclamation and the 13<sup>th</sup> Amendment to the U.S. Constitution. Although the institution of chattel slavery has long been abolished, involuntary servitude has persisted under various guises, often in connection with debt (Daniel, 1979). Today, health disparities play an important role in maintaining the indebtedness of subjugated individuals and groups (i.e., the status of the less privileged as dependent upon the more privileged). This is accomplished in large measure through the common U.S. practice of tying health insurance coverage to the workplace—whether negotiated in a union contract or provided as a fringe benefit to individual employees (McPhee, 1997; Quadagno, 2004). In either case, employees are compelled to maintain satisfactory working relationships with their current employer and/or union in order to retain affordable health coverage and avoid the unsavory prospect of descent into the uninsured underclass. Such semi-involuntary ties serve as a profound disincentive to workers’ mobility between companies or careers, thus placing a severe damper on any real freedom of choice they might have in the labor marketplace. As a result, employers are able to count on more workforce stability than would otherwise be the case; and those larger, more powerful organizations that offer better health plans hold a competitive edge in attracting and retaining key personnel (McPhee, 1997).

Now suppose the United States were to adopt a single-payer health plan providing universal coverage, paid for through a financially progressive system of premiums or taxes completely separate from the workplace. What sort of impact might this change be expected to have on the interests of business (other than the insurance industry) and organized labor? First, the extent of management control over employees would surely be diminished. If workers were no longer beholden to the company for something as crucial to their families as health insurance, they would likely be much more ready to venture out and leave unfulfilling jobs in search of better opportunities elsewhere. Thus, employers competing for the same skilled or semi-skilled human resources would find themselves having to offer more attractive inducements (wages, working conditions, retirement benefits, etc.) in order to earn the loyalty of “hired help”—all in all, a setback in the power positioning of employers.

U.S. labor unions, too, have historically been reluctant to give up the leverage they have possessed through collective bargaining on behalf of improved health benefits for their constituencies. They have willingly done so only in situations where projected costs to organized labor have exceeded potential benefits such as in the 1950s and early 1960s, when management demands for concessions on wages and other benefits in return for expensive health coverage of retirees sparked an intensive campaign by organized labor on behalf of Medicare (Quadagno, 2004). Establishment of a single-payer national health coverage plan divorced from the workplace would in effect take health benefits off the bargaining table; a prospect union leaders are likely to see as further diluting the relevance of a labor movement struggling for survival, whose growing weakness in recent decades has itself likely contributed to a decline in norms of equity and the concurrent rise in U.S. wage inequality (Western and Rosenfeld, 2011).

Remembering *money as power*, it is important to note that *masters* who currently hold the lion’s share of wealth and power would prefer that *subservients* expend their limited resources through purchases of consumer goods and services (all the better if on credit, thus magnifying indebtedness) whereby most of the wealth and power would end up coming back to the masters. The less palatable alternative from the masters’ perspective would be for currently disadvantaged or subservient groups to focus more on savings (accumulating interest) and investments in education, business startups, etc., that might reduce their dependence on—or even set up serious challenges to—the present holders of power. In this regard, health disparities perform two important functions: they recycle resources back into the hands of the powerful, and they serve as a social Darwinian screening device that helps restrict access to the ranks of the powerful.

First, *health disparities recycle resources back into the hands of the powerful*. Indeed, they open up vast opportunities for profit. Health disparities help preserve the “slave” status of minorities and the poor as dependent and debt-ridden consumers “owned” by the suppliers of addictive goods and services looked upon as helpful in coping with adversity. For example, the less healthful and more stressful living and working conditions experienced within the lower socioeconomic ranks serve to heighten the demand for risky stress relievers such as alcohol and tobacco products—highly profitable to the manufacturer but further degrading to the health of their users. Liquor stores abound in disadvantaged neighborhoods (Duncan, Duncan, and Strycker, 2002; LaVeist and Wallace, 2000), and tobacco marketing strategies target the poor and minority groups (Goerlitz, 1989)<sup>1</sup>. Facilities for the treatment of stress-related physical and mental illness and substance abuse or dependence—many of them operated on a for-profit basis—depend to a large extent on health disparities (as expressed in consistently observed social gradients in health) (Marmot, 2007) for their sustenance. The overcrowding of hospital emergency departments being used as default primary care providers by the medically underserved (particularly adult Medicaid recipients) (Tang, Stein, Hsia, Maselli, and Gonzales, 2010) unleashes a backlash demand for alternatives such as private freestanding emergency clinics. Facilities of this kind, now springing up in more affluent areas across the country, can legally select their own patients; they cater to a clientele willing and able to pay a premium price so as to avoid long waits (Houston Business Journal, 2008) and perhaps discomfiting contact with sick Medicaid patients as well. Additional possibilities for profit from health inequity can involve actively playing off one stakeholder in a disparity against another. A case in point: it is not uncommon for the same high-stakes lobbying firm to represent both the manufacturers of illness that target minorities (e.g., the tobacco and alcohol industries) and the medical institutions established to combat and treat that illness (Goldstein and Bearman, 1996).

Finally, *health disparities serve as a social Darwinian screening device that helps restrict access to the privileges of power*. Poor health, disproportionately found in historically excluded minority groups, operates through processes of both *socioeconomic drift* (downward mobility tied to loss of assets spent for health services or replacement of lost income) and *social stunting* (inhibiting the initial acquisition of human capital needed for upward mobility) (Haas, Glymour, and Berkman, 2011) so as to place those already in the lower strata at yet a further competitive disadvantage. Especially in

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<sup>1</sup> In this congressional testimony, former Winston model David Goerlitz quoted a tobacco executive as responding point-blank, when asked why he and his colleagues did not smoke: “We don’t smoke the sh—, we just sell it . . . We reserve that ‘right’ for the young, the poor, the black and the stupid” (Goerlitz, 1989, p. 51570-2041).

lucrative professions such as medicine and law, career advancement calls for a remarkable degree of physical and mental endurance and the readiness to put in long hours (Fletcher et al., 2005; Williams, 2007)-expectations largely incompatible with a history of frequent or chronic illness. Thus, members of groups that continue to bear a disparate burden of ill health end up at significantly reduced likelihood of being among the “fittest” who survive to penetrate the ranks of the elite. Those few who do manage to make it are then widely applauded as exemplars of the kind of hard work and exceptional perseverance required to “beat the odds.” They become poster children for the favored ideology of “rugged individualism,” which credits personal effort rather than social location for whatever life success one might enjoy.

### *5.2. Shoring up rugged individualism*

Indeed, health disparities add a crucial element to the systematic inequality that helps perpetuate the ideal of self-reliance as a keystone of American moral fiber. In the absence of stumbling blocks built into the system, “rags-to-riches” stories of heroic individual triumph over formidable obstacles such as ill health would likely lose much of their punch. From a functionalist standpoint, placing the focus on individual responsibility and individual gratification will work to stabilize existing inequalities in social relations so long as higher status is seen as being within reach, and lower status or even destitution a likely consequence of irresponsible behavior. The prospect (however remote) of upward mobility-coupled with an ever-present specter of downward mobility-provides powerful motivation for behavior patterns in accord with the interests of the powerful (e.g., heightened attention to self-preservation rather than collective action that might challenge the status quo). In this regard, medical diagnosis can be viewed as a potent form of social control, and ill health a prime route for the exercise of power over socially and economically disadvantaged groups. Under the expectations of rugged individualism, in the absence of a structural safety net of universal health care, members of groups identified as being at heightened risk may either choose to “tough it out” when sick, or else seek to avert costly health crises through preventative measures such as heightened compliance with health behavior recommendations and the purchase of various health-related consumer products and services.

### *5.3. Maintaining bureaucratic structures and jobs*

For those who hold power and seek to consolidate their position within a hierarchy, the ability to preserve and expand bureaucratic structures under their supervision (and, most importantly, the jobs associated with these structures) is,

without a doubt, a key component of success. While it is well documented that administrative costs comprise a notably higher proportion of rising per capita healthcare expenses in the United States than in comparable countries that provide universal coverage (Bodenheimer, 2005; Reinhardt, Hussey, and Anderson, 2004; Woolhandler, Campbell, and Himmelstein, 2003), it is the need to perpetuate health disparities (so as to bolster individual motivation among the less privileged) that provides substantive justification for this seemingly wasteful and inefficient extravagance. Much of the administrative staffing within healthcare institutions and insurance providers-both public and private-exists primarily for the purposes of rationing benefits and selecting or ranking potential recipients according to criteria such as need, worthiness or unworthiness, extent or type of insurance coverage, insurability, or ability to pay. Indeed, entire industries (e.g., medical billing and coding, along with the requisite software development) have evolved in large part to ease the burden of healthcare providers in sorting through the myriad regulatory requirements, varying compensation formulas, and claims disputes that come with a fragmented system preoccupied with eligibility for benefits and assessment of costs on a case-by-case basis (R., 2003). If the presence of health disparities were seen as less vital to shoring up individual responsibility, a vastly simplified insurance system designed to promote *population* health might save billions of dollars (Bodenheimer, 2005)-but perhaps thousands of administrative jobs would likely be lost.

#### *5.4. Providing a plausible public enemy*

Perception of a common threat to the social order forms an immensely powerful basis for social solidarity and cooperative effort. However, even such widely touted and feared external menaces as communism, terrorism, and illegal immigration often fail to strike a sufficiently responsive chord among academics and opinion leaders of a more liberal and critical bent. In this regard, salient domestic issues involving palpable threats to shared core values can help fill the void. The specter of unabated health inequity afflicting rapidly growing segments of the population is certainly a case in point. Persistent health disparities help satisfy society's need for a broader *range* of agreed-upon adversaries against which to rally support and carry out organized and extended campaigns.

Indeed, today's strategies targeting health disparity are in many ways analogous to the "wars" declared with much fanfare by U.S. leadership in the recent past against a variety of social menaces including poverty, crime, drugs, and even cancer. In each case, the enemy is both nebulous and thoroughly intertwined in a multitude of complex social arrangements-in short, virtually impossible to isolate and cleanly eradicate. Because of this, there are no clear-cut criteria to indicate

final victory in the struggle—which can thus be protracted indefinitely, so long as funding agencies continue to regard various angles or aspects of the problem as yet to be adequately explored and researched.

Official recognition of health status disparity as a significant public health threat calling for concerted intervention (U.S. Department of Health and Human Services, 1985, 2010; National Institutes of Health, 2010; Sondik et al., 2010) works to the advantage of those in power by affording them at least two opportunities to reinforce their dominant position. First, it expedites the process of *manipulating public perception*, in that it provides implicit reassurance that the problem of health disparities is being treated seriously and that determined efforts are being put forth to solve it. Second, institutionalization of the problem presents a tool that can be used for *steering the direction of research*, through the grants process, toward projects bearing promise of results likely to end up bolstering the interests of the powerful.

### ***5.5. Serving as “canaries in the mineshaft” to monitor upstream social ills***

Not only do health disparities serve as rallying points around which it is possible to organize collective efforts at improving the quality, affordability, and availability of health care; they also help fulfill the need for a measurable way to identify and pinpoint the locations of more fundamental social problems. For social epidemiologists and public health researchers, disparities in health-related outcomes such as infant mortality, life expectancy, chronic disease, and functional impairment presently serve as powerful indicators of those upstream social, economic, and environmental factors likely to “put people at risk of risks” (Link and Phelan, 1995, p. 85). In the case of a utopian society providing quality affordable health care to all in a timely manner, any persisting social inequities would likely become less visible—and thus invoke less in the way of public outcry and impetus for corrective action.

### ***5.6. Sustaining a flow of research funding***

In connection with (5.4) and (5.5) above, persistent health disparities serve the need for maintaining a continuous flow of research funding quite well. Research scientists and the institutions that employ them have become increasingly dependent upon external funding in recent years (Norris, 2011), and have little extrinsic motivation to find workable solutions to a problem like health disparities if that would mean “working themselves out of a job.” The piecemeal, low-risk, incremental approach to addressing complex issues traditionally favored

by funding agencies (American Academy of Arts and Sciences, 2008; Kolata, 2009) provides fertile soil for sustainable long-term research agendas in broad and multifaceted areas of inquiry like health disparities. For instance, a funded research group that establishes a track record of successful publication in one specialized area of concentration (say, lung cancer incidence in African Americans) can then use this record in support of further grant applications in related areas (perhaps lung cancer incidence in Hispanics or lung cancer mortality in African Americans). The cycle of “grant building upon grant” is likely to continue indefinitely so long as health disparities remain both visible and politically salient. That is, the cycle can be expected to continue so long as persisting health disparities remain sufficiently useful to the holders of power that inequity will continue to be tolerated at the same time it is formally being decried.

## 6. Where do we go from here?

Failure to achieve the Healthy People 2010 goal of eliminating health disparities (Koh, 2010; Sondik et al., 2010) points to a need for reassessing the direction of our intervention strategies. Heightened awareness of discrepancies and of the socioeconomic contexts in which they thrive is simply not enough to overcome entrenched stakeholder resistance and systemic inertia. Any workable solution will also require, at the very least, mutual recognition of the often-veiled realities concerning power relations. So long as inequities translating into health disparities continue to perform useful functions for groups and individuals seeking to consolidate power-*and in ways that seem cost effective for them*-health disparity will remain exceedingly difficult to eradicate. Any progress will likely hinge upon effective challenges to the cost effectiveness of the status quo, together with development of innovative ways to satisfy the needs of all parties involved. For example, how might insurance providers retool and develop viable alternatives to the traditional (and discriminatory) for-profit model of health coverage-increasingly seen as unsustainable in light of restrictions on medical underwriting in the 2010 Affordable Care Act as well as spiraling administrative costs (Ungar, 2012)? One successful model program, notably developed and implemented at the *local* level, can be found in Grand Junction, Colorado, where physicians have arranged with an area *non-profit* insurance company to pool Medicare and Medicaid revenue with premiums from private customers so as to provide near-universal coverage for the entire community, and at markedly reduced per-patient cost (Ungar, 2011).

If we are to expect meaningful change on a broader scale, perhaps we need to rephrase the fundamental question. Instead of considering how we might be able eventually to *rid our society of health disparity*, it might be more practicable to envision how we might best *work together to establish health equity*. In this regard, the revised



Healthy People 2020 goals “[e]mphasizing ideas of health equity that address social determinants of health and promote health across all stages of life” (U.S. Department of Health and Human Services, 2010) may represent more than just a subtle rhetorical shift. Focusing more on making tangible differences in people’s daily lives—as opposed to looking for changes in quantitative tables and trendlines—suggests a kind of paradigm shift that bears the potential to bypass many of the aforementioned stumbling blocks in the path to social equity. Indeed, substantial progress toward health equity will likely occur only insofar as we move beyond an *adversarial* paradigm (competing ideological viewpoints) in our societal discourse, or even a *dialectical* one (thesis-antithesis-convergent solution) (see Rappaport, 1981), to a dynamic and overtly *collaborative* approach based in large part on lessons learned through community-based participatory research (Burhansstipanov et al., 2005) and community empowerment projects (Syme, 2004; Wallerstein, 2002).

Central to the *community-based participatory research* paradigm is the principle enunciated by Gilbert Friedell (1997) that “if the problems are in the community, the solutions are in the community.” Key elements of *community empowerment*, in addition to critical awareness, are *participation* and *control* (Wallerstein, 2002), implying a fundamental shift away from the lopsided hierarchical relationships that have traditionally positioned researchers as superior to the subjects of their study. Community-based programs are developed collaboratively at the local level and in response to specific needs and areas of concern identified by community members and leaders rather than by academicians or politicians in pursuit of their own ends. In line with a Foucaultian understanding of power relations as localized and continually subject to challenge (Foucault, 1978/1990, pp. 92–102)<sup>1</sup>, a new approach can involve the building of new coalitions—and disruption of old stakeholder alliances that get in the way—as common values and goals (and dysfunctional aspects of existing arrangements) are brought to light. Successful implementation of community-based participatory research hinges upon the initial establishment of basic trust and effective working relationships among community members and researchers in addition to the equitable sharing among all partners of resources, responsibilities, leadership, and ownership in the project (Burhansstipanov et al., 2005). Since *money equals power*, fair distribution of

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<sup>1</sup> Power, as addressed by Foucault, can be understood as a multiplicity of force relations—always local in scope and unstable, produced moment by moment—operating through successive confrontations and continual struggles. Knots of resistance, most often mobile and transitory, cut across individuals, social stratifications, and institutions so as to fracture previous unities and bring about regroupings. Indeed, the strategic codification of points of resistance can sometimes result in a revolution.

reimbursement from funding sources (including pay for all participants) symbolizes equitable distribution of power.

As community-based participatory research operates at the local level, there is no automatic need to tie it in to policies existing or proposed at the state or national level. Indeed, an important advantage of this approach is its flexibility and adaptability. What happens in one circumscribed community will likely pose a much lower level of threat to stakeholders in the status quo-and thus encounter less resistance-than what happens on a broader scale. However, research findings from one community may well prove helpful to others in similar circumstances (Burhansstipanov et al., 2005)-and community participants are typically eager to network and share (Friedell, 1997). For the future, we can envision a snowballing effect, leading to the development of a knowledge database from community-based participatory research and community empowerment case studies perhaps comparable in scope to the existing body of knowledge derived from medical case studies.

## 7. A four-level approach to health equity

A visionary comprehensive agenda for building health equity in the twenty-first century might thus be based to a large extent on collected insights from the community-based participatory research and community empowerment experience, encompassing an array of strategies ranging from interventions targeting specific diseases or populations to those challenging upstream social conditions that serve as breeding grounds for ill health. Such an agenda might take the form of a four-level approach to eliminating or forestalling health disparities, patterned after the *four levels of prevention* commonly evoked in public health and epidemiology (Last, 2001; Bonita, Beaglehole, and Kjellström, 2006). Just as in public health and epidemiology, levels of prevention would overlap and merge to some extent; tertiary and secondary prevention would be conceived primarily for the benefit of disadvantaged and underserved groups and of those at higher risk, while primary and primordial prevention would target the entire population (Bonita et al., 2006).

Interventions in the category of *tertiary prevention* would be those designed to minimize the social costs of existing health disparities. A pivotal goal might be, *in the short term*, to provide equitable access to adequate health care and appropriate medical treatments for all, regardless of social status or geographical location. Depending on varying needs and availability of resources, different solutions might be found most satisfactory in different communities. Then, for example, if it were shown *in enough cases* that high-quality routine care could be made available

at affordable prices and without long waits through clinics staffed with specially trained physician extenders, (1) insurance providers would adjust their rate structures accordingly; (2) insured patients would likely opt for the most economical of what they perceived to be acceptable alternatives; and (3) resistance to implementation of broader solutions such as single-payer health coverage would predictably fade, as positive patient experiences accrued so as to mitigate fears of high cost and poor service.

*Secondary prevention* would aim at narrowing existing health discrepancies between more- and less-privileged groups. While researchers and practitioners in health-related fields understandably tend to focus on health care as a key determinant of health equity, consistent gradients in morbidity and mortality by socioeconomic status-tied to the conditions under which people grow, live, work, and age-have been found even in countries where adequate access to quality health care is not an issue (Marmot, 2007; Syme, 2004). Within a time frame of *months or years*, the goal of secondary prevention would be to implement specific and tangible interventions-identified at the community level-designed to promote equitable access to adequate nutrition and opportunities for a more healthful lifestyle. Such interventions would be directed toward facilitating health-promoting behaviors and removing obstacles to wise choices, taking into account the realities of what people in different social locations are likely to face-and have to contend with-in the context of their daily lives.

*Primary prevention* would encompass a broad array of actions, policy decisions, and the like targeted toward suppressing the development of costly health disparities over the life course. In most cases, these *long-term* interventions would not be readily identifiable as health interventions per se. Ideally, they would be implemented in response to heightened awareness of the cumulative economic burden of health inequality (LaVeist, Gaskin, and Richard, 2009) and of the extent to which even the most powerful are dependent upon other members of the community (Piven, 2008). These interventions would evolve from frank and equitable discussions among representative samples of community members and leaders, and would entail deliberate modification of social institutions and infrastructure so as to minimize identified sources of strain (largely at the meso level) that lead to poverty, malnutrition, risky patterns of substance use, etc. In practice, primary prevention could include steps toward improving educational opportunities, working conditions on the job, transportation, and the safety of neighborhoods. Implementation might prove difficult, however, especially in cases of conflicted interest such as where the community's primary source of livelihood is also a major source of pollution that endangers the community's health.

The ideal of *primordial prevention* would be to forestall the future onset of health disparities. Its objective would be, *over the long haul*, to modify not only existing social arrangements (institutional structures, norms, and the like) *but also* the values and assumptions that underpin them so as to maximize life chances for all from the very start. This would in no way require the wholesale rejection of capitalism and individualism. The United States is, and will likely remain, a thoroughly market-based society. Both individual and cooperative effort in addition to innovative enterprise will continue to be valued and rewarded. Within this context, however, certain changes will be called for if life chances are to be maximized for all. Based on the changes demonstrated to improve health and well-being at the local level, many bureaucratic rules and regulations may need to be set aside or relaxed so as to allow adequate flexibility and adaptability. That being said, a more open and realistic perspective on power relations is likely to emerge in the course of community-based participatory research, as people come to learn from one another what it means to experience life “from the other side.” Ability to see through the ideological smokescreens that have long obscured the manner in which power is exercised will sometimes point to the necessity for government to intervene as the regulator, motivator, or employer of last resort who has the responsibility to step in whenever and wherever private business, voluntary organizations, etc., fail to adequately satisfy a critical societal need.

## 8. Conclusion

Today, well over a century past the Philadelphia observations of DuBois (1899) and more than a quarter of a century beyond the Heckler report (U.S. Department of Health and Human Services, 1985), significant differences remain in health outcomes between the *haves* and *have-nots* in the U.S. population, despite sometimes dramatic overall improvements in morbidity and mortality. The guiding thesis in this essay is that *health disparities persist because of their usefulness to those who hold and seek to consolidate power*. The implication is as follows: So long as inequities translating into health disparity continue to perform useful functions for stakeholders in the status quo *and in ways that seem cost effective for them*—health disparities will remain exceedingly difficult to eradicate. Accordingly, I propose that intervention strategies aimed at ameliorating these disparities can succeed only insofar as they deliberately engage several often concealed realities concerning power relations: *money equals power; power translates into access to resources; those who hold power are reluctant to part with it; those who lack power serve as convenient scapegoats; and institutions evolve so as to ensure their own survival*. Successful interventions will likely be those that (1) effectively challenge stakeholders’ assumptions of cost effectiveness and (2) chart out innovative alternative paths to fulfillment, starting at the community level.

In the end, health equity will come about only insofar as social justice becomes a reality. This will require, above all else, abandonment of the implicit notion that some persons are more valuable or worthy than others in addition to the tenacious master-subservient relationship model that health disparities have for so long played a part in reinforcing. Forthright discussions and negotiations carried out in various community-based projects and the ensuing experiences of community members from all walks of life should help build momentum for wider acceptance of the *interdependency* model of power described by Frances Fox Piven (2008, p. 5) in her 2007 presidential address to the American Sociological Association:

*“I propose that there is another kind of power ... rooted in the social and cooperative relations in which people are enmeshed by virtue of group life. ... Even people with none of the assets or attributes we usually associate with power do things on which others depend. They clean the toilets or mine the coal or tend the babies. ... [W]orkers ... have potential power over capitalists because they staff the assembly lines on which production depends. In the same vein, ... tenants have power over landlords because without their labor the fields are idle.”*

Indeed, it is only when we as a society come to fully grasp the extent of our interdependence and the inherent value of every person’s contribution that we will finally cease to tolerate and make excuses for health disparity. The biggest challenge in coming years will likely be that of driving home the message—both to the general public and to politicians and policymakers—that *a healthy population is essential to a sustainable economy*. Restricting access to fundamental resources such as education and health care on the basis of individuals’ ability to pay is not only shortsighted but also potentially suicidal for a nation’s future. A healthy, confident, and reliable base of *workers and consumers*, as well as business owners and corporate executives, is necessary in order to stimulate the creation of jobs and keep the economy thriving.

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## PUBLIC HEALTH SERVICES IN ROMANIA IN TERMS OF EUROPEAN POLICIES

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Ana-Diana JAWAD<sup>2</sup>

**Abstract:** *The article presents several of the most serious problems concerning public health care in Romania, as seen from the perspective of some similar public policies and practices in the European space. For more than two decades the public health system of Romania has undergone a so-called reform process with the main result of the continuous deterioration of both the labour conditions within the system and the quality of the provided services. This situation was created by the severe under-financing over the long term of the reform process; the continuous decreasing of the territorial units for medical services distribution; the exodus over the borders of Romanian physicians in their search for better work conditions; and, as a consequence, the limitation of the population's access to the public health assistance and medication. The picture of the current situation inside some nations within the European Community that have recently applied reforms in the medical area strongly contrasts with the situation within Romania. Both through adopted policies and the actual medical practices that are carried on inside Romania, Romania seems deeply dissociated from all that takes place in the European Union, in the domain of medical service delivery development. Therefore, it is no wonder that for two decades the Romanian public health system is constantly situated at the end of the rankings concerning the performance of medical services, and at the beginning of those rankings regarding the incidence of morbidity and mortality within the European Community. The article also presents the authors' vision concerning privatisation of some public medical services, the efficiency of the services delivered in Romanian hospitals, the stage of the reform and the adoption of the new health law. Within this context, there are also presented some Romanian facts and managerial practices that have kept the system in a state of dysfunction and inefficiency for a long time.*

**Keywords:** *health services reform, policies, drug consumption*

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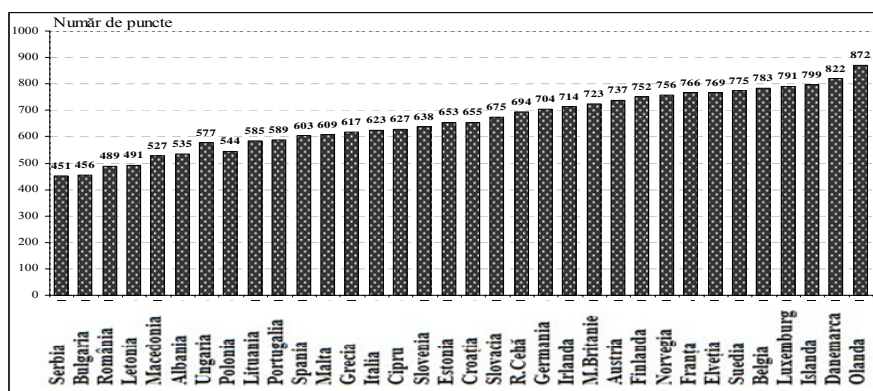
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## 1. Introduction

In most European Union member countries, the continuous improvement of the quality of the public health services is a major concern that is strongly supported by reform policies, employment policies and consistent financial efforts. This support is the result of the concrete initiatives of the European Union and from the wealth of ideas displayed by the related literature focusing on the reform and upgrading of the public health services.

Between 2003 and 2008 the European Union initiated the *Programme of Community action in the field of public health*, which includes a list of 88 indicators for the field of the public health. Beyond analysis of the health and health services of the European populations, this program also states the European vision, values and conception on the public health (\*\*ECHI *European Community Health Indicators*). In the interval 2008-2013, the EC tested the relevance of system indicators for social practices, aiming to establish the bases for a consolidated European system monitoring public health. The used indicators measure the social situation to determine whether the situation supports or does not support the health policies applied by each national health care system. The image created by the indicators displaying the state of health of the population, the determinants of the public health and the performance of the health services (\*\**Determinants of health, Public Health*, 2012, European Commission), are enriched by the Euro Health Consumer Index (EHCI), calculated by Björnberg (2012) for the past few years. It evaluates the performance of the different national health systems on a scale of three for each indicator.

Chart 1. 2012 Euro Health Consumer Index (EHCI)



Source: A. Björnberg, Euro Health Consumer Index, Health Consumer Powerhouse, 2012

For Romania, the EHCI index shows that, despite the financial contribution from the EU during the recent years, no signs of change for the betterment of the Romanian health care system can be noticed.

Many authors contributed dedicated papers to this subject worldwide: Garner, Docherty, Somner, Sharma, Choudhury, Clarke, Littlejohns (2013), Elissen, Nolte, Knai, Brunn, Chevreul, Conklin, Durand-Zaleski, Erler, Flamm, Frølich, Fullerton, Jacobsen, Saz-Parkinson, Sarria-Santamera, Sönnichsen, Vrijhoef (2013) etc.

## 2. European policies

Article 152 of the EC Treaty stipulates that “the definition and implementation of EU policies and actions provides a high level of protection of the human health” (\*\*\*) *Public health*, 2013, European Parliament).

The main social policies of the EU that address public health are included in the “WHITE PAPER Together for Health: A Strategic Approach for the EU 2008-2013”, published by the Commission of the European Communities in 2007. This document proposes to improve the state of health of the European populations starting from several basic principles and common strategic objectives for the EU member states (Commission of the European Communities, 2007). The basic principles for the direction of action are: focusing on the interests of the patients and alleviating the unequal offer of public services; acknowledgement of the close relation existing between the state of health and the economic status of the patients; direct or indirect promotion of the public health interests in all political areas; and more active involvement of the EU in the field of public health worldwide by cooperation with international organisms such as WHO, OECD etc.

The EU strategic objectives in the field of public health are: decrease the risk of disease and of the potential threats to the health within the European nations; promote a healthy life style; facilitate the cooperation between national medical authorities within the EU with the purpose of attaining public health parameters as high as possible in each European country. The Lisbon Strategy highlights the relations between public health and economic prosperity. It acknowledges the right of the people to self-determination in the field of their state of health and of the consumption of medical services. The strategy stipulates activities targeting public health in all sectors of European economic and social development (in the chapters dedicated to the domestic market, environment, consumer protection and social business).

The role of the EU in the field of public health has also been reasserted in the Treaty for reform agreed by the EU heads of state and government in Lisbon on 19 October 2007. The Treaty involves the community level in the fields of disease prevention, food safety and, in general, the safety of goods and services, including medical services, curbing smoking, coordinating blood transfusion, tissues and cell transfer, transplant of organs regulations at the community level, monitoring the quality of the air and water and the establishment of agencies active in the field of the public health.

Some recent evolutions in the field of European public health demand the review of European and national regulations and the definition of a new strategic approach. This approach must address demographic changes within each European country, demographic ageing, and the development of new pathological patterns that put pressure on old national health systems whose parameters have been designed for different dimensions of the social needs. The establishment of necessary conditions for a healthy ageing of the European population presumes lifelong promotion of health and narrowing the inequities in the field of public health generated by social, economic and environmental factors. Given the present conditions of social life at the national, continental and worldwide level, pandemics, major physical and biological incidents and bioterrorism create serious threats to the public health. Additionally, climate changes produce new categories of transmissible diseases. These new threats call for coordination and rapid reaction for the sake of the public health of the EU and the third countries that are essential to the European Community.

The most developed European systems of health care have progressed much over recent years by the development of new technologies that revolutionize the monitoring and protection of the public health (information and communication technologies, innovations in genomics, biotechnology and nanotechnology, etc.), and in the manner of preventing and treating the diseases. Large gaps exist, however, between the national health services. While the health services from countries such as Romania and Bulgaria have very low performance and very slow progresses, the western systems use very updated systems to evaluate their health systems so as to identify the areas with less efficient health care practice (*Garner, Docherty et al, 2013*).

The intentions of the European Commission to narrow the inequalities in the field of health state of the European populations, particularly regarding access to the services of public health are shown in the “Solidarity in health: reducing health inequalities in the EU (\*\*\*)Public Health, European Commission, 2009). Presently, the inequalities in the health state among the European countries are rather large; for instance, the rate of infant mortality is five time higher in some

countries than in other, while the life expectancy is as much as 8 years longer for women and 14 years longer for men in some countries compared with other countries. The rate of morbidity and the age of death are indicators that are strongly influenced by the rate of employment, level of the income, level of education and ethnic affiliation. The EU acts through its own policies and in collaboration with the national health care authorities to alleviate the gaps in health care.

The EU policies to promote health and alleviate differences in health are integrated within the European and national programs for public health; employment of the labour force, including health and safety at the place of work; social policies; fundamental human rights and equal opportunities; policies in support of cultural diversity and non-discrimination on racial grounds; scientific research financed through framework programmes of the EU; Europe 2020 Strategy for sustainable development; promotion of social inclusion and cohesion; management of the EU structural funds to alleviate the gaps in the economic and social development.

Medical and sanitary policies alone cannot strongly influence other determinants of the public health. Hence, it is necessary to coordinate common actions and initiatives so that the protection of public health becomes possible. According the EU Treaty, all European policies must follow the approach “*Health in all policies*” (HIAP). Since a nation’s state of health is determined largely by agents outside the strict field of the health services, an efficient health care policy must involve all the relevant fields, such as: social and regional policies, public taxes and dues, environmental protection, public health and the direction of scientific research.

European sectoral policies in the field of health care share the objective of enlarging access to health care services for poor segments of the population (“pro-poor”). This presumes expanding the social basis of insurance from public systems in terms of basic packaging of public health services in addition to more accurate targeting of social assistance benefits for the categories of the population that run the risk of remaining uninsured by insuring health care and establishing community-type schemes to finance health care (particularly in communities with a high proportion of workers in the informal sector, for example in rural areas), and concluding contracts between the public and private sectors that improve the quality of health care services in basic health care packages.

European governments must assume the universal coverage of a minimal package of services that include services of maximal importance for the poor segments of the population. European governments must also establish national programs of public health as well as health programs targeting particularly poor segments. The

experience gathered so far by EU member states has shown that socially correct targeted programs are among the most efficient in increasing the access to health care services for the poor segments of the population.

Over the past two decades there have been enormous changes in the social-political role of the government and in the role of the public sector in the provision of health services within European countries. Among these changes we may notice: the trends of decentralisation and deconcentration of governmental functions in the field of public health; involvement of the private sector in the formulation and implementation of social policies in the field of public health services; and higher involvement of civil society in the activities of the public sector in the field of health services. These processes are extremely different among different countries in terms of coverage and social effects. The institutional vulnerabilities, the corruption, the extreme social-economic limits of local capacities to assume the initiative, and the legislative, fiscal or institutional inadequacy, are just few of the problems affecting the normal progress of the public sector in each country.

The private sector offers health services to countries that have little resources to finance public health services. The private sector's involvement usually has three major objectives: expand access to services, improve the quality of health care services and the use of non-prohibitive prices (co-payment) for the services. None of these three objectives is easy to attain; any of the three presumes interventions at multiple levels of political decision-makers, providers of services and users. The consumers of health services are seen increasingly as the main starters of the factors leading to the achievement of these objectives, although the role beneficiaries of health services play in offer definition is still little studied and presently unknown.

### **3. Problems with the public health system in Romania**

#### ***3.1. Reform of the public health system and the current situation of the draft of the health law.***

The failure of passing the draft of the health law in 2011 led to a broad debate on the problems in the public health system. The analyses of different specialists revealed both the serious deficiencies of the draft of law and the actual state of the system, which was infrequently present in the provisions of the draft. The government of Premier Boc showed little interest for the actual situation of the public health system and was interested only in passing the law swiftly through the Parliament with no impact study commissioned by the Ministry of Health, despite the radical changes proposed by the draft. The new law, which was supposed to start a new reform of the public health system (the previous one was done just 5 years before), includes several ideas, highly debatable, in terms of opportunity and

the sustainability of the proposed changes given the current stage of social development in Romania. The new law also had debatable consequences in terms of access to health care services for population with average or low incomes. The draft proposed the privatization of the health insurance of county houses while insurance would remain unchanged within the national house, and hospitals would be open to privatization. The most recent proposal of reform in the field of public health requires a choice between preserving the under-financing of the public health system because of the lack of political will to get involved more actively in the control and financing of the public health system and the privatization of the “market of services for health insurances.” This second option would dramatically decrease demand and, implicitly, the offer of health services. Privatization itself cannot be a solution to the problems. The notion of “failure of the market of services for health insurances”, as well as in the field of public education is well-known. The market for health services cannot operate correctly based on the principles of the free markets.

### ***3.2. Low wages of the medical staff***

Although the wages of the medical staff were raised over 50% before 2008, they still are too low compared to those in the Western countries, particularly in relation with the social importance of medical intervention. These low wages influenced adversely the amount and quality of delivered services and caused the medical staff to migrate towards west European countries while maintaining the system of informal payments at rather high levels (informal money paid by the patients in order to be treated more attentively by the medical staff or as a token of gratitude). In 2005, the system of informal payments was estimated to 300 million lei per year, which has certainly deterred the access to health care for many of the people on low incomes (\*\*\*)*Crisis and reform with the health care system, RAS, 2012*). Because doctors go abroad to work, the system is confronted with an increasingly acute crisis of the medical staff – a crisis that has already existed in the system for a long time. In order to change this state as fast as possible, the Government must act swiftly to fix this problem where it exists by applying the policy of liberalizing the wages of all the staff employed by the public health system. Professional performance and the quality of work must be the criteria for the pay rise. Ignoring this problem further will shortly cause the system to jam.

### ***3.3. Financing of the health system***

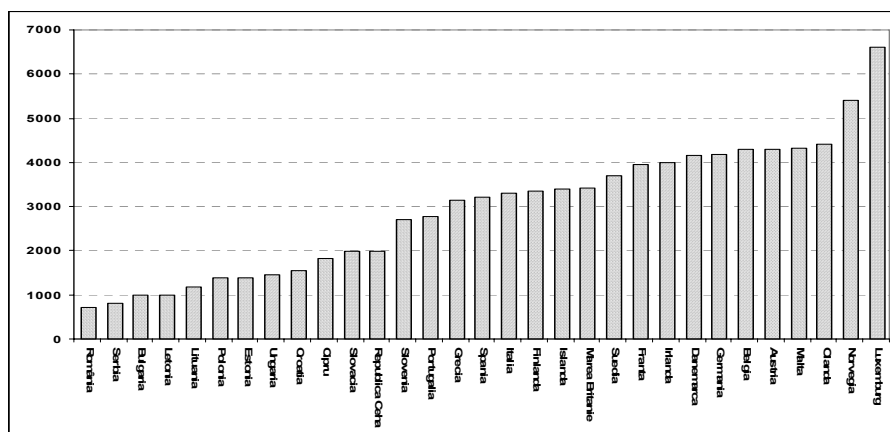
The deficient financing of the national health system has a long history that started immediately after 1989 and remains until the present. The lag between the funds allocated to the public health system and social needs that increased during



the years of stronger economic crisis was becoming increasingly acute since the population was increasingly informed and aware of the possibilities of diagnosis and treatment from other European countries. Little progress has been made: simply the allocation of funds to university hospitals in order to establish several points where health care is properly articulated. Also, little has been invested in emergency health, which was almost non-existent during the early 1990s.

Irrespective of the particularities of a system of public health (except for those financed from the state budget with the universal access of the population to the services), the system's financing should take into account several clear landmarks: 1. Structure and cost of the package of free services available for everybody; 2. Establishment and stability of the source financing the package of free services available for everybody; 3. Categories of population for which access can be done on the basis of medical insurance; 4. Range of services for the insured people – depending on the cost of insurances and their coverage based on the resources collected through funds of insurances and other sources; 4. Size of the possible co-payment born by the beneficiaries in order to cover the full cost of the services. No matter what economic difficulties it might encounter during this stage of its historical development, Romania must define its strategy in the field of public health in line with the community policies that promote the following principles: universal coverage for at least a minimal package of services, solidary financing of the costs, equitable access to the services and to high quality health care.

Chart 2. Expenditure for health, per capita, in PPP, US Dollars, 2009

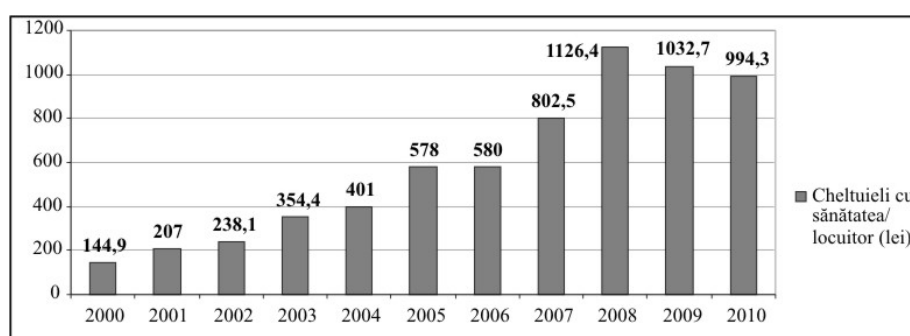


Source: World Health Organization Database, January 2012, in Björnberg Arne, Health Consumer Powerhouse, *Enro Health Consumer Index*, 2012, [www.healthpowerhouse.com/ehci2012](http://www.healthpowerhouse.com/ehci2012)

Despite reformist rhetoric, authorities keep postponing finding viable solutions to the major problems of the public health system in Romania. In reality there is no real and viable alternative to a stronger involvement of the state in the financing and control of the public health system. The solution to the under-financing of the public health system is merely to reconsider the real priorities of present-time Romanian society and to find solutions for drawing additional resources for the public health system. Much of the Romanian population is very poor. The purchasing power of the Romanian people is about 40% of the euro zone average. Nevertheless, Romanians had to endure extremely harsh measures during the past two decades in the field of health care with an extra burden on the rural poor because infrastructure and services are much worse in the rural areas than in the urban areas, and offers of free public services are extremely scarce. The universal financial coverage of health care services is a major objective, although the road to such an ideal has proved rather difficult for much wealthier countries. The universal financial coverage of health care costs may be achieved, however, even in Romania, at least in some categories of services (not just for emergency situations).

Although it integrated within the EU from 2005, the extremely precarious financing of the national health care system is widely known not just in Romania, but also abroad. The share of funds for the national health system within the GDP remained constantly outside the European trend for the past two decades.

**Chart 3.** Expenditure for health care per inhabitant (lei) in 2000-2010



Source: Culita Laura, 2012. The year and the minister: 10 alarming statistics about the health care in Romania, 13 May 2012

During the decade 2000-2010, the public expenditure for health care in Romania increased a little and peaked in 2008. However, the health state of the Romanian

population didn't improve at a pace close to the improvement of the funding for the public health system, which constantly lagged behind the European average. Of course, the relevant lags in the health state indicators are not due exclusively to the low level of funding available to the public health system. Nevertheless, the distribution of funds within the health system and the way money is spent are contributing factors. The lack of flexibility of hospital financing determines a high consumption of medical services that often does not improve the health of the population and, sometimes, has no connection to necessary treatments for patients. As the patients go to the hospitals for the primary check, the role of the family doctors becomes strictly bureaucratic (issuing the recommendation to the hospital after the diagnosis has already been set by the hospital doctor, who has also decided the admission of the patient to the hospital).

The high valorisation of public health in EU countries is not a luxury affordable only to rich nations; rather, this valorisation is a consequence of the knowledge and acknowledgement of the social and economic effect that a superficial approach in this area may set off. The consensus of stakeholders in western countries (policy makers, providers of services, third paying parties, beneficiaries) on the level of financing for the public health speaks for itself. Germany, for instance, the country with the oldest system of health insurance, increased the level of the compulsory contributions for health again in 2011 (from 14.9% to 15.5% of the gross income) in order to compensate for the deficit of funds for social insurance and to increase contributions to the public health budget. France enlarged the basis of the contribution to health services (also using incomes, not just the wages). Other countries such as Spain, Greece, Ireland and Italy took measures to reduce the health-related expenditure of the population by a strong decrease up to 25-30% of the price for the generic medicines (*Țigăniuc, 2011*). Romania must and can learn from the experience of the EU countries, not just by reorganising its financing for the public health system but also by acknowledging the strategic importance of the public health sector for the social welfare and economic development of the country.

### ***3.4. Financing of the private health system***

Private hospitals displayed a significant evolution over the recent years. According to data released by the Ministry of Health, in 2009, more than 40 private hospitals concluded contracts for health insurance; a number that increased to 52 in 2010. The current system of financing allows payments for medical services at higher rates for the private system than for the public system. Within the context of the current financial crisis the underfinancing of the health system is worsened by the unlawful competition of private hospitals that access

funds from the system of public health insurance. Fair norms of financing must be set out and implemented in order to prevent throwing the system out of balance because while private hospitals can turn down medical assistance to patients with high risk of complications (because the pre-set limit of expenditure can be exceeded), this is not allowed for the public health care units, which have to respond to all demands while brushing aside financing aspects (\*\*\*) *Report of the Government of Romania, 2011*).

### ***3.5. Accreditation and closing down of some hospitals. Decrease the waste and the fraud within the health system***

The process of accreditation of hospitals, started so far, was challenged by large difficulties due to the lack of money for the required investments. Many hospitals have waited for over 10 years to be evaluated. IMF pressure to make the hospitals efficient resulted only in closing down 68 units, which produced much social dissatisfaction because those hospitals were the only ones in very large geographical areas. Their discontinuation not only failed to increase the quality of the health services or to cut the operational costs (the proportion of the resources from the total budget allocated to these hospitals was rather insignificant), but it also strongly decreased the access to the basic services for much of the population living on low incomes.

The fraud and the waste of system resources appear because of scarce surveillance and because the stolen resources are not recovered from the culprits. Some exemplary measures in this direction would deter many aspirations for illegitimate enrichment. Preventing the frauds and the inefficient expenditure can be done by making transparent all inputs into the system and outputs from the system, by making them available to the agents that contribute to the establishment and operation of the system (analysts-specialists, politicians, beneficiaries, suppliers of medicines, providers of services, etc.). The use of IT may ease this process very much. The purchases made by the hospitals must be planned and done by areas or by hospitals with similar specificity in order to avoid the fraud by using preferential prices or products. The manner of financing paraclinical investigations must be reviewed in order to avoid the higher costs of analyses in some health units (both the work and the reagents can be similarly analyzed), while preventing the useless repetition of the same analyses by passing from one level of medical assistance to another (\*\*\*) *Crisis and reform within the public health system, RAS, 2012*).

### ***3.6. Restricted access to the health services***

This situation can occur for several reasons: the *economic criterion* – some medical costs that are on the account of the patients (co-payments, treatment and

hospitalisation, transportation etc.) cannot be covered by them or are covered with a lot of difficulty because the people have incomes close to or below the poverty threshold; the *large distance between the place of residence of the beneficiaries and the location of the health unit* (often with aggravating circumstances because of the extremely precarious health state of the patient and of the decreasing number of the medical staff); *large qualitative disparities in terms of the offer of services* in territorial and residential profile; *problems of occupational status of the beneficiaries* correlated with the eligibility for treatment or quality of insurance for beneficiaries; *the access of the population to relevant information* – namely the population has difficulties accessing useful information regarding the existing opportunities of health care; *access to decent dwelling (including running water source)*. These characteristics may cumulate sometimes and generate reciprocal disadvantages. Most frequently, among the excluded people are persons from the families with no health insurance who live on incomes that are too low to allow them make health insurance, or on occasional incomes; the people with uncertain or transitory socio-economic status (pensioners of different categories who didn't yet receive the notification for retirement, young people working with no sure employment status etc.); poor families from rural areas or from other areas where there are very scarce possibilities to demand health services; old people with no income or with very low incomes – particularly former cooperative members from the rural areas, and children and young people with no family or with no stable residence (Stanciu, 2003).

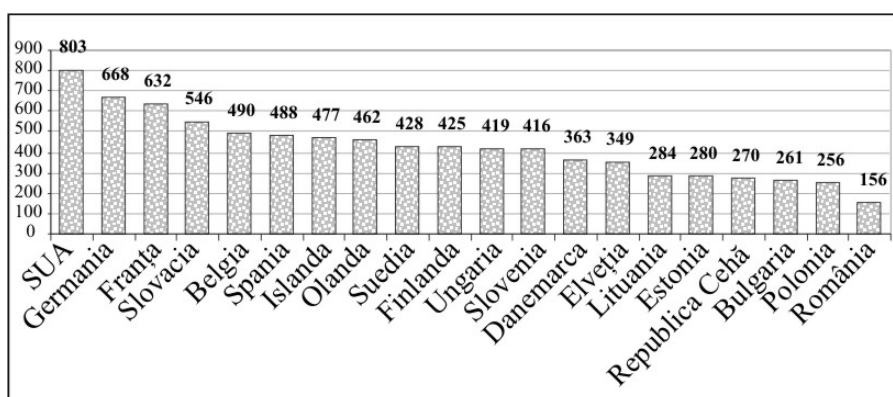
#### 4. Consumption of medicines

The consumption of medicines by a population is not just function of the incidence of the different categories of morbidity; it also depends on the level of the population's incomes, on access to health services, on the general level of education and on the level of information. For instance, a survey conducted in Australia in 2009-2010 regarding the consumption of medicines (applied to 9,774 households), revealed that the households with rather low incomes – between AUD\$92 and \$164/week – (many of which are pensioner households), have very little money left after paying the bills for the basic goods and services, which include the consumption of medicines (costs are partially compensated by the Australian state). The purchased medicines cost \$11-\$42/month for the households entitled to higher compensations and \$34-\$186/month for the household entitles to lower compensations for the cost of medicines (Kemp, Preen, Glover, Semmens, Roughead, 2013).

Romania reported the lowest consumption of medicines per capita at the purchasing power parity, being about 40% lower than some less developed

European countries such as Poland, Lithuania or Estonia. *The consumption of medicines prescribed by the doctor usually is around 100 Euro per capita; this puts Romania on the penultimate position within the EU whose average consumption amounts to 450 euro per year. The proportion of the national consumption of medicines within the total expenditure for health is about 22%, which puts Romania below some countries such as the Czech Republic, Hungary or Slovakia, whose proportion is around 30%. About 80% of the medicines consumed in Romania are imported, which burdens the purchasing power of the population and the capacity of the health care system to meet the existing necessities with the available funds. The value of the cumulated budget expenditures for the health services and the consumption of medicines per capita in Romania decreased from 280 euro in 2008 to 275 euro in 2010 and to just 230 euro in 2011. The compensated medicines take about 7-8% from the budget of the health system, which is much below the necessities; this only worsens the health state of the people who cannot afford to buy the prescribed treatment (Pana, 2011).*

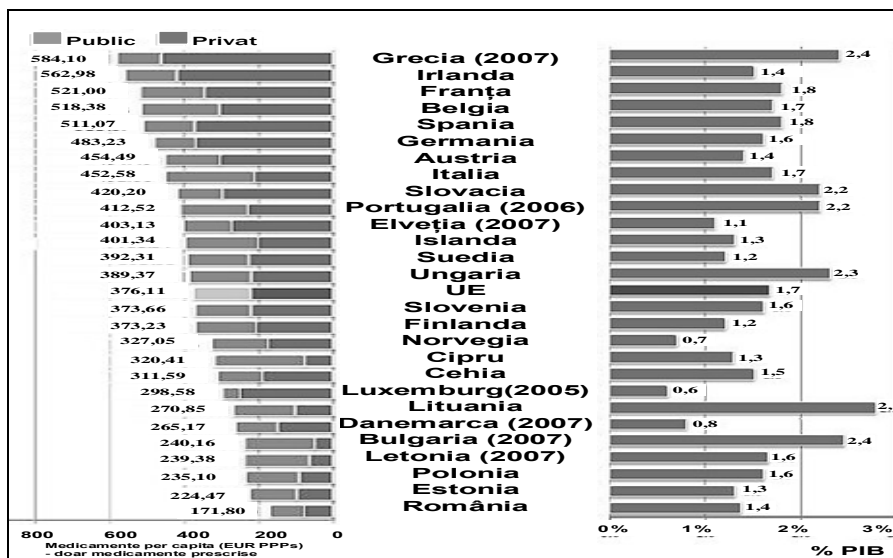
**Chart 4.** Consumption of medicines per capita, at the PPP (2009)



Source: \*\*\* MIND Research & Rating, CNAS, MFP, 2012

Although the incidence of diseases among the Romanian population is high, Romania reported the lowest consumption of medicines per capita and one of the lowest proportions of the consumption of medicines within the GDP.

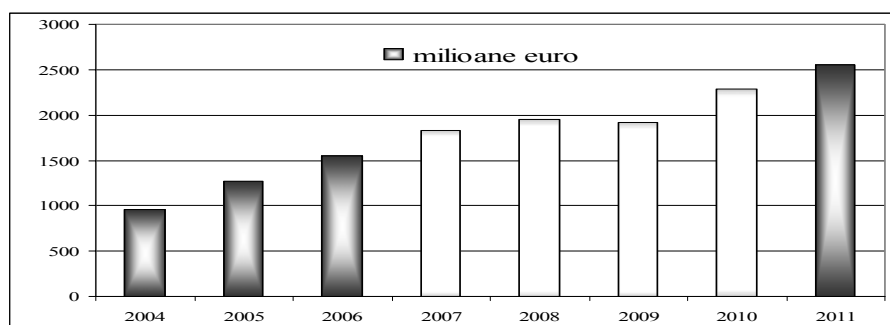
Chart 5. Expenditure for medicines per capita, as proportion of the GDP, in 2008



Source: OECD/European Union (2010), *Health at a Glance: Europe 2010*, OECD Publishing, SAR, 2012

The economic relations from the market for medicines change rather fast in EU countries. In Romania, however, important processes on the proper supply of medicines on the domestic market depend (evaluation and revaluation of the available stock of medicines, study of the impact on the budget of compensating specific medicines, etc.), are too slow.

In the background of the picture of decreasing general access to the public system of health services for the general population and a low level of incomes compared to other countries, the consumption of medicines nevertheless increased in Romania from year to year because of the general increase of the morbidity. At the end of 2010, the health care system recorded an excess spending of almost 300 million euro, probably due to the much delayed payment by the Government of the compensated medicines to the suppliers of such medicines. As creditor of Romania, the International Monetary Fund demanded the Government to pay the debts with the consumption of compensated medicines in order to prevent the increase of the budget deficit.

**Chart 6.** Evolution of the pharmaceuticals market in Romania (euro)

Source: Centre for management, documentation, IT and marketing (Cegedim), Ziarul Financiar, SAR, 2012

However, in order to solve this issue the producers of medicines had to pay for excessive budget expenditures. Such taxes imposed on the medical industry cannot be operational for long because the concept of *compensated medicine* will gradually lose its economic consistency since the state (as the agent of social protection) doesn't exercise its attributions. In no country does the pharmaceutical industry assume long-term tasks of social protection. Generally, the delayed payments of the Government towards the providers of medicines end in an unwanted effect on the medicines market. Such effect is, according to NewsIn, that generic medicines are at risk of disappearing from the market (statement of the Romanian Association of the manufacturers of generic medicines). The previous prolongation of the period of payment from 120 to 210 days already determined the disappearance of about 1600 rather cheap medicines and the payment of about 250 million lei by the patients. Furthermore, many independent pharmacies and two large distributors went bankrupt (\*\*\*)*Over 2000 medicines at risk...* *Bloombiz*, 2011). Because the medicines distributed into the national pharmaceutical system (the imported ones included) are frequently recorded at the lowest price in Europe (40% of the prescribed medicines, while 50% have the price little over the minimal European level), over 20% of the existing medicines are re-exported and never reach the Romanian people. Thus, although the strategy of decreasing the prices for the Romanian consumers is basically laudable, it proves to be deeply counterproductive.

## 5. Conclusions

The European Union acts in tandem with integrated national systems in order to ensure the health of the European citizens. Nonetheless, the member states hold



the main responsibilities for their policies in the fields of health and the supply of health services to their citizens. Therefore, Romania cannot solve the present deficiencies of its public health system just by waiting for solutions and resources from abroad. The internal initiative in this field must have a decisive role.

The under-financing of the national health system has extremely serious and adverse consequences both in terms of quality of services and economic development. Investors hesitate to come to Romania because they know that they cannot benefit from good medical resources. The criterion of infrastructure development and that of the quality of the public health services are basic for the decision to invest in a particular country.

The decrease of the highly skilled human resources from the national health system cannot be overlooked. The exodus of specialists to countries that pay better and acknowledge their professional status, as well as offering them better working conditions, cause important losses for Romania. This drain causes deteriorating services gradually. The deficit of medical staff, going on for several decades, should be a serious warning to Romania. In 2008, Romania had 2.2 doctors for 1,000 inhabitants, compared to the 3.2 doctors for 1,000 inhabitants which is the EU27 average; in 2012, Romania had just “about 43,000 doctors”, which means “less than 2 doctors for one thousand inhabitants [...] while the average of the European countries was 3.6 doctors for one thousand inhabitants (\*\*Realitatea.net, 30 March 2012).

Romania reported the lowest consumption of medicines per capita at the purchasing power parity within the European Union. The proportion of the national consumption of medicines within the total expenditure for health care (about 22%) puts Romania in the last place in Europe for this indicator. There is no consumerist competition here but a situation describing the state of health of the nation. On the other hand, about 80% of the medicines consumed in Romania are imported, which strongly affects the purchasing power of the population and the capacity of the health system to meet needs with existing funds. The compensated medicines are consumed far below the level of needs, which aggravates the state of health of the people who cannot afford paying for the prescription. This also is a consequence of the abusive and/or inefficient practices concerning the trafficking of medicines (import-export) and the delayed payment by the state budget of the expenditures incurred by the health care units, while the price/cost of medicines increases constantly.

Meanwhile in the economic sphere that constantly focuses on profit, the strategic orientation towards privatization may be legitimate and may generate welfare due to the strong orientation towards market interests. In the sphere of the public

health system we cannot allow attaining desiderates such as better payment for medical staff or the elimination of waste materials, at the expense of sacrificing access to health services of the population earning incomes below the average income. This would probably decrease the rate of thefts from the system and will provide quality services but only for a minority of the population that can afford paying for private health insurances. The conditions provided by some of the private hospitals from Romania are incomparable with the conditions provided by public hospitals; however, statistics don't yet provide data on the number of people benefiting from such services. These arguments are also supported by the disagreement of the population for such measures, demonstrated when the government attempted to privatize the emergency health services (the Arafat episode). The different so-called "solutions" for privatization of some elements from the public health system have already been rejected clearly by the population from countries such as Hungary or Poland. Taking care of public health is more than mere profit-generating merchandise for oriented company owners. The state of health of an entire population cannot depend on the disposition of a private manager, after public health became a human right guaranteed by Constitution for many decades. Solutions to stop waste, to improve the efficiency of using funds and to improve the quality of the health services may be found without facilitating overnight enrichment of people having good reflexes in terms of privatization.

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## INCLUSIVE HEALTH IN INDIA: A DISAGGREGATED LEVEL ANALYSIS

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**Abstract.** *Recent research has witnessed considerable attraction of people and policy makers regarding health outcome and its impact on the welfare of the population. Moreover, wide heterogeneity is evident in achieving various health outcomes and health related infrastructure indicators within the states. The problem of larger states, which comprises a huge population, mass poverty and poor health status, is more severe, hence requires special attention to policy makers and planners. The study aims at measuring health disparity in Uttar Pradesh, largest state in terms of population, using different indicators, related to health outcomes and infrastructures. The paper makes an attempt to develop composite index, showing health development at district level as well as regional level during the period 2010-11. The study uses Principle Component Analysis to see the impact of different indicators in the health status of the state. The empirical result shows that there exists wide variation in different indicators of health in the state at disaggregated level.*

**Keywords:** *health, disparity, Uttar Pradesh, determinant of health, literacy rate*

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### 1. Introduction

The widening gap between rich and poor in attainment of fruits of development has always been a matter of cavernous concern in India. It is widely accepted that in spite of several policy and flagship programs the country has still not been able to remove inequality and poverty. It is argued that large chunks of population are still deprived from basic amenities i.e., poor health, mal-nutrition, high morbidity and marginalised economic and social status. On the other hand, a number of studies and good writings related to this field have witnessed considerable attention regarding the people and policy makers surrounding health outcomes and its impact on the welfare of the population. The WHO position paper for the 1995 World Summit for Social Development also stated that investment in health is essential for economic growth based on a productive work force. To achieve this, growth needs to be accompanied by more equitable access to the benefits of development, as inequities have severe health consequences and pose an unacceptable threat to

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human well being and security. Like education, health is also recognised to be a distinct influence that can promote the freedom and capability of individuals to make use of available opportunities (Dreze and Sen, 1995). On the other hand many surveys as well as NFHS-1 and NFHS-2 have provided ample evidence to show that either the services do not reach the disadvantage sections of the society or people from those sections do not utilise the available services. So here the issue is not just confined to economic and social inequalities; the wider concept that needs to be addressed the inequality of opportunity.

While, a large number of primary health centres and health facilities have been facilitated as a part of different program of the government such as health for all, right to health and surveys such as NFHS 1, 2 and 3, DLHS (district level), and the RCH facility conduct surveys to see the health status of people. However, these efforts are not sufficient and progress is also not praiseworthy. In 2005–06, national immunisation coverage was 44%, whereas the coverage was 64% for children of mothers with more than 5 years of education, and 26% for children of mothers with no education. Similarly, even though rates of delivery in institutions have increased with time, only 40% of women in India report giving birth in a health facility for their previous birth in 2005–06. Inadequate public expenditure on health (estimated to be 1.10% of the share of the gross domestic product during 2008–09), and imbalanced resource allocation with much variation between state expenditures on health, in addition to restricted capacity to ensure adequate and appropriate physical access to good-quality health services. Furthermore, a greater proportion of resources are directed towards urban-based and curative services that suggest an urban bias and rural disadvantage in access to health-care services. More than three-quarters of health spending in India is paid privately. High out-of pocket health expenditures, therefore, are a major source of inequity in financing of health care and in financial risk protection from health adversities. This effect is disproportionate across population groups; health expenditures account for more than half of Indian households falling into poverty, with about 39 million Indian people being pushed into poverty every year.

Here, the problem of disparity in the health sector has been widely discussed by the researcher and also covers different areas. However, the problems of some bigger states which comprises huge population like; Uttar Pradesh, Bihar, Rajasthan, Madhya Pradesh etc., is rather illusive in most of the developed states. It is well known that the states which are socio-economically advanced also developed in human and health development. In contrary, Kerala is a state that is a very good performer in human development but not necessarily also the best in economic development. At the same time, Punjab and Haryana are those two states whose performance in human development is very high but very low in

human development (Kurian, N.J. 2000). The state level achievement and progress is not enough, the inequality is further intensified at district level where some of the state of India are much larger than many nations and also consists of large portion of population. The state Uttar Pradesh is large enough to become the sixth largest country in the world; and yet it is still deprived in several health development indicators and many times poor than Kerala. It is the state which is divided into four well defined zones on the basis of economic and administrative point of view. There exists wide heterogeneity in terms of various health indicators such as supply and demand sector. Supply sector represents the availability of health care services, whereas demand side denotes access and accessibility of resources. Thus, both the sides are equally important and we can find out the position of different zones of the state, whether the role of government in this sector is effective, efficient and equitable among the population group or there exist gap at various levels.

The present write-up is divided into four sections- the first gives state level performance in health parameter and where UP stand among major 15 states., the section second includes some important studies related to health performance and dimension, the third section discusses carried out methodology and data base, the fourth section gives some analytical results and lastly this paper concludes and suggest required policy attention.

**1.1. Disparity in Some Health Indicators- An Overview**

It is essential to see which states are characterised by higher extent of disparity between health performance and outcome. Before evaluating disparity in health at district level of Uttar Pradesh, it is very necessary to look at the level of disparity at intra-state level, so that we could perceive the position of Uttar Pradesh in health attainment and outcome. Here table-1represents the inequalities in the country as a whole in some health indicators.

**Table 1: Disparity in Some Indicators of Health Infrastructure & Outcome- 15 States**

States	Infrastructure (per lakh of population)			Outcome			
	(2011)			(2010)			2007-09
	PHCs	CHCs	DH	DR	IMR	NGR	MMR
Andhra Pradesh	1.91	0.33	0.020	7.6	46	10.2	9.1
Assam	3.00	0.34	0.076	8.2	58	14.9	27.5
Bihar	1.79	0.06	0.034	6.1	48	21.3	30.1

States	Infrastructure (per lakh of population)			Outcome			
	(2011)			(2010)			2007-09
	PHCs	CHCs	DH	DR	IMR	NGR	MMR
Gujarat	1.85	0.50	0.039	6.7	44	15.1	12.8
Haryana	1.75	0.42	<b>0.082</b>	6.6	48	15.7	13.5
Karnataka	<b>3.77</b>	0.29	0.050	7.1	38	12.1	10.8
Kerala	2.42	0.67	0.041	7.0	13	7.8	4.1
Madhya Pradesh	1.59	0.45	0.068	8.3	62	18.9	27.4
Maharashtra	1.60	0.32	0.020	6.5	28	10.6	6.9
Odisha	2.92	<b>0.89</b>	0.076	8.6	61	11.9	19.5
Punjab	1.60	0.46	0.072	7.0	34	9.6	11.3
Rajasthan	2.21	0.54	0.049	6.7	55	20.0	35.9
Tamil Nadu	1.66	0.53	0.041	7.6	24	8.3	5.6
Uttar Pradesh	1.84	0.25	0.036	8.1	61	20.2	40.0
West Bengal	0.99	0.38	0.017	6.0	31	10.7	9.2
India	-	-	-	7.2	47	14.9	16.3
<b>C.V.</b>	<b>34.07</b>	<b>44.40</b>	<b>45.35</b>	<b>11.36</b>	<b>34.68</b>	<b>33.01</b>	<b>66.26</b>
<i>Source: Sample Registration System Bulletin (2011)</i>							
@The MMR estimate of Bihar, MP and UP also includes Jharkhand, Chhattisgarh and Uttarakhand respectively.							
DR-death rate, DH-district hospitals							

Table-1 represents disparity in health outcome and infrastructure facilities of the major 15 states of India. When we look into the availability of health infrastructure facilities like primary health care centres, child health care centre and district hospital, Karnataka followed by Odisha were the two states in the most developed category. The least developed states are West Bengal followed by Bihar. In the case of the outcome index, the state wise picture reveals that Kerala followed by Tamil Nadu are the top performer states in several health outcome indicators and it against Uttar Pradesh and Rajasthan are the two bottom performer among them. The co-efficient of variation explains a high extent of disparities among the different states in terms of all the indicators excluding death rate. Maternal mortality rate is a very sensitive indicator of health outcome which is very unequal in various states; the value of coefficient of variation is 66.26.

It is worthwhile to mention the correlation between health outcome and infrastructure among the states. It has been seen that the states which are poor performers in infrastructure also have low outcome in health except two states such as Maharashtra, Punjab and West Bengal. On the other hand, it is contradictory to look at the position of some states like Assam, Odisha are performing well in infrastructure but rank in outcome is worse. It means



infrastructure facility is not a single indicator which determine the outcome of health, and there will be other significant factors like education, institutional changes, organisational attitude of govt., per capita income etc. playing an important role in specific region in particular. It might be, there regions are success in attracting private investment in health and FDI in this sector.

When we observe the rank of Uttar Pradesh in these health indicators, it is very surprising and compels us to evaluate the health disparity in the state at more micro level. The state stands with very low rank in health outcome as well as infrastructure facilities both. The rank in health outcome is 11<sup>th</sup> and in infrastructure it is 15<sup>th</sup> among the states. We can argue that in the state somehow health infrastructure induced the outcome. So it has become very urgent to see the extent of disparity within the state at district level so that we could suggest an appropriate policy for health development in backward areas.

**Table 2: Nutritional Status (Underweight) of Children: Major States**

States	NFHS-1 (1992-93)	NFHS-2 (1998-99)	NFHS-3 (2005-06)
Andhra Pradesh	42.9	34.2	29.8
Assam	44.1	35.3	35.8
Bihar	58.7	52.2	55.0
Gujarat	42.7	41.6	41.3
Haryana	31.0	29.9	38.2
Karnataka	46.4	38.6	33.2
Kerala	22.1	21.7	21.2
Madhya Pradesh	57.4	50.8	57.9
Maharashtra	47.3	44.8	32.5
Orissa	50.0	50.3	39.4
Punjab	39.9	24.7	23.6
Rajasthan	41.8	46.7	36.9
Tamil Nadu	40.7	31.5	25.9
Uttar Pradesh	52.7	48.1	41.5
West Bengal	53.2	45.3	37.6
India	47.9	42.7	40.4
<b>C.V.</b>	<b>21.41</b>	<b>24.59</b>	<b>27.72</b>
<b>Rank of UP</b>	<b>12<sup>th</sup></b>	<b>13<sup>th</sup></b>	<b>13<sup>th</sup></b>

*Source: NFHS-I, NFHS-II and NFHS-III*

To understand health impartiality it is very imperative to look at the nutritional status of children, how states are desperate in attaining child care facilities and other treatments related to health facilities so that they can nourish children. The table-2 reveals that Bihar, Madhya Pradesh, West Bengal, Uttar Pradesh and Orissa were the states performing very poorly in nutritional status of children and in the national economy during the period 1992 to 1999. Kerala is one of the best performers among 15 states and Bihar followed by Madhya Pradesh and Orissa were the worst during the same period. Although the majority of states improved their place, very small changes have been observed in unprivileged states. Here we cannot deny that number of under nourished children declined; however, the disparity has increased (the value of C.V from 21.41 to 27.72). The coefficient of variation shows that there exists a wide regional disparity in nutritional status of children in different states of India, that also widened during the period 1992 to 2006. The rank of UP is 12<sup>th</sup> in NFHS-1, 13<sup>th</sup> in NFHS-II and III among 15 major states, shows very poor performance in nutrition of children.

**Table 3: Health Profile of Uttar Pradesh Compared to AHS States (2010-11)**

States	NGR	CBR	CDR	U5MR	NNMR	IMR	PNMR
Madhya Pradesh	17.1	25.0	8.0	89	44	67	22
Orissa	11.6	20.0	8.3	82	40	62	22
Bihar	19.5	26.7	7.2	77	35	55	19
Rajasthan	18.2	24.7	6.6	79	40	60	20
Assam	14.7	21.9	7.2	78	39	60	20
Chhattisgarh	16.3	23.9	7.6	70	35	53	17
Uttarakhand	12.0	18.6	6.6	53	30	43	13
Jharkhand	17.6	23.7	6.1	59	26	41	26
Uttar Pradesh	16.9	25.5	8.6	94	50	71	21
<b>Rank of UP</b>	<b>5<sup>th</sup></b>	<b>8<sup>th</sup></b>	<b>9<sup>th</sup></b>	<b>9<sup>th</sup></b>	<b>9<sup>th</sup></b>	<b>9<sup>th</sup></b>	<b>6<sup>th</sup></b>

*Source: SRS Bulletin, Annual Health Survey, 2010-11.*  
 NGR-natural growth rate, CBR- crude birth rate, CDR-crude death rate, U5MR-under 5 mortality rate, NNMR-neo-natal mortality rate, IMR-infant mortality rate, PNMR-post neo-natal mortality rate

## 2. Health Inequality: What Literature Articulate

The United Nations strategic Millennium Development Goals (MDGs) have directed focus on to the improvement of the average health status of the population (Pande and Yazbeck 2003). However, a large number of recent studies

on health inequalities have documented evidence that average health status is an inadequate summary measure of a country's health performance or achievement (Sen 1997; Braveman 1998; Deaton 2003; WHO 2008). The assessment of health inequalities with the comparative analyses of their determinants is critical for determining the most effective health policy agenda (Braveman 1998; Deaton 2003; WHO 2008). It is clear that any evaluation of achievement needs to take into consideration both performance in addressing health inequalities and performance in terms of the average level of health for the population. In India, the levels of inequalities in health by region and state are significant and highly persistent (Pande and Yazbeck 2003; Joe et al. 2008). For instance, the demographically less advanced north Indian states of Bihar, Madhya Pradesh, Uttar Pradesh, Rajasthan and Orissa are characterized by poor average health: high levels of infant and child mortality, low rates of full child immunization coverage and high prevalence rates of child under-nutrition (IIPS and ORC Macro 2007). However, evidence of this poor average health status is inadequate to inform policy interventions relating to the intensity of health inequalities at the state level, as the level of socio-economic inequalities in health are persistent even in some of the socio-economically well off states like Goa, Kerala and Maharashtra (Joe et al. 2008). Such mixed trends lead to concern about the distribution in child health indicators across different groups and in particular whether the health of children has improved among the poor households.

On the other hand, health indirectly influences education and both are recognised to be the two distinct effects which can promote the freedom and capability of individuals to make use of available opportunity (Dreze and Sen, 1995). Apart from this, the social hierarchy or the system of social stratification existing in the society is likely to determine the health behaviour of individuals. Social stratification system determines the living condition, privileges, obligations and cultural traditions surrounding the life of a person which in turn affect his perceptions regarding health, knowledge of health care and accessibility to health resources (Kopparty, 1994).

A number of empirical studies conducted about health inequality have been made in recent time that measure the extent of disparity using different dimensions. Most of studies observed that the burden of ill health is borne disproportionately by different population subgroups and that people of lower socio-economic status consistently experience poor health outcomes (Macinko et al 2003). Several empirical studies have also acknowledged such income related inequalities in health, propounded as the absolute income hypothesis (Kakwani et al 1997; Van Doorslaer et al 1997; Humphries and Van Doorslaer 2000). A few studies (Duggal, Nandraj and Vadair 1995) stress the inequality in access to health care between

rural and urban areas and point out that access to private practitioner in rural areas is access to non- allopathic system or to the person without any qualification. There have been studies that identify districts or states as a measure of analysis that are very relevant sources for the criticism of India's progress in health including the inability to reach the rural poor (Drez and Sen, 1995; Betancourt & Gleason, 2000).

Drawing from the literature, the basic question to be addressed is about the emergence of regional disparities at a more disaggregated level and to see the regional variations between the different districts of Uttar Pradesh. Whatever literature has drawn attention regarding health disparity concerned the states of India might be true at macro level in different parameters but at district level where regions are close similar to state or equal to two states, micro level study would be helpful in framing problems and also making policy in a particular region. The state of Uttar Pradesh, consists more than 70 districts, and there exist wide heterogeneity among them in various health indicators. Consequently, there is need to evaluate the performance of districts in health outcome and infrastructure facility and identify the cluster whether they are developed or under-developed.

### **3. Methodology and Database**

The present paper identifies health disparity in outcomes and infrastructure facilities at district /regional level in Uttar Pradesh during the period 2010-11. In this study Principal Component Analysis has been used that measures and also represents the explanation of various indicator and their variance proportion. In India there is a large data set available that gives detailed information about health at state level. However, for district level study there are limited sources. The information in this paper data has been derived from Census of India, Annual Health Survey which basically described health outcome related indicators. Another important source is Uttar Pradesh Planning Commission, from where we get only information related to health infrastructure. Using the same data source for different indicators to identify the outcomes and infrastructure of health is not possible due to the unavailability of data. Here we have collected separate information from two different sources for comparison.

The indicators listed below represent activities of the health outcomes and health infrastructure facilities, and they are neither exhaustive nor complete in themselves. Many indicators which would have been more relevant in the context of building health development index have not been included in the study. In the selection of the indicators, we have mainly been guided by availability of data for

the selected indicators for all the districts of the states. Many indicators like-doctors in allopathic hospital, availability of primary health care centres, etc., have not been used due to unavailability of data information.

The different indicators have been calculated and we given weight to them using UNDP formula that is used for making human development index. If variable is positively associated with the educational development then the equation can be written.

$$X_{id} = \frac{(X_{idr} - \text{Min } X_{idr})}{\text{Max } X_{idr} - \text{Min } X_{idr}} \tag{1}$$

Then the tabulated data were transformed into standardised  $X_{id}$ 's, using equation 1, where  $X_{idr}$  stands for actual value of  $i^{\text{th}}$  variable for district  $dr^{\text{th}}$  (number of district) and  $\text{Min } X_{idr}$  stands for minimum value of  $i^{\text{th}}$  variable of all districts,  $\text{Max } X_{idr}$  stands for the maximum value of  $i^{\text{th}}$  variable within the all districts and  $X_{id}$  stands for the standard value of the  $i^{\text{th}}$  variable in the  $d^{\text{th}}$  district and  $d^{\text{th}}$  runs from 1 to 70, whole districts of UP respectively.

If, however,  $X_i$  is negatively associated with development, as, for example, the infant mortality rate or the unemployment rate which should decline as the district develops and then equation 1 can be written as:

$$X_{id} = \frac{(\text{Max } X_{id} - X_{id})}{\text{Max } X_{id} - \text{Min } X_{id}} \tag{2}$$

Second, using data of all variables of all districts factor analysis has been used to find out the weights for different variables. Using the weights of variables, the  $j^{\text{th}}$  factor  $F_j$  can be expressed as:

$$F_j = W_{j1}X_1 + W_{j2}X_2 + \dots + W_{jp}X_p \tag{3}$$

Where,  $W_j$ 's are factor score co-efficient

$P$  is the number of variables

$X$  is the score of individual variable of indicator 1.

The unit of analysis can be then arranged in a hierarchical order on the basis of the factor score.

Third, in cases where the first principal component explained less than 70 per cent of variation, then the first and second components have been considered for calculation of component or factor scores. A combined component score have been computed from the first ( $S_{1I}$ ) and second ( $S_{2I}$ ) component score using the per

cent of variation explained as the weights. In other words, weights were allotted to each set of factor scores in the proportion to the variance explained by it.

That is the score for the unit is:

$$CCS_i = W_1 S_{1i} + W_2 S_{2i} \quad (4)$$

Where,  $W_1 = V_1 / (V_1 + V_2)$  = proportion of variance explained by the first Component with a variance value  $V_1$ .

$W_2 = V_2 / (V_1 + V_2)$  = per cent of variance explained by the second Component with a variance value  $V_2$ .

$S_{1i}$  and  $S_{2i}$  = First and Second Factor Scores for the  $i^{\text{th}}$  unit.

The  $CCS_i$  (combined component Score) thus worked out is considered as composite index of development. Districts were then ranked according to Combined Component Score (CCS).

### 3.3 Selection of Indicators Related to Health Outcome & Infrastructure:

#### List of Indicators Related to Health Outcome:

X1: Crude Birth Rate (CBR)	X6: Sex-Ratio at Birth (SRB)/Sex-Ratio (0-4 Years) (SRB)
X2: Crude Death Rate (CDR)	X7: Neo-Natal Mortality Rate (NNMR)
X3: Natural Growth Rate (NGR)	X8: Post Neo-Natal Mortality Rate (PNNMR)
X4: Infant Mortality Rate (IMR)	
X5: Under-5 Mortality Rate (U5MR)	

Source: SRS Bulletin, Annual Health Survey (2010-11)

#### List of Indicators Related to Health Infrastructure:

X9: Number of Govt. Public Medical (Allopathic) Hospitals per Lakh of Population (GPAH)	X12: No. of Hospital/Dispensaries (govt.) in Homeopathic Medical Services per lakh of population (GHMS)
X10: Number of Private Unaided Medical (Allopathic) Hospitals per Lakh of Population (PUAH)	X13: No. of Doctors in Homeopathic Medical Services per Lakh of Population (DHMS)
X11: No. of Govt. Public Medical (Allopathic) Hospitals per 100 sq. Km. of Inhabitant. (GPMA)	X14: No. of Beds in Hospital/Dispensaries (Allopathic) per Lakh of Population (BHA)

Source: UP Planning Commission, Statistical Abstract, 2010

## 4. Results & Discussions

The result of the study highlights some important facts which show inter-sistrict disparity in the state in terms of health indicators. These are the followings.

### 4.1. Health Outcome and Infrastructure Facilities: Region-wise Performance

In this paper an attempt is made to identify the extent of disparity and key relationship in health indicators which would provide a setting for discussing the determinants of health performance at district economy of Uttar Pradesh.

**Table 1:** Eigen value and Factor Loading of Different Indicators of Health

Variables	Health Outcome	
	Factor-I	Factor II
X1	-0.29	-0.79
X2	0.49	0.21
X3	0.22	0.81
X4	0.89	0.20
X5	0.97	0.19
X6	0.96	0.18
X7	0.29	0.20
X8	0.32	0.05
Eigenvalue	4.392	1.058
Variance Explained	51.8%	23.7%

*Calculated by Author*

The evolved factor structure of the eight indicators for health outcome and six indicators as health infrastructure are interconnected based on the Kaiser criterion of Eigen value greater than unity is presented in Table 1 and 2. The Eigen roots of the correlation matrix of the health outcome explain two factors. The first Eigen value turned out to be 4.392 and second 1.058 and all others were less than unity resulting into retention of just two factors which accounts 75.5 percent of the inter-district variations in the selected indicators simultaneously. The nature of linkages amongst the eight selected variables turns out to be consistent with the general expectations. The first factor loads heavily on X5, X6 and X4 and similarly the second factor loads with high is X3. Indicator X1 explains negative and lowest variation in both of two composite indices that is crude birth rate.

**Table 2: Eigen value and Factor Loading of Different Indicators of Health**

Variables	Health Infrastructure
	Factor-I
X9	0.66
X10	-0.31
X11	-0.07
X12	0.98
X13	0.99
X14	0.63
Eigenvalue	2.902
Variance Explained	85.7%

*Calculated by Author*

Table 2 shows the explanation of six indicators related to health infrastructure, all these indicators reveal the supply side of health facilities. It has been seen that health infrastructure explains 85.7 percent of variation with only single component. The Eigen value that is greater than unity is 2.902 and others are less than one. Three factors that explain larger proportion are X12, X13 and X9. X11 and X10 give negative impression of health infrastructure, showing poor investment and allocation of facility. The high factor loading of these variables indicate that the govt. public hospitals in allopathic are sufficient and availability of beds and doctors in homeopathic hospitals are also plentiful in the state but the geographical distribution of allopathic hospital and low functioning of private unaided hospitals may be worsening. The private hospitals are centralized in developed regions, and poor pockets of the state are not getting health facilities from the private providers. Due to poor pocket expenditure they are not able to attract private investment as well. Thus, there is a problem in the distribution system and allocation of resources towards under developed regions of the state.

**Table 3: Region-wise Level of Development of Uttar Pradesh in -2010-11**

Regions	Health Outcome Index		Health Infrastructure Index		Combined Development Index	
	Index	Rank	Index	Rank	Index	Rank
Western	1.043	3	0.592	3	1.633	3
Central	1.438	1	0.852	1	2.296	1
Bundelkhand	1.378	2	0.794	2	2.173	2
Eastern	-0.119	4	-0.187	4	-0.076	4

*Calculated by Author*



Table-3 represents the region wise variations of health outcomes and infrastructure facilities in different indicators. It is observed that Central region is the top performer in health outcome as well as infrastructure facilities and in Eastern regions we find the worst cases of health outcomes. The gap between top and least developed regions in terms of outcome index is 12.08; consequently, we find huge disparity between the regions of the state. Apart from outcome index the eastern region is also the lowest developed in infrastructure facilities, the central is 4.55 times higher than eastern. The reason behind lowest development in health sector of eastern region might be high pressure of population located in that region, high poverty, low literacy etc. The least but vital cause for lower rung of development of this region is highly dependent on agriculture (more than 80% population) but the gain from this sector is very low. Thus, low output from farm sector influences the other sectors of the region and further employment pattern and level of living of the individual which ultimately affects the poor demand for health.

#### ***4.2. Health Outcome & Infrastructure: Disaggregated Profile of Uttar Pradesh***

It may be of interest to mention the district wise disparity in health outcome and health facilities, which determined the overall health development of the state. There exists large inter-district disparity in overall attainment in health outcome and infrastructure facilities in the state of Uttar Pradesh.

The best performing district Kanpur Nagar has the composite score of 3.09 while the most backward district Shrawasti a score of -2.3. Only 33 of the total of 70 districts have composite index score of 0.72 or more which is the average score, the remaining 37 districts have less than the average score for the state. This shows that the overall score of the state is pushed up because of better performance of few districts that are developed in health outcome. Similarly, there are only 34 districts out of 70 which performance in infrastructure index is higher than state average or greater than 0.308.

Most of the districts whose performance is comparatively better are located in the Western and Central UP where economic activities like per capita income, education level; high returns from farm sector and high incentive for private investment exist. As a result the regions are more able to be a focus for health achievement and good health for all. Due to high economic and social development the awareness about health of people in these regions are advanced that are the reasons the health status is also very developed.

A closer look at the better performing districts reveals that these districts have been able to get a very high composite index scores because they are very good in both the indices health outcome and health infrastructure. There are small differences among the districts in attainment of several health indicators except some of the districts like Bahraich, Barabanki, Varanasi, Kheri, Lalitpur, Balia, Hardoi, Bijnor and Mau. Among the nine, Bahraich and Hardoi are the two districts which rank is poor in health outcome, despite the better infrastructure facilities. The rest have performed well in health status even with weak infrastructure facilities.

The performance of all the districts in health outcome and health infrastructure goes hand in hand. It has been observed that the districts which are very good performers in infrastructure also good in health outcomes, so here we can argue that infrastructure plays a significant role in attainment of health outcome. The state has since long provided a good infrastructure facilities and investment is also adequate, but the social attitude of society, bad implementation of health policies, little access for health facilities to poor section of society and poor demand for health causes by low income and high poverty remain challenges.

There is an important fact that the eastern part of UP is more deprived in health outcome as well as infrastructure facilities; no eastern districts exist even in top ten. The reasons behind worst performance in health might be the low knowledge about health care, lack of information related to health programs and low investment in health by the government. Due to law and order problems, lack of faith of people in government, and longstanding failure of policies, the area has resulted in a failure to attract private investment. The region suffers huge caste and gender disparity which indirectly influenced the health performance of individual and society as a whole.

## **5. Conclusion and Suggestions**

There exists wide heterogeneity among the different districts of Uttar Pradesh in terms of various health development indicators both in health infrastructure and health outcome. This section concludes that the western region of the state is the most developed and Eastern is the least developed in health status and health infrastructure facility at the same time. The majority of the highly positioned districts are located in western (followed by the central) region of the state. In contrary, the poorer districts are placed in eastern followed by Bundelkhand zone of the state. It is disconcerting to witness, especially from an ethical perspective, that poorer regions of the state are bearing the brunt of health disadvantages. The

problem may be one of the poor levels of awareness about health care facilities and treatment procedure. The social planner has to acquire more complete information with regard to the sources of inequality and identification of the vulnerable groups of the society. Undoubtedly, such an exercise would go a long way to optimise resource allocation and enhance the targeting efficiency to such interventions. The study has drawn an attention to formulate policy by the agencies and government keeping in mind of equity and decentralized planning e.g. they should allocate resources in Eastern and backward districts of the states. Here, we can suggest that only nation/state should not be the angle of development but district/region is equally important.

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## EMPLOYING PEOPLE WITH DISABILITIES: THE ROMANIAN PROTECTED UNITS SYSTEM

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***Abstract:** The protected units are an answer to the employment increase goal for people with disabilities in Romania. With a history of two decades, the protected units system became visible in the context of the social economy. The present paper is based on qualitative research and focuses on how the social actors in this employment opportunity address its benefits. There are small companies, NGOs, people with disabilities and representative authorities named here. Even though the system does not always function according to expectations, it has reduced the distance between economic and social sectors and created the context for rising awareness on the theme of disabilities, and overall is a more efficient and transparent way to support this vulnerable group.*

***Keywords:** employment, people with disabilities, vulnerable groups, social economy*

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### 1. Introduction

The sustained focus on decreasing chronic unemployment of the last decade, brought into attention by the efforts of reducing poverty and by the increase of the retirement age, put a spotlight on vulnerable groups. Addressing these groups with dedicated programs and measures to enable rising employment are twofold. First, there is a work potential the economy could benefit from and a corresponding income source for the individual and its family. Second, there is an aim for a cohesive society and social solidarity claims for care and integrative measures for any type of vulnerability.

The present paper aims to observe the protected units (PUs) as solutions for increasing employment in the case of people with disabilities: how are these people referred to by their managers, by the representative authorities of people with disabilities and how do these representatives address them?

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The paper focuses in section 2 on the legal framework regulating this vulnerable group's employment in post-communist Romania. Section 3 is one of brief statistics about the employment level of disabled people and main features of the units employing them. Section 4 explores the professional skills of people with disabilities, and points out the nature of their barriers on the labour market, while section 5 is dedicated to functioning aspects of the two most frequent types of organisational types of PU (motivations, beneficiaries, blocking factors) and of the system as a whole.

The paper provides information on PUs as labour market actors. It is among the very few Romanian initiatives inquiring into small size for-profit companies' positions in regard to their involvement in social issues.

#### *a. Definition and roots of protected units for people with disabilities*

The vulnerability of people with disabilities on the labour market comes from these individual's health status which impedes them to access or to answer competitively the standard labour market requirements. Traditionally they or their families are beneficiaries of the financial state support schemes, but in light of the unfailing objective of the European Employment Policies after Lisbon, there has been a movement for an increase overall employment among these groups. Additionally, there is an ongoing close examination of the quality of employment during working age of individuals with disabilities, and national states have shown increasing interest in finding hiring solutions for them.

Alter (2007, 2, 5) identifies first attempts of hiring people with disabilities in the mid 60s in the USA, when J. DuRand started to work with 14 people with mental disabilities between 16-21 years old, at Occupational Training Centre ([www.mdi.org](http://www.mdi.org)). This was the start of what is today a company which employs over 400 disabled people and has revenues of over 40 millions USD. The first European social firm model credited to Italy (Alter, 2007, 6), as an affirmative business, was also addressed to people with psychiatric disabilities.

Such initiatives are nowadays part of the boarder domain of social enterprises, which have spread in the same time with an always growing salience of the social economy approach. This attitude is rooted even further back in time (CIRIEC, 2005, 11-17), as self-help and self-promoting way for the craftsmen and workers in front of the new challenging environment engendered by the industrial revolution. It is commonly accepted under the umbrella of social economy initiatives that contain several principles: they are primarily oriented towards a social purpose, imply voluntary membership and democratic control by

membership, defend and apply the principle of solidarity, their general interest is that of their members, they use their surpluses to sustain developmental objectives or in the interest of their members, and their management is autonomous. The domain has gained prominence in the last decades, serving the objective of rising employment and social inclusion of the European Social Model. Its development has been supported by Europe and dedicated institutional structures and programs that imposed it on public agendas, in addition to regulating and financing it (CIRIEC, 2005, pg. 78-81; Cace (c), 2010, 42-46).

In this context social enterprises refers to the activities or business generating incomes which serve the social aim of the organisation. Social enterprises, as third sector organisations, offer a flexible and adapted answer for groups in need that are left behind by both market and state mechanisms. Social enterprises support work inclusion for structural unemployment for people with disabilities or in front of age related barriers, as well as social and community services (CIRIEC, 2000, 57-58; 127-128; Defourny& Nyssens, 2001, 5, 9-10). The recent revival of the social enterprises trend is seen as a response of civil society to persistent unemployment and poverty risk that occurred after the 80s when states retrenched from their social protective function by cutting funds, reducing social expenditures, or by insufficient answer to persistent unemployment (Kerlin, 2010, 167-168).

In Europe, work integration defines a major part of social enterprises (known as WISE); Finland even reserves the social enterprise concept exclusively for work integration sphere (Defourny&Nyssens, 2001, 9). In Europe, there are four distinguished categories of initiatives dedicated to work integration for people in disadvantage on labour market (Davister &all, 2004, 4-5, 11; Spear, 2008, 14-15):

- Transitional occupation, aiming at offering opportunities to the beneficiaries some work experience;
- Creation of permanent self-financed jobs, aiming at creating sustainable jobs and benefiting in the initial stage of public subsidies in order to cover the lack of productivity of the people involved
- Professional integration with permanent public subsidies that employ mostly disabled workers or people with severe “social handicaps”, aiming at acquiring some professional competencies for them
- Socialisation through productive activity, targeting people with severe social problems – alcoholics, drug-addicts, former convicts, but as well people with physical or mental disability.

Blurred limits separate social enterprises by social entrepreneurs and social entrepreneurship (Borzaga&all, 2008, 18-19); the last term refers to the person and the process throughout which a creative, accustomed initiative that serves to alleviate a social problem gets financial equilibrium and sustainability.

The three concepts are closely linked to the third sector, but often social entrepreneurship is confused with CSR (Corporate Social Responsibility) placed in the traditional for-profit sphere. This indeed brings companies close to social problems without abandoning their primary economic objective and without democratic decision. The European Union supports this direction too (COM, 2001, 6, 8-12) and encourages companies to activate their social and moral responsibilities toward the communities and environment they are present in, and toward their own working force. Actions in this respect could include (re)training of own employees, better balance between work, family and leisure, non-discriminative employment measures, shared ownership schemes, healthy and safe working conditions, the usage of clean technology and environment, supporting local charities, social causes or community projects, and even supporting the start-up of local initiatives.

All these complement the active labour market policies (ALMP), in the classic way that states help people without jobs (re)enter labour market. ALMPs starts from work mediation and information and go through training and life long learning programs, providing stimulus for regional mobility and incentives allotted to the entrepreneurs for hiring unemployed people or for creating a job in addition to grants for start-ups. In fact, in the latest decade ALMP became more of a philosophy behind policies than a set of measures. States become aware that the activation purpose is achieved by the way they manage to make use of and regulate properly the existing measures (financial benefits, part-time working regulations, training programs, incentives of all sorts). Additionally states began expanding resources and social services into activities that overcome the social risk of labour market exclusion and help the translation of local good practices wherever is proper at national level. The WISE practices are nowadays recognised as part of activation strategy and serve the objective of increasing employment (Spear, 2008, 11-12).

In Romania, organization of the disabled can be tracked back until late 30s, but such organization covered just some type of disabilities, which usually were not mental ones. People with disabilities could be found in craftsman cooperatives, dedicated or not, with some facilities granted for their access to work. Cooperatives decreased sharply in number after 1990.



In the early 90s, Romania regulated the protected units as a tailored solution for employing people with disabilities. The government intended to create a measure for making these people visible in the labour market in the line of justice that remained latent for many years. Almost ten years later, the social inclusion approach for fighting poverty put the vulnerable groups in focus, and it encouraged dedicated initiatives addressed to these people. This prepared the ground for social economy and social enterprises approaches that gained awareness around the accession moment.

2006 is the moment that brought the employment of people with disabilities into the light through a law reminding and reinforcing the PU solution. Within the context of social economy development, PU has tended to be assimilated to a social enterprise, and explains why the for-profit companies (FpC) authorized as PU are considered abusive by many of the NGOs active in the field.

PU's step over the border of the SE movement. It is not an example of CSR either, as long as the decision of hiring disabled people in FpC is based on incentives. It is in its essence an ALMP, which allows the set-up of a social enterprise. The particular forms of different PUs come close to all the four WISE types, but up to now the first form is the most rare.

### *b. Method*

The present paper concludes the combined experience of 3 researches. They come from two projects financed from ESF, POSDRU 2007-2013, in the first half of 2011. The first project, "PROMETEUS Social economy promotion in Romania through research, education and professional formation at European standards" was coordinated by FDSC (The Foundation for Civil Society Development) having University of Bucharest, ICCV (Research Institute for Quality of Life, Bucharest), CNPS (The National Centre for Training in Statistics, Bucharest) and EURICSE (European Research Institute on Cooperative and Social Enterprises, Trento) as partners, and occasioned authors' contact with the legal frame of PUs. The second one, "INTEGRAT! Resources for the socially excluded women and Roma groups", was conducted in collaboration with three Bucharest-based organizations, Catalactica Foundation, ICCV and Pro-Vocație Foundation, focusing on Bucharest-Ilfov and South-East region of Romania.

The third research is an independent project carried out by the author, observing for-profit companies and NGOs as free market actors confronting competitiveness requirements: are people with disabilities a reliable workforce? The fieldwork was carried out by the author between 15 June – 15 December 2011, in Bucharest and Braşov. The research was qualitative, implying in depth

interviews with managers or coordinators of activities involving people with disabilities at their working place, the covered area being limited by the available funds. The selection of units was made starting from the list of PUs as it became available in July 2011 on the dedicated website ([www.anph.ro](http://www.anph.ro)), and involved seeking out interviewing units from various field of activity and who held various type of organisational forms. The time span of the research is due mainly to reappointments, by reason of vacation, delivery due date, travels, and ultimately many of these appointments failed altogether.

A focus-group and eight of the interviews conducted by the author and by other members of the research team with PUs within “INTEGRAT” project in the SE region of Romania, in April-May 2011, were used to complete the information acquired by independent research. The acronyms are listed in the end of the paper, and a brief description of field activity is presented below.

Interviews	Independent research in		”Integrat” research, conducted by	
	Braşov	Bucharest	The author	Other team members
Existing units accredited in July 2011	19	90		
Contacted units	11	27		
Interviewed units	6	9 (+2 without interview)	4 interviews in Bucharest	2GL, 1CT, 1IF + 1 Focus group in B-IF
Units which could not be contacted after at least 3 phone calls/e-mails, or which delayed repeatedly the interview	5	16		
Units with no contact data	5	24		

In few cases interviewees accepted just a brief discussion over the phone, invoking reasons as being a too small unit and having no relevant opinion about employment “*I have 2 people, one of which has a chronic nervous disease*”, or due to a lack of time. Three face-to-face discussions were not recorded, and in four-five cases I was invited to see people at work.

Among the interviewed units, 9 are for profit companies, 7 are NGOs, 1 is a cooperative and 5 may be considered representative authorities of the disabled people. LPHCM and ONPH were approached as representative units within INTEGRAT project, while AN and SHLI were approached as PU in the

independent research, but their functions or role played in the employment of this vulnerable group, made the leading/ representative experience to prevail.

I didn't insist on contacting people working independently (PEA) or local/ central authorities. The share of PEA in total PUs is small and involves such a great degree of autonomy from a person with disability as, at limit, could allow its employment on standard labour market. Authorities were not the focal point of the research, and additional attempts I made were unsuccessful.

## 2. Employing people with disabilities: the Romanian legal frame

The first measure to encourage the employment of people with disabilities was taken in the early years of the new regime. Unlike the laws pertaining to the ethnic minority of the Roma, another group with high economic vulnerability approached early in the regime, the laws for people with disabilities didn't aim at just their rights and identity acknowledgement but also at their economic integration. In the opinion of the leaders of representative organisations such an approach was needed in order to correct the pre-existent situation:

*"The people with disabilities, until 1990 at least, were hidden, obscured, because it was a shame".*  
(AVI, B)

*"... until 1992. There was only the Association of the deaf people and the Association of the sightless people; both have a history going back to the World War Two. Before 1989, these people [with disabilities] were either hidden, or lived on a miserable pension of invalidity, not comparable with the pension for age limit. People who had the misfortune to be born with disabilities were either kept within the family, or admitted to asylums."*(ONPH, B)

*" – You were saying that people with locomotive disability didn't exist' before 1990.*

*- I worked for Radio-Progresul Cooperative. Anyone who had worked at home in cooperatives knows that this is slave work. I mean, the whole family was working to make mine daily work quota. Before, they paid you the basic salary, 2400 lei. For this money you were working the whole day at home ... my family was returning and we would keep on working until 8-9 in the evening. In the 5 years [na: for how long he has worked in cooperation] I gathered 11 months on my work book.*

*- How about free transportation to work?*

*- What are you talking about!? Well! If you were working for some unit called "cooperative of the disabled people" it was something else. Radio-Progresul has never been such a cooperative"*  
(SNPHL, B)

Starting from this context, in 1992, people with disabilities, members or not in associations and cooperatives, mobilised themselves to support the promulgation of two laws which serve the inclusive approach of today perfectly.

Law 53/1992, known as the “*law of protection*”, defined the state of disablement and set up several facilities, measures and actions aiming to prevent or alleviate the professional economic and social consequences of the handicap, including the educational-professional orientation, qualification, support for employment and social integration of people with disabilities.

Law 57/1992, known as the “*law of integration*”, stipulates the right of people with disabilities to be employed according to their physical and intellectual capacity,

- With the possibility to decrease the working time by 1-2 hours, upon request, without affecting the working history (years of working), or
- By establishing *protected workplaces*, that could exist within “protected units, specially organised”; within these units, a high pre-set percentage of people (70%, and 50% for the sightless people) was allocated to the paid work of the disabled people, or as
- home working, as employees, or based on an authorisation.

Furthermore, the law also stipulated the obligation of the economic units with more than 250 employees, to employ at least 3% of their staff people with disabilities. The regulation still exists, but the parameters were adapted to the decreasing trend of the size of units: 50 employees and 4% people with disabilities. Fiscal facilities were also stipulated (free adaptation of the workplace, free professional training and transportation), as well as penalties if the minimal number of people with disabilities is not employed.

The two laws were merged and complemented (as well as changed in some aspects) by Ordinance 102/1999 (modified and completed subsequently), another moment of reference for the protection of the disabled people in Romania. It differentiates disabilities by type and severity, distinguishes between adults and children; it paves the way for individualised programs of recovery and social integration, including institutional forms for their protection and the compulsory adaptation of the public spaces, such as transportation, so people with disabilities could access them.

Soon after, two other normative acts were issued, regulating the funding of NGOs that establish and manage units of social work (L34/1998, O26/2000) and centres of assistance and therapy, supporting the goals of these organizations to run economic activities.

The concept of active employment measures arose in Romania in late 1994. The economic recession from 1996-2000 intensified the active measures within the legislation concerning unemployment. For people with disabilities, concern has

been prompted by the emergence of an inclusive approach; Law 76/2002 regarding the system of unemployment insurances and stimulation of labour force employment stresses explicitly the already existing measures for active employment (information, mediation, qualification, subsidy for employment) for people having difficulties to join the labour market. These measures were completed by those of dedicated training and supports their employment in IT (PNOFM) and provides for the socio-economic integration of the young people by social contracts concluded with AJOFM (L116/2002).

Among the provisions of the “law of integration”, is facility of preserving disability benefits to which individuals with disabilities are entitled in addition to their wage for paid work. Modified for a period by cutting these benefits in half according to wages, the benefits have been resumed since 2004 in their initial form. The austerity measures caused by the last world economic crisis temporally hit this financial support. The argument supporting the parallelism between the full disability benefits and wages was that the jobs people with disabilities have access to are usually of short duration and pay much below the average. In these conditions the loss of the benefit added to the increasing expenditure related to work inclusion (transportation, cloths) makes their final income comparable with that a person with disabilities would have obtained without the additional effort of being employed.

The objectives of protection, promotion of rights and integration of the people with disabilities have been resumed within the post-accession context, being regulated by L448/2006, republished, completed and modified subsequently yearly. The new law stressed, in the light of social inclusion and equal opportunity, the objective of protection and rights promotion for people with disabilities (level of services and benefits provided for adults and children, access to education by adapting the educational environment or via special education-, medical appointments for periodical evaluation when the case, access to dwelling and transportation (facilities for mobility), the standard costs for social services, enforcement of CE regulation regarding the mobility of the people with disabilities).

Law 448 enumerates 17 principles which justify and promote the support actions for the protection and promotion of the rights of the people with disabilities, and 29 related key-terms, among which:

- *Protected workplace* — the space where the person with disabilities performs the professional activities, adapted to its specific requirements, which includes at least the workplace, working gear, toilet and access ways;

- *Protected workshop* — space adapted to the needs of the people with disabilities where they perform activities of training, development and improvement of abilities; this may include community locations, day-care centres, residential centres and special educational units;
- *Accredited protected unit* (PU hereinafter) — the public or private economic operator, with its own financial administration, where at least 30% of the total staff employed with individual work contract are people with disabilities.

The concept of social enterprise was introduced in legislation only in 2011 by the Law of social entrepreneurship (debated and suspended for a while) and defined by the project Law of social economy, promoted by the Ministry of Labour. It did not alter the essence of PU regulations.

The employment of people with disabilities on the free labour market in Romania is currently supported by:

- Deduction, from the calculation of the taxable profit, of the expenditure with the adaptation of the working space for the person with disabilities as well as needed equipment, of the means of transportation to and from home or with the transportation of the raw materials and of the products which the person with disabilities makes at home;
- Reimbursement of the expenditure for training, professional orientation, formation and employment;
- Subsidies for 18 months for employing graduates who are persons with disabilities for indefinite periods, equivalent to 1-1,5 minimal national gross wages, depending on the educational level of the particular persons; subsidies for the employment of people with disabilities when there is no obligation to employ such people on the condition of keeping the working relations for at least 2 years;
- Accredited protected units (PU), which
  - may have or may not have legal personality (case of the protected workshops/sections)
  - are exempt from paying the taxes of establishment and licensing
  - may in the case of NGOs conduct activities of sales/intermediation under the condition of reinvesting at least 75% of the resulting profit in programs of socio-professional integration of people with disabilities working in that particular organisation. The FpCs are exempted from

paying the tax on profit under the condition that they reinvest at least 75% of the fund obtained by exemption for technologic development and/or fitting the work environment to the specific needs of their employees with disability (as this provision was not included in the Fiscal Code, it is practically inoperative)

- may conclude partnerships with regular economic units having more than 50 employees, that don't have at least 4% of the staff people with disabilities, in an amount equivalent with their duty to the state budget; the amount of debt is 50% from the minimal national gross basic wage multiplied by the number of people with disabilities (up to 4% of their staff) not employed; the object of the partnership consists in products and services produced by the people with disability, which are of use for economic units;
- FPU must submit an annual report to ANPH, while the NGOs must submit a report on the way of using the funds resulting from the sales
- hire people with disabilities on undefined period contract basis.

The uneven dynamic of the regulations over two decades is a good proxy of the authorities' attention to employing vulnerable groups. The dynamic of the last decade is a result of increased competences in the field of identifying and employing people in various disadvantaged situations by both authorities and third sector organisations, and of the European course on social inclusion.

### **3. PU- statistics and features**

The first effect of the laws of integration and protection, in 1992, was the tripling of the number of people with disabilities registered in one year (Table 1). Their number continued to increase over the last two decades with 15% per year (in average), grounded on the decrease in total population number by 1.42 mil. people (Tempo, 2012).

In 2012 there were almost 690,000 people with disabilities, out of which 91% were adults, 97.5% were in the care of the families and 88% had serious or severe disabilities (based on data from [www.anph.ro/tematica.php](http://www.anph.ro/tematica.php), 2012). The proportion of employed people is very low, and the efforts of promoting professional inclusion, although doubled over the past decade, managed to increase the employment rate of disabled people only by one percent.

**Table 1.** Dynamics of people with disabilities (number of persons)

	1992	1993	2002	2006	2007	2008	2010	2012/06
Total	74,053	225,232	423,393	488,054	567,542	631,199	689,680	689,156
<i>%, compared to 2002</i>	<i>17.5</i>	<i>53.2</i>	<i>100.0</i>	<i>115.3</i>	<i>134.0</i>	<i>149.1</i>	<i>162.9</i>	<i>162.8</i>
Children	8845	11466	56886	55121	56896	59247	61287	60890
Adults	65208	213766	366507	432933	510646	571952	628393	628266
Institutionalised	19248	19993	19860	17338	16833	17275	17036	17217
<i>%, from the total</i>	<i>26.0</i>	<i>8.9</i>	<i>4.7</i>	<i>3.6</i>	<i>3.0</i>	<i>2.7</i>	<i>2.5</i>	<i>2.5</i>
Employed	-	-	12531	-	-	25705	28420	27718
<i>%, from the total</i>	-	-	<i>3.42</i>	-	-	<i>4.49</i>	<i>4.52</i>	<i>4.41</i>

Source: MMFPS, DGPPH, Quarterly statistical bulletin; Pillar I, PNOA, 2002 for data on employment for 2002:

Note: "-", no available data

According to ANPH website, in September 2012, the number of PUs had reached 579. Accreditation is done on the basis of documents showing that legal conditions are fulfilled; re-accreditation is needed each time the situation changes in terms of employment of the people with disabilities. The ANPH passing under the direct authority of MMFPS, in 2010, also required re-accreditation. Since the necessity of this procedure was not generally known by PUs, their number had decreased by almost 40% in the early months of 2011.

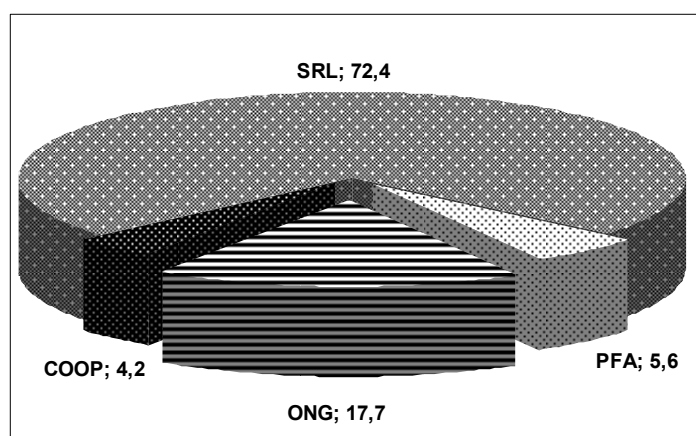
The PU statistics (Chart 1) shows an overwhelming proportion of the FpCs within the total number of licensed entities (FpPUs). Much less frequently occurring are the cooperatives, which are units mostly established before 1990 that had survived the economic disturbances accompanying the change of regime. The persons licensed as economic agents (PEA) authorised as a PU are people whose disabilities allow them to perform autonomously private economic activities (such as service for electric and sanitary installations, massage etc.).

A step further is made by FpC or ONG authorised as PU consisting of 2-3 employees, of which one or more persons have disabilities that make possible the existence of PU. Generally, they are the initiative of a person with disabilities and work for a low number of customers (1-3): we name them micro-PU. A large number of PUs are derived from an already existing NGO or FpC (see section 4), and the rest are linked (throughout activity or management) to the parent organisation. Except for the cooperatives, PUs usually are of micro dimensions (1-10 employees).



A study of the Romanian National Society of the People with Locomotive Handicap (SNPHL, 2011) shows asymmetric dynamics of PU evolution: two-fold higher number of FpPU between June 2008 and January 2010, three-fold higher number of NGOPU between January 2010 and September 2011 (as the social economy model revived). FpC receptivity is explained by the fact that these units already had economic relations that they had preserved and, furthermore, they had the competency to promote their production (see section 5).

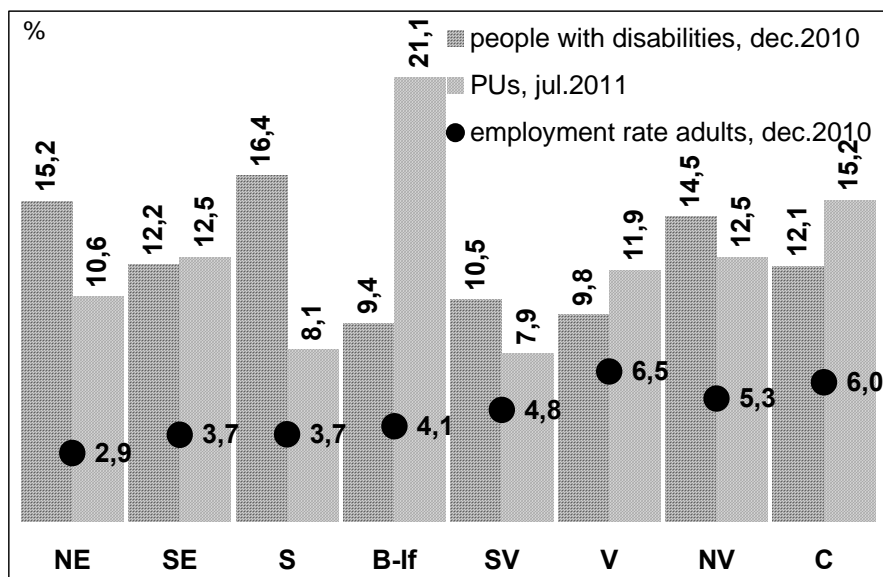
**Chart 1.** PU distribution by form of organisation,  
% of the total



Source: author's computation using ANPH data for June 2011

The regional distribution reveals a cluster of PU in Bucharest-Ilfov (B-If) region. The clustering of licensed units in B-If is partially false, because part of the PU only have their headquarters here, while their actual activity takes place in neighbouring areas. A predictable, also inverse relation is noticed between the level of the employment rate and the regional poverty rate; the regions traditionally associated to high poverty have the lowest rates of employment of disabled people.

Chart 2. Regional distribution of the PUs, % of the total



Source: author's computation using ANPH data; MMFPS/DGPPH, Statistic Bulletin, 4<sup>th</sup> quarter, 2010

The SNPHL study mentioned above shows that the proportion of the people with disabilities employed in September 2011 by PU was 51.2%, differing according to their type: the proportion was 75.2% of the employed staff in NGOPU and just 47.5% in FpPU (including the craftsmen cooperatives). The observation goes deeper in detail, identifying 50.7% of the PU as having employed just one person with disability and for one third of them (17.2% of the total) this person with disabilities is the sole employee. Out of the 1371 people with disabilities employed by PU, 48.6% were working in the 12% of the units which had employed more than 5 disabled people. Excluding these situations, we obtain a rate of just 1.62 people with disabilities employed per PU.

All these details serve to question the accomplishment of the purpose of economic integration of the people with disabilities thru PU. The authors of the study show reticence about the turnover in the range of billion RON, net, annually, accomplished by a low number of persons which have barriers of competitiveness. Their estimation is that 25.4% of the PU are organisations abusing the generosity of the law, being on its border or beyond it. A similar proportion was detected by the independent research – 24.6% of the licensed PU,

according to ANPH website, do not have contact data. Next to this, the difficulty to contact them (see section 1b) may also be an indicator supporting the hypothesis of the abuse of trust upon licensing in some cases. The theme of abuse could come into discussion even when one is looking deeper on organisations' field of work: punctually, the activities may seem incompatible with the work of a disabled person.

An analysis of the areas of activity of the licensed companies shows their crowding in services and small industry. In decreased frequency order the fields are the following:

- a. production of clothing and related services for domestic and industrial use: uniforms, clothing accessories, tarpaulins, knitwear
- b. production of stationery and related services: cards, brochures, books, menus; cardboard production (stratified or boxes), paper and cardboard office supplies
- c. IT production and services: reparation/maintenance hard/soft, assembly/recycling equipment, communications, webpage administration/design, software (games included)
- d. Advertising and related services: personalised items of various sorts (plastic, textile, leather, metallic, ceramic carrier; serigraphy, engraving; billboards, plates, banners, volumetric letters; stamps)
- e. Consultancy and training courses for companies staff (for employees or management/legal accountancy/marketing&PR), work mediation/security, evaluation of goods, translations
- f. Intermediation: stationery, small furniture, cleaning and administration products, fireproof materials; secretariat and administration services, hosting events, dwelling administration
- g. Finishing services: labelling, packing, bookbinding, archiving, waste materials sorting, assembly of computers/ chairs/wood pieces
- h. Trading in decorations: floral/textile/wax/ceramic/beads/paper, painting on glass/wood/ ceramic; services of house decorations
- i. Domestic and industrial services: washing/ironing, sanitation of the interior/exterior, cleaning green areas/landscaping
- j. Medical services: massage, body maintenance, medical analyses and services, mediation of health services, services of work medicine, consumables for surgery rooms

- k. Small production and industrial services: brooms, brushes, knitted baskets, handicraft articles, pottery, ceramics; window frames (small furniture and flooring), reparations; PVC/ aluminium windows and doors; industrial alpinism; small metal constructions (fences, fire extinguisher, traffic signals, adjustment of wheel chairs); plumbing, air conditioning; plastic/rubber (gaskets, footwear for industrial protection); electro and communications (monitoring car fleet/traffic, phones, electric installations); painting, epoxy resins; call centre
- l. feeding/agriculture: micro-farm, greenhouses, tree nursery; water bottling; pastry, bakery; (author's hierarchy based on PU website, interviews)

The indicator refers to the object of activity of the company, which should reflect the activity of people with disabilities, their work being the one which defines the product/service offered on the market under protected conditions. The independent research has shown that this distinction is not always possible. This is the case of the units whose low number of staff doesn't presume the division of the productive flow by sections. In such cases specific activity of people with disabilities is not named, and they could be present in various activities (production of plastic windows frames, sales or call-centre departments of the same company).

In most cases, however, the PU was established by the separation of a section in a point of the technological flow of an already existing company (finishing, printing, cloths packing vs. production of clothes, bookbinding vs. printing; computer assembly vs. maintenance) which, like in the situation of an PU derived from a larger NGO, keeps strong links with the mother company. The PU can perform punctual activities or it may cover a larger area (massage vs. medical mediation, analyses, medical treatment and maintenance).

#### **4. Working force offer: skills and qualification**

The professional ability of people with disabilities is conditioned by the qualifications allowed by the severity and type of the physical/psychic/somatic or hearing/sight/speaking deficiencies which limit, to different extents, the use of a part of the body, focusing/attention or coordination of movement, resistance, and mobility. These overlap with the historic dynamics of the disability and the moment when the disability appeared (before or after the professional education). The disability of neuropsychological disturbance limits severely the access to intellectual activities, so the most accessible occupations are the least qualified jobs, implying activities that can be learned by repetition and where the working environment is easy to supervise. The person with physic disability has

limitations of access, while the chronic disease raises not so much barriers of access, as it raises barriers of endurance to a particular work rhythm.

The convergence between the ability/qualification of the individual and job requirements is all that matters. In other words, the disability generates work incapacity only in relation with a particular specificity of job, so that, in theory *"the difficulties of employing a disabled person are the difficulties of any of us under conditions of recession"* (MOT, B). The limited employment due to the crisis is an aspect which other interlocutors also confirmed (PT, B; TF, Bv; CP, Bv), but the very low rate of employment suggest an accumulation of factors the employment of this group depends on.

A research from 2010 (ASCHF-R, 2010) noticed high, although decreasing, rates of people with no school education; 38% of the young people aged 19+, with physical disability, respectively 23% of the young people aged 7-18. An explanation of this phenomenon resides in the non-integrative character of the educational system. On one hand, it seems that the education of those with disability acquired at early ages (pre-existent disability)

*"... doesn't help them too much. They have no qualifications, and if they attended a school, the quality of the result after graduation is not the same with that obtained at mass school. To attend higher education [even at distance], they should first take their baccalaureate, and for that they should attend a normal high school, not the special one, or they should have tutors coming home and not treating them as a handicapped person ... Until the 8<sup>th</sup> grade there is a special school where children with disabilities learn together, mixed: children with heart illness or with mental problems learn in the same class, and they are taught at the same level and using the same curricula. After that, most of them go to the School of arts and trades where they are not assigned according to their abilities, but according to the profile of the school existing in the locality. Whether you want it or not, you become tailor, or cook assistant, or painter. In the end you may find out that he can't even make a sandwich, because he may not be able to learn this. Or, maybe he might be able to learn something else, but nobody asked him whether he wants or whether he can."* (MOT, B)

On the other hand participants at research speak about cases when a small conjoint effort (parents, school, specialised help) could bring a children with disability to the level required by the mass school participation, but the parents are not ready to do so. Consequently, the children will continue to go to the special school, which preserves the disability certificate and the corresponding disability allowance.

More than 10 years after first regulation regarding physical access to public places, the autonomy of movement is still a real barrier for the professional offer of people with disabilities. This burden is added to by a lack of disposable financial resources to "pay for it": *"if your parents don't have the money to take you by car every day, to live someplace where you can get out of the house, if you don't have colleagues to take you upstairs at the*

*faculty, and a job where you can travel to everyday*” you don’t go to school and you don’t have access to the labour market. The complement of the deficient long term education consists in training courses provided by AJOFM, by other suppliers of professional formation or by day centres/workshops. The problem of access remains, but their limited duration may be a comparative advantage.

With more or less understanding for the situation, one might question the adequacy of these training courses given the current demand for qualifications. The flexibility of the training is not an easy thing to achieve. Essentially this is a financial problem depending on access to trainers and adequate facilities for applied teaching in a particular profession, as well on the possibility to form a group of people on a specific profile. Qualification through a short term course is facing another barrier: the medical certificate needed to confirm that the disabled person is compatible with a specific training/job, which most times is not easily obtained.

*“Nobody asks us anything ... For the training courses they don’t have enough applied teaching, practice. Just theory. They make economy of materials. And when they come here they are learning what they didn’t learn at the courses. They keep training people in the same professions that nobody needs. Just like the Ministry of Education, which doesn’t coordinate its curricula with market requirements” (IF, Bv).*

*“... in the special education too, but in the ordinary education too, many schools are something like factories producing unemployed people. Many schools train in professions that the labour market no longer seeks for. These training courses [na: organised by AJOFM] are better adapted: they noticed the need for attendants for old people – and organised training courses for it” (AN, Bv)*

*“Depending on the funds they had, on the teachers they could afford to bring, some were connected to the economic realities, other weren’t. Anyhow, they were not dedicated to people with disabilities. I know very many people with disabilities who gave up because they were required to bring a certificate that they are able to work ... and generally, this kind of certificate is not released by the family doctor, but by the doctor for labour medicine, [and] the doctor for labour medicine costs.” (MOT, B)*

The day centres or the therapy workshops build the bases for personal autonomy and for minimal social integration, usually dedicated to a severe disability which leaves little room for social life. As a step forward, they could provide a basic training for the labour market but generally are not a qualification in themselves. The activities run within these centres aim to develop/discover abilities of a specific profile compatible with the type of disability, which may be valorised within a productive/creative process. Persons with disabilities may be put on tracks in this manner, although it is not necessary for all of them. If they are part of the professional route, they have the first contact with labour market rules where people are taught to fit to a particular program, the processuality of actions and purposes, assuming a role within this process, information and counselling for

professional and small-entrepreneurial formation (if possible) resulting in labour market insertion. Like in the case of other vulnerable groups (young people leaving the residential institutions, the Roma) the rules of the status of the employed are not always implicitly internalised.

PU segmentation by form of organisation is doubled by a differentiation according to the type of disability: in the NGOPUs one will rather find severe forms of psychic and mental disability, while in FpPUs, as in the micro PUs in general, rather than people with physical disabilities, one will find persons with disabilities of hearing/speaking/somatic natures, or less severe forms of physical and mental disabilities. The division occurs because people with psychic or severe disability, need a “different context”, not just the goodwill of the employers and of the fellow workers, and “*the employers are not ready for this. «if he had a physical disability, I would have hired him, but so ... we don't want him to disturb all the employees»*”. (AS, B).

All these can be overlapped by the habit of people with disabilities to live in isolation, to not estimate correctly the effort required for going daily to work, the mistrust or lack of support from their family, which must in turn be able to support the transfer to the active life.

*“Other people don't have patience or don't have this exercise to go some place everyday. They get to have a job, calling at phone numbers from newspapers, but two days later they don't show up anymore, or the first time they feel bad forget to call or don't know they have to call and let the employer know they can't make it”* (MOT, B)

*“We also have cases of young institutionalised people [...] who have to understand all this system: the daily work quota, the direct boss, the rules of internal order* (AFF, B)

*“If people [with disabilities] aged 30+ are not so open and willing to work, the young people do want to work.* (AVI, B)

*“People are coming, they are staying for 2-3 months and then they are leaving [...] About half a year later they give up because it is a hard work [na: industrial protective cloths].”* (SD, Bv)

*“Of the 6 people I brought here, 3 failed from the beginning [...] People have problems with moving, also have other kinds of problems. [...] they have very many years of life under a glass-bell, willing it or not, and have lost somehow that wish. You get used to live on little and it is very difficult to look for resources in yourself, to seek for more. And many of them reached a certain age, 35-40.”* (SNPLH, B)

## 5. PU –aspects of functioning

### a. *The FpPUs (for profit companies accredited as protected unit)*

Among FpPUs, little is known about the NGO side of the PU, as well as about social economy. The reasons behind employing of a person with disability are economic, similar to any facility (VAT exemption, for instance) or there may be

personal reasons or experiences (see section 5.c). Captive in the bureaucratic maze within a legislative system undergoing continuous changes and in relation with partners that also have a frail equilibrium on the market, the topic of social economy has little chance to get to the attention of the micro and medium entrepreneurs. Furthermore, when information comes from an authority (ANPH) which is different from the authorities for-profit organizations are accustomed to, and with communication channels and rules which are rather unfamiliar to them, these organizations set up PUs because of reasons like *“our partners told us about this opportunity”, “the accountant found out that”, “if other people are willing to work with protected units, like we are, let’s establish one ourselves”, “a facility for micro-enterprises.”*

Once in contact with the topic, questions arise about the activities that the disabled people may undertake under acceptable efficiency, about the possibility of splitting the activity in such a way as to establish a dedicated activity/section within the ordinary process/field of activity of the company, the identification of people with disabilities, the level or possibility of training them. Some companies accept to train their staff on-the-job, other require *“at least this”* from the specialised institutions.

A sensitive stage is that of getting accustomed to the job. The employment of disabled people starts invariantly with 1-2 months of trial, or with a 6 months contract, when the employer and the employee realise the limits of their collaboration. On the side of the employee, the accommodation presumes the possibility of joining a specific, rather constant rhythm of work, as mentioned before. On the side of the employer the need for such stage comes up because:

- of the particularities of each type of disability and situation: *“there are some of them who don’t want to work”, “it is not easy working with them: the person with mental disability wanted some day to jump from the top of the building [under construction, on the premises of the company]” (SD, Bv; CP,Bv),*
- of errors may appear and must be corrected which means additional costs (*„the customers come back with the products”*)
- they must be understood when they become less attentive or get tired, so *“they have breaks, have their coffee, then return and restart working. Even if they don’t have the same speed, they are doing their best” (SD, Bv)*
- there are days when they cannot work due to the personal health state, or to the health state of another family member (SD, Bv; ET, B; MOT, B; COOP, B): *“Two months passed from the first meeting until hiring: he didn’t have anyone to stay with his mother [diagnosed with Alzheimer].”*
- sometimes it is better to work home (SD, Bv; AP, B; SNPHL, B) or



- sometimes there is need for reverse logic at employment in order to establish a work relationship: it is not to seek for a candidate for a predefined position, but a position for a predefined candidate. Thus one must compare the actual activities of the position with the actual abilities of the candidate.

*"[the employers] must accept the idea that you can be a very good assistant at financial department without having graduated economic studies. The assistant is not necessarily the financial director. He is the one who has to check payments, bills, very practical things, for which intelligence, good sense, or a short training on the job is enough."* (MOT, B)

*"I managed to [convince them that the high school was enough]. The practical test was more than enough."* (SNPHL, B)

*"It is not always easy when they work next to ordinary workers. They don't all understand that our young candidate needs another context, not just understanding ... this young boy works for 8 hours and he even wants to work until late evening. Sometimes we have to stop him from working.. but if you hurt him, or you tell him things that disturb him, than you finished him."* (AP, B)

Once these stages are bygone, the employers speak about the advantages of working with disabled people: they are disciplined, conscientious, are not late, have continuity, *"know to appreciate the fact that they have a job"*, *"a competition arises between them, and between them and the able ones"* and conclude that *"they do not pull us downwards, if this is what you wanted to know"*.

### ***b. NGOUs (NGOs accredited as protected unit)***

The arguments of NGO interaction with the disabled people are to be found in a different spectrum. They don't wonder about how to get into contact with the disabled people, but they do wonder about how to get the funds needed to prolong the intervention in favour of the disadvantaged people they interact with. The intervention has different objectives: to continue a therapy to control the disease, to bring the personal development as far as possible, to allow for a minimal opportunity of socialization, to provide the family of origin time for economic activities and only after that in order to valorise the productive potential of the disabled person, thus conferring the feeling of social utility.

*"Our interest is to employ the people who need most support, a place where they can be understood, because we also provide counselling"* (AVI, B)

*"A workshop, something to give them a direction ... a place where something happens!"* (AP, B)

*"We are glad to have a job, to be able to get out of the house, to earn some money; and it is a pleasant atmosphere here."* (SE, Bv)

The appeal to PU is driven by that of a social enterprise. The option has been received properly because theoretically it is a handy source for self-financing. Actually, there are just a few organisations that can support themselves this way.

The incomes they obtain in this way add to the traditional sources of funds: sponsors, voluntary contribution of the 2% from the annual individual tax, national and international projects, grants, loans, intermediation for the economic agents who didn't hire the minimal number of people with physical disability stipulated by the law.

The self-financing through the productive activity of NGOPUs remains rather theoretical because of two reasons:

- The profile of the involved vulnerable group; the activity of the people with severe psychic disabilities is difficult, if not impossible, to program so that they are able to observe the contractual commitments (volume, quality, deadlines). Under these conditions, their production activity is rather episodic and in unequal competition with other suppliers of similar products/services (for instance, the production of brushes vs. import brushes from China). Therefore, when considering production, NGOs consciously step aside, targeting products and services of economic or decorative utility which doesn't require complicated technology (anyhow inaccessible to the low profit units), which can be sold outside some fix standards of volume and time, generally in fairs or by direct sales (clothing, miscellaneous decorations, decorative accessories, agricultural activities, mounting/dismounting). The services are mainly intermediations, and the micro NGOPUs complete/replace these services with accounting, counselling etc.

*"The people we are working with have psychic disability, people who have deficiencies of attention, patience and focusing. We can't make perfect products. The sensitive people buy them, people who had similar situations in their families, or who experienced depressions. In early March we are selling trinkets through the people we know. It is just once a year, and some nice people who know other people...." (AS, B)*

*"If you are shopping for shoes and someone would tell you that one pair is made by a disabled person and the other one by a person with no disability, would you refuse to buy the pair made by the latter?! Wouldn't you look for quality first?" (COOP, B) and*

- The managerial competencies for the competitive market: there are just few NGOPUs which have identified self-sustainable niches of demand they can access with their products or by negotiations with economic enterprises from equal stands: most are expecting an external fulcrum, a circumstance in their favour. The intermediations are the main source of self-financing, despite of a clear orientation towards actual production:

*"I would like to have more cash inflow from our services of massage than from intermediations. You increase your turnover with the intermediations, but the profit is very low." (AN, Bv)*

*"From a contract of 2000 ron per month we may gain 100 ron. The phone calls at 5 and 6 in the morning, on Saturdays and Sundays" (SE, Bv)*

*"I don't like these intermediations. I refer production, and we can make it. But you don't have the means, no basis. If we, the NGOs and the protected units which are actually producing goods, would be supported in a different way, we wouldn't need this intermediation ..." (AVI, B)*

*"I was called [by a company]: « Send me a file with your demand of funds so that we can input it into the procurement system» «My dear, this amount is not part of the budget for procurement of your company. I will never, ever, be able to come with the price of your suppliers, which may even use discounts » ... He has to use, say 1 million lei [penalty].... «Instead of paying 1 million to the state, you only give them 20%. The rest comes back to you as products and services that you need [bought thru PU]». And they don't like this either. If they could take 99.99% from you, they would look angry to that 0.1%. It really happened! There were companies which were adding 5-10% and it is not worthy. If they make 2000 a month, it is good. And then what? We have costs with transportation, utilities." (SNPHL, B)*

The deficit of competence is not so much the lack of managerial knowledge/abilities, but deficit of human resources available for such activities. Good fund raising skills doesn't imply good and productive marketing. For sales/marketing an ordinary economic agent has a dedicated person or department. In the micro NGOPUs, there is limited availability and experience for a sustained effort in this direction, while the parent-NGO (when the case) have just a handful of people making specialised counselling, management and maintenance, which don't necessarily have time and abilities to impose and maintain the PU on the competitive market: *"we don't have a strategy of marketing or of PR... I don't know what to do first" (AD, B)*. At the extreme

*"We are working much with volunteers, students at psychology and social work. They are not constant, don't have time, don't have competencies. When they graduate, they are gone. Some don't even resist too much. It is not that easy to interact with people with severe health problems". (AS, B)*

When the NGOPUs' activity managed to be based on contracts, the working relationships get some market features: it appears, as for FpPUs, the need to identify the workforce which can "cope" and keep up with the team. Despite the commitment and the effort people with disabilities are ready to make and of the therapeutic effects of being in contact with the team, there are situations when they cannot go beyond certain limits and this leads to cease the work-contract; similar to FpPUs, appears the fear that *"they can demobilise the others"* (AD, B).

### *c. The PU as a system*

The dispute regarding the authenticity of the PU is the most visible aspect of the system, having a different foundation. The NGOPUs consider that they are in an imbalanced competition with the FpPUs on the free market and tend to reject them all together claiming that *"they do not produce what they say with disable people"* (AVI,

B). As seen before, the suspicion starts from the observation of the field of activity of the company and from their financial performance. The FpPUs claim the practice of fictitious employment practiced by some of them: *“why keep him home and pay him 2-3 million; you’d better integrate him”* (CP, Bv). In turn, the representative authorities claim the low percentage, 30% of the staff, needed to establish a PU: *“of three people, one is disabled”* (SNPHL, B), case in which the job of this person may be for the sake of appearance, not a real employment.

Voices from FpPUs, but also part of the representative authorities have doubts to see the NGOPUs solution as real employment. The representative authorities refer to the purpose and the role of the PUs as they were conceived 20 years ago. Like then, the aim is to *integrate*, not to *protect*, the desired situation being the work together with people without disability (even not all of them see the integrative role of PU in the same way). The FpPUs practice, at least those participating to the independent research, fits perfectly this perspective, while part of the NGOPUs initiatives, as noted before, remain outside the labour market:

*“they [the day care centres] should be the protected units where people should be educated, see how they develop abilities, so you can put them on the labour market. If they can integrate. Here, we have another meaning of the protected units.”* (ONPH, B)

*“And they bring them to a day-care centre, where they ask them to do all sorts of things. They also make there some things which are sold in fairs. Thus, this is a passive work, because this is not work that you can use to get a job. After this, he can’t go to get hired in a protected unit, with what he learned there. If he gets to a protected unit for disabled people he starts from zero. It is only here that he learns a profession. Somehow, a profession (LPHCM, B)*

*“I go to the NGO to socialise”* (SP, Gl)

The PU demand unanimously the post-factum, on-spot, verification: *let them come and see what we are doing, with whom and how we are working*. They all agree that there are far too many reports and documents for accreditation to the detriment of the verification *“in the spirit of the law”*. The excessive verification *“following the letter of the law”* produces unwanted effects, similar to the accreditation on the same basis:

*“«[million RON] from sticking labels!?» Well, yes. Who is producing stationery?[...] PU is for [intermediating] stationery, not for one like me. They certainly stick labels, you won’t give them a car to drive. They do what they can do [...] today I wasted half a day with someone, from an agency. I don’t even remember what agency. «Why, do I let them stay home?». Because in this way I encourage them not to work. If they stay home, do I pay them? Well, today she remained home because she doesn’t feel well. I have a girl with a psychical disability. I have no advantage, no deduction. I think I will give up the accreditation. Only problems.”* (ET, B)

**Relation with the market.** According to L448/2006 the purpose of the PU is to equilibrate the predictable lower competitiveness of the goods made by people with disabilities by providing a preferential start for sales or support in creating

the demand. At the same time, this is a shortcut of the circuit of the benefits addressed to disabled people and an increase of transparency, efficiency and the active-integrative character of the support: the financial penalties due to the state budget by the companies which don't employ the minimal number of people with disabilities in their staff is directed towards the units which valorise their productive potential.

The issuing of the law at the beginning of the economic crisis made the PU attractive for the beneficiary-partner eager to cut the costs. In the case of FpCs, the business relationship already existed with many of their current partners, so that after the supplier was accredited as PU, the beneficiary reduced the direct costs by deducting them from the penalties. In the case of the relation with an NGO, the partnership usually covers the indirect costs (administrative, protocol) and it is direct result of law 448/2006.

However, the number of partnerships didn't increase spectacularly because of the decreasing number of potential partner-companies, due to the reduction of their staff and activity during recession and the pre-existent business relationship between them.

Otherwise, a large proportion of the micro PUs (FP and NGO) run their activity around a small number of partner-companies (sometimes even just one). For them gaining a partner-company is a painful thing to do, since partners hold little knowledge and function on routine, as opposed to PUs that rely on their persuasiveness and creativeness to convince the potential partner that a PU was not established for personal gains, that the employment of people with disabilities is not priory inefficient or incompatible with production, that the relation with a PU is not a favour for the disabled persons, but an opportunity to save, that they can decrease the funds for wages and the related taxes (by dislocating a person/department dedicated to acquisitions) and that, in general, PUs can be a reliable business partner.

People active within the system admit that beyond reputation and routine, the openness towards people with disability is also conditioned by the personal matrix of a company leader. In the absence of a personal experience with disabled persons, the topic is associated to the disability in its exclusive forms, irreconcilable with the labour market. To a lower extent than the direct experience, an education in the spirit of Christianity allows you to see and hear beyond the personal context.

*"if you, personally, don't bump into situations like this, you can't find out their needs. You don't even realise how big is the barrier which keeps you aside. This is the true disability."* (ONPH, B)

*"you must have someone in the family, or someone very close, who has a disability, and you will get to have this affinity. There must be a motivation beyond the financial one. The financial one doesn't make you set up a PU." (LNPHCM, B)*

*"O. However, is it worthy [to set up a PU]?"*

*R. Yes, morally. If you do a good thing, it is worthy.*

*O. But financially, [...] You still are a FpC.*

*R. Certainly, financially we are on the positive side, but I can't say that we can call this a business; for me it is rather a [way of living]. This is just a useful thing that I can do." (CP, Bv).*

**Relation with the authorities; the inter-institutional relations** are also marked by routine and misunderstanding. The political area is not seen as a partner of discussion, because they "listen to you", but practical things are hardly seen, so that there is clearly little "chance to change the law". Next to this comes the high frequency of the institutional changes on which the employment of the disabled people depends, the slow motion of implementation (SD, Bv; MOT, B), as well as the unclear delegation of responsibility to the community level (SE, Bv; SD, Bv; AD, B). The overall image of ANPH is not that of an active partner in employing this vulnerable group, but rather a simple source of information, appreciated by people used to work with it.

*"the ANPH come with all kinds of notifications, changes that you have to know. Sometimes they make changes which are valid for just one field of activity, others are valid for all fields. Frankly speaking, as manager of a company you can't spend all your time on the website of the Registry of Commerce. Information for all, just like Ministry of Finances does, like all institutions do." (TF, Bv)*

*"They suspended our licence because they changed their management. ... We found out by phone about the suspension [by a friend who checked on internet]. We were shocked. This kind of things is written in the Official Monitor. [...] To wait three months for re-licensing just because has changed the number of an order?! It's embarrassing!" (SD, Bv)*

The most frequent obstacle is related to what is called work mediation. The accuse goes towards AJOFM and DGASPC which don't have functional procedures of communication between people with disabilities who might and would like to work and the employers. When the classical routes (AJOFM, DGASPC, Job Exchange) do not meet the demand, the manager (marginal in NGOPUs) or the chief of production often make individual efforts to identify the labour force (by visits to associations/day-care centres, at home, by personal or incidental contacts at AJOFM or at Church). When the official institutional routes function, there were particular persons who counselled and informed, making the system operative.

*"I knew there [Braşov Town hall] a lady who was very well informed. I think she is retired now. She was of real support to us. The first people with disabilities ... it is her that introduced him to*

*me. She started to build a database of people having disabilities [...] but ANPH should get involved more as should MMPS and AJOEM too. Suppose that I want to increase the production capacity and I go to them asking for people, even with the bare skills, or even without skills. They don't know where to find these people.” (SD, Bv)*

*”I am talking over the phone with the lady [from ANPH], whom I don't know. I never saw her. She is special. Always provided information, advised us on how to do.” (CP, Bv)*

*”When I want to hire people I put announcement on best jobs. Normally AJOEM should contact us, send us an e-mail. Why should I contact them? I don't even know what exactly is happening there, and I find out I wasted time.” (SE, Bv)*

*”The director of DGASPC (districtual) knows and understands the social problem” (AD, B)*

*”I am working very well with Motivation. They are reliable people and we get along very well” (PT, B)*

**Working relationships.** If there are not databases, it should be useful to inform people with disabilities about their employment opportunities: the list of PUs from ANPH website is a very good source of information, but its proper utilization pertains to the perception that ANPH is an active partner in integration, not just in the protection of people with disabilities, and to exercise this communication in this direction at all levels and at all involved actors. Despite the possible family and personal barriers to the accession to the labour market, there is – as sufficiently large phenomenon – the will and potential to work.

*”Until now, me, as employer, had very few phone calls from people with disabilities wanting to work. Just 3 phone calls in the past few years.” (Sb, B)*

*”There should be someone to contact them and inform them on the existing job opportunities. They would hardly wait to get a job because they would be treated equally, like the other people, on the labour market. I have a boy who got employed a few years ago, doesn't have a leg. In one year or so his pay tripled” (SAB, B)*

*”There is a boy with locomotive disabilities. In winter he leaves home before 7 (the workshop starts at 9), to get a less crowded bus, so that the driver can lower the platform” (AD, B)*

Unfortunately, there also is the reverse phenomenon, when as employees disabled people found no understanding as regard their limits. It is based partly on the opinion that *“people with disabilities do not negotiate because thus they are marginalised. This is the way they can get out of the house”.* (SE, Bv). However, their commitment comes not by default; the opportunity to be independent and to be able to help their families and the sense of usefulness is what matters. Even those working with people with mental disabilities noticed the strong sense of fairness governing relationships at work (distributing tasks, responsibilities for accomplishing them). The unfair treatment has been mentioned by several respondents, but just one detailed the aspect.

*"R: When he hired me, he asked me: do you want to work 4 hours? I was glad I got a job, and I said: 8 hours.*

*O: So, he gave you the possibility to work 4 hours.*

*R: No. He wouldn't hire me if I would not work 8 hours. When I saw he was keeping me at work after 8 in the evening, then I told him I quit.*

*O: Did they pay you well, at least?*

*R: The minimum national wage, got from "Unemployment"[subsidized]. Only when I told him I quit, he let me go home at 4 p.m." (SP, Gl)*

Although difficult for both sectors by assuming responsibilities which traditionally are not specific to them (economic or social), one may outline the idea that employing people with disabilities under the conditions stipulated by law is not one of the most difficult tasks of a small economic agent who wants to be licensed as PU. The problems reside in the sphere of unlawful practices: dumping prices due to the thirst for immediate profit, tax evasion at the purchase of raw materials, bribes to accept collaboration with a PU, legislative instability, distrust in the system of facilities, abuse of facility (in employing the unemployed people who have an insured wage and then sacking them when the period of protection ends), and surviving the economic crisis.

## **6. Concluding notes and possible directions of intervention**

The law supporting the inclusion of people with disabilities has raised their visibility. The number of families coping with illnesses of different severity has doubled due to the policy of limiting institutional residence in all fields of social care, causing these families to feel economic and social constraints more deeply than ever before. In this case raising awareness on the problem is even more important and, in my opinion, this is the main plus the PU system has brought to the current Romanian society. The PU system is the missing link for the dilution of prejudices regarding the incompatibility between disability and efficient labour market, and narrows the distance between economic and social domains. It puts the FpCs in front of social challenges.

Although the legal pro-active framework for the employment of the people with disabilities dates from 1992, the unfavourable economic context of recent years put a damper on opportunities afforded to disadvantaged groups. The PU option has become operative in an effervescent social economy approach, which tended to assimilate PU to the social enterprise. It is not a social enterprise, not just because of large scale FpC motivated by profit, but also because part of the NGOPU have not managed to reach a financial equilibrium in supporting their



social aim. As Adler notices not all income generating activities could claim to be social enterprise stand. (Alter, 2007, 17)

PU activated the employment of the disabled people by:

- addressing de facto a new segment of size employers, namely FpCs and NGOs, that are very developed in the Romanian economy
- transforming the share of budget acquisitions allotted to the support of the disabled; the social support has become more rapid, efficient and transparent, and by
- stimulating creative initiatives and provoking the labour market into be more flexible, by stimulating the work division, and by using a reverse logic when hiring people (of task compatibility with a person).

By raising awareness and stimulating the creative initiatives, the PU system encourages social enterprises development, otherwise welcomed in the Romanian society.

The first years of PUs functioning has revealed to the relevant stockholders their limits in acting efficiently and dysfunctional points that should be addressed. The list is complex, but not because some is “*ill-willing*”, but because within a rather new and trans-sectoral endeavour “*there simply are gaps, misunderstandings, lack of interest, things that can be done better*” (MOT, B).

Better information flows toward and from all the actors involved with regard to functional aspects of the system is needed. There are also some regulations to be improved, claimed by representative organisations (LNPHCM, SNPHLR) of people with disabilities which:

- increase the proportion of people with disabilities needed for setting a PU (50% or 70%) or increasing the minimal size of the PU (5 people)
- increase the minim share employed staff at 6% people with disabilities; no economic branches excepted, no difference as regard the type of ownership
- make operative the foreseen tax deduction, and more accustomed regulation for import tax
- have more complex responsibilities in integrating people with disabilities, covering more steps from first contacts with labour market rules and as mush possible qualification.

The last point hits another direction to be considered, namely that of early education with respect to problems, needs, potential and social inclusion of people with disabilities.

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## List of the interviewed units and acronyms used

MF - Ministry of Finance

MLFSP - Ministry of Labour, Family and Social Protection

AJOFM - County Agency for Labour Force Employment, local authority of the MLFSP

ANPH - National Agency for People with Disabilities, now department within MLFSP

PNOFM - National Plan for Labour Force Employment

DGASPC - General Department for Social Work and Child Protection

Interviewed APU	Acronym	Interviewed APU	Acronym
S.C. BRAND OFFICE S.R.L. - BV	BO	S.C. MOTIVATION S.R.L. - B/IF	MOT
Section PROFINEV MASAJ within the ROMANIAN ASSOCIATION OF THE SIGHTLESS - BV branch	AN	Section "ARToSTIL within the ROMANIAN ASSOCIATION FOR OCCUPATIONAL THERAPY - B	AS
Section EQUAL OPPORTUNITY within the ASSOCIATION FOR EQUAL OPPORTUNITY, BV	SE	Section INDEPENDENT LIFE within the ASSOCIATION INDEPENDENT LIFE - B	AVI
S.C. CLASICO PAPER S.R.L. - BV	CP	S.C. SACE DIRECT S.R.L. - B	SC
S.C. TERFOX S.R.L. - BV	TF	FRIENDSHIP Association, Pantelimon, IF	AP
Section SEDA SPECIAL within SC SEDA INVEST SRL - BV	SD	MOTIVATION Foundation - GL	MGL
Section PROMETEUS within S.C. SIGNUM SERVICES S.R.L. - B	PT	S.C. Social Prest - GL	SP
St. Dumitru Centre, The Artdeco Unit, B	AD	Association NEXT TO YOU - GL	AV
Craftsmen Cooperative Society CARTONAJUL SCM - B	CC	National League of the Disabled People from the Craftsmen Cooperatives - B	LPHCM
Section Centre for services and micro-production "ÎNVINGĂTORUL" within the Romanian Society of the People with Locomotive Disability - B	SNPHL	National Organisation of the People with Disabilities from Romania - B	ONPH
S.C. SAB&CO BUSINESS SOLUTIONS S.R.L. - B	SAB	Focus group Bucharest	FG, B
S.C. RAINBOW COMPANY PRODUCTION S.R.L. - B	RCP	EUROTOTAL - B (unregistered interview)	ET



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## DIGGING AMONG THE ROOTS OF ENTREPRENEURSHIP

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Alin CROITORU<sup>1</sup>

***Abstract.** Without claiming to be an exhaustive exposition of two of the most important perspectives in the field of entrepreneurship studies, this paper points out some key distinctions between the Austrian Economics and Schumpeterian perspectives on the process of entrepreneurship. It employs a comparative approach and addresses point by point the nature of entrepreneurial opportunities, the sources of uncertainty in the initialization of entrepreneurial action, the process of competition and its role in the market as well as the relationship between entrepreneurship and knowledge. The article examines the importance attributed by these two perspectives to the socio-economic environment in which entrepreneurial activity arises, instead of focusing directly on their exclusively economic aspects.*

***Keywords:** Austrian Economics; Schumpeter; Subjectivism; Knowledge.*

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### I. Introduction

Many recent papers are dedicated to entrepreneurship and its role in economic growth. It is often approached as a type of panacea solution. Furthermore, it is also viewed as the key answer promoted for changing mentalities, attitudes or the quality of life for nations as a whole. *How did the process of consolidation of the main concepts form the entrepreneurship field look? Which were the main features of the individual entrepreneur in some of the classic texts of the field? When we look inside of Schumpeter's work can we still label him as Austrian or should we make a clear distinction between Schumpeter's and Austrian perspectives on entrepreneurship?* These are the types of questions that were the underlying reasons for choosing the topic for the current article. Keeping in mind the space limitations, the article tries to provide some answers to all of them.

With a focus on opportunities and knowledge, this article aims to point out a few essential differences between two of the most important contributions to the study of entrepreneurship. There is no unitary perspective on entrepreneurship

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within Austrian economics<sup>1</sup>, so the approach used in this paper is composed of many fragments of various perspectives. Some approaches within the school do complement one another, and where possible these will be presented as such. In this way, preserving the characteristics of individual thought within Austrian economics, emphasis will be given to the distinctiveness and variety of this body of thought on entrepreneurship in contrast with the more unified nature of the Schumpeterian perspective.

Making a short excursus into the history of Austrian economics, the paper will address the subjectivist way in which Carl Menger influenced the methods of theorizing human action. According to Kirzner (1992) Menger made a significant imprint on the perspectives used and promoted firstly by Eugen von Böhm-Bawerk and Friedrich von Wieser and later developed by Ludwig von Mises and Friedrich von Hayek. This line of thought also had a substantial influence on authors such as Israel Kirzner, Ludwig Lachmann and Lawrence White. The way in which Austrian economics consistently emphasizes the importance of individual action in the initiation, maintenance and completion of entrepreneurial activity later influenced the way in which one important school of thought was developed, namely new economic sociology (Boettke and Storr, 2002; Fillieule, 2010). Economic sociology is one of the main perspectives concerned with entrepreneurial behaviors. This perspective is built on the legacy of sociologists and economists such as Weber [1930] (2001), Schumpeter (1934, 1939), Parsons and Smelser (1957), etc., and it has been recently reconfigured in papers authored by Swedberg and Smelser (1994), Swedberg (2002), Portes (2010), etc. Another important scholar in this field is Granovetter (1985, 2001, 2002) who was concerned with the relationship between social structure and economic performance. In order to do relate social structure and economic performance, Granovetter pointed out the analytic relevance of concepts such as: social networks, embeddedness, oversocialization and undersocialization. Following a classic distinction in the field, Thornton (1999: 20) argues that “the entrepreneurship literature can be classified into two schools: one taking the supply-side perspective and the other, the demand-side perspective. The supply-side school focuses on the availability of suitable individuals to occupy entrepreneurial roles; the demand-side, on the number and nature of the entrepreneurial roles that need to be filled.” Keeping this in mind, we should

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<sup>1</sup> This was outlined in an elegant fashion by Shackle, one of the economists influenced by the Austrian School’s line of thought “Since its beginnings in the early 1870s Austrian economics has been shaped successively by a number of brilliant minds, each sized by a highly individual conception differing from those of the others.” (Shackle, 1988, p. 204)

mention that the present paper is exclusively organized in relationship with concepts from the 'supply side'.

Over the time the question about "*what is an entrepreneur?*" has received many answers. Following Casson's line of thought, we can see why entrepreneurs are different from other people. From Casson's point of view this difference should be linked to the fact that "they possess the quality of judgement required to improvise a decision successfully when no agreed decision rule is available. Entrepreneurs – whether at a high or low level – are therefore those who exercise entrepreneurial judgement" (Casson et al., 2010: 11). In this sense, we will analyze how the Schumpeterian and the Austrian economics perspectives help us to have a deeper understanding of what the concept of 'entrepreneurial judgement' means and why is it useful in the attempt of explaining people's behavior. On the other hand, Baumol's (2002) theory about 'innovation' cannot be understood without a previous excursion in Schumpeter's work. A different approach on the topic can be found in Shane (2003) who moves the emphasis from the individual to the 'entrepreneurial opportunities'.

In recent years the Global Entrepreneurship Monitor becomes one of the most important socio-economical types of research in the field of entrepreneurship. Based on a quantitative methodology, this type of approach is interested in finding out the role "of entrepreneurship in economic growth, enhancing the national characteristics of entrepreneurial activity. GEM focuses on three main objectives: to measure differences in entrepreneurial attitudes, activity and aspirations among economies, to uncover factors determining the nature and level of national entrepreneurial activity, and to identify policy implications for enhancing entrepreneurship in an economy" (Tünde-Petra et al., 2011, p. 7). For our paper these kinds of studies are important particularly because they are interested in analyzing the individual entrepreneur in three different phases of their entrepreneurial careers: *potential entrepreneurs* (those with entrepreneurial intentions), *early-stage entrepreneurial activity* ('nascent' and 'new' entrepreneurs) and *established entrepreneurs* (Xavier et al., 2012, p. 13). These three types of entrepreneurs used by GEM are linked to the level of enterprise structure: the first category can be associated with 'the intention' of setting up a business, the second phase consists of 'nascent entrepreneurs' and the third category is made up of entrepreneurs who have at least 3.5 years experience in the market. From this point of view, this article emphasizes the main concept that can be associated with these phases of entrepreneurial careers, namely the importance of subjective recognition of market opportunities, the high importance of the innovative nature of entrepreneurial entries in the market and also the entrepreneurs' adjustable nature and their ability to keep themselves in business. In the first half

of the 20<sup>th</sup> century Austrian economists laid the groundwork that would later lead to the construction of all of the aforementioned concepts.

The structure of the paper is organized as follows: the first section provides a brief introduction into the main topics analyzed and configures the lines of the theoretical framework; the second section is dedicated to presenting an overview of “the subjectivist perspective as a main feature of the entrepreneurship analysis of Austrian economics”; the third section of the paper underlines some differences regarding the perspectives on opportunities, sources of uncertainty, and competition between Schumpeterian and Austrian economics; the fourth part of the paper is mainly concerned with the relationship between entrepreneurship and knowledge, and the last section contains some final remarks about the main differences between Schumpeter’s and Austrian economics approaches to entrepreneurship.

## II. The subjectivist perspective as a main feature of the entrepreneurship analysis of Austrian economics

The aim of this section is to give an insight into the subjectivist nature of Austrian economics (Kirzner, 1990; Gunning, 1991, 1997; Wubben, 1997; Oakley, 1999), as it pertains to the conceptualization of entrepreneurial action. With this in mind, the paper does not go into a detailed discussion regarding the philosophical traditions<sup>1</sup> that influenced the subjectivism put forth by Menger and later adopted in different forms by Austrian economists.

Using Gunning’s distinction (1991, p. 17; 1997, p. 174) between the ‘old subjectivism’ associated with Menger’s conception and the ‘new subjectivism’ associated particularly with Mises’s *Human Action*’ (1949), we can envisage the way in which the latter described an ‘autonomous’ individual, conscious of his or her goals and actions. From the perspective of ‘old subjectivism’ “the concern of men for the satisfaction of their needs thus becomes an attempt to provide in advance for meeting their requirements in the future, and we shall therefore call a person’s requirements those quantities of goods that are necessary to satisfy his needs within the time period covered by his plans” (Menger, [1871] 1994, p. 60). In this type of analysis Menger emphasizes the importance of individuals’ regard for their present and future needs, but also the significance of knowledge about the market

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<sup>1</sup> For an in depth discussion about the contested foundation of Menger’s subjectivism, see Oakley (1999) who outlines the argument between advocates of an Aristotelian foundation as compared to a Kantian one. For a succinct enumeration of the main Aristotelian influences on Austrian economics see Smith (1994).

– information about the quantity of goods that are and will be available for their needs. Following this line of thought, individuals are able to choose between different goods on the market while taking into account their own perceived needs (Menger, [1871] 1994, p. 61-66). This perspective emphasizes that goods are evaluated from the perspective of consumers' needs<sup>1</sup>. According to this way of thinking, we have on the one hand the individual's resources, needs and plans, and on the other a competitive market context where the individuals interact. As far as Austrian economics is concerned, the main result of the interaction between the participants and the changing needs of individuals is the 'processual' nature of the market, and so analysts must treat economic reality as permanently changeable. One of the essential things that can be seen in Menger's writing, and which can be later found in different forms in many papers written by scholars on Austrian economics, is the individual's capacity to improve his or her knowledge through participation in the market. In the context of a broader discussion on the relationship between time and economic activity, between past, present and future and the production process Menger claimed that ([1871] 1994, p. 68) "on the basis of previous experience as to their needs and as to the process of production, men continually improve their ability to estimate more exactly the quantities of their various goods that will be needed to satisfy their needs, as well as the particular time periods within which these requirements for the various goods will arise". We will see in the next pages how important this capacity of improvement in individuals' abilities and knowledge proves to be for Austrian economists, but this statement also points out the high significance of individuals' capacity to assess the future from a realistic perspective given the condition of 'imperfect knowledge' in the present.

The Austrian perspective attributes a high level of autonomy to individuals, though not as high as that of the *homo economicus* model. The writings of Wieser, one of the founding scholars of Austrian economics, on the relationship between individuals and the social environment form a key aspect of this topic. Wieser holds that "the social environment in which agents find themselves and through which they operate is composed in part of institutions" (Oakley, 1999, p. 34). This kind of analysis must take into account the way in which institutions have been theorized as the result of cooperation between individuals for long periods of time, and that this generates the capacity of institutions to change their forms, contents or aims. Wieser's subjectivism points out to the individual's capacity for

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<sup>1</sup> In the words of Israel Kirzner "Menger had pioneered the theory of market prices as governed, both at the product level and at the resource level, by the demand of the consumer. The valuations of consumers (given the configuration of resource availability) determine the values of resources of production." (2001, p. 109-110)



action, but also takes into account its limitations on that action<sup>1</sup>. This kind of approach to the relationship between individuals and their environment<sup>2</sup> proved to be a fertile path to the analysis of socio-economic life.

Returning to Gunning's distinction between 'old' and 'new subjectivism', we can see that the moment of crystallization of the main lines of 'new subjectivist' thought was when it truly gave prominence to the role of entrepreneurship in the analysis of the economic environment<sup>3</sup>. The new subjectivist perspective developed by Mises holds that "the significant type of uncertainty is *intersubjective* - uncertainty about the wants, abilities and knowledge of *other* actors" (Gunning, 1997, p. 174, emphasis added). What makes this type of analysis stand out is that it underlines not only the imperfect knowledge about the present and future, but also the significance of other individuals who are active in the socio-economic environment. One of the solutions proposed by the Austrian school in the face of this type of uncertainty is linked to the entrepreneur's capacity to adapt to the constantly changing nature of relevant data. Individual entrepreneurs cannot work with an unalterable imagined script of the future and they cannot follow the steps in the script while ignoring the changing signals gathered from other participants in the market. Operating in this manner will inevitably lead to economic failure. Under the conditions outlined above – the impossibility of perfect knowledge about the market (Hayek, [1946] 1990, p. 170-172) – actors must constantly change their behaviors while taking into account the most relevant data learnt in each moment. The fact that Mises saw this new subjectivist 'theory of economic action' as one of the Austrian School's main points of distinction (Kirzner, 2001, p. 95) brings us closer to the perception of the

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<sup>1</sup>"It simply did not occur to him to model the human agents responsible for the generation of economic phenomena as isolated, omnipotent and purely rational beings. They are, as realism in subjectivist economics demands, always of limited capacity and fallible, but at the same time socially and institutionally situated and conditioned in ways which enable them to transcend some of their shortcomings as active individuals." (Oakley, 1999, p. 36) no direct quotation

<sup>2</sup>"While the Austrians construct their economics on a socially embedded foundation from which institutional questions naturally evolve, the "new institutionalists"—often referred to as transaction cost economists for their emphasis that institutions evolve to reduce the cost of doing business in a world of uncertain and unknowable futures—tend to graft a theory of institutions (and institutional evolution) onto the neoclassical frame." (Boettke and Storr, 2002, p. 163)

<sup>3</sup> It is interesting to see how Gunning said that Mises' subjectivist approach is closer to Weber than to Menger's 'old subjectivism' (Gunning, 1991, p. 17).

entrepreneur as an important component of the Austrian School's 'processual' approach to the market.

The Austrian School analysis of the role of the entrepreneur argues that the ways in which actors behave generate different types of entrepreneurial action. Another feature emphasized by Mises is that suppliers are in a permanent state of competition regardless of their activity niches or relationship to one another and that this state increases the actors' uncertainty: "competition does not take place only among those who offer the same item for sale, but also among those who wish to sell different articles. The sums which a consumer spends on buying any commodity reduce the sums which he can put up to buy other commodities. All entrepreneurs try hard to draw into their coffers as much as possible of the cash at the public's disposal. All goods and services are in competition with all other goods and services" (Mises, [1961] 1994, p. 154). Thus, individuals' efforts to gain a constant improvement of knowledge, abilities, skills and resources become an essential aspect of the analysis. From the perspective of Austrian economics the success or failure of an entrepreneurial activity is the direct result of an individual's interpretations of the signals received from other market participants. The individuals can perceive the information or signals received in market contexts in different ways<sup>1</sup> as well as the presence or absence of entrepreneurial opportunities. These perceptions generate different forms of entrepreneurial behavior. This realization gives insight into the relationship between entrepreneurship and the market process, wherein Kirzner emphasizes that "the character of that process for Mises is decisively shaped by the leadership, the initiative, and the driving activity displayed and exercised by the entrepreneur" (Kirzner, [1982] 1990, p. 122). The entrepreneur is the one who has assumed an essential role in the evolution of the market seen as a process, and the concrete form of his or her manifestation is the interaction.

### **III. Opportunities, sources of uncertainty, and competition from two different standpoints**

As detailed above, the Austrian School treats entrepreneurship from a subjectivist point of view. In this view, entrepreneurial opportunities can be found in the entrepreneur's subjective interpretations of socio-economic contexts (Lavoie,

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<sup>1</sup> On the perspective built by Kirzner about markets, Lavoie ([1991] 2002, p. 104) remarks, "The actor's objective circumstances are not important in themselves, but the specific opportunities and constraints he perceives are. Action, Kirzner says, is not a direct confrontation with objective reality itself but always takes place within an interpretative framework."

[1991] 2002, p. 104). This perspective differs from the one constructed by Joseph Schumpeter with its focus on the action of individual entrepreneurs as the most important factor in an economic system (Schumpeter, 1939, p. 102; 1976, p. 132) and generally with the more objective features of the socio-economic environment. This section explores aspects of both of these perspectives including entrepreneurial opportunities, the variety of sources of uncertainty, the relationship between entrepreneurs and their client base, and the importance of competition for the market process.

It must be noted that this article is not primarily concerned with economic theory, despite the important elements that the two perspectives have drawn from some aspects of this theory, and the significant role entrepreneurs play in an economic system. As such, it does not deal with distinctions such as that detailed by Kirzner (1973, p. 81), though it is helpful to note here: “what entrepreneurship achieves within the Schumpeterian system is the disruption of the circular flow, the creation of disequilibrium out of equilibrium. For me, on the contrary, the entrepreneurial role, although of course the source of movement within the system, has an equilibrating influence; it is entrepreneurial alertness to unnoticed opportunities which creates the tendency toward the even circular flow of equilibrium.”

Firstly, we can examine the discussion regarding the objective existence of opportunities for entrepreneurial endeavors. There is disagreement within the Austrian School as well as between them and the Schumpeterian perspective concerning differing individual perceptions of the features of the market and so-called entrepreneurial opportunities. This aspect brings into focus the fact that individuals using different capabilities<sup>1</sup>, skills, resources and knowledge develop distinct individual pictures of the situations that can be transformed into successful entrepreneurial action. For some in the Austrian School, it is particularly important to take into account the distinction between “discovery and interpretation” of entrepreneurial opportunities (Lavoie, [1991] 2002). Under Lavoie’s ‘cultural approach’ on entrepreneurship, these two aspects of the process are built on different foundations. The ‘dynamic perspective’ on opportunities, favored by Austrian economists, focuses on the processual character of markets and individuals’ understanding of this characteristic under conditions of interaction between autonomous individuals. In this interpretation, such opportunities are significant not only in the stage of motivating and initiating the

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<sup>1</sup> Loasby (1999, p. 50) defines ‘capabilities’ in the terms used by Richardson (1972), emphasizing that it cannot be interpreted in the terms of ‘rational choice’ because “skill, and therefore the quality of performance, is both important and problematic.”

entrepreneurial action, but must be continually followed by individuals. That which can be perceived by an individual at a given moment as a chance to capitalize on an entrepreneurial opportunity can, in time and as a result of the actions of other participants in the market, become a failure for that individual. As a result, the individual cannot with any certainty anticipate the future of the action in its initial moment, and for that reason he or she must constantly reconfigure his or her present and future image of the context (Kirzner, 1973, p. 9-11). This aspect of the entrepreneurial process has led to the Austrian School's emphasis on the analysis of 'uncertainty'.

Kirzner (1973) associated the way in which entrepreneurs perceive their opportunities in a market with their 'alertness' abilities. This perspective provides the possibility of outlining the distinction between the 'discovery' of opportunities (Kirzner, 1973, 1982) and the capacity to 'imagine' market opportunities as it was rendered by Shackle (1979) and other Austrian economists after him. White's dissatisfaction with Kirzner's "viewing entrepreneurial activity as responsive and unambiguously equilibrating" (White, [1976] 1990, p. 87) and his wish to reconcile this perspective with the Schumpeterian view of the entrepreneur who is in a "gale of creative destruction" led him to build a different perspective on uncertainty. In his words "the pervasive uncertainty faced by entrepreneurs, stressed by Mises but deliberately downplayed by Kirzner, suggests speculation or imagination more than alertness to be characteristic of entrepreneurship" (White, [1976] 1990, p. 88). In a similar line of thought to Shackle (1979), he considers opportunities as a results of an individual's 'imaginative capacity'. For Kirzner, opportunities exist on the market and must be discovered, while for White opportunities "certainly cannot be said (*ex ante* at least) to exist in any objective sense" (underlining in the original). In their concern with the discovery or imagination of *future* opportunities, the authors influenced by Shackle pointed out the importance of the time dimension in the analysis of entrepreneurship and used the distinction between 'the entrepreneur' and 'the arbitrageur'. 'The entrepreneur' has to deal with uncertainty<sup>1</sup> generated by the weakness of his or her knowledge about the future, while 'the arbitrageur' does not have this problem because he or she does not deal with the future but rather speculates on the differences within or between markets in a given moment. The

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<sup>1</sup> The difference between the entrepreneur and the arbitrageur was built on the foundation of different senses of uncertainty: "Uncertainty, like numerous other terms in economics, can be understood in two senses, one 'subjective' and the other 'objective'. The first designates an attitude or state of mind on the part of the decision-maker, while the second signifies the indeterminateness or unpredictability of future states of human affairs." (White, [1976] 1990, p. 91)

concept of uncertainty discussed by these authors forms an important part of discussion later in the paper.

Even if the conceptual tool of uncertainty<sup>1</sup> is not exclusively an Austrian one, they have made important contributions to the way in which it is used. The work of Mises cited above, which maintains that the competition between a market's actors does not finish at the boundaries of the industry or niche in which the actor operates, can be seen in a new light in this context. Under such conditions of generalized interconnection, entrepreneurs cannot possibly be aware of all relevant participants, let alone relevant data, a situation that creates its own dimension of uncertainty. Regardless of the level of investment into knowledge of the market, no participant can have absolute or perfect knowledge of the environment; therefore uncertainty is inevitable (Hayek, [1946] 1990; Kirzner, 1973, p. 38-39). Seen from this perspective the relationship between uncertainty and the entrepreneur can generate a number of approaches including the following. Firstly, uncertainty is a factor that decreases the possibility of a successful entrepreneurial act because individuals have limited knowledge on the conditions of their action. Secondly, uncertainty increases the probability of a successful entrepreneurial act because the other participants in the market have a limited knowledge of the context<sup>2</sup>. Changing the perspective from the environment to the individual, Austrian economists held that the individual can never be prepared enough for entrepreneurial activity and for this reason he or she must always be attentive to changeable signals from other participants<sup>3</sup>. In this type of analysis entrepreneurial opportunities from the first moment of an entrepreneurial action maintain an essential role only if the individual has the abilities and skills needed for constantly appropriate access to relevant information at the right moments.

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<sup>1</sup> Since its publication in 1921, Frank Knight's work '*Risk, Uncertainty and Profit*' has contributed some important interpretations to the analysis of economic uncertainty. He emphasized the difference between 'the measurable uncertainty and the unmeasurable one', and associated the concept of risk with the former. This article deals with a few characteristics of uncertainty in the definition of Austrian economics without aiming to compare or weigh these against Knight's.

<sup>2</sup> This specific aspect can be read in the following from Kirzner: "Only the introduction of ignorance opens the possibility of such unexploited opportunities (and their associated opportunities for pure profits), and the possibility that the first one to discover the true state of affairs can capture the associated profits by innovating, changing, and creating." (1973, p. 67). As we have already seen, this aspect of the analysis becomes possible in Kirzner's analysis of the individual's alertness to entrepreneurial opportunities.

<sup>3</sup> This aspect of the analysis can be emphasized even if the individual 'chooses' how to act and he or she has an 'imagined' plan for his activity (Shackle, 1979)

We have seen the importance for Austrian economists of underlining the significance of a constant effort by the entrepreneur in ‘discovering’ or ‘imagining’ opportunities and constant ‘learning’, while in the Schumpeterian vision, other factors receive an important role, particularly those linked with the innovative nature of the entrepreneur. In contrast with the perspective of the Austrians on the condition of inescapable uncertainty, the Schumpeterian perspective allows for more stability, taking into account that “the routines of the circular flow provide the stable background which is necessary for the calculations of Schumpeterian entrepreneurs” (Loasby, 1999, p. 175). The Schumpeterian entrepreneur does not establish an enterprise under the Austrian School’s conditions of uncertainty but rather in a relatively stable environment<sup>1</sup>. In a different take on the issue, the Schumpeterian entrepreneur faces the challenge that “the number of possible combinations is nearly infinite and that the entrepreneur cannot possibly go through them all in some rational way... The entrepreneur does not make a rational choice, but an intuitive one; and it is the capacity to make the right intuitive choice that separates a good entrepreneur from a bad entrepreneur” (Swedberg, 2007, p. 10). The difficulty of entrepreneurial activity for Schumpeter stems not from uncertainty but rather from individual and social limitations.<sup>2</sup>

In the perspective of Austrian economics, the individual capability to alter behavior according to the signals received from the market is of particular importance in the success of entrepreneurial activity. For Lachmann ([1976] 1990, p. 82), this alteration relates to the individual ability to differentiate between ‘old knowledge’ and ‘new knowledge’ and to maintain an optimal balance between these two spheres. ‘Old knowledge’ and ‘new knowledge’ coexist in individuals’ processes of building representations of the context of their activities, and the choice of the best type of knowledge to be used in a given situation is made by the

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<sup>1</sup> “Why is innovating activity most favored by equilibrium? A comparison of the difficulties and risks of innovation at different stages of the two-phase cycle shows a heavy balance in favor of this situation. The stability of business conditions, as well as the complete absence of profits, is more conducive to innovation than any other stage of the cycle could be. Since the risk of failure is at a minimum, and the pressure to innovate at a maximum, we should expect that innovating activity, under capitalist arrangements, would be extraordinarily great.” (Clemence and Doody, 1966, p. 54)

<sup>2</sup> “First, in the case of something new being attempted, the environment resists while it looks on with - at least - benevolent neutrality at repetition of familiar acts.... Second, for the repetition of acts of routine the environments offers the prerequisites, in the case of new things it sometimes lacks, sometimes refuses, them... customers buy freely what they understand. Third...most people feel an inhibition when the possibility of treading a new path offers itself...” (Schumpeter, 1939, p. 100)

individual. Even if opportunities exist in the market, these representations are the means by which these are converted into entrepreneurial behaviors (Kirzner, 1973). In this context we can examine the different roles of the signals that the entrepreneur receives from the market from both perspectives. In Austrian economics, signals received from markets indicate to the entrepreneur whether he or she must make changes in his or her behavior for a better response to competitors and a better adaptation to consumers' preferences<sup>1</sup>. In the Schumpeterian perspective, negative signals can be only a sign of the essentially innovative nature of the entrepreneur and the challenges that this nature presents to old, deeply-rooted behaviors and knowledge.<sup>2</sup>From this point of view importance is given to the entrepreneur's intuition (Swedberg, 2007) rather than the signals received from the other participants in the market. In any case, the variety of reactions in a market renders their interpretation impossible or very difficult.

The introduction of consumer preferences into the analysis brings to light further areas of contrast between the two perspectives which assume different points of view regarding the nature of the relationship between sellers and consumers. We have emphasized above that in the perspective of Austrian economics the entrepreneur must adapt his behavior to market signals (Kirzner, 1973; Shackle, 1979; Lachmann, 1976). We can now take a short look at the way in which the Schumpeterian entrepreneur alters the environment with his or her 'new combinations'. Consumers must be influenced to buy the entrepreneur's goods or services, even if this runs counter to their existing preferences. This influence can be illustrated by a short example: "visualize the situation of a man who would, at the present time, consider the possibility of setting up a new plant for the production of cheap aeroplanes which would pay only if all people who now drive motorcars *could be induced to fly*" (Schumpeter, 1939, p. 100, emphasis added). The difference between the two perspectives can be easily recognized if we follow the trail of influence through the processes. In the Austrian School's approach the seller is influenced in his or her behavior by the other competitors or by the

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<sup>1</sup> Carl Christian von Weizsäcker (2011) provides a useful analysis of the character of consumer preferences and of the distinction between adaptive and fixed preferences with an emphasis on the necessity of a multidisciplinary analysis.

<sup>2</sup> "In fact, it is easy to realize that those disturbances must necessarily be 'big', in the sense that they will disrupt the existing system and enforce a distinct process of adaptation which should show up as such any time series material. This is independent either of the size of the firm or *of the importance of the immediate effects their action would in itself entail. What we see at first glance may well be a multitude of reactions not easily traceable to any definite innovation behind them.*" (Schumpeter, 1939, p. 100-101; emphasis added)

consumers of his or her goods or services. Conversely the Schumpeterian entrepreneur, through his or her innovative behavior, influences the behavior of consumers and competitors.

Competition is emphasized by both perspectives as the essence of entrepreneurship. This does not mean that Austrian scholars and Schumpeter operated with the same definition of the term. Kirzner (1973, p. 16-17) is indicative of the Austrian School when he argues that, “the entrepreneur’s activity is essentially competitive. And thus competition is inherent in the nature of the entrepreneurial market process.” This aspect of the Austrian School’s work employs definitions of competition that emphasize the significance of small changes resulting from entrepreneurs’ constant attention to the details of market contexts and his or her goal of gaining a better position therein. For Schumpeter the entrepreneurial process can be understood only if we take into account the importance of innovation, which in contrast to the Austrian perspective, is the most important aspect of competition. The Schumpeterian perspective compares competition based on its model of creative destruction with a more traditional conception including that of ‘price competition’. In terms of the market, it “is as much more effective than the other as a bombardment is in comparison with forcing a door.” (Schumpeter, 1976, p. 84-85) This difference between the two perspectives on competition arises, as briefly mentioned above, from the distinct character associated with the relationship between entrepreneurship and the economic system.

#### **IV. Differences in the analysis of the relationship between entrepreneurship and knowledge**

Knowledge is one of the most important components of the analysis of entrepreneurial activity. This is true from an Austrian perspective on entrepreneurship, whose scholars have built a nuanced image of the concept, as well as the perspective of the field in general. This section will deal with some distinctive features of knowledge as defined by Austrian economics as well as the relationship between entrepreneurship and knowledge. Subsequently, these features will be contrasted with the Schumpeterian perspective.

Following the premise employed by Austrian economists that no participant in a market can have complete knowledge<sup>1</sup> of all relevant conditions, better

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<sup>1</sup> For Hayek, ‘complete knowledge’ is one of the features of the state of ‘perfect competition’ and this state is not possible in a real economy. “Accordingly to the general view, perfect competition presupposes: (1) A homogenous commodity offered and demanded by a large number of relatively small sellers or buyers, none of whom expects to exercise by his action a perceptible influence on price (2) Free entry into the market



knowledge of socio-economic context can decrease but not eradicate an individual's uncertainty (Gunning, 1991). This knowledge constantly alters itself because the market is a changeable environment. The individual's stocks of knowledge at the moment of entry into a market are important but play a decisive role only if the individual also has the ability to adapt his or her behavior to market conditions. Thus, there exists in the Austrian line of analysis a distinction between two spheres of knowledge. Firstly, there are stocks of knowledge employed at the moment of entry into the market, and this knowledge can be more or less useful to an individual in the accomplishment of his or her goals. Secondly, and more decisively for Austrian economic thought, individuals accumulate knowledge in the market. The latter knowledge is learned through participation<sup>1</sup> and is composed of the signals received from other participants in the market. This cannot be analyzed as objective information, however, as individuals form subjective perceptions of the market environment. It is important to emphasize that old and new knowledge have a complementary character, and the former is the foundation for the latter.

From this perspective the market becomes the only place where the entrepreneur can and must test his or her knowledge (Hayek, [1978] 1990, p. 188), and in Kirzner's analysis this test is made "of plans in the market" (Kirzner, 1973, p. 10). An important distinction which arises from the subjectivist character of the analysis is the fact that different people learn different things to differing extents (Lachmann, 1990, p. 83) regarding the market, and that this knowledge will inform future individual action in distinct ways. Success is considered to be a true 'Litmus test' for the entrepreneur's capacity to interpret signals from the market. Success suggests high ability in this regard while failure implies important shortcomings (White, [1976] 1990, p. 100).

Another distinction used by Austrian economists is the difference between the spheres of theoretical and practical knowledge. Swedberg interprets Hayek's discussion of spheres of knowledge thus: "the type of knowledge that has come to be known as 'scientific knowledge' in economics, Hayek argues, had distanced itself far too much from 'practical knowledge', which it views with a mixture of

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and absence of other restraints on the movement of prices and resources (3) Complete knowledge of the relevant factors on the part of all participants in the market." (Hayek, [1946] 1990, p. 172)

<sup>1</sup> In Kirzner's analysis this dimension of knowledge is associated with the individual's alertness "once we become sensitive to the decision-makers' alertness to new possibly worthwhile ends and newly available means, it may be possible to explain the pattern of change in an individual's decisions as the outcome of a learning process generated by the unfolding experience of the decisions themselves." (Kirzner, 1973, p. 36)

distrust and contempt. Practical knowledge... Hayek defines as ‘knowledge of the practical circumstances of time and place’ (Swedberg, 2002, p. 10). Theoretical knowledge regarding market features is particularly relevant at the moment of initiation<sup>1</sup> of an entrepreneurial action.<sup>2</sup> The fact that an individual cannot evaluate in the first moment either his or her degree of knowledge or which part of his or her knowledge will prove useful, is demonstrated by Lachmann’s assertion that “all useful knowledge probably tends to be diffused, but in being applied for various purposes it also may change character, hence the difficulty of *identifying* it” (Lachmann, 1990, p. 81, emphasis in original). At this point of the analysis, it becomes clear that an entrepreneur not only uses new data from the market to improve his or her knowledge but also comes to know more about the relevance of his or her own pre-existing knowledge – that which he or she possessed at the very beginning of the entrepreneurial action. This aspect of knowledge poses a challenge for the entrepreneur and for social researchers in the entrepreneurship field<sup>3</sup>.

In the Schumpeterian perspective the distinction between ‘old’ and ‘new’ knowledge is not applicable because of the impossibility that it sees in converting old knowledge to new. From the Austrian point of view, the process of improving knowledge is made in a constant and gradual fashion, while for Schumpeter the change is a radical one embedded in the process of ‘creative destruction’. In Kurz’s words, this change implies a state of conflict between the spheres of knowledge: “new economically useful knowledge is frequently the enemy of old knowledge. The new does not simply grow out of the old, but

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<sup>1</sup> This becomes especially visible in the perspectives outlined by Shackle (1988, p. 64) and White (1990, p. 93). It has been shown in their work that the individual’s ‘imaginative capacity’ is not associated with a ‘fantasy capacity’, but rather with a realistic vision of the future. Shackle holds that the plan used for an individual’s action is chosen after he or she has evaluated the barriers to other possible plans. Through this process, an attempt is made to eliminate unrealistic images of the future.

<sup>2</sup> Taking this into account, we must also note that for Kirzner’s entrepreneur the notion of knowledge is linked with his or her ‘alertness’. “[T]he aspect of knowledge which *is* crucially relevant to entrepreneurship is not so much the substantive knowledge of market data as *alertness, the ‘knowledge’ of where to find market data.*” (1973, p. 67, emphasis in original)

<sup>3</sup> “Indeed, even if it is possible to design appropriate incentives for individual agents to reveal which knowledge they privately possess, important aspects of personal knowledge will not be transferable to a central operator. In fact, these bits of knowledge could only be used by the individual agents themselves. Hayek himself referred to Michael Polanyi in maintaining that the ‘knowledge how’ to do something refers mainly to skills and can be considered tacit. Polanyi, 1958; Hayek, 1997, p. 43-5.” (Zappia, 1997, p. 273)

replaces it and ‘eliminates it in competition’” (Kurz, 2012, p. 5). On the same topic, it can be observed that innovative acts are intrinsically linked to the creation of new knowledge. Loasby argues that, “Schumpeter’s entrepreneur is the *creator of the new data*” (Loasby, 1999, p. 172).

The description of the process of influence forms a point of disagreement between the two schools of thought as it did in the earlier discussion about the relationship between entrepreneurs and consumers. The main difference between the two schools regarding the relationship between entrepreneurship and knowledge can be summed up with regard to influence: the entrepreneur in the Austrian School perspective is influenced by the information received from the market, while Schumpeter’s entrepreneur radically influences the knowledge available on the market through his or her innovation.

## V. Conclusions

The aims proposed in the introduction of this paper included an attempt to point out some differences in two of the main perspectives on the roots of entrepreneurship. Without dealing with the strong influence of the economic system (particularly with regard to equilibrium or disequilibrium) on entrepreneurial behavior, the analysis in this article has underlined the significant differences between Austrian School and Schumpeterian perspectives in distinct aspects of entrepreneurship including the nature of opportunities, sources of uncertainty, competition and knowledge. It has argued that besides the similarities that exist between and the two, there are also some significant differences.

Firstly, an important difference pointed out in this text was the ways of defining the concept of *process*. On this topic the paper has shown that the Austrian scholars define the concept of process in the field of entrepreneurship as the interaction between autonomous individuals in market contexts. The Schumpeterian notion, on the other hand, was used mainly with regard to the individual’s introduction of innovation into a market. This distinction was followed by a discussion regarding the way in which the two perspectives construct the relationship between entrepreneur and other participants in the market. It was shown that while the Austrian School saw the entrepreneur as having distinct relations with individual others in the market, the Schumpeterian entrepreneur has a relation with others as a whole by means of his or her innovation.

Secondly, the way in which entrepreneurial opportunities are examined in these different lines of thought represents an important aspect of their distinctiveness. The process of discovery of opportunities in individual representations of market

contexts or the process of building and choosing the right plan for an ‘expected’ reality as outlined by the Austrian economists is quite different from the process of ‘creative destruction’ analyzed by Schumpeterian scholars. At this moment it should be noted that many in the Austrian School found some points of agreement with the broad definition outlined by Schumpeter on the concept of ‘new combinations’.

The analysis showed that in two important aspects of the analysis of entrepreneurship, namely the relationship between entrepreneur and consumers and between entrepreneurship and knowledge, the two perspectives grow from different roots. For Austrian economics the primary aspect of these relationships can be found in the process of constant adaptation to the market’s changeable character. Thus, the entrepreneur in the Austrian vision changes himself or herself according to signals perceived in the market. Schumpeter’s innovative entrepreneur, on the other hand, was not only capable of changing the consumer’s preferences and behaviors but also the knowledge existent in the market. The successful entrepreneurial act is linked, in the Austrian school analysis, with the process of learning in the market context, while in Schumpeter’s analysis the entrepreneur provides an example to his or her competitors as to how things must be done.

The article points out why Schumpeter is not an Austrian economist although he was born, raised, and intellectually trained in Austrian cities such as Wien and Graz. His approach to entrepreneurship is different from what we know today as being labeled as Austrian economics. His point of view regarding what innovation really means is still present in many analyses of the topic and his 1934 book is probably one of the most quoted papers of the field. The fact that Schumpeterian and Austrian economics perspectives are built on an individualist basis turned them into an ideal foundation for later developments for economic sociology.

Finally, we should mention that from a sociological point of view the main contribution to the schools of thought analyzed in this paper is linked to the importance of the forms of capital including human and social capital. The entrepreneur’s social abilities receive a new role in explaining the entrepreneurial behavior through ‘interaction’ as one of the principal constitutive elements of the market. Complementarily, the role attributed to the process of ‘learning’ by the Austrian economics makes possible a deeper understanding of the mechanisms for building and improving the stocks of human capital held by individuals. Each of these two forms of capital can be seen as substitute for economic capital. Following this line of thought the Schumpeterian metaphor of “new combination” receives new meanings. Even if they did not use these labels of ‘human’ or ‘social’ capital,

the roots of these types of approaches of entrepreneurship can be linked to the concepts analyzed in the present article.

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## COMPARISON OF THE ADOPTION OF KNOWLEDGE MANAGEMENT SYSTEMS AMONG THE EMPLOYEES OF A TURKISH MUNICIPALITY

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**Abstract.** *The public-administration sector provides rich information to public servants. Therefore the importance of the improved management of knowledge through the use of Knowledge Management Systems has enormously increased in order to solve employees' tasks and deliver services to citizens effectively while facilitating decision-making capabilities. Furthermore, an organization's wide adoption of Knowledge Management becomes important in order to obtain higher benefits. This study aims to descriptively identify the difference between the back-office and front-office employees' adoption of a socio-technical knowledge management system in a municipality setting. Adoption process is comprehensively considered by including its antecedents and consequences. Subsequently the developed seven-point Likert scale survey was conducted in a Turkish municipality and the responses were evaluated descriptively. The results showed that decision environment and decision tasks are quite simple for both groups, although they are more complex for front-office staff than for the back-office staff. However, front-office staff are observed to use the system less than back-office staff and consequently achieve less benefit. Finally, the paper was concluded with further implications for research and practice.*

**Keywords:** *knowledge management systems, survey, descriptive study, adoption, effectiveness, back-office, front-office*

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### 1. Introduction

As a result of moving towards the knowledge society people's behavior, economic expectations, organizational structures, cultures and work processes are increasingly changing. The public-administration sector also continually evolves because of a dynamic organizational environment, laws and regulations, and the processing of unpredictable requests and exceptions. Additionally, rich information from public-administration provides a valuable asset to public

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servants. Therefore, better management of knowledge is extremely necessary for the public-administration sector so that public servants can effectively solve administrative tasks and deliver services to citizens while maintaining high quality, transparency, and accountability in decision making (Apostolou et al., 2009).

Chang et al. (2009) and Woolf (2010) supposed that knowledge and information management is going to be and needs to be a major issue in governments' agendas. Knowledge and information have been realized as the core organizational assets that enable both financial and non-financial opportunities. In order to manage knowledge and information well, wider citizen engagement and new services beyond traditional public sector boundaries are necessary. Handzic (2007) therefore suggested that governments have to adopt knowledge society tools and working practices in order to take action for the changing needs of their components.

According to Butler et al. (2008), the number of IT applications to facilitate Knowledge Management (KM) in the public sector has been growing. However, there is a lack of research for designing and developing effective, integrated Knowledge Management Systems (KMS). According to Kankanhalli et al. (2003), well established KMSs can support all KM activities by providing knowledge repositories, expert directories, and knowledge exchange platforms.

E-government services are useful for municipalities because they provide better and more efficient services to citizens, enterprises or other public offices. Front-end services integrated with multiple platforms and technologies should give access to users of multiple government areas. There is a wealth of implicit data in software applications that support administration activities in the back-office, and this back-office data should be available for the e-government users quickly and precisely. Therefore, infrastructure is necessary to explicate the stored knowledge in different government areas and deliver this knowledge to the users (Brusa, Calusco, & Chiotti, 2007).

Moreover, public administration requires highly trained, legally informed, specialized public servants (Citizens First 5, 2008). Hence, the adoption of KMS through public servants is necessary to facilitate their work. Knowledge-intensive public administration work was classified by Hansen et al. (1989) as: (1) **Routine work** (repetitive administrative tasks, such as processing files and documents); (2) **Interlinked work** (interactive and collaborative works of public servants in order to accomplish shared administrative, personnel, material, or IT activities); (3) **Specialized work** (complex cases, providing services, and executing processes); and (4) **Unique, complex work** (the collaborative work between public administration

sector and external partners) (Apostolou et al., 2009). The type of the system and the required system characteristics may differ depending on public servants' knowledge intensive work. Identifying the adoption level of the system and therefore the level of obtained benefits may be helpful in order to determine the needs of different users.

Consequently, this current study becomes important because it considers the need for a better explanation of adoption and successful implementation of KM practices through organisations. The fundamental aim of this research is to compare descriptively back-office and front-office employees' adoption of a socio-technical knowledge management system in a municipality setting. The current research tries to identify the difference between the level of back-office and front-office employees': (1) KMS adoption as a tool to facilitate KM; (2) perceptions about KMS; (3) considerations of the available socio-technical KMS; (4) complexity of decision making environment, decision task and decision maker; and (5) realized benefits in terms of knowledge performance, decision performance and organizational performance.

The paper is divided into six sections including this introduction. The second section presents a review of literature about KMS adoption and KM(S) applications in governmental organizations. The third section discusses methodology, and the fourth section presents the empirical results of the survey. The interpretations about the results are provided in the following discussion section. Finally, the sixth section concludes the study and gives suggestions for further study.

## **2. Literature Review**

This section presents a review of relevant KM literature based on KM(S) studies performed in governmental agencies and technology adoption theories and models.

### ***KM(S) in Government***

The literature about KMS in governmental offices provides more information on knowledge processes. For example, Goh et al. (2008) suggested that Knowledge Management (KM) in e-government portals should guarantee efficient knowledge flows among governments, individuals and organizations. They proposed a model (K-ACT) that includes knowledge access, creation and transfer as the three important KM mechanisms for portals. They characterized each mechanism by a set of dimensions and sub-dimensions that represent supporting tools and features for that mechanism. They also developed a checklist from the model and applied it to 60 Asian and North American e-government portals to investigate the amount of KM mechanism implementation. According to the results, the model

could describe only about 36 per cent of the KM mechanisms in e-government portals. There were no significant differences found in the implementation of KM mechanisms between the two regions' portals.

Similarly, Behzadi et al. (2012) aimed to examine knowledge management (KM) mechanisms in 20 Iranian e-government portals. They measured access, creation and transfer processes of KM through a checklist considering the use of the K-ACT (Knowledge access, creation and transfer) model. They identified a poor level of e-government portals in Iran. They suggested the consideration of a particular relationship between e-government and KM. The authors further emphasized the high importance of designing new KM adoption models in e-government is highly important.

Moreover, Chang et al. (2009) investigated the KM CSFs (Critical Success Factors) in Taiwan national government. The governmental KM initiatives were demonstrated in two different dimensions: (1) core KM processes (organizational missions and values, IT applications, documentation, process management, and human resources) and (2) KM performance (knowledge capture and transformation, business performance, knowledge sharing and value addition). Chang et al. (2009) identified some factors consistent with the priori researches (Alazmi & Zairi, 2003; Misra & Hariharan, 2003): (1) organizational mission and values (as the most important factor), (2) alignment with organizational objectives, and (3) IT (Information Technology). Furthermore, they accepted process and human resource management as critical. For the KM performance dimension, they observed that knowledge capture is the most important activity especially in the initial stage of a KM initiative.

The literature also provided some research about the antecedents of processes such as Patricia & Christie (2008) who aimed to expand Hornsby et al.'s (1999) research which studied and observed the significant direct influence of leadership support on the corporate entrepreneurship as an internal factor in order to explicate tacit knowledge. They furthermore suggested that local governments should build innovative top management teams in order to facilitate the development of local economy and community.

Some studies evaluated the quality of the system. For example, Kamal (2011) adapted a Revised Model for Integration Layers (REAL) that integrates five layers (connectivity, transportation, transformation, process integration and knowledge integration). His results showed that data inconsistency and replication can be prevented by integrating knowledge through EAI (Enterprise application integration).

There are also some studies about the perceptions of the system in terms of usefulness and ease of use. For example, Apostolou et al. (2009) suggested SAKE

(Semantics-Enabled Agile Knowledge-Based E-governance) that includes information, context, and preferences to overcome insufficient KMSs. They recommended SAKE because of its perceived ease of use and usefulness. They furthermore suggested that the KMS must process work contexts and manage preferences to determine the relevant information for each public administration role and take necessary action.

Moreover, KMS research in governmental organisations considered the benefits of system usage. According to Kamal (2011), IT and KM together have some common objectives e.g. transforming organizations into more effective and efficient, agile and innovative, and more responsive forms. He reported that Local Government Authorities (LGAs) are observed to have lack of integrated IT infrastructures resulting in inconsistent and redundant data generation, inefficient knowledge exchange and poor service quality and delivery.

Raja and Raja (2010) studied the role of Knowledge Management Practices (KMP) and competencies in order to increase the performance and efficiency of Malaysian public sector organizations by surveying all Administrative and Diplomatic Officers (ADS) from 28 ministries located in Putrajaya, Malaysia. Their research supported the theory that knowledge management practices are influential on organizational performance.

On the other hand, when the individual benefits are considered, Apostolou et al. (2009) assumed that the next-generation KMSs will shift from the era of information search and sharing to timely information delivery, and that they can identify user needs in addition to offering new and interesting solutions.

The relationship between back-office and front-office usage were compared by Brusa et al. (2007). They suggested an ontology-based approach in order to improve content discovery, aggregation, and sharing in the e-government back-office through a case study in a local government domain in Argentina. They concluded that the use of ontology-based systems in e-government tasks enables the delivery of efficient integrated services through its front-end knowledge.

### *Technology Adoption and KMS*

According to Brooking (1999), an effective knowledge management system should be adopted by all the users through the organization. Therefore, researchers have made many attempts to explain KMS adoption and effectiveness (Martins & Kellermanns, 2004; Hsieh & Wang, 2007; Huh et al., 2009; Larsen et al., 2009). In the history of research on KMS, Davis' (1986) Technology Acceptance Model (TAM) has been studied many times and gained an explanatory power of technology adoption behavior. DeLone and McLean (1992; 2003) looked into the success dimension, and Jennex & Olfman (2005) supposed that success models can provide further explanation to adoption theories and determine the outcomes of use in the context of KMS.

Therefore, the determination of organizational and individual factors for adoption of KMS as the antecedents of adoption and its outcomes becomes very important. Zack et al. (2009) reported that there are only a few studies that have attempted to explore KM performance outcomes. Furthermore, Baccara-Fernandez et al. (2004) suggested examining the influence of task complexity on KM adoption.

Finally, Ozlen and Handzic (2012) proposed and tested the KMS adoption process by considering its antecedents and consequences through a variety of high-tech organizations. They found strong evidence for their proposed research model.

### 3. Research Methodology

This section covers research design, sample and data analysis.

#### 3.1. Research design and instrument

The overall research goal in this study is the observation of KMS adoption through back-office and front-office staff in one of the municipalities in Turkey. A survey based study that applied a 7-point Likert scale was preferred for this research. The survey was designed according to KMS literature. The references used while designing survey questionnaire items are observed in Table 1. While designing the survey, time requirements, emotional cost, trust and the nature of the relationship between respondents and researchers were considered. The survey form did not ask any personal information, and the Rector's foreword was shown as a cover letter that included the International Burch University logo in order to demonstrate the intention of an academic research to the respondents and to emphasize the importance of their response.

**Table 1 - References for Survey  
Questionnaire Scale Development**

Constructs	Literature
KMS Sophistication	Handzic & Zhou (2005); Handzic et al. (2010)
Decision Making	Wood (1986); Campbell (1988)
Perceived Benefits	Ajzen & Fishbein (1980); Triandis (1977); Davis et al. (1989); Jennex & Olfman (2004)
KMS Usage	DeLone & McLean (1992, 2003), Davis et al. (1989), Jennex & Olfman (2005, 2006)
Net Benefits	Handzic (2003, 2009, 2011), Malhotra (2002), Holsapple (2004), Jennex & Olfman (2006), Jennex et al. (2007), and Zack et al. (2009)

Source: *processed by Author*

A considerable attention was given while designing the survey in order to encourage the respondents completing the survey. An expert team from Management Department of the University evaluated the survey. According to their comments and suggestions, the necessary corrections were done. The survey was prepared in order to take not more than 20 minutes to complete. The survey contains instructions on its completion and seven major parts: (1) Demographic information (organizational and individual); (2) Decision Making (decision task, decision environment, and decision maker); (3) KMS characteristics (Social and Technical); (4) KMS perceptions (Perceived Usefulness and Perceived Ease of Use); (5) KMS usage; (6) Net Benefits (KP, DP, OP) and (7) Comments and suggestions. The major research variables and measures are provided in Table 2.

Table 2 - Research variables and measures

	<b>Task Complexity (of Decision Tasks)</b>
1	Most decision problems that I solve are complicated/complex
2	In my organization, I encounter a lot of problems with uncertain/changing causal links
3	In my organization, many of my decision tasks are rather ambiguous/unclear
4	My decision problems are often novel/unfamiliar/unknown to me
5	Most of my decisions are irreversible and cannot be easily corrected
	<b>Individual Self-efficacy (of Knowledge Workers)</b>
6	I have necessary knowledge and skills to perform my decision tasks
7	I am able to solve decision problems that I encounter
8	My motivation to do well is high
9	I learn quickly from experience
	<b>System Sophistication (of KMS)</b>
10	My organization has sophisticated business intelligence system
11	Intelligent business analytics tools are incorporated
12	There are excellent systems for communication and collaboration
13	Advanced e-learning and creativity support features are included
14	Leadership of my organization is visionary
15	My organization is organized as a network structure/form
16	My organization has developed a knowledge measurement system
	<b>Perceived Benefits (of KMS)</b>
	<b>Usefulness</b>
17	KMS provides me with enhanced institutional memory
18	KMS helps me to search knowledge repositories & visualise relationships and patterns
19	KMS improves my links with colleagues within and outside organization
20	KMS stimulates more my own creative thinking and fosters my on-the-job learning

	<b>Ease of Use</b>
21	KMS is simple and easy to use
22	KMS is easy to learn how to use
23	KMS is accessible from anywhere at anytime
24	KMS is quick to get knowledge from
	<b>Voluntary Use (of KMS)</b>
25.	I use KMS to access captured internal/external knowledge and gather intelligence
26	I use KMS to uncover and interpret hidden patterns in data and extract new knowledge
27	I use KMS to exchange ideas and share knowledge with my colleagues and experts
28	I use KMS to close gaps in my own knowledge and look for new innovative ideas
	<b>Net Benefits (of KMS Use)</b>
	<b>Individual Knowledge</b>
29	I am more aware of my organization's internal and external environment
30	I understand better the reasons and philosophy behind my decisions,
31	I am more familiar with where to find and get necessary knowledge resources
32	I know better how to implement necessary routines and relevant know-how
	<b>Decision Performance</b>
33	I am more confident in the quality of my decisions
34	I am more satisfied with the process/outcome of my decision making
35	My efficiency/effectiveness of decision making has improved
36	My decisions are more creative/innovative
	<b>Organizational Performance</b>
37	My organization has improved performance efficiency/effectiveness
38	My organization is more agile and able to coordinate suppliers/customers
39	My organization has implemented more innovative products/services
40	My organization has enhanced its competitive advantage

Source: (Ozlen and Handzic, 2012)

### ***3.2. Subjects and procedure***

The target respondents within the municipality were KMS users. Personal demographics of the respondents included their departments, roles in the departments, age categories, education levels and genders.

The questionnaires with the cover letter were distributed by hand through the contact people in the organizations. Follow-up telephone calls and visits to the contact persons were made in order to increase response rates. Totally 138 responses were obtained as a result of distributed 250 surveys (55.2% response rate).

While replying to the survey, the respondents were asked circling the number that best reflects the level of their agreement with the statements in order to rank

their agreement to a statement relative to positive and negative end-points of a 7-point Likert scale.

### 3.3. Analyses

After collecting the survey responses, the data were encoded, entered, and analyzed descriptively by considering the research model components using Microsoft Excel spreadsheet program. Related descriptive statistics are given in the Results section.

## 4. Results

### 4.1. Demographic information

The respondents are from various parts of the municipality. As observed from Table 3, the respondents are mainly from Operation, Production, or Service departments with 97 responses (70.3%). The result is in line with the activities of the municipalities.

**Table 3 - Departments (classified according to value chain activities)**

Functions/Departments	Code	Frequency	Percent
Administration	AD	5	3.6
Human Resources	HR	2	1.4
Information Technology	IT	28	20.3
Operation/Production/Service	OP	97	70.3
Missing		6	4.3
Total		138	100.00

Source: *Research results processed by Author*

The roles of the respondents are suitable with the targeted sample. They are system users within the municipalities (managers, professionals, clerical staff, and technicians & professional associates in orderly) (Table 4).

**Table 4 Respondents' Roles within the Departments**

Respondents' Roles	Code	Frequency	Percent
Clerical Staff	C	19	13.8
Managers	M	42	30.4
Professionals	P	45	32.6
Technicians & Professional Associates	T	20	14.5
Missing		12	8.7
Total		138	100

Source: *Research results processed by Author*



There are 71 front-office and 61 back-office respondents from the municipality. Moreover, the majority of the respondents are observed to be male.

## 4.2. Questionnaire Results

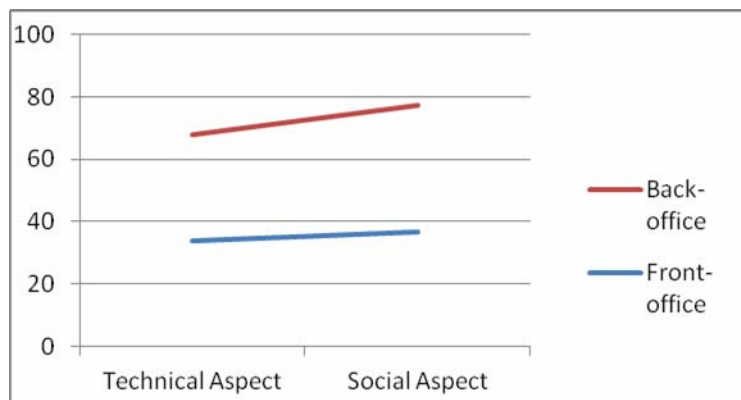
### A. Contingencies

In this section, social and technical aspects of KMS and Decision Making Components (decision task, decision environment and decision maker) will be considered according to the results.

#### i. KMS

When technical and social aspects of KMS were considered, the front-office respondents seemed not to be aware of the available socio-technical tools compared to back-office respondents. They don't feel the support of social environment through the organization as much as the back-office staff does (Figure 1). Furthermore, back-office staff feels the strength of the social aspect more than the technical aspect.

Figure 1 - KMS Aspects (Agreement level in percentage)



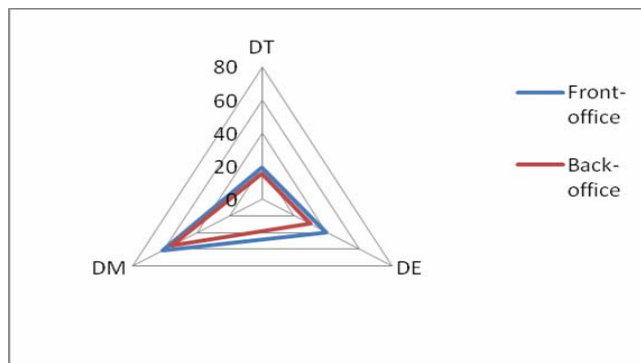
Source: Research results processed by Author

#### ii. Decision Making

As observed from Figure 2, front-office decision tasks and decision environments are perceived as more complex when compared to those for the back-office. In line with the assumptions of Apostolou et al. (2009), decision tasks for both back-office and front-office employees appear to be quite simple. On the other hand, decision

makers' self-efficacies are observed to be slightly higher for front-office than for back-office. As expected, the back-office work has been more regular, automated and less complex. However, front-office workers may meet extraordinary circumstances more frequently than the back-office workers. Therefore, their decision environment changes quicker than the back-office environment.

**Figure 2 - Decision Making (Agreement level in percentage)**

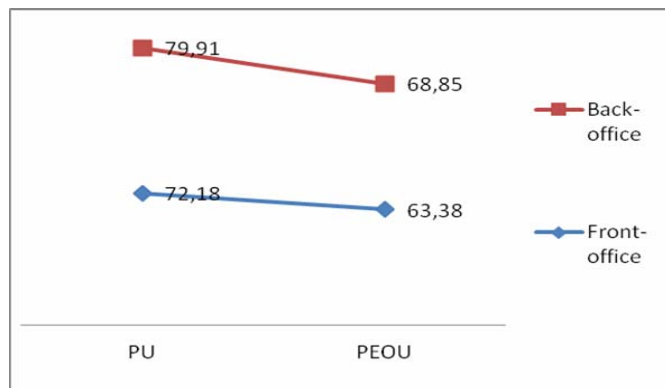


Source: *Research results processed by Author*

**B. User Perceptions about KMS**

Back-office staff perceives the system as more useful and easy to use compared to the front-office staff (Figure 3).

**Figure 3 - Perceived Benefits of KMS (Agreement level in percentage)**

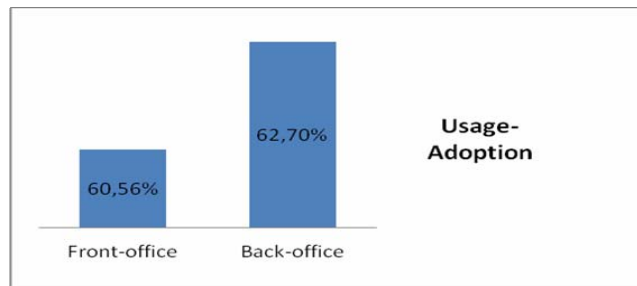


Source: *Research results processed by Author*

### C. KMS Adoption Level

Back-office staff, as expected, seemed to adopt the system slightly more than front-office staff (Figure 4). However, the adoption levels are not satisfactory (62.70% vs. 60.56%).

Figure 4 - KMS Usage-Adoption (Agreement level in percentage)

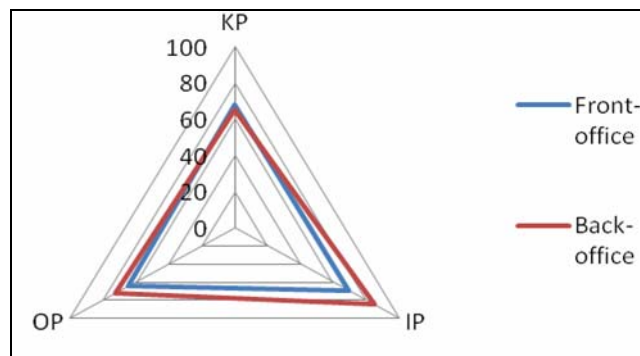


Source: *Research results processed by Author*

### D. KMS Benefits

After using the system, the front-office staff, by considering their usage, believed slightly more than the back-office staff that the municipality gained organizational performance (OP). Both of them have similar consideration that the performance of knowledge (KP) increased as a result of KMS usage. However, back-office respondents are observed to have improved their individual performance (IP) much more than front-office respondents (Figure 5).

Figure 5 - Comparison of Benefits (Agreement level in percentage)



Source: *Research results processed by Author*

## 5. Discussion

The main purpose of this paper was to descriptively investigate the difference between the adoption behaviors, including antecedents and outcomes, of the front-office staff and the back-office staff of a Turkish municipality.

It has been discovered that both groups seemed to use the system above average while back-office workers using more. We may conclude that the existing KMS is somehow adopted by both of the groups and therefore the adoption level should be increased.

The technical aspect of municipality KMS seemed to be lower than the social aspect, so both users either are not aware of the technical capacity of the system or they feel the support of social aspect more.

Moreover, the system was perceived as useful and easy to use by both front-office and back-office staff. These are important to enhance the level of adoption as suggested by Davis's (1986) TAM.

Decision making circumstances for front-office staff seemed more complex when compared to those for back-office staff. However, they are observed to be quite simple and in general parallel to the results of Apostolou et al. (2009). Hence, the system should provide necessary operations for their routine works.

Finally, back-office staff appeared to have more benefits than front-office users. However, the level of agreement is just above average for both groups.

## 6. Conclusion

This study, as stated at the beginning, evaluates the adoption level of a Turkish municipality KMS among its back and front office employees. It comprehensively considers KMS adoption process by including antecedents (Becerra-Fernandez et al., 2004) and consequences (Handzic, 2003, 2009, 2011; Malhotra, 2002; Holsapple, 2004; Jennex & Olfman, 2006; Jennex et al., 2007; Zack et al., 2009). Although the research identified that front office workers have both more complex environments and tasks, they seem not to be aware of the technical and social aspects of the system as well as back-office workers are. Even if they need to use the system more, they don't perceive the system as useful and easy to use as much as the back-office workers. Therefore, they do not adopt the system more and finally, they could not have achieved benefits as desired.

The reason for this may be the requirements of the staff. Since they need the system for their routine work, they may not fully realize the system characteristics and therefore perceive it as useful and easy to use at a maximum

level. Furthermore, the system should also provide the integration of gathered information through back and front-office staff while offering different options for their different types of works.

### ***6.1 Research Limitations and Future Directions***

The main limitation for this research, as in many studies, is the number of responses. Although the number of 138 is satisfactory enough, more responses would have been more representative. Furthermore, the results presented the situation in one Turkish municipality, and the picture may change for another municipality or group of municipalities in the world. The same study or similar studies may be repeated for different groups within the municipalities. Moreover, future studies may develop models by considering the same/similar items in order to understand and explain the reasons of different behaviors of back-office and front-office employees (or different organizational groups) within the municipalities (the organizations) in the context of KM(S).

### ***6.2 Implications for Practice***

The study identified that the front-office staff is in a greater need to use the system since they have more complex decision tasks and environments. However, front office staff don't feel very much that there is a system that has social and technical aspects ready to help them. Therefore, as Brusa et al. (2007) suggested, whether it is necessary to enhance the system for their use (such as mobile systems to enable the easy front-office access) or making them aware of the system through some activities such as user training programs if there is indeed a system in place. Furthermore, front-end services should be accessible to the users through the municipality, and back-office data should be available to the e-government users quickly and accurately. Therefore, the infrastructure should explicate the stored knowledge in different parts of the municipality and deliver this knowledge to the users.

User perceptions (for both front-office and back-office) are observed to be low. Through training programs the level of perceptions and furthermore, the level of use may be increased. It is expected that if the more the users feel the socio-technical system as both useful and easy to use, they will probably use the system more. Finally, if the system was used more, it is expected to provide more benefits.

## List of Acronyms

KM	: Knowledge Management
KMS	: Knowledge Management Systems
K-ACT	: Knowledge access, creation and transfer
CSFs	: Critical Success Factors
IT	: Information Technology
EAI	: Enterprise application integration
SAKE	: Semantics-Enabled Agile Knowledge-Based E-governance
LGAs	: Local Government Authorities
KMP	: Knowledge Management Practices
ADS	: Administrative and Diplomatic Officers
OP	: Organizational Performance (OP)
KP	: Knowledge Performance
IP	: Individual Performance

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# COORDINATES OF THE BUDGETS OF REVENUES AND EXPENDITURES OF THE RURAL LOCALITIES

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Flavius MIHALACHE<sup>1</sup>

**Abstract:** *The study has two main objectives: exploring the budget coordinates of Romanian communes with the purpose of first, identifying regional differences and second, analyzing the projects selected for European financing through measure 322 of the National Program for Rural Development. The study uses 2010 data on the budget of revenues and expenditure of the rural localities (supplied by the Directorate for Local Fiscal and Budgetary Policies within the Ministry of Administration and of the Interior), as well as data on the projects selected for European financing through measure 322 of PNDR (“Renovation and development of villages, improving the basic services for the rural economy and population and valorization of the rural legacy), provided by the Agency for Payments for Rural Development and Fisheries. The underlying data for these analyses reveal significant gaps between the possibilities of financing development using the budget revenues of rural localities both at the regional and intra-county level. These gaps contribute to higher inequalities between areas with intense economic activity and poor areas, preventing a balanced development of the rural areas. Polar typologies can be thus noticed: the communes close to urban centers from the developed regions that can provide, largely from their own funds, the expenditures for the development of the public infrastructure, and the poor communes where the financing of the projects of local development depends on the allocations from the central budget and on the success of accessing European funds.*

*Keywords: rural development, infrastructure and public utilities, local budgets, European financing*

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## I. Introduction and methodology

Significant changes can be seen in the Romanian rural space in the last decades. Differences in development at local and regional levels increased. This study analyzes how these differentiations appear at the level of local budgets. The paper

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has two main objectives regarding the budgetary coordinates of the Romanian communes in the last period. The first objective is to describe and classify the budgets of revenues and expenditures of the Romanian rural localities, as they are registered in the official government statistics. This type of approach is interested in exploring the local budgets of the Romanian communes and with this aim the article emphasizes their financial details and presents the main sources for financing local projects. The second objective could be linked to the analysis of those projects selected for European financing through measure 322 of the National Program for Rural Development (NPRD, 2012). Both objectives discuss the possibilities of financing rural development projects.

Keeping in mind these considerations, this study aims to explore the premises for the development of rural localities in Romania on the basis of local budgets and European funding. The structure of the paper is organized as follows: *the first part* of the study explores the coordinates of the budgets of revenue and expenditures in 2010 using public statistics supplied by the *Directorate for Local Fiscal and Budgetary Policies*, within the Ministry of Administration and of the Interior (2012)<sup>1</sup>. The paper will point out some regional differences and the main gaps between counties. The second part of the study will focus on exploring the budgets of the *top 100 richest local rural administrations*, aiming to identify the main features of the localities that belong to this category. The last part of the article will be concerned with the characteristics of the winning projects of NPDR measure 322 - “*Renovation and development of villages, improving the basic services for the rural economy and population and valorization of the rural legacy*”, and this section will be based on figures provided by the Agency for Payments for Rural Development and Fisheries for the end of 2011<sup>2</sup>.

## II. Theoretical approaches

The Romanian rural environment has an important deficit of community life conditions, of public utilities and of transportation infrastructure (Mărginean, 2006). Therefore, the improvement of the rural standard of life depends, largely, on the progress of the life conditions ensured at the community level. Solving these problems is the task of the local authorities. However, most times budget constraints do not allow the local authorities to run large investments in the area of public utilities using local funds (Institute for Public Policy, 2010). There are large differences between rural localities in terms of the budgets of revenue and

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<sup>1</sup> Public data on the budgets of revenues and expenditures available at: [http://www.dpfbf.mai.gov.ro/sit\\_ven\\_si\\_chelt\\_uat.html](http://www.dpfbf.mai.gov.ro/sit_ven_si_chelt_uat.html) [Accessed March 2012]

<sup>2</sup> List of winning projects available at <http://www.apdrp.ro/content.aspx?item=2100&clang=RO> [retrieved on 03.05.2012]

expenditure, and these differences yield developmental gaps between communes (Dărășteanu, 2010). Thus, the most developed rural localities, located with predilection in peripheral areas of important urban centers have important advantages relying on the size of the population and the specificity the economic activities. At the opposite end, communes from poor areas have a significant deficit of public utilities and infrastructure caused by a lack of public financial resources. Therefore, the coordinates of the local budget of revenues and expenditures represents the main determinant in the process of development of the communes. In the case of the most developed rural localities the budget could sustain all the necessary investments in public services and infrastructure (Institute for Public Policy, 2010). However, for most Romanian rural localities, local budget coordinates doesn't allow such important investments. For these communes there are two main factors that may improve their state: the allocations of public resources from the central budget for projects of rural development and programs of European financing (Tarnovschi, 2010).

The difference between central and local budgets is based on the different competences of national and local authorities (Oprea, 2010, Ichim, 2010). This means that there exists a complementary relationship in terms of revenues and expenditures between the national and local budgets. In recent years the process of decentralization increased the abilities of the local authorities and expanded the role of the local budgets (Bunescu & Cristescu, 2012; Oprea, 2010). The five main sources of revenue for the establishment of communal budgets are: *“part of the VAT, part of the income tax, EU contribution to the local projects of investments, tax on buildings, land and automobiles and state subsidies”* (Association of Romanian Communes, 2012, 33). Thus, the revenue forming the budget of the rural localities can be classified by *own revenue* or *financial allocations from the state budget or from European projects*. For the Romanian reality, the communal budgets depend heavily on the state budget, the proportion of own incomes being, most times, very low. In this way, procedures of balancing the local budgets are very important for ensuring the cash flow for the local authorities (Bunescu & Cristescu, 2011). Most of the taxes are collected by Ministry of Finance through the district directorates and later they are shared between central, county and local authorities (Bunescu & Cristescu, 2011). According to Law 273/2006 regarding the local public finances, the main own revenues collected by the local budgets are: *part of the profit tax, part of the income tax, the taxes and duties on property, the taxes of specific services and the revenue from interests* (Oprea, 2010). For these revenues, local authorities are free to decide the way of spending, unlike the allocations from the public budget or from the European funds, which target specific categories of expenditures, which the local authorities cannot change (Bunescu & Cristescu, 2011). The European funds for the development of rural infrastructure are, next to the own funds and to the funds received from the central budget, one of the main

sources of financing the development of the conditions of life within the community (Tarnovschi, 2010). Because most of the rural localities cannot run large investments due to small revenues from their local budgets, European funds are the only viable way available to local authorities to make large-scale investments (Association of Romanian Communes, 2012). Even though it is too soon to quantify the actual results of these financial allocations since most such projects are still undergoing implementation, the descriptive analysis of the characteristics of the selected projects may reveal several concrete dimensions of the importance of these funds for the development of communes in Romania.

The EU has allocated 45 billion Euros in 2007-2013 for the Central and East European member states to run programs for rural regions (Farcas, 2010). These financial allocations rely on the proportion of the rural areas in these states, as well as on the features of the agricultural sector. Most of these funds, over one third of the total amount, was allocated to Poland (16.9 billion), while Romania has available 8.9 billion and Bulgaria 4.9 billion (see Table 1 for further details). These kind of funds are allocated on the basis of three main axes of the LEADER program. Axis 1 aims to increase the competitiveness of the agricultural sector by using 18.7 billion Euros for investments which to increase farm productivity. Romania has 3.9 billion Euros for this axis. Axis 2, with a total of 15 billion Euros, aims to improve the environment and to arrange the national territories (2.2 billion for Romania); axis 3, with 9.2 billion Euros, aims to increase the quality of life in the rural areas by making public works and investments in infrastructure (2.4 billion Euros for Romania).

**Table 1.** Funds for rural development allocated for the new EU member states for the interval 2007-2013 (million Euros)

	Axis 1	Axis 2	Axis 3	Leader	Total
<b>Bulgaria</b>	1204	777	877	77	2937
<b>Czechia</b>	840	1945	635	175	3595
<b>Estonia</b>	347	334	118	85	886
<b>Hungary</b>	2366	1626	690	272	4956
<b>Latvia</b>	649	365	259	32	1306
<b>Lithuania</b>	930	824	275	137	2167
<b>Poland</b>	7187	5546	3430	787	16951
<b>Romania</b>	3967	2293	2473	235	8969
<b>Slovakia</b>	835	1242	358	74	2510
<b>Slovenia</b>	399	588	132	34	1153
<b>Total</b>	18727	15542	9251	1910	45432

Source: Fargacs, C., 2010, p.16

The ideology behind the allocation of resources for rural development aims to perform concerted actions in support of economic initiatives, to supply financial support in order to improve village infrastructure and to increase the professional skills of the population by providing training services for several target groups (Dărășteanu, 2010). Thus, the development of rural areas must come via improved conditions of life for the population on the basis of higher agricultural productivity through the development of associative forms and farms and through the economic development of the rural areas by the establishment of micro-enterprises and capitalizing on the touristic potential that many of these areas have (Mihai et al, 2010). The European funds that public authorities can access and that impact the development of rural areas are available through the *European Agricultural Fund for Rural Development (EAFRD)* and through the funds included in the *Structural Funds*. The available EAFRD funds can be accessed through the National Program for Rural Development (NPRD) 2007-2013; within it, three measures (lines of financing) intended for rural development are open for application by the local authorities: *measure 32 “Renovation of the villages”*, of the priority axis 3 (“*Quality of life in the rural areas and diversification of the rural economy*”), through which over 1.5 billion Euros have been allocated in 2007-2013 for works of construction, modernization and development of facilities and services in rural areas; *measure 125 “Improvement and development of the agricultural and forestry infrastructure”*, of the priority axis 1 (“*Enhance the competitiveness of the agricultural and forestry sector*”) with a total budget of 604 million Euros available for the construction and improvement of agricultural and forestry roads and to restore the irrigation systems. *Measure 313 “Improving the touristic services”*, of the priority axis 3, with 544 million Euros available for the design, construction and development of touristic facilities and services (Dărășteanu, 2010).

The funds available through the *Structural Funds* can be accessed through the Regional Operational Program (ROP), particularly through the priority axes 3 (“*Improvement of the social infrastructure*”) and 5 (“*Sustainable development and tourism development*”) and through the Sectoral Operational Program Environment (SOP Environment), through axis 2 (“*Development of the systems of integrated waste management*”). Among these sources of financing, *measure 322 (“Renovation of the villages”)* of NPRD, is the most substantial source and had the highest level of contracting. Rural authorities had contracted the entire allocated amount, slightly over 1.5 billion Euros for the interval 2007-2013, by the end of 2011. The total amount requested by the 3000+ applications exceeded almost 5 times the available funds. This characteristic makes *measure 322* one of the most attractive lines of European financing

### III. Characteristics of the budgets of revenues and expenditures of rural localities

#### *Inter-county differences of the budgets of revenues and expenditure in rural localities*

The characteristics of the budgets of revenue and expenditure in the different rural localities are quite different both in terms of the available funds and in terms of their sources and of categories of expenditure. Thus, the communal budget is a solid basis for the analysis of rural localities socio-economic characteristics and of local directions of development. This is so because the main element in any project of development is its financial dimension. According to the data of the *Directorate for Local Fiscal and Budget Policies* (Ministry of Administration and Interior, 2012), the total revenue for the budget of the 2860 communes was 11.2 billion RON in 2010, almost a quarter of the revenue of all the administrative-territorial types of units across Romania. The average total revenue by commune was 3.93 million RON, while the average own income was 1.39 million RON. In absolute figures, the total revenue was 2.5 times higher in 2010 than in 2005, an increase that may be due to the implementation of decentralization policies, under which local authorities instead of central structures managed part of the funds allocated for public sector activities. At the same time, the consolidated income of the rural localities budget reached 2.2% of the GDP (Association of Romanian Communes, 2012). In 2008-2011, the revenue from the communal activities decreased slightly due to the “decrease of the share from the VAT, due to the reduction of the *Governmental Fund of reserve* and due to the lower resources allocated from the *Program of development of the rural infrastructure and sports facilities*” (Association of Romanian Communes, 2012).

By group of size in 2010, almost half of the communes had revenues between 2.5-5 million RON, while just 93 localities could be classified as very rich communes (budgets in excess of 10 million RON), as seen in Table 2. The average budget size at the county level follows rather closely the state of the regional economic development, while at the intra-county level, a strong association can be noticed between the size of the budget and several characteristics of the localities, such as number and activity of the local and active economic agents and the total population.

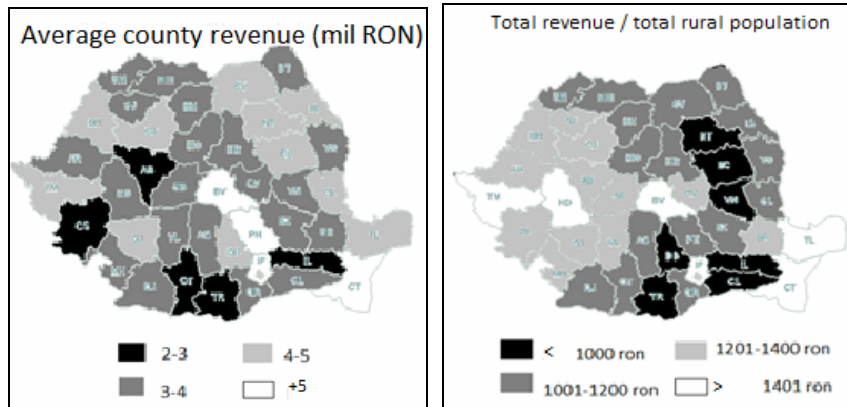
**Table 2.** National distribution of the communes by size of the total revenues to the budget in 2010 (RON)

	Number	Percent
below 2.5 million	862	30.1
2.5 - 5 million	1368	47.8
5 million - 7.5 million	398	13.9
7.5 million - 10 million	139	4.9
over 10 million	93	3.3
Total	2860	100.0

Source: Processing of the data on the execution of the budgets of revenues and expenditures of the administrative-territorial units, Ministry of Administration and Interior, Directorate for Local Fiscal and Budgetary Policies, (2012), [http://www.dpfbf.mai.gov.ro/sit\\_ven\\_si\\_chelt\\_uat.html](http://www.dpfbf.mai.gov.ro/sit_ven_si_chelt_uat.html)

The differences in terms of the average county revenue (Figure 1) shows that the poorest local rural administrations are in Alba, Caras-Severin, Ialomita, Olt and Teleorman Counties, with values of 2-3 million RON. However, most of the counties fall into the category of 3-4 million RON (21 counties), while eleven counties have an average county revenue of 4-5 million RON. Only four counties (Ilfov, Brasov, Prahova and Constanta) reported average county revenue in excess of 5 million RON. An example of these differences is the fact that while 20 of the 32 communes from Ilfov County reported revenues in excess of 20 million RON, almost two thirds of the communes from Teleorman County reported revenues below 2.5 million RON. The data differ quite a lot if we relate the total revenue to the total population of the county. On the background of a lower total population, Hunedoara County holds one of the top positions in terms of total revenues/rural inhabitant, 1870 RON/person, being outmatched only by Ilfov County with a total revenue/rural inhabitant of 2097 RON/person. The threshold of 1500 RON is also exceeded by Brasov, Constanta, Timis and Tulcea Counties (the latter county also has a very low rural population). The category of counties with the lowest revenues/rural inhabitant includes the counties of Teleorman, Călărași, Ialomita, Dâmbovita, Neamt, Suceava, Bacău and Vrancea, with revenues lower than 1000 RON/villager. The national distribution of this indicator shows that the countries from western and central Romania have significantly higher average revenues to the commune budget than the counties from Moldova and Muntenia.

**Figure 1.** County classification by revenues to the budget of the communes, in 2010 (RON)



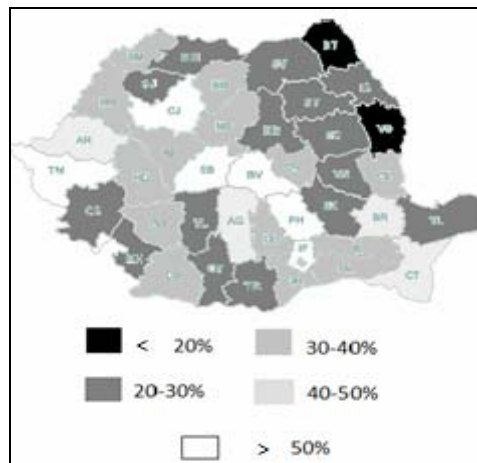
Source: Processing of the data on the execution of the budgets of revenues and expenditures of the administrative-territorial units, Ministry of Administration and Interior, Directorate for Local Fiscal and Budgetary Policies, (2012), [http://www.dpfbf.mai.gov.ro/sit\\_ven\\_si\\_chelt\\_uat.html](http://www.dpfbf.mai.gov.ro/sit_ven_si_chelt_uat.html)

At the national level, the average own revenue to the budget was almost 1.4 million RON in 2010; 1141 communes (39% of the total) had an own revenue to the budget of 0.5-1 million RON, while 294 communes collected own revenues lower than 500 thousand RON. The differences between the local budgets of the developed counties and of the poor counties are even more obvious if we calculate the proportion of the own revenue to the total budget (Figure 2). Thus, the value of this indicator exceeds the threshold of 50% in the developed counties, while sinking below 25% in the poorest counties. The data for 2010 show that the highest average own revenue to the total budget was reported in the counties of Ilfov (67%), Timis (59%), Cluj (53%), Sibiu (51%), Brasov (51%) and Constanta (50%), while the lowest values, which correspond to the highest levels of dependency on the financial allocations to the central state budget, were reported in the counties of Vaslui (17%), Botosani (19%), Iasi (23%), Olt (23%) and Maramures (25%). If we exclude from the analysis the amounts distributed from the central budget, the ratio of the funds collected from own revenues by the counties with a developed rural environment compared to the ratio of the funds collected from own revenues by the counties with the largest number of poorly developed communes, becomes extremely large, reflecting the differences of the economic activity of the rural localities from these counties. The average own revenue in Ilfov County (8.1 million RON) is about 12 times higher than that of



counties such as Vaslui (0.64 million), Olt (0.68 million) or Botosani (0.71 million).

**Figure 2.** Proportion of the own revenue to the total budget of the counties in 2010



Source: Processing of the data on the execution of the budgets of revenues and expenditures of the administrative-territorial units, Ministry of Administration and Interior, Directorate for Local Fiscal and Budgetary Policies, (2012), [http://www.dpfbf.mai.gov.ro/sit\\_ven\\_si\\_chelt\\_uat.html](http://www.dpfbf.mai.gov.ro/sit_ven_si_chelt_uat.html)

Based on these characteristics, we may conclude that the total revenue of the rural localities is determined by two dimensions: *the developmental level of the localities* and *the total population*. In the first case, the larger localities draw important funds from the central budget to finance public services, and the localities with high levels of economic development reported large volumes of own revenues given the large available taxation basis. Broken down by categories of expenditure, the *expenditure with the budgetary staff* represents the utilization of the local budget from the commune. The highest rates of public funds utilization are recorded in the counties of Teleorman (58% of the total expenditure), Vrancea (53%), Bistrita – Năsăud (52%), Ialomita and Brăila (each with a proportion of 50% of the total expenditure). The funds used to pay the budgetary staff represents almost a third of the total expenditure in the counties of Ilfov, Constanta, Brasov, Sibiu, Tulcea and Timis. In absolute figures, the largest average expenditure of the communes used to pay the budgetary staff were reported by the counties of Ilfov (2.8 million RON), Iasi (2.2 million), Brasov (2.2 million), Suceava (2.1 million) and Bacău (2.1

million), counties in which the average population of the communes is significantly higher than in the other communes.

On average, each commune from Romania allocated 587 thousands RON from its own budget for expenditure on insurances and social assistance. The minimal guaranteed income and aid for disabled persons represent the bulk of these expenditures. Thus, the available data show that the largest expenditure amounts related to the total rural population were reported for the counties of Mehedinti (148 RON/inhabitant), Vaslui (141 RON/inhabitant), Satu Mare (136 RON/inhabitant), Vrancea (134 RON/inhabitant), Călărași (125 RON/inhabitant) and Dâmbovita (120 RON/inhabitant). The average budgetary funds allocated to services of public development varies from 2.1 million RON in Ilfov and less than 0.4 million in Teleorman, Vrancea, Călărași, Brăila and Ialomita counties. Significantly higher amounts compared to the average national expenditure of this type (0.58 million/commune) were reported in the rural localities from Constanta (1.3 million), Brasov (1.2 million), Tulcea (1 million), Timis (0.81 million) and Caras-Severin (0.8 million) counties.

On this basis, the distribution of the funds allocated to the development projects of local infrastructure highlight an emblematical situation for the evolution of the Romanian rural environment after 1990: the increasing gaps between localities. The highest rates of development of the local infrastructure were recorded in the developed counties in wealthier rural localities that already have a high level of the public utilities and local transportation infrastructure. On the other hand, the poor rural localities recorded extremely low progresses in these directions. From the general data outlined so far we may conclude that the local budgets of the communes are vary greatly among regions both in terms of revenues and expenditures. The wealthiest localities with high incomes and with a large proportion of own revenues are to be found in developed counties such as Ilfov, Sibiu, Constanta, Brasov and Timis. On the other hand, the lowest budgets are to be found in the counties whose rural areas remained strongly connected to the traditional agricultural activities (Vaslui, Botosani, Teleorman, Călărași, Mehedinti, Olt).

The structure of revenues to the budget in these counties does not allow the counties to make large investments in infrastructure projects or in networks of public utilities because of the very limited funds collected by the authorities from the local taxes and dues, and allocations from the state budget are not enough to run such projects. For these communes, the only viable way towards development is to access European funds. Actions in this coming period should focus on increasing the local capacity to access and implement such projects.

### *Characteristics of local budgets in the communes with the highest revenues*

For the budget analysis of the *wealthiest rural localities* we selected the top 100 units produced by the hierarchy of the revenues collected to the local budgets in 2010. From this perspective, the approach we propose is a brief illustration of the category of communes having available the most substantial revenues, which may provide relevant information on those particular localities. This grouping gathers, with some exceptions, the most developed rural localities in Romania with a very high standard of life provided by public utilities and services available through the local authorities. Thus most of the communes included in this category are significantly different from the average profile of the rural localities in Romania, both in terms of the budget coordinates and in terms of the conditions of life provided to the population. Thus many of the communes analyzed can be included, in terms of the specificity of the local economic activities and of the occupational coordinates of the population, in the category of the communes displaying a strong process of development and that evolve towards an urban residential status.

The commune with the highest revenues in its budget in 2010 was Chiajna (Ilfov County – see Table 3 for the list of the top ten localities), whose administration managed 36.8 million RON, more than the funds available to many small towns from Romania and equal with the amount available to several important towns such as Dorohoi, Caransebes, Oltenita, Cernavodă or Târgul Secuiesc, and close to the revenues collected to the budget of the municipalities of Urziceni, Drăgășani and Fălticeni. Otherwise, over 90% of the revenue collected by the Chiajna commune is its own revenues because the locality capitalizes on its state of economic development provided by its vicinity with Bucharest (and important investments in new economic activities after 1990). By category of expenditures, the most important funds available in the budget of Chiajna commune were allocated for activities in the fields of *culture, leisure and religion* (20% of the budget); *education* (18%), *public development* (13%) and *public services* (10%).

Lumina commune from Constanta County has the second largest revenue collection of all the budgets of the rural localities; however, in 2010 it received 8.5 million ROM as subsidies from the public budget for investments in the development of the local infrastructure. Thus, the total revenue to the local budget reached 21.4 million RON. Dragomiresti commune from Ilfov County ranks third, with total revenue of 20.5 million RON. The communes from Ilfov County are the wealthiest. 20 of the 100 surveyed communes are located in this county. The distribution by county shows nine communes in Prahova, eight in Constanta, seven in Iasi, six in Suceava, four each in Bacău, Bihor, Brasov, Neamt

and Timis, three in Cluj, two each in Arges, Dolj, Gorj, Maramures, Olt, and Tulcea and one commune each in the counties of Arad, Giurgiu, Hunedoara, Harghita, Mehedinti, Mures, Sibiu, Satu Mare, Vâlcea and Vaslui.

**Table 3.** The most substantial revenues to the local budgets in 2010  
(million RON)

Commune	County	Total revenue	Own revenue	Expenditure for public services	Expenditure for education	Expenditure for insurances and social assistance	Expenditure for public development	Observations
Chiajna	Ilfov	36.8	33.7	3.5	6.7	0.5	4.6	
Lumina	Constanta	21.4	10.2	1.9	2.3	0.5	11.7	Subsidies of: 8.5
Dragomirești	Ilfov	20.5	15.2	3.6	5	0.4	3.3	
Jilava	Ilfov	19.5	11.9	3.9	3.2	1.4	6.8	
Adu-nații Copă-ceni	Giurgiu	19.3	5.2	1.3	3.2	0.9	6.9	Subsidies of: 6.2
Brazi	Prahova	18.7	16.2	2.4	3.1	0.8	3.1	
Prejmer	Brasov	18.1	11.6	1.7	4.2	0.9	10.8	
Vidra	Ilfov	17.2	6.1	3.6	3.9	1.2	7.5	
Florești	Cluj	17.1	13.6	2.8	2.6	1.1	3	

Source: Ministry of Administration and Interior, Directorate for Local Fiscal and Budgetary Policies, 2012, [http://www.dpfbf.mai.gov.ro/sit\\_ven\\_si\\_chelt\\_uat.html](http://www.dpfbf.mai.gov.ro/sit_ven_si_chelt_uat.html)

22 of the surveyed localities entered this revenues list due to the substantial subsidies which they received from the state budget, as subsidies directed towards specific targets. Thus, among the 100 communes, are localities whose own incomes represent a tiny proportion of the total revenue to the local budget, such as Botești (Neamt County, own revenues – 5%), Deleni (Vaslui County, own revenues 5%) or Botești (Neamt County, own revenues – 6%). Another category of communes with important revenues are those which managed to draw funds from other sources, particularly non-reimbursable European funds. Included in this category are the communes of Drăgușeni – Botoșani (with drawn funds of 10.2 million RON), Osica de Sus – Olt (8.6 million), Hălăucești – Iasi (83 million), Vama – Suceava (7.9 million) and Baia – Tulcea (7.9 million). Thus, of the surveyed 100 communes, 33 had investments from European funds exceeding 1 million RON, while 58 localities didn't spend any money, or they spent less than 100 thousands RON.

In 32 of the surveyed localities although the proportion of own revenues from local taxes and dues doesn't exceed 25% of the total revenues, these localities

managed to run significant investments of infrastructure using subsidies received from the central budget. For these localities, which are actually poorly developed communes, their inclusion in the category of the communes with substantial budgets is temporary, being conditioned by the public funds for infrastructure. As the investment programs end in these areas, the local budgets will decrease considerably.

Generally, however, we may identify several socio-economic characteristics which are common to most rural localities included in this category. In terms of demography, most localities are communes with large population, which had drawn important flows of internal urban-rural migration. Most of them developed recently as residential areas, due to their location next to large towns and to the developed public infrastructure. The economic life of most localities included in this category grants then a non-agricultural status, both in terms of economic activities, and in terms of the occupational structure of the population. At the same time, their budget has a high proportion of own revenues (47% as average own incomes of the 100 rural localities), and half of them allocated in 2010 more than 20% from their budget to *expenditures for public development*.

#### IV. Access of the local authorities to the funds for the development of rural areas

Most communes from Romania submitted projects to get funds for local infrastructure investments from *measure 322* ("Renovation of the villages") of NPRD ("National Program *Rural Development*"). The criteria used for project selection favored the applications run by localities with a medium of high level of poverty, with deficit of rural infrastructure and which didn't use previous European funds for similar investments. The integrated projects aligned to the objectives assumed by the strategies for local of county development or to Regional Master Plans were also favored. The winning applications were determined by classification according to a scoring grid with a maximum of 100 points (Table 4).

Table 4. Scoring grid for *measure 322*

No.	Selection criteria	Score
1.	Rural localities which didn't receive previously community support for similar investments.	10
2.	Rural localities with a high level of poverty: - Localities with a high level of poverty (poverty rate 60%-89.6%) - Localities with a medium level of poverty (poverty rate 40%-59,9%) - Localities with a low level of poverty (poverty rate < 40%)	Maximum 15 15 10 5

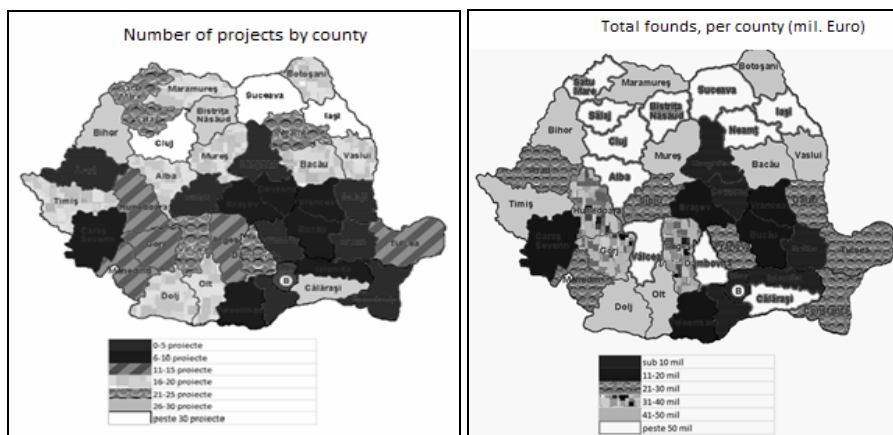
No.	Selection criteria	Score
3.	Projects in line with a strategy for local or county development.	5
4.	Integrated projects of investment	5
5.	Projects for investment in infrastructure of water/waste water in the rural localities with 2,000-10,000 p.e. identified in the Regional Master Plans, but which are not financed through SOP Environment	10
6.	Projects for investment in roads infrastructure which connect the villages with the main roads (county, national roads) or in other main ways of transportation (railways, river)	10
7.	Projects for investment in water supply infrastructure in the areas with insufficient water or with high incidence of drought periods	10
8.	Projects for investment in infrastructure of water/waste water in the areas with heavily polluted water or in the areas where the groundwater has high levels of nitrates which affect people's health.	5
9.	Projects for investment in social infrastructure - accomplished by NGOs and units of cult - accomplished by other beneficiaries	Maximum 15
		15 10
10.	Projects promoting the investments with the purpose to preserve the local specificity and the cultural legacy (traditional architecture, preservation of the material and immaterial legacy, promotion and organisation of festivals with local specificity. - accomplished by NGOs and units of cult, natural or legal persons - accomplished by other beneficiaries	Maximum 15
		15 10
TOTAL		100

Source: Ministry of Agriculture and Rural Development (2012), [http://www.mapam.ro/pages/dezvoltare\\_rurala/punctaje\\_de\\_selectie\\_masura\\_322.html](http://www.mapam.ro/pages/dezvoltare_rurala/punctaje_de_selectie_masura_322.html)

Most of the 617 project applications selected for financing have the authorities as applicant, while just 26 winning projects are run by *associations of intercommunity development*. Most winning applications came from Transylvania and from northern Moldova, while South-Eastern Romania has the lowest number of such applications. The distribution by county (Figure 3) shows that Iasi, Cluj and Suceava counties have more than 30 winning applications each (38, 34 and 33, respectively), while , Buzău, Covasna, Caras-Severin, Ialomita, Teleorman and Vrancea counties had less than five signed contracts each. An atypical situation is noticed in southern Romania concerning the neighboring counties Călărași and Ialomita. Thus, projects financed through measure 322 are implemented in 29 of the 50 communes from Călărași County, while in Ialomita, a county very similar

in terms of socio-economic structure, just 3 rural localities of the total 59 run such projects. The strongly imbalanced territorial distribution of the financed projects may be explained mainly by the lack of expertise of the local authorities to access these funds.

**Figure 3.** Distribution by county of the projects financed through measure 322 "Renovation of villages", data for the end of 2011



Source: Processing using the data with the beneficiaries of projects funded through measure 322 of NPRD, APDPR, 2012, available at <http://www.apdrp.ro/content.aspx?item=2100&lang=RO> [Accessed: May 2012]

In terms of financial coordinates, the data show that the average budget of the funded projects was almost 2.5 million Euros, which is roughly the budget of most winning projects. Only 29 projects had a larger budget (with a peak of 6 million Euros), while 16 funded projects required funds below 2 million Euros. Due to the relative symmetry of the allocated funds, the total amounts per county depended closely on the number of winning projects in each county (Figure 3). The most substantial funds earned through project contracts went to the counties of Cluj (107 million euro), Iasi (90 million Euros), Suceava (85 million Euros), Bistrița-Năsăud (73 million Euros), Bihor (70 million Euros), Călărași (69 de million de Euros), Satu Mare (67 million de Euros) and Sălaj (62 de million Euros). Thus, the local authorities from these eight counties collected more than 43% of the available funds, while the projects directed to the localities from the counties with the lowest number of winning projects (Brasov, Buzău, Covasna, Caras-Severin, Ialomita, Teleorman and Vrancea) summed less than 4% of the 1.5 billion Euros allocated for this line of financing.

Most winning projects concern large objectives of local infrastructure that combine the investments of establishment, modernization and expansion of water and sewage networks, including covering communal roads in asphalt and constructing or modernizing houses of culture. These kinds of projects aim to enhance the standard of living of the population by the integrated development of several types of investments. There are few projects with single objectives, and most of them focus on investments to modernize the road network. Practically, 40% of the funded projects include investments in the establishment, modernization and expansion of the tap water networks. At the same time, less than 50% of the 617 selected projects aim to establish or expand sewage networks, and 60% of the funded projects improve road and transportation networks. 335 projects (54%) aim to construct or renovate houses of culture and 63 intend to make investments for the construction of modernized kindergartens. In terms of investments in public utilities, connecting localities to the cooking gas network was the least targeted dimension: just 4 selected applications stipulated such works. Thus, the impact of these funds on the improvement of infrastructure is significant, even if we consider the fact that over 20% of the rural localities have been selected for investments with European funding. Even though it is still too early to evaluate the effect of these funds on the development of the infrastructure, we may notice the basic role of these funds for the development of the Romanian rural areas. The role of this source of financing the development of village infrastructure is important as the gap between the localities that can fund their development using their own funds and those unable to do so is increasing.

## V. Conclusions

Their own revenues are not enough for most communes to start large projects of infrastructure in the networks of public utilities or infrastructure. The development of living conditions at this level of the community depends in this case on allocations from the state budget or on accessing European funds. There is a small proportion of communes that can support their own development using their own funds, and this proportion consists of developed localities, most of which are located near large towns. In these localities the economic activities from the secondary and tertiary sector developed exponentially during the recent years and provided a substantial source of revenues for the local budget. Therefore we may notice the difference between communes with large own funds that can support from these funds development projects as opposed to the communes with precarious revenues that depend on external sources of financing. The data show that the developed counties (Ilfov, Constanta, Prahova, Brasov, Sibiu, Cluj, Timis), have most of the wealthy rural localities, while the counties from



southern Muntenia and Oltenia and from north-eastern Romania, where the rural environment depends on the agricultural activities, have mostly poor communes, with low revenues contributing to the local budgets, and where the collected funds are used mainly to pay the budgetary staff and the different forms of financial support for people included in the vulnerable categories.

The funds allocated for the development of the rural infrastructure through measure 322 of NPRD aim to balance the existing gaps in development; they are the only viable way to improve the living conditions of the population from the disfavored localities. As 20% of the rural localities in Romania run such type of projects (with an average budget of 2.5 million Euros), the next years are expected to bring important progresses at least in the access of the population to the basic infrastructure and utilities (running water, sewage, network of communal roads).

### Lyst of Acronymes

- ARC = Association of Romanian Cummunes (Asociația Comunelor)
- APDPR = Payment Agency for Rural Development and Fishery (Agenția de Plăți pentru Dezvoltare Rurală și Pescuit)
- EAFRD = European Agricultural Fund for Rural Development (Fondul European Agricol pentru Dezvoltare Rurală)
- IPP = Institute for Public Policy (Institutul de Politici Publice)
- MARD = Ministry of Agriculture and Rural Development
- MAI = Ministry of Administration and Interior
- NPRD = National Program for Rural Development (Programul Național de Dezvoltare Rurală)

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# OVERCOMING DRAWBACKS OF HIERARCHY: EXAMPLES FROM KIBBUTZ COMMUNITIES<sup>1</sup>

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**Abstract.** *While hierarchical structures have many advantages for the effective running of organizations, they also pose major drawbacks both for organizations and for individuals lower in a hierarchy. Research in kibbutz industry and in its social organizations shows that kibbutzim are not much different from other organizations because within kibbutzim hierarchical structures are common, differentials in power and control are correlated with hierarchical position, differential rewards are correlated with position, and health symptoms and indicators for well being are correlated with hierarchical position. Yet kibbutzim managed to solve the paradox of having organizations that are hierarchically structured and show all the features of hierarchical organizations yet keep up with the principles of equality and democracy. I explain and describe seven different counterbalancing mechanisms employed by kibbutzim to alleviate the drawbacks of hierarchy and yet preserve its advantages. Recently, many kibbutzim went through major structural transformations, and most mechanisms to counterbalance the ill effects of hierarchy were among the "victims" of these structural changes. Results of research show both in the economic sphere and in the social sphere how giving up on the counterbalancing mechanisms brings about deterioration in positive outcomes. The last part of the paper discusses reasons for the deterioration in effectiveness and then discusses possible generalization from kibbutz research to other societies.*

**Key words:** *Kibbutz; hierarchy; ill-effects of hierarchy; managerial rotation; direct democracy*

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## 1. Introduction

Any observer of social organizations must come to a conclusion that one of these organizations' common characteristics is a hierarchically structured in a pyramidal mode coupled with strong inequality among members. The pyramidal shape is expressed so that the higher up the ranking in a hierarchy, the fewer the individuals that occupy the ranking. Inequality is a major aspect of hierarchical

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structures. There exists consistent differentiation between leaders/managers (at the top of the ladder) and the lead/members at large (down the ladder) along many resource dimensions: authority, rewards, level of control, self development, and satisfaction of needs. In addition, hierarchy also differentiates among members in levels of health and wellbeing. The differentiation on all these dimensions is such that the higher up a person is on the hierarchical steps, the more he or she possesses any of the resources and the healthier she or he is. The fact that hierarchical structure is so common in so many organizations leads to a question whether these structures would be found in societies that put strong emphasis on equality among their members, and if so, how do such societies deal with the inequalities of hierarchy?

In this paper I first expand a bit on the various aspects of hierarchy and the research performed on the matter. Then I take the Israeli *kibbutz* as an example of a society with very strong emphasis on the value of equality among its members. I show that *kibbutz* communities practice hierarchically structured organizations but at the same time they employ several mechanisms that overcome the drawbacks or ill effects of hierarchy. Consequently, they are able to use the advantages of a hierarchically structured organization without sacrificing principles of equality. I cite research that shows how keeping up with the mechanisms to overcome drawback of hierarchy help an organization to function better and also brings about improved well being, health and satisfaction of life to individuals at the lower rungs of hierarchy. Later the paper explains how many *kibbutzim* went through major structural transformations. One central effect of these transformations was the giving up on the mechanisms that overcome drawbacks of hierarchy. The result of these transformations was very negative for the functioning of *kibbutz* communities. This story of how *kibbutz* communities deal with hierarchical structures raises the question of whether it could be generalized to other societies, and I address this question at the end of the paper.

## 2. Literature – hierarchical structures and their outcomes

Hierarchical structures in organizations and society are not new, and dealings with them are not an invention of modern organizations. One striking example is offered in the Bible when Yetroh, the father in-law of Moses, suggests how Moses could organize his work as a judge and leader of the Israelites, so that he is not overwhelmed by the impossible burden of being the sole judge. Yetroh suggests a pyramidal structure of authority with Moses at the hub of this structure. Moses follows Yetroh's advice:

*“And Moses chose able men out of all Israel, and made them heads over the people, rulers of thousands, rulers of hundreds, rulers of fifties, and rulers of tens. And they judged the people at all*

*seasons: the hard causes they brought unto Moses, but every small matter they judged themselves” (Exodus, 18:25-26).*

Interest in hierarchical structures did not cease as history unfolded. In modern times this social structure has become a focus of theory and research. About one hundred years ago, Max Weber (e.g. 1947) argued for the desirability and benefits of hierarchical structures in organizations as he defined the “ideal type of bureaucracy”. Chief among the principles of bureaucracy is the hierarchical structure with differentiation in authority, influence, power, rewards, etc., and with instruction moving down the hierarchy and feedback moving upward. Robert Michels (1959), another classical social scientist, argued for the inevitability of the “Iron law of oligarchy”. Michels claimed that organization means oligarchic structure. More recently researchers (e.g. Tannenbaum and Cooke, 1979, Tannenbaum et al., 1974; Bartolke et al, 1985) have shown that hierarchical structures are widespread in all kinds of organizations (such as business, service, government, third sector, and military). Hierarchical structures also exist in all cultures of at least the industrial world – capitalist, socialists, and communist – although with different shapes according to the ideology and culture of the organizations studied. All of the aforementioned hierarchical structures exhibit the principles of inequality, and differentiation in power, authority, and personal rewards that positively correlate with the position one holds in the hierarchy.

From an organizational point of view there exist strong arguments in favor of adhering to the hierarchical structure, among them: It clearly defines tasks, responsibilities, roles, and positions; it decreases task redundancies; managerial control is easier; it allows a clear flow of information downward and upward; it might improve the chances to select the better members of an organization into central positions due to differential rewards; and, because leaders are symbols of their organizations, it allows for a clearer representation of the organization to the outside world. An example of a strong support for a steep hierarchical structure is offered by Jaque (1990) who came out "in praise of hierarchy" and argued: "We don't need flat organization; we need layers of accountability and skill".

At the same time research has shown that while in some ways hierarchical structures might be beneficial for organizations, they also pose threats and impede them with difficulties (e.g. Leviatan, 1978) for instance, danger of loss of information when there are too many layers of hierarchy; limitations on initiative taking outside of hierarchical lines; change in organizations is more difficult – since many layers of hierarchies make organizations less flexible; too much dependency on layers above and below; managers that stay too long in positions

stand risk of stagnation increasing the risk of organizational corruption; and decisions are made without the most accurate and timely information and knowledge.

Additionally, drawbacks for individual members of hierarchically structured organizations include: those not in higher positions lose motivation/satisfaction/commitment; too often hierarchically structured organizations narrowly define tasks resulting in lower satisfaction and negative self images of members in lower levels; they create long routes of communications up and down, and strict channels of communications create restriction on flow of ideas; and health problems (physical, mental, and wellbeing) are strongly correlated with differentials in social status (Leviatan, 1980; 1991; Adler et al., 1994; Adler et al., 1999).

All these drawbacks are supported by research. For instance, studies of the “control graph” have shown that total amount of control (which is based on a combination of the mean levels of influence that different hierarchical strata have in their organization) is positively correlated with level of organizational effectiveness; in addition, the degree of equality among the different strata of hierarchy in level of influence was found to be positively correlated with level of satisfaction with organization life. Meaning that the more differentiation there is, the less satisfied are the rank and file with their organization (Tannenbaum & Cooke, 1979, Bartolke et al, 1985). It was also shown that contribution of individuals to their organization is positively correlated with their position. Thus, individuals in the lower ranks contribute less than their potential in comparison to individuals within the higher ranks.

Another line of research from seventy years ago emphasized yet another drawback of hierarchical structures. Numerous studies showed that ill health and death rates are negatively correlated with hierarchical positions: individuals lower on the hierarchical ladder, are likely to be less healthy (both physically and mentally), their well being is lower, and their probability of death is higher (e.g. Adler et al. 1994; Adler et al., 1999).

Hierarchical structures have another special and an important drawback for organizations or communities whose members consider equality among themselves as a most central value. As explained earlier, hierarchical structure and equality among members seem to be in an inherent contradiction and conflict.

Thus, we see that hierarchical structures carry with them some advantages for organizations and are, perhaps, even inevitable. However, at the same time they also harbor many drawbacks and problems – both for an organization and for its individual members, particularly for those in the lower rungs of hierarchy.

Of course, a solution to this state of affairs should seek to conserve the advantages but dispose of the drawbacks. How should one go about it?

Before seeking a solution for this query, a more general question: Is the hierarchical structure a necessity for any and every organization? True, Michels' "Iron law of oligarchy" suggests so, but are there no exceptions? While we cannot give a definite answer to such a question we can, at least, explore some of the limits where hierarchical organizations should not be expected and make our conclusions if it nevertheless does exist there.

One way to test for the limits of where hierarchy may not be practiced is to look for a society or a culture where a hierarchical structure seems to stand in strong contradiction to its basic principles of life. For instance, we should not expect hierarchical structures in a society that cherishes equality among its members as its most important principle. Finding that hierarchy still exists in such a society would support the universality of hierarchy but at the same time might teach us, perhaps, how such a society solves for the drawbacks of hierarchy so that it still preserves equality among its members.

### 3. Israeli *kibbutz* (plural in Hebrew – *kibbutzim*) as a site for learning about overcoming drawbacks of hierarchy

The Israeli *Kibbutz* communities that have already existed for one hundred years (since 1909 when the first *kibbutz* was established) offer an appropriate site for testing the limits of the existence of hierarchical structures in organizations and communities (an example of a source on the *kibbutz* is the book by Leviatan, Oliver and Quarter (1998) but many other sources are also available). I start with a very short (admittedly – superficial) description of what a *kibbutz* is. Until very recently, an outsider visiting a *kibbutz* would have seen a tightly knit communal society of about 150–200 families voluntarily living alongside each other and sharing a common ideology, mutual responsibility for each other, social activities, and their means of livelihood. These families would be living in a community with almost total equality as it relates to a material standard of living and without differential salaries. These principles are formally illustrated in the preface to the *Kibbutz* By-laws (Kibbutz Artzi, 1973):

*“The kibbutz is a free association of people for the purpose of the ... existence of a communal society based on principles of public ownership of property, ... equality and participation in all domains of production, consumption and education”*

Although *kibbutzim* are a type of commune, they have always differed from other communes in their adoption of modern values such as pursuing scientific

knowledge for application to social and economic activities, keeping up-to-date with modern technologies, being open to innovation, and (within the boundaries of a modest life) not opposing improvements in the standard of living. Even though they were few in number and located primarily in the countryside, *kibbutz* members did not attempt to withdraw from the surrounding society but purposely involved themselves in it as an expression of their mission to both influence and serve society. Rather than staying secluded from the rest of society like most communes, *kibbutzim* have been open to visitors, the media, cultural inflows, and outsiders. In addition, *kibbutz* members were involved in society – in service in the military, as students in institutes of higher learning, in politics, in business within the Israeli economy and as community workers in Israeli needy neighborhoods.

There exist now (2010) in Israel close to 270 *kibbutzim* with a population of about 100,000 members and their dependents and another 40,000 residents who are not members. While *kibbutz* population is only about 1.6% of Israeli population, members contribute (2010) about 8% to its industrial sales, about 11% to its exports and about 35% to its farming product.

Until the recent past (the 1990s') all *kibbutzim* were very similar to each other in their governing principles of life, structure, organization, and the ideology held to by most members within each community and across communities. This has now changed in many *kibbutzim*. Currently one should refer to two different phenomena of *kibbutz*. Two different groups of communities exist who – while still bearing the same name ("*kibbutz*") – are becoming more and more dissimilar to each other. One group of *kibbutzim* which carries the characteristics of the traditional *kibbutz*, and the other has transformed basic *kibbutz* principles and values, for instance: collective and altruistic values were replaced by individual and egocentric values in determining policies and directions for the future of the *kibbutz* society; democratic, equality, solidarity and commune values were replaced by ideologies of market principles and of neo-liberal ideology. And, most relevant for the discussion of this paper, common hierarchical structures as in the general society have become much more common in the transformed *kibbutzim*. The traditional *kibbutz* ideas still (2012) rule in about 25% of all *kibbutzim* but their numbers are falling every year. In this paper when I refer to *Kibbutz*, I refer to the traditional *kibbutz* and not to the transformed *kibbutz*.

The Israeli traditional *kibbutz* is certainly a type of community that adheres to very extreme definitions of equality and also to an extreme definition of democracy (direct democracy rather than representative democracy (Pavin, 1998)). The equality principle adhered to in *kibbutzim* is named *qualitative equality*. Individual members expect their communities to take care of their unique personal needs



and expectations (within the resource capabilities of their *kibbutz* and in keeping with the norms of a relatively modest lifestyle (Gluck, 1998; Rosner & Getz, 1994). In the meantime their community expects all of its members to contribute all of their personal resources and capabilities to the community. This principle of *qualitative equality* among members is unique in that individuals do not judge its successful fulfillment by comparing themselves to *others*, rather in terms of their own needs, expectations, and capabilities. Therefore, while a society that exercises this principle of *qualitative equality* as its major distributive principle may appear to have extensive inequality among its members (because members have differing needs and different capabilities), there actually is a very high level of equality since members are able to satisfy their needs and expectations and exert efforts and use capabilities to similar personal standards (Rosner & Getz, 1994).

*Qualitative equality* is different from other views of equality, such as *mechanical or arithmetic equality* (as first suggested by Aristotle), where everyone is treated the same way regardless of individuals' unique differences. With *mechanical equality*, people feel that they are treated fairly only if they receive compensation, and are expected to contribute, at similar levels as significant comparable others.

*Qualitative equality* also differs from the principle of *equity* (Homans, 1961, Adams, 1965). Here, people expect the compensation they receive to stand in a *ratio* to their contributions (however those are measured) and that their ratio ought to be comparable to the ratio of similar others.

Thus, it seems that hierarchical structures and differentiations in rewards and need satisfaction of all kinds between managers and members of the rank and file stand in strong contradiction to the strict equality principles of *qualitative equality* among members, and also in contradiction to strong expressions of democracy. However, what about the existence of hierarchical structures within *kibbutz* communities? Research conducted since the 1950s shows that at every given point in time one finds *kibbutz* communities and their sub-organizations (their industries, their farm branches, and their service branches) to employ hierarchical structures. These hierarchical structures are usually composed of three-four layers (e.g. Rosner, 1998; Leviatan, 1978). In addition, research has also shown that similar to organizations outside the *kibbutzim*, power and control is positively correlated with hierarchical position, as is the case with social rewards (though rarely with material rewards) and also with health symptoms and indicators for well being. The major difference with organizations outside *kibbutzim* was that the correlations of outcomes with hierarchical level were not as strong as those found outside *kibbutz* communities.

How, then, did the *kibbutz* communities manage to solve the paradox of having organizations that are hierarchically structured and showing all the features of hierarchical organizations (differentials in power, rewards and well being) and yet keeping up with the principles of equality and democracy? One answer to this puzzle could be that the paradox in fact did never exist since (so the argument) the principles of equality and democracy were never there. But then, is it reasonable that *kibbutz* leaders were able to cheat the members in all *kibbutzim* for the last 100 years (and four generations of adults) without being noted? Not likely! More likely is that the *kibbutzim* exercised organizational mechanisms that allowed them to employ hierarchical structures without giving up on the strong principle of equality among their members. These mechanisms and their effects are explored in the next sections.

#### 4. Mechanisms that overcome drawbacks of hierarchy

I will now present the different counterbalancing mechanisms to hierarchy employed by *kibbutzim*. Most of these mechanisms aim at solving potential problems of hierarchy by introducing: (1) enhancement of equality in power and need satisfaction among a larger part of membership; (2) increasing as much as possible the percentage of members who are close to the center of decision making and knowledge about the organization/community; (3) development of a wide cadre of potential leaders/managers for the community and its sub-organizations by allowing many individual members to experience and learn managerial skills; (4) eliminating as much as possible the social distance between individuals in higher and lower managerial positions.

It is important to emphasize that these mechanism did not result from deep theoretical analyses conducted by *Kibbutzim*, nor did they result from a grand research plan; they came about by looking to practical solutions that would adhere to the basic ideological principles of equality without jeopardizing the smooth functioning of their organizations.

Of course, the mechanisms described in the next few paragraphs should be viewed as descriptions of “ideal types” in the sense used by Max Weber. This means that not all *kibbutzim* use all the mechanisms listed below and those that do use the mechanism do not use them in all instances,. However, most traditional *kibbutzim* use and have been using some combinations of them in most relevant instances.

**The General Assembly.** In this mechanism the principle of direct democracy is taken to the extreme. *Kibbutzim* practice the institution of the General Assembly (Pavin, 1998) where members voluntarily meet almost every week for about two hours one evening. These meetings represent the ultimate sovereignty of the

community. It is the place where final resolutions that concern all major economic decisions, all major social decisions, and those related to the other institutions of the community such as services, culture or education are taken. This is also the institution where decisions that relate to individual members such as acceptance of new members or the letting go of members if they perform a major violation of *kibbutz* regulations or state laws are taken. Also, all key office holders are elected by the general assembly and all major office holders are to present their periodical reports at the meetings. Decisions are taken by majority vote (and a special majority of two thirds or three quarters is for personal issues such as acceptance or rejection of new members and the election of central office holders). In some *kibbutzim* decisions are taken at the meeting by a show of hands. However, since about two decades ago in most *kibbutzim* decisions are taken by a ballot within the week that follows the meeting. In recent years these meetings have been broadcasted by the local cable TV to all homes.

The unique feature of the General Meeting is the fact that it consists of all members, each with one vote. Since the rank and file members form the majority of the general assembly, the vote stays with the rank and file. Thus, the lowest level in community hierarchy has, in fact, the absolute influence on all important matters of the *kibbutz* (Pavin, 1998). The very same mechanism of General Assembly has been used by many *kibbutzim* in the large sub-organizations of their industrial plants (Tannenbaum et al., 1974). This mechanism expands the spread of participation in decision-making, spread of knowledge, and keeps office holder in constant check.

**Managerial Rotation (Leviatan, 1978;1982).** This mechanism seems to be similar to “managerial succession,” yet it is different. In “managerial succession” the old incumbents move up or out and sometimes sideways in the organization. In Managerial Rotation incumbent managers are replaced by members who come from lower levels in the hierarchy and move down, often all the way to the level of rank and file. Later on, after a certain “cool off” period in the lower rungs of hierarchy, they might be reelected into a high managerial position, again for a set in advance period. The replacement is governed by a pre-scheduled plan. This mechanism solves drawbacks of hierarchy by (a) Increasing the number of individuals who hold managerial offices within a relevant chunk of time (through two or three office periods); while at any given moment only incumbents serve in their office, over a longer period of time (which is still one relevant unit for individuals' perceptions) several individuals might serve in same office. (b) It acts against developing corruption that might appear when officers stay too long in office. (c) It increases the base of potential managers; it elevates the skill level of rank and file members (who now consist also of ex-managers).

The length of time that officers stay in office differs from one *kibbutz* to another and also differs from one office to another with a usual range of one to five years.

In order to help the execution of managerial rotation, many positions, particularly those within the social sphere, have a built-in characteristic which might be labeled “negative balance of rewards” (Leviatan, 1993): while positive rewards are inherent part from the very beginning of those offices (influence, self development, social connections, prestige, etc.) and stay so throughout the period of service, negative rewards accumulate over time. This is due to the fact that positions are held partly during free time and not in line with the development of personal careers, and because the offices deal with fellow members. Consequently, office-holders are side tracked from personal careers they may experience tensions with fellow members; they suffer time away from family and leisure pursuits. At a certain point during the office term, the negative rewards are more expressed than the positive ones or very close to their level – that is the point in time when an officer/manager wishes to terminate his/her time in office and so “managerial rotation” is made much easier.

**Participative management** (Palgi, 1998; Tannenbaum et al, 1974). This mechanism means that the production and service branches of the *kibbutz* are run by their teams in a participative fashion where the top person (“manager” or “director” in other cultures) is called “coordinator”. The coordinator’s role, ideally, is to coordinate the work of his or her team while major decisions (within the degrees of freedom allotted to the branch by the community as a whole) are discussed and decided by each team as a group. This mechanism expands the percentage of those in the center of the decision making realm in the community; it deepens the knowledge of all participants about the organization and involves them into its problems; it prepares individuals for future managerial positions; it helps controlling the execution of the managers’ roles; it enhances effectiveness of the unit due to the very process of participation in decision making.

**Teams of leaders.** Another mechanism that is used is the entrustment of leadership into teams of leaders rather than individuals. Thus, top positions in communities (e.g. General Secretary, coordinators of central sub-organizations) might be occupied by a team of two. Top office holders in production branches and central committees of the community might also be occupied by two individuals. This mechanism increases the percentage of individuals in central offices and thus spreads influence over a wider range within the community. Because two individuals have the same position, it also decreases the potential of developing corruption that comes with being a sole manager at the top. Also, it insures continuity of leadership in *kibbutzim* since individual members of the two-persons- teams are not replaced at the same time.

**The rule of semiautonomous committees** (Pavin, 1998). In a certain sense *kibbutz* communities might be characterized almost as “a federation of committees”. Almost each subject or topic that is of interest to the community would be entrusted to the responsibility of a committee. Those committees would be autonomous regarding that particular topic vis –a- vis the top echelons of the community. Their duty would be to report only to the General Assembly. These committees would be headed by elected “coordinators” (“heads”, “directors”, or “chairs” in other organizational cultures) and the common mode of operation would be for them to engage in a participative management approach. One might find almost forty different committees in a veteran *kibbutz*, each composed of 4-8 individuals. The range of functions would include all aspects of community life such as social, economic, education, health, leisure, and culture. Because of the exercise of the “Managerial Rotation” mechanism, over a five-year period about 60% of all members would have served for at least one year as committee members and about twenty five percent would have served as “coordinators” (Leviatan, 1978). These mechanisms offers involvement in the center of the community for a large percentage of membership, and training for future leadership positions.

**Flat organizations** (Melman, 1970; Tannenbaum et al, 1974). Even though *kibbutz* organizations are hierarchically structured, these hierarchies are flat (usually no more than three layers of hierarchy) compared to organizations of similar size outside *kibbutzim* with a wider span of control for those who are at the hub. This structure allows a great deal of autonomy for members at lower levels – thus increasing percentage of those with influence and knowledge of their organization.

**Purposely creating “status incongruence”** (Leviatan, 1982). Usually one would expect individuals to seek congruence across their various status positions (wealth, managerial, education, position in community, prestige). Sociologists call this desired state “status crystallization” (Lanski, 1956) and psychologists refer to its mirror picture as “status congruence” (Sampson, 1969). Indeed organizations and communities would often offer that kind of status congruence to their members at the top. Thus, one finds that leaders of communities are regularly in congruence within their positions on various status dimensions: those at the top of the managerial ladder in the business world of their communities are also honored by top positions in the various social and cultural institutions of their communities. Not so in *kibbutzim*. There is an intentional effort to spread the top positions of various status dimensions across a larger number of members so that, again, a larger percentage of members participate in the center of activities, are involved, and have influence. Thus, one may find that the top office holder in a community sphere (e.g. General Secretary or a coordinator of a central social

committee) might work as rank-and-file in a branch of the business sector and the opposite would be true for top managers of the business sphere. This is another instance of a mechanism that expands the numbers of those in top positions, positions that offer influence over matters in their community.

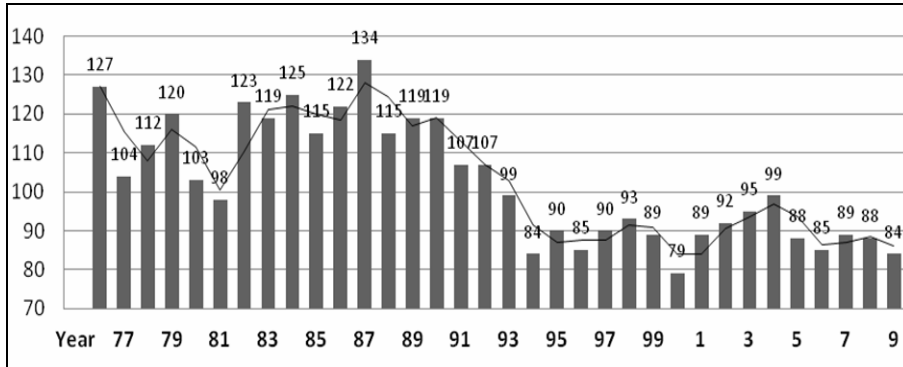
Strictly speaking, the different mechanisms that I have enumerated above are not totally independent from each other. However, they are different enough to warrant referring to them separately and in different combinations. In addition as I noted in the introductory paragraph to this section, they also have major common denominators that alleviate drawbacks of hierarchal structures and yet preserve many of the advantages of those structures.

## 5. Outcomes of the use of mechanisms to counterbalance ill-effects of hierarchical structures

Research supports the claim that not only do these mechanisms solve – at least partly – the problems of hierarchy but they also contribute to the economic success of the organizations where they have been employed and to the well being and health of individuals at the lower rungs of hierarchy (e.g. Leviatan et al., 1998 (several chapters); Leviatan & Rosner, 1980 (several chapters); Bartolke et al., 1985; Tannenbaum et al., 1974; Eden & Leviatan, 1974; Leviatan & Salm, 2007; Leviatan, 2009). In the studies reported in these citations one finds that (1) *kibbutz* organizations and its sub-organizations exercise hierarchical structures, and the correlates of these hierarchical structures are similar to those found in organizations outside *kibbutzim*. However, the levels of the correlations are much lower in *kibbutz* communities; (2) levels of equality among members determines members' level of health, wellbeing and satisfaction with *kibbutz* life; (3) participative management brings about higher levels of organizational commitment and also higher levels of organizational effectiveness; (4) managerial rotation and incongruence of statuses is also beneficial to organizational effectiveness; (5) due to the use of these various mechanisms, industrial *kibbutz* organizations were better functioning than their comparable organizations outside *kibbutzim* both in Israel and in other countries.

*Kibbutz* industrial organizations are perhaps most suitable for comparison with organizations outside the *kibbutzim*. This is because of their similar characteristics as regards technology, physical appearance, size, markets, and suppliers. Graph 1 illustrates how *kibbutz* industry surpassed Israeli industry in the index of "sales per worker" (for the years 1976 through 1992 (the years after 1992 tell a different story as explained later). The graph shows that for the 17 years (1976-1992) the *kibbutz* industries surpassed Israeli industry by an average of about 16% in the index of "sales per worker".

**Graph 1: Sales per worker: kibbutz compared to Israeli industry 1976-2009**  
(Percentage: Israel = 100)



Source: Annual reports of Kibbutz Industrial Association (KIA).

## 6. Effects of structural transformation in *kibbutzim*

One way to test for the effectiveness of using the mechanisms that counterbalance ill effects of hierarchy is to exploit the changes that *kibbutzim* went through during the last two decades. Explanation of why the changes occurred is beyond the scope of this paper – it may be found in Leviatan et al., 1998. However, some of these structural changes bear directly on the topic at hand; for instance: direct democracy was replaced by representative democracy; rotation of managers was almost totally abolished; differentiation in money rewards (salaries) was added to other differentials of hierarchy; in many cases absolute power for firing or hiring was given to managers over their supervisees; hierarchical structures became very "steep" with more layers (five to seven) than before; span of control for managers has been reduced; and the number of internal autonomous committees was reduced to a bare minimum. Even the lingo changed and "coordinators" have transformed into "directors", "managers", or "chairs"; "governing committees" have changed their names into "directorates" and similar changes occurred in other spheres to conform to the lingo used outside the *kibbutz* culture.

The structural transformations' main effect is upon the level of equality among members: This is illustrated by Table 1 that relates the number of years a *kibbutz* has already adopted the differential salary arrangement (rather than equal personal or family budgets) and several indexes of equality among members (32 *kibbutzim*, 700 respondents – Leviatan, 2009).

**Table 1:** Correlations between number of years (0-6) since adoption of Differential Salary Arrangement and expressions of socioeconomic inequality (N=32 *kibbutzim*)

Expressions of inequality	Pearson correlation coefficient (r) with yrs. in differential arrangement
Perceived level of disparities among members <sup>a</sup>	.54**
Satisfaction with degree of equality in <i>kibbutz</i>	-.58**
Mean estimated relative level of family income compared to other members	-.59**

\*\* p < .01

Source: Leviatan, 2009.

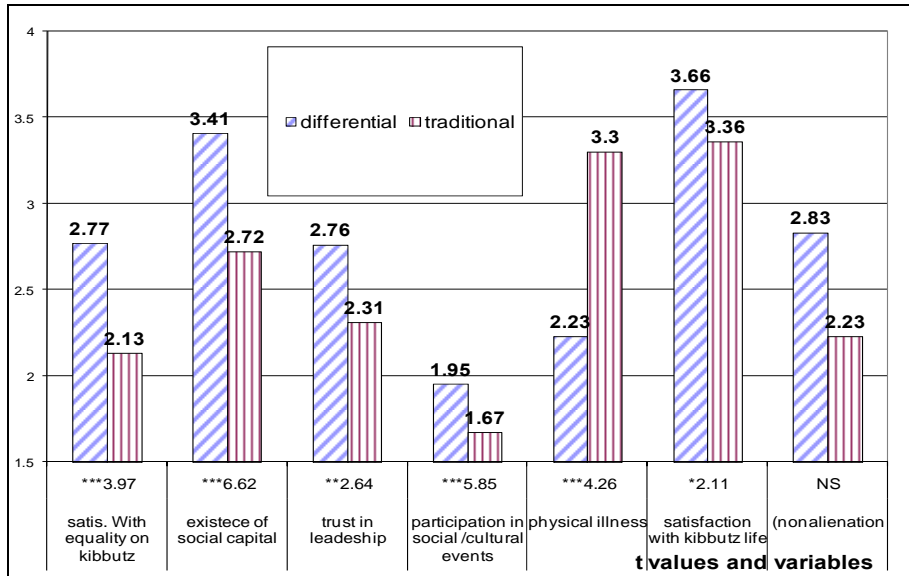
It is clear from Table 1 that the more years a *kibbutz* is already into the differential salary arrangement, the lower are all indices of equality.

As a result of the increase in inequality, one finds higher correlations of hierarchical position with expressions of health. For instance, in the same study as in Table 1 (Leviatan, 2009), the correlation of self reported "managerial level" with "ill health symptoms" (also self reported) was  $r = .14$  ( $p < .05$ ) for members of transformed *kibbutzim* ( $n = 350$ ); the correlation with self reported "level of health" was  $r = .22$  ( $p < .001$ ). The same correlations did not reach statistical significance for members of traditional *kibbutzim* ( $n = 250$ ).

The importance of equality for the well being of members is illustrated in another study (Graph 2) where members from traditional *kibbutzim* are compared to members from *kibbutzim* that transformed into "differential" *kibbutzim* (in which salary is paid on the basis of position at work and not equal to all) (Leviatan & Salm, 2007). In all measures, members from the traditional *kibbutzim* fare more positively.



**Graph 2:** Differences between members of Differential and Traditional kibbutzim (2 of each, 70 members in each group). Equality, social capital, health and well being (1 = most positive) (Leviatan & Salm, 2007) (1 = most positive; 5 = least positive. Physical health is in the opposite direction)



Source: Leviatan & Salm, 2007.

These structural changes in *kibbutzim* also affected their level of functioning both economically and socially. Note in Graph 1 the index of "sales per worker" for the years 1993 to 2010. On average *kibbutz* industry was 89% of Israeli industry (compared to 116% for the years 1976- 1992). The population of members and their dependents in *kibbutzim* also came down from about 129,000 in 1991 to about 100,000 in 2007.

## 7. Discussion and Summary

The premise of this paper was that a hierarchical structure is a common, perhaps necessary, characteristic of most if not all organizations in the industrial world. I have also stated that hierarchical structures have many advantages for the organizations that use them, yet they also have many drawbacks. A major drawback appears for societies where the values of equality among members are most central. This is because hierarchical differentiations stand in strict contradiction to the notion of equality among members. This is an important fact since the centrality of the values of equality is true, in degrees, for many societies in the industrial world. More importantly the value of equality among members

of society is spreading in the industrial world. Thus, the task at hand in this paper was to find whether it is possible for a society, community, or organization to have a hierarchical structure and still keep to the value of equality.

I have shown that the Israeli *kibbutz* communities serve as a good place to illustrate such a situation and that its example indicates a possible solution to the riddle. *Kibbutzim* indeed adhere very strongly to the value of equality among their members, and at the same time exercise hierarchical structures in their organizations. They solve for the ill-effects and the drawbacks of hierarchical structures by employing several organizational mechanisms that I have described in some detail.

The material presented in this paper teaches us that the very fact of having a hierarchical structure does not necessitate negative outcomes. The material has also shown that there exists a wide range of mechanisms that organizations could adopt to alleviate most ill effects of hierarchical structures and yet keep those structures in operation.

The fact that relatively diverse organizational mechanisms implemented to overcome the drawbacks of hierarchy allow via different routes organizations to reach similar outcomes, meaning that organizations have a choice. Each may choose the most appropriate mechanism, or mechanisms, for itself, and still have at least some of the benefits gained by *kibbutz* communities as regards battling ill effects of hierarchy.

There still remains the question of whether these mechanisms could be generalized to other cultures. I believe it is unlikely to generalize *all* the mechanisms I described. But some of them (and with various combination) could be used – in fact are already used – by organizations in other cultures. For instance: direct democracy is employed by many NGOs; managerial rotation is the practice of many academic departments in many countries where heads of departments are elected into office for a set in advance period and then go back to so called “rank and file” status in their department when replaced. The same practice often applies to other academic officers in the same universities; semi-autonomous teams are practiced in many business organizations. I suggest that the right way to go about adopting any of these mechanisms is first to decide that one wants to overcome ill effects of hierarchy and then choose what mechanism or mechanisms should be used for such a purpose.

I still need to offer an explanation as to why the deterioration of the organizational effectiveness of *kibbutz* business organizations resulted from the abandonment of the mechanisms I described in this paper. Members in the traditional *Kibbutzim* were characterized by: a high level of management skills due to the practice of managerial rotation, proven skills as intensive team workers, and a high level of motivation. This quality of human resources is the only advantage that *kibbutzim* had in their

economic activities. Other characteristics were in fact drawbacks: there were drawbacks in their being small communities; in their workers relative older age, in workers reduced physical ability (because *kibbutz* workers were older than city workers since *kibbutz* members do not retire at the same age as city workers and *kibbutz* members are never fired); in flexibility of size of the work force, and in the little mobility of their human resources; in the long distance from business centers (being situated in the periphery of the country); and in inflexibility of geographic mobility. Throwing out one's advantages and relying on one's drawbacks cannot be considered good business management.

Finally, this paper presented the full story of the ways by which *kibbutzim* struggled to preserve equality and simultaneously keep up with hierarchically structured organizations. Then, it has focused on the demise of those mechanisms in about three quarters of all *kibbutzim*. Does it mean that these alternative ways of dealing with hierarchy do not hold for long? Not necessarily! The fact is that *kibbutzim* have now survived for over one hundred years. Another fact is that even today there are more than 60 *kibbutz* communities that fully adhere to the principles that are at the base of these mechanisms. Another important fact is that these mechanisms worked well for the *kibbutzim* that utilized them. Thus, at least in my view, a negative verdict of the feasibility and viability of these organizational mechanism is not really justified.

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# WORKFORCE COST EFFECTS ON PRODUCTIVITY, QUALITY AND SATISFACTION IN ORGANISATIONS

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***Abstract.** Retaining employees definitely saves an organisation money, and workforce planning could assist in retention of employees. Global pressure on organisations to stay competitive necessitates change while stakeholders demand quality and cost effective products. On the other hand competitors around the world are demanding level playing fields across cultures. Productivity, quality and customer satisfaction have also contributed to a rethinking of the shape and the nature of organisations. A culturally diverse workforce has been a reality in New Zealand for decades. The empirical research reported on in 2010 in this paper sought to discover informed industry direction from HR practitioners as to what their profile ought to be in 2020 and what organisations should do in this regard to be sensitive to a diverse workforce and to be prepared for the future .*

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## 1. Introduction

In any country the anticipated changes in the business environment are of great concern for managers and business owners. The role of human resource (HR) departments in organisational development and the management of cultural changes in order to stay globally competitive is the reason for the undertaking of this empirical research (Du Plessis, 2012). There is also a shift in countries globally, including in small countries such as New Zealand, by management to integrate all resources and forces into an appropriate strategy. Social benefits in a country where unemployment is low are not abused because people are working

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and not looking to the State for support. To keep unemployment figures low, organisations have to look at retaining their workforce and keep their labour turnover as low as possible. Some solutions are identified and presented in this article (Du Plessis, Paine, Botha, 2012).

The central figures in organisational change are managers. As change agents they have a proactive role in anticipating and shaping the environment for change. Line managers must also be experienced in more than one field. Respondents supported this important role of managers as change agents by implementing HR programmes for organisational development, cultural as well as organisational changes. An enormous increase of 21% for 2020 in the importance of line management's role is anticipated by the respondents compared to 5% in 2000 and 26% in 2010.

The traditional roles of managers and the roles and responsibilities of human resources managers must change in the future. As change agents and leaders they will have to implement all the programmes and practices for these changes to stay globally competitive (Du Plessis, 2012). The empirical research reported on in this paper sought to discover the direction of informed industry from HR practitioners as to what the profile of the HR practitioner ought to be in 2020 and what organisations should do in this regard to be sensitive to culture diversity in New Zealand.

## **2. Theoretical background**

### ***2.1. Workforce Planning***

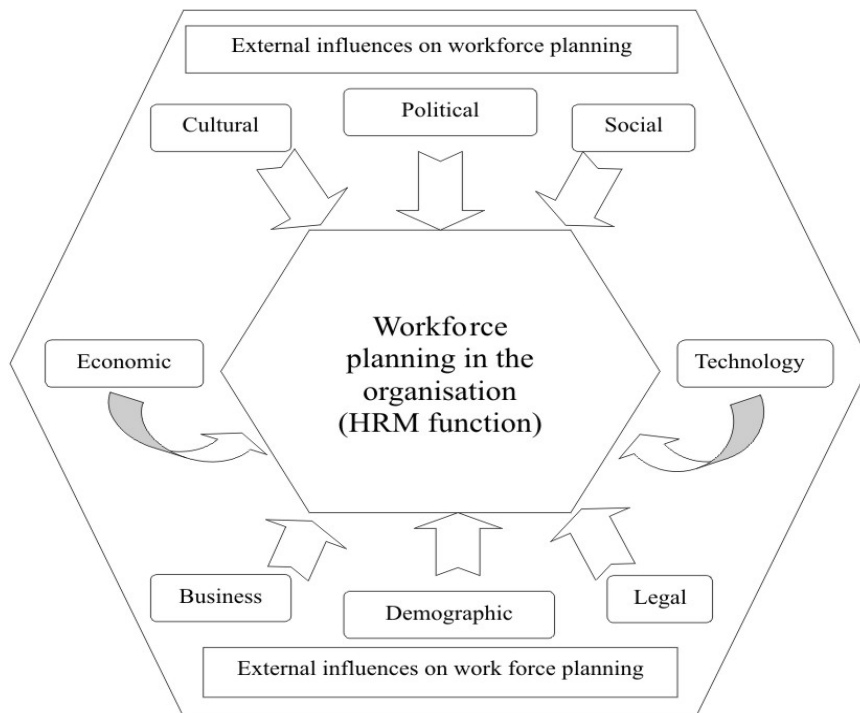
Workforce planning is one of the most important issues in which human resource (HR) professionals/ practitioners are involved. It is getting more complex and difficult for managers to plan their workforces. It is estimated that in 2030 there will be another 1.5 billion people on our planet and that the populations will, on average, be much older. These population changes, along with other factors, will determine the future growth of the world economy in which countries such as Romania and New Zealand take part (Härtel & Fujimoto, 2010). The task of actually implementing workforce planning is daunting because it is so difficult to define. It is also known as employment planning or HR planning. This type of planning is at the operational level where it is concerned with detailed forecasts of employee supply and demand.

Despite the expected rapid increase in the global population, the war for talent is intensifying globally every year to enable organisations to remain competitive and thus sustainable. Every organisation must be able to attract a sufficient number of job candidates who have the abilities and aptitudes needed to add value to the company. Recruitment supplies a pool of suitable applicants who can enter the selection process. Recruiting activities occur when the decision was made in the organisation what kind of employees are needed and how many. If proactive planning has taken place, filling vacant positions is not a daunting task.

According to Stone (2008), workforce planning (HR planning) is a process that systematically identifies the needs that will guarantee workforce availability. Nel, Werner, Du Plessis, Fazey, Erwee, Pillay, MacKinnon, Millet and Wordsworth (2012) have the same view on this. Workforce planning is therefore an integrated and holistic resourcing planning process that ensures the right people are being employed in the right roles to meet the current organisational profit plan. Workforce planning thus involves the joint synchronization of the vision, mission, goals, and objectives by the organisation's senior HR managers and line executives. The aligned HR and organisational strategies should then be implemented in the organisation (Rudman, 2010).

It is of the utmost importance to take note of the external influences on workforce planning in an organisation. Workforce planning is a critical HRM function that needs to take issues such as political, legal (new legislation) economic situations (recession) technology (IT and other e-media) and so on into consideration(Gómez-Mejia, Balkin, & Cardy, 2007 ; Nel et al 2011 ) Figure 1 below explains the most important factors to take into consideration.

**Figure 1: External influences on workforce planning**



Source: Du Plessis as cited in Nel et al (2011: 163)

By planning ahead, the HR function can provide managers with the right number of people with the right skills in the right place and at the right time. **Workforce planning** might more accurately be called talent planning, because it integrates the forecasting elements of all of the functions that relate to talent – recruiting, retention, redeployment, and leadership and employee development.

## ***2.2. Retention of talented employees***

The term talent refers to the attraction and selection of high potential employees. Talent inventory is one of the first steps in workforce planning as discussed above. Talent management refers to the strategic management of the flow of talent through the organisation; the purpose is to ensure the availability of an adequate supply of talent to align the right people with the right skills, knowledge and experience with the right job at the right time based on the strategic business and HR objectives. Talent management is the key challenge for the next decade (Lawler 2008; Nel et al, 2011). Human resource practitioners need to operate within the business cycle if they wish to become strategic business partners. It is crucial that the ‘talent inventory’ (skilled employees), is maintained at the right levels, in order to comply with the requirements of hiring and retention issues. Human capital and intellectual property is closely related to talent and results in competitive advantage achievement. Talent forecasting needs to be done and it is a process for predicting changes in the demand for and the supply of talent. Forecasts are broken down into the following areas:

- a. Estimated increases or decreases in company growth, output, and revenue
- b. Estimated changes in talent needs that result from organisational growth
- c. Projections of future vacancies
- d. Estimates of the internal and external availability of the talent needed to meet forecasts.

Demand forecasting is the estimation of the quantity and quality of employees needed to successfully achieve the organization's objectives and goals (Härtel & Futjimoto, 2010). Companies should tailor retention approaches to the motivations and mind-sets of specific employees (as well as to the express nature of the changes involved) because one-size-fits-all retention packages are usually unsuccessful in persuading a diverse group of key employees to stay (Guthridge, Komm, & Lawson, 2008).

Ma & Trigo, (2008) outlined three key reasons to invest in developing talent:

- a. enabling those organisations that are resource constrained or have had to reduce headcount in the face of increasing demand to do-more-with less,



- b. preventing the talent drain when economic conditions improve, and
- c. investing in leadership to avoid the high costs of staff turnover because the number one reason that employees give for leaving an organisation is dissatisfaction with their immediate superior.

### ***2.3. Management and executive talent development and training***

Labour shortage and dynamic and complex leadership capability requirements can influence the practise of succession management. Organisations should use a system that enables talented individuals to develop a successful career in their organisations. Talent development could be regarded as the systematic attraction, identification, development, engagement, retention, and deployment of those individuals with high potential who are of great value to their organisation (Garrow & Hirsh, 2008; Lawler 2007; Dijk 2008). Management and executive talent development is a recent trend in organisations. The increasing tight labour markets make succession management a business imperative and encourage organisations to identify and accelerate the development of future leaders from within. Development and career progression can ensure the job satisfaction in future leaders that is a prerequisite for retention.

Bingham (2008) includes the acquisition of employees, career planning, assessment, retention, succession planning, organisation development, performance management, and team and individual development in the components of executive talent management. A holistic view of the individual is to be taken to effectively identify and select the manager to be nominated for development programmes.

Executive talent management is about creating accelerated development and training paths for employees with the highest potential and consciously moving them around the organisation in different roles to give them the necessary breadth of experience (Dessler, 2011). Organizations must also encompass career development, which has been difficult to position in organisations since individuals have generally been left to manage their own careers (Garrow & Hirsh, 2008). The focus is therefore on the accelerated development of high-potential employees for future leadership deployment on new assignments.

### ***2.4. Management of labour costs***

It's easy to overspend on rewards and to target labour when costs must be cut. The challenge for managers is to craft and maintain a rewards framework for effective spending. To do this the manager must understand the total cost of rewards and of each component relative to the basic business parameters and the

competitive market place to ensure that costs remain manageable relative to business performance expectations (Du Plessis, 2012).

To manage and control the demand for labour, the HR manager must know how many people will leave the organisation by doing an accurate forecasting of the organisation's labour as described above. Labour turnover is due to retirement, disability, death, illness, resignation, retrenchment or termination. Employees may also quit because of dissatisfaction with their working conditions, pay and benefits, training and development, promotional opportunities and so on. Replacement of these employees is very expensive due to several factors such as recruiting, training and so forth; hence the HR manager must control the labour costs. Nel et al (2011) support the cost control of labour very strongly.

### ***2.5. High productivity, quality and customer satisfaction***

An important factor for the 21st century organisation is organisational performance. Dramatic changes are taking place in the workplace, societies, and the economic environment. We are still in the most severe recession in history. Global influences on workplaces, organisations, unions and productivity of the domestic workforce are researched to determine the quality of products and the satisfaction of the customers (Brewster, Dowling, Grobler, Holland & Warnich 2008; Dessler 2011; Rudman 2010).

The primary focus for HRM is the added knowledge and responsibilities required due to foreign operations. These include language, the local and national regulations and legislation governing business operations within a foreign country; currency exchange rates, career development, company benefits and incentives, ensuring workplace safety through dealing with drugs and drug problems, employee assistance, ergonomics, spirituality and diversity, and the ethics and etiquette expectations of foreign business contacts. HRM must understand these issues clearly to keep product quality at a level where customers are satisfied with the products and so prevent embarrassing situations and unintentional 'affronts' from occurring. Various researchers (Du Plessis 2007; 2009; Gómez-Mejía, et al 2009; Jackson, 2002) have identified certain factors that impact upon HRM in their organisations in order to keep productivity high and quality at an acceptable level. These factors include diverse cultures, educational levels, economic level, political interference or stability, and legal issues.

### ***2.6. Workforce production and quality output***

Hill, Jones, Galvin and Haidar (2007) postulate that the most important resource of successful organisations is their people. If the organisation gives its HRM practices the priority they deserve, it can have a profound impact on production

and quality output. The following are essential when selecting employees for employment:

- a. Technical ability: the ability to do the job is of course a prerequisite
- b. Managerial skills: those skills which are associated with being an effective manager are important
- c. Diplomatic skills: an ability to deal with others, negotiate, and to represent the organisation; this may even involve interaction with politicians and government officials
- d. Personal motives: a positive reason for wanting to maintain quality outputs
- e. Emotional stability and maturity: This involves having the power and emotional maturity to maintain equilibrium in difficult environments as well as being non-judgmental in relationships with others.

Based on the above required competencies, the focus of HRM policies is directed towards the areas of workforce planning, recruitment, selection and retention, development and training, remuneration, performance management, and labour relations. According to Du Plessis (2012), dealing with language differences in an organisation makes the production scene more complex. Language differences could build a boundary that impedes the productivity and quality output of employees and therefore the competitive advantage. Remuneration is one of the emergent HRM issues for the future HR manager aggravated by the poor economy and higher inflation rates. HR managers should set up strategies and procedures to reduce dissatisfaction of employees in order to reduce the complexity of HRM and to enhance competitive advantage.

### **3. Problem statement**

The anticipated changes in workforce planning, the business environment, the recession and even globalisation are of great concern for managers and business owners. The role of HR practitioners in the recruitment and retention of employees, management of diverse workforces and labour costs, the development and training of executive employees and quality production to stay globally competitive, are the reasons for undertaking this empirical research. Some solutions are identified and presented in this paper.

## 4. Goal and objectives of this paper

Changes in the broader business environment are affecting nearly every aspect of how businesses manage themselves and must take into account in their outsourcing of HR functions the world of diversity in which they operate. Conflicting pressures in the labour market have brought the role of HR to the fore. Current worldwide need for skills has started the so-called war for talent (Net et al 2012).

Looking forward, demographers predict a long-term tightening of labour skills for the advanced economies of the world but the reverse seems to remain the case for third world countries. Mergers and acquisitions are increasingly frequent, creating huge HR and management challenges as well. Empirical research was executed in New Zealand (in 2000), to identify future changes (of 2010) of HR in businesses, and this research was repeated in 2010 with a forecast to 2020. Reporting on the changes and comparisons of this longitudinal study is the main objective of this paper. For New Zealand businesses, managers and HR practitioners it is vital to know about workforce planning, retention and labour costs as well as productivity, quality and satisfaction of their employees and customers in order to remain globally competitive.

This article endeavours to use the research that was executed in New Zealand organisations to confirm that workforce planning, retention of employees, the minimising of labour costs and high or increased productivity are all necessary functions that should be carried out globally in any organisation.

## 5. Methodology

### 5.1. Background

A very comprehensive HRM questionnaire covering 358 items to identify HRM and management trends was jointly compiled in New Zealand and Australia in 1994: (IPMNZ, 1994). The same questionnaire was used with permission for a survey to identify the future competencies and roles of HR in those countries for the year 2000 by the Human Resource Institute of New Zealand). The same questionnaire was modified and refined and used again in 2000 by Burchell (2001) in association with the Human Resource Institute of New Zealand (HRINZ) to determine a future perspective on human resources in 2010 in New Zealand. The final section of the said questionnaire sought to obtain demographic information from respondents. The same questionnaire was used with permission after minor editorial modifications for an identical survey in South Africa in the last quarter of 2002. The topics covered in the questionnaire included human resource goals,

roles and activities, and so forth. The final section of the questionnaire sought to obtain demographic information from respondents. Due to the magnitude of the survey, only a small section is analysed and reported upon in this paper.

The quantitative methodology adopted was an e-survey; a questionnaire containing structured closed questions. This involved the selection of a sample of people from the HR practitioner population in NZ to ascertain how factors differ, and to make inferences from sample population. Representativeness of this study was seen as acceptable (15.4% responded) as previous leading HRM studies conducted in NZ were successful with a response rate of 41 %, 11% and 34 % respectively.

### ***5.2. Sample selection***

The study focused on HR practitioners in NZ organisations who are registered as members of the Human Resources Institute of New Zealand (HRINZ). They are involved in the management and development of HR in private and public sector organisations throughout NZ. The target population was limited to HRINZ members that had registered to participate in HR research requests that HRINZ provided links to. The total number of HRINZ members in this category was 635. A total of 119 members responded but 98 questionnaires were fully completed and usable resulting in a 15.4% response rate.

### ***5.3. Data collection***

The data was collected via the e-survey, which was a repeat of previous studies and therefore a very important longitudinal study. The invitation to participate went to 635 members of HRINZ.

### ***5.4. Questionnaire***

The questionnaire consisted of questions designed to explore each of the HR themes researched in this study. All the questions in the questionnaire were closed questions. Only five closely related themes are covered in this paper but due to the size of the study and length limitation for this paper not all the information could be discussed. The Tables reflect the research questions used in this paper, and the rationale for using the five specific themes is discussed later.

## **6. Results**

The completed questionnaires received from respondents were subjected to verification for accuracy before responses were collated and treated statistically

using the SPSS program. The statistical analysis was used to obtain responses in terms of the various questions vis-a-vis organisation size, occupation of respondent and so on. Furthermore a comparison of response of the respondents for current (that being 2010) and future (that being 2020) was also recorded.

Results were recorded to reflect the percentage of all respondents selecting a particular alternative for a particular organisation size or occupation in a particular occupation. Note must be taken that only the aforementioned possibilities are given in this paper due to the huge research that was done and the rest are reported on in other papers and articles. The responses were compared in terms of the 2000 result and the envisaged importance in 2010, then the 2010 result and the envisaged result importance for 2020.

The profile of the respondents is spread over a wide spectrum and each respondent has some relation to HR and qualifies to give his/her view as per the questionnaire questions. The fact that 75.1% of the respondents are active HR practitioners and a further 8.2% are in tertiary education and lecture HR related subjects makes their opinions for the future role of HR very reliable and valuable.

More than a half of the respondents are from larger organisations (500 or more employees) and almost a quarter is from organisations between 200 and 499 employees. The importance of this information is that most large companies in New Zealand have a human resource department. More than three quarters of the respondents in this study are therefore HR practitioners that make their responses very valuable and useable to predict their future role in any changes in organisations.

## **7. Analysis of the results**

The results are presented in terms of the selected categories. The changes anticipated by the respondents for 2020 as opposed to the current situation in 2010, is reflected in this paper. The results reflect the responsibility for HR to be shared by the HR function and line management with regard to specific responsibilities and roles of workforce planning, retention of talented employees, management and executive talent development and training, management of labour costs and high productivity, quality and customer satisfaction. Therefore, the results also reflect the respondents' views on the 2000 study with predictions for 2010 and the current study of 2010 and their predictions for 2020.

### ***7.1. Workforce planning***

A strategy that can be divided into sub-strategies for the different departments or functions such as production, finance and HR should be common in New

Zealand businesses. Globally, management tends to neglect HR as a sub-strategy. It should be included in all strategic planning, especially workforce planning. There is a shift towards this view in New Zealand by management recently, to integrate all resources and forces into an appropriate strategy. The respondents support this statement when the question was asked whether their workforce planning includes flexibility and deployment. A mere 1% of the respondents regarded it as satisfactory in 2000 with an enormous increase of 48% in 2010 to 49%.

In the 2010 study 20% of the respondents regarded it important now (being 2010) and 44% predicted that it would be important on 2020. It can further be deduced that HR practitioners want more flexibility in the diverse workforce. It can therefore be said that the consistence of HR strategies is important for the success of an organisation. Top management has a difficult time organising the varied activities, as mentioned above, such as finance, marketing and so forth. Nel et al (2011) support this view that it is important for the success of the organisation.

### ***7.2. Retention of talented employees***

The induction and retention of employees is neglected by many organisations in New Zealand. The process of recruitment is only the start of organisations' biggest challenge, namely to protect the investment made in new employees by retaining them. It has been recognised that the retaining of staff has become a priority in many organisations around the globe, and human resources researchers and practitioners alike are paying high level attention to it (Dijk, 2008; Lawler, 2008 ). Retention is redesigning a range of HR activities to provide increased job satisfaction and, as a result, improved employee commitment and satisfaction as explained below in another section.

The 2000 study reported that it is more important (in 2000) than it would be in 2010 to retain their employees. The figure for 2000 is 61.3% and decreased to 47.2%. There is a dramatic difference in the 2010 study where 66.7% regarded it as very important and critical for success (in 2010) with a huge increase to 81.6% estimation in 2020. It can be deduced that New Zealand businesses realised that training costs are high and that they could save much more during the recession by keeping doing everything possible to keep their current trained and knowledgeable workforce. In other words the turnover is lower due to the recession because positions are not as readily available as it used to be before the shortage of talented employees.

### *7.3. Management and executive talent development and training*

Brewster et al (2008) state that there are various perspectives which would include process, organisational culture, HR planning, competition, development paths and change management depending on the approach followed. The management of executive talent management is a complementary practice to strategic HRM for attracting, engaging, developing and retaining executive talent and leadership talent. Lawler (2008) on the other hand, also claims that talent management is a driver for change in businesses, and that it would contribute to the change process. It therefore provides an opportunity to close the gap between current talent (supply) in an organisation and anticipated talent required (demand) by the organisation in a strategic context (Erasmus, Loedolff, Mda & Nel 2010).

There is an increase of 16.6% from 50.0% in 2010 to an anticipated 66.6% in 2020 according to the respondents in the current (being 2010) study. In comparison to the previous study of 2000 there is a significant difference as the respondents in 2000 regarded management and executive talent development as only 4% important and critical for success and anticipated that only 38% will need development and training in 2010. These figures show a huge swing to the importance of management and talented employees' development and those Executives (CEOs and top management) realise that they are not the "mister-know-it-all" as they might have thought in 2000. It could be that these attitudes have changed due to the influence of globalisation, the recession and the earthquakes in Christchurch with the uncertainty of many organisations involved in the re-building and clean-up of the aftermath. Contemporary approaches to succession management involve the accelerated development of a select group of high-potential individuals for current and future roles that may not be identifiable at present.

### *7.4. Management of labour costs*

The question was asked: whether management is currently managing labour costs satisfactory and if it will be a priority in future (being 2010). The respondents reported a 13% increase (from 3% in 2000 to 16% in 2010). It can be deduced that respondents want better and more efficient managing of labour costs because in most organisations labor costs are the biggest expense. Interestingly, the same trend continued in 2010 and the expected outcome for 2020, although the figures were slightly higher. Half of the respondents (50%) in 2010 regarded management of labour costs as very important to critical for success. This figure increased to only 56.7% for 2020. It is alarming that managers do not realise the importance of labour costs in an organisation.



Labour market conditions affect the availability of staff. If there is a surplus of skills, many applicants will be available; if there is a shortage of skills, few applicants will be available. Hence the human resource department needs to know the latest trends in the labour market. People have perceptions of what they are worth and what they do is worth. Organisations place values on what roles, positions and people are worth. The reward system and pay structures influence the applicant and are fundamental in attracting candidates with suitable credentials (Du Plessis, 2007).

### ***7.5. High productivity, quality and customer satisfaction***

Developments in the way organisations do their business, globalisation, the influence of diverse workforces, the aging population and several other issues have impacted on the productivity of organisations. The baby boomers are slowly leaving the workforce in New Zealand and Gen Y is taking over. If there is not a smooth transition, productivity will definitely be affected. The role and functions of HRM have also been changing over time and various authors have researched this phenomenon. The HR function is central within the supply chain and any range of service can be offered to the relevant users or beneficiaries to improve both the quality of their inputs and their outputs in order to assure quality service internally and externally to customers (Nel et al, 2011).

More than half (58.2%) of New Zealand HR practitioners regarded high productivity, quality and customer satisfaction in 2000 as important and critical for success in organisations. This figure increased to almost two thirds (62.1%) that predicted the same in 2010. The results of the 2010 study of 75% increased to 88.3% for 2020. The percentage difference is significant as well as the respondents who regarded it as important and critical in 2010. It can be deduced that New Zealand HR practitioners realise the importance of their customer's demand of quality but on the other hand they should maintain high productivity to ensure survival and completion with the global market.

### ***7.6. Workforce production and quality output***

It is also important to point out that certain changes, such as employment legislation (Employment Relations Act of 2000) had an immeasurable influence and effect on employers and employees when the 2000 study was done. Organisational changes had to take place. Reengineering was done in some organisations to implement the changes in labour legislation, which lead, amongst other changes, to cultural changes. The Labour government was in power in New Zealand for nine years which also influenced the labour market and therefore

productivity and in some instances the quality output of employees. In the meantime we are experiencing a recession which is regarded as the worst since the Great Depression; there was a change in government in 2008 and the National Party has made a few changes in the Employment Legislation having an influence again on the labour market. The recession however has the biggest influence as jobs are very scarce and employees know that they have to do their best at all times or they could be sacked for poor performance because there are people out there waiting to take their jobs.

In terms of issues relating to workforce productivity and quality of output only 3% of the respondents regarded it as satisfactory in 2000 and 50% as top priority in 2010. This is 16 times more in 10 years and it can be deduced that with the abovementioned issues of the change in government and legislation and so on during that time, the respondents anticipated these tremendous changes. It also supports the important role and influence that culture (diverse workforces) has on New Zealand businesses. The 2010 study has a response of 58.3% who regarded it as important and critical for success and the prediction for 2020 increased to 80.0%. It can be deduced that the New Zealand HR practitioners realised the importance and that the prediction in 2000 was really close to reality in 2010.

A summary of the longitudinal study is depicted in Table 1 below.

**Table 1: Summary of comparisons of longitudinal study in NZ**

Related themes	2000 actual	2010 predicted	2010 actual	% difference '10 predicted and '10 actual	2020 predicted
Workforce planning	1.0%	49.0%	33.3%	15.7% less	73.3%
Retention talented employees	61.3%	47.2%	66.7%	19.5% better	81.6%
Mgmt executive talent development and training	4.0%	38.0%	50.0%	12.0% better	66.6%
Management of labour costs	3.0%	16.0%	50.0%	34%% better	56.7%
High prod, quality, customer satisfaction	58.2%	62.1%	75.0%	12.8% better	88.3%
Workforce production and quality output	3.0%	50.0%	58.3%	8.3% better	80.0%

Source: Developed by the authors

## 8. Conclusions

The results of this study support the fact that NZ businesses are integrating resources as suggested by the literature. Therefore appropriate strategies are established to remain sustainable at present and it augers well for 2020 and beyond. However, managers will have to get themselves conversant with new legislation and employee needs, and they will have to be change agents and leaders with the implementation of all the programmes and practices for these changes. It is not just the role and responsibilities of HR managers that will change in the future but also the traditional roles of managers. The HR managers will have to be strategic partners aligning with business strategies focussing on workforce planning, retention and managing of labour costs. Productivity, quality and customer satisfaction will also be on the priority lists of HR practitioners in New Zealand.

Workforce planning further involves the entry of people into the organisation (acquisition), the development of employees (development), and the exit of employees (departure). It is therefore a systematic, fully integrated organisational process that involves proactively planning ahead to avoid talent surpluses or shortages. It is based on the premise that a company can be staffed more efficiently if it forecasts its talent needs as well as the actual supply of talent that is, or will be available. Talent management is the key challenge for the next decade. Human resource practitioners need to operate within the business cycle if they wish to become strategic business partners.

Management and executive talent development is a recent trend in organisations. Development and career progression can ensure job satisfaction in future leaders. If the organisation gives its HRM practices the priority they deserve, it can have a profound impact on production and quality output. It is important to acknowledge that diversity has become an increasingly important factor in organisations in New Zealand and globally as well as the workforce has become more heterogeneous. New Zealand has a diverse workforce coming from far afield or from “neighbouring countries” such as Australia, Fidji, Pacific Islands and others. New Zealand organisations employ thousands of these citizens from “neighbouring countries” but they are from different cultures, which is different from that of local employees. The 2020 manager, therefore, will have to be ultra sensitive to each and every culture.

During disruptive periods of organisational change, too many companies approach the retention of key employees by throwing financial incentives at star performers. This is not money well spent as many of the recipients would have stayed put anyway; others have concerns that money alone can't address. A new

kind of manager and employee can be expected in successful organisations in future with HR. practitioners playing cartelistic role which cannot be underestimated in terms of their role in organisations

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# CONSUMPTION, CONSUMER CULTURE AND CONSUMER SOCIETY

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**Abstract.** *This paper mainly deals with the concepts and issues surrounding the contemporary notion of consumption. Consumption is a complex social phenomenon in which people consume goods or services for reasons beyond their basic use-value. Conspicuous Consumption, Symbolic Consumption, Addictive Consumption, Compulsive Consumption and Sacred Consumption are five main categories defining distinctive consumption styles. Basic characteristics of consumer culture can be summarized in the transforming of needs to desires, utilitarian/bedonic needs-values, commodity fetishism, conspicuous leisure and consumption, cultural values, aestheticization, alienation, differentiation and speed. A consumer society is one in which the entire society is organized around the consumption and display of commodities through which individuals gain prestige, identity, and standing. The paper explores the main factors fueling the engine of consumer society that has over the past few decades gained a global perspective.*

**Keywords:** *Consumption, Global Consumer Culture, Consumer Society, Consumerism*

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## 1. Introduction

The concept of consumer society has recently gained a global perspective. This study domain attracts researchers from several disciplines such as marketing

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research and sociology. Understanding the ingredients and drivers of global consumer culture is key to gaining insight regarding consumer behavior, societal dynamics and relevant organizational aspects and revealing what makes consumers respond invariably to the forces driving the engine of consumption. Therefore, the implicit interrelationship between the concepts of consumption, consumer culture and consumer society merits further investigation. In doing so this paper aims to contribute to the relevant literature in the area by adding to the body of existing knowledge. The discussion in this paper is analytic in the sense that factors are discussed not only in relation to the big picture of global consumer culture but also keeping in mind the likely liaison among the factors. Firstly, the paper looks at the concept of consumption with perspectives from different consumption styles. Having reviewed the consumer culture, the paper then delves into the dynamics of consumer society and consumerism.

## 2. The Concept of Consumption

In the most general sense, consumption means satisfying needs. As it is, the concept of needs must be defined. A need seems compulsory for existence because when a need is fulfilled it provides pleasure, and otherwise it gives pain (Dolu, 1993:21). Consumption has social and economic associations also connected to time and space, depending on demands such as needs, wants and desires; goods, services and money or some value substituting money that are necessary for fulfilling demands (Orçan, 2008: 23).

Williams indicates that the very old-dated meaning of consumption is to destroy, spend and waste (Featherstone, 1996). The non-self-sufficient human being has various physiological, psychological, social and cultural needs. All activities towards meeting any of these needs could be stated as consumption. Apart from this definition, it is also possible to use the concept of consumption for some other values that are spent even without a real need. Consequently, consumption could be defined as spending tangible and intangible values that are ventured to meet some demand, whether real or fake (Torlak, 2000: 17).

According to another view, consumption, which is formed by the purchasing decision of consumers, is a process that combines behaviors in order to utilize economic goods. In order to define the concept of consumption, the final aim of economic activities, Ritzer (2003: 12 – 19) follows Marx's description classifying consumption goods as subsistence and luxury. Ritzer claims that consumption tools enable people to obtain goods and services and also exploits people by keeping them under control. In simple terms, consumption means to have a good or a service, to own it, to use or to dispose it in order to satisfy particular needs.

Consumption concept is also defined as the ideology of today's world and is criticized both negatively and positively like all ideologies. The ideology is based on a wealthier life as a consequence of more production and more consumption, and it is considered a factor that restricts people's freedom, makes people dependent on others, and alienates them (Odabaşı, 1999: 4).

Contrary to the views of economists that see consumption as an activity to meet a need and to gain benefits, Jean Baudrillard (1998: 95) regards consumption as a desire to any goods to remove usefulness and refers its as an indication system rather than meeting the needs. Consumption is an interpretation and communication process in addition to a tool for people to position themselves. When we consider consumption within the logic of an unequal spread of wealth instead of individuals owning goods and services for their use-value only we find:

- Interpretation and communication processes based on a code that records consumption activities and makes them meaningful.
- Social classification and differentiation processes in which objects are defined as not only sense-making differences but also values about status.

In early times when the concept of consumption was first put forward, consumption emerged among human beings as natural and simple; however, as time went by consumption moved away from the satisfaction of needs and gained a structure that defines social status. In fact, consumption is a must for social welfare, and competition is an efficient tool for maximization of social welfare. In this context, it is impossible to separate consumption and consumption society from competition process and competition culture. Therefore, the principle of consumption maximization corresponds with competition culture. However, these principles are based on the rational consumer, and exclude hedonism, conspicuous consumption, consumption of counterfeit goods, and word of mouth consumption. Moreover, modern approach emphasizes more frequently that creativity and productivity are connected with the consumption.. As a result of proliferations of hedonism, conspicuous consumption, consumption of counterfeit goods or word of mouth consumption, the phenomenon of consumption frenzy is occurred. Consumption increases, but there is no increase in satisfaction causing unlimited consumption. In a circumstance where consumption is unlimited, competition wakes consumption frenzy up (Rekabet Kurumu, March 2012, [Online] at <http://www.rekabet.gov.tr/index.php?Sayfa=sayfahtml&Id=765>, accessed March 31, 2012). Thusly the concept of consumption comprises of more than a sole style.



### 3. Styles of Consumption

The concepts of production and labor at work are of primary importance in the early phases of industrialization, and gradually the concepts of consumption, consumer, consumption society and leisure time have taken over. The social structure that is built around production and work has been replaced with a new capitalist social system largely based on consumption and leisure time. Since the mass consumption of mass production became a problem, the concept of leisure time occurred with a new meaning, namely consumption time. Previously leisure time meant freedom, naturalism, optional choice deepness of thought; however, after the above mentioned transformation it started to mean a new tool to reach consecrated and approved life purposes of capitalism such as consumerism, artificial excitement, abetted desire, competitiveness, pretentiousness etc. Leisure time industry became an important actor of capitalism by marketing the importance of itself and meanwhile agitating the depressive trauma of society. For example, shopping centers, casinos, solariums, fitness centers, sport clubs etc. don't have authenticity and permanent meaning even though consumers participate in them. Since they have been organized by a fictional and commercial logic they can't create sense of satisfaction. Even leisure time industry seems to serve many alternatives, and they create similar senses, emphasizing that the "good life" means "good consumption" (Aytaç, 2006: 118). Each consumer assigns a different meaning to any product or service. Five styles of consumption are outlined in following text.

#### *Conspicuous Consumption:*

People satisfy their basic physiological (food & beverage & housing) and security needs by consuming products and services. However, in any society there are some people who would like to impress others by consuming and splashing out. Sometimes the priority of splashing out may be more than basic physiological and security needs. This style of consumption is called as *conspicuous consumption* (Can Aktan, The Virtual Library on Social Sciences, [Online] at <http://www.canaktan.org/ekonomi/ekonomik-hastaliklar/hastaliklar/gosteris-tuketim.htm> accessed on March, 30, 2012). The concept of conspicuous consumption was firstly analyzed by American sociologist and economist Thorstein Veblen in his study "The Theory of Leisure Class" at the end of 19 century. According to Veblen, the first generation that became rich in the industrialization era kept on living a modest life while the second and third generations start to consume instead of produce. The most important issue in this concept is that consumerism shows financial power, status, and class in the society while making others jealous. People endeavor to make up differences in status by performing consumption

styles of groups of higher status. People also keep on conspicuously consuming in order to be at the forefront in their current group. Veblen also assumes that the motive behind the human behavior is imitating others and that wealth grants honour (Solomon, 2006: 474).

In societies, reputation is based on wealth, and the proof of power is to have a rich life. Conspicuous Consumption occurs not only among the upper classes but also among the lowest and the poorest classes (Çınar and Çubukcu, 2009: 284). In modern societies, the most common aim of Conspicuous Consumption is to ensure status and increase prestige (Şahin, 1992: 42)

### *Symbolic Consumption*

The distinctive feature of humans that other species probably don't have is the primary need that prompts his/her objectives, ambitious fantasies, value awareness and absurd thrills, all of which are clearly unattached from biological basis. Symbolization needs and the function of symbol creation exist among primary human activities such as eating, looking, moving...etc. and are basic, human-specific needs. Symbolic Consumption comprises of evaluation of products based on their symbolic values, purchase and consumption. People would like to specify characteristics of their needs and desires or communicate via consumption. These are the symbolic aspects of products that are called extensive self or symbolic self-completion. Consumption has a symbolic aspect and consumers would like to convey something about themselves by benefitting from symbolic aspects of consumption. Products and services act as a symbolic objects and represent what the consumer can be and what the consumer cannot be without these objects (Odabaşı, 1999: 69). For example, through a sports car or casual clothes people may broadcast the message of the importance of their freedom and individualism.

Consumption of symbolic meanings of products is a social process that makes basic cultural classes visible and stable. In other words, luxury products are not consumed physically, and core products become of secondary importance; image is consumed instead. These kinds of products are viewed as a reflector of social class or life style. Thus, for the elite consumption choices become a reason for being. In fact, consumption is an important element to participate in social life and improve social relations. According to Veblen, there are two different motives in luxury consumption. One of them is to reflect one's own image to other members of elite, and the second is to differ from the others from low-classes.

### *Addictive Consumption*

Consumption addiction means to be addicted to products or services as psychological or physiological dependence, such as alcohol, drug, nicotine...etc. Even though addiction generally associates to drugs, in fact it includes any kind of products or services that are consumed in order to overcome problems or satisfy a need with extreme value. Another important issue in this topic is internet addiction which is increasingly widespread. Since some internet addicted people give importance to their virtual lives more than their real lives, this type of addiction becomes increasingly harmful (Solomon, 2006: 29).

### *Compulsive Consumption*

There are some consumers who were born for shopping and they feel compelled to do shopping. Compulsive consumption points out a kind of repeating and over-consumption that occurs due to anxiety, depression and boredom of consumers. Shopaholics lean on overconsumption in the same way that addicted people lean to alcohol or drugs. For example, a woman who has forcing consumption disorder may buy 2000 hairgrips but will never use any of them. According to reports of therapists, four times more women than men are diagnosed with forcing consumption. While men trend towards buying equipment, vehicles or guns in order to get the sense of power, women prefer to buy cosmetics and clothes in order to improve interpersonal relations. Both women and men may not control themselves when they are over-consuming like other addicted people. These people find it especially difficult to control their consumption of products such as alcohol, cigarettes, chocolate and diet coke. Three main elements of negative consumer behavior are as follows: 1) behavior is not by choice, 2) pleasure occurs due to shortness of behavior duration, 3) people experience sense of regret or culpableness after consuming (Solomon, 2006: 30).

### *Sacred Consumption*

Generally consumer activities tend to create binary opposition such as good-bad, woman-man. One of the important binary opposition in consumer activities is sacred and non-sacred consumption. The distinctive feature of sacred consumption is to contain products and services which are served with some degree of respect and awe. Sacred consumption may be related to religious beliefs or not, but most probably people tend to respect holy elements and events as sacred. Sacred consumption has mixed with consumer experience. Sacred places, sacred people and sacred events are created from the non-sacred world and are filled with sanctity. For example, theme parks are a new style of mass produced fantasy that assume sanctity in all respects. Disneyland especially is a pilgrimage

destination for consumers all over the world. Many consumption activities are presented in a spirit of sanctity in order to sanctify the consumption. Thus, sacralization normalizes the activity of spending money and helps to complete the process of consecration (Solomon, 2006: 558 – 559).

#### 4. Consumer Culture

Culture, as Williams pointed out in 1958, “is one of the two or three most complicated words in the English language”. The complications arise because the concept has evolved differently in different European languages and in different disciplines. The word derives from the Latin “*colere*”, which had various meanings, including to cultivate, protect, inhabit and honor with worship. Williams noted that some of these meanings dropped away although they remain linked through derived nouns such as cult, for honor with worship and colony for inhabit. The Latin noun *cultura* evolved and its main meaning was cultivation in the sense of husbandry. Much later after it passed into English early in 15th century, it came also to include cultivation of the mind. Williams argued that the noun culture began, in the mid-19th century, to develop as an abstract concept, away from the specific cultivation of something, and this is where the complications were compounded. In French, culture started to become linked with civilization, and in German *Kultur* (which evolved from *Cultur* in the 19th century) was a synonym for civilization (Harvey and Stensaker, 2008: 427).

Culture is a complex and abstract construct that consists of various implicit and explicit elements (Groeschl and Doherty, 2000), that makes it difficult for academics across disciplines to agree on a common description. Over 200 descriptions of culture have been found; however, the most broadly known and used definition in marketing literature is the one specified systematically by Taylor in 1881, who defined culture as a “complex whole which includes knowledge, beliefs, arts, morals and law, customs and any other capabilities and habits acquired by man as a member of society” (Lindridge and Dibb, 2003). Furthermore, culture has been defined as the collective mental programming of the people in an environment by Hofstede. Hofstede uses the term “software to mind” based on an analogy to computers that are programmed by software. Since this mind software is rooted in a person’s social environment, obviously this software varies from one environment to another. He clearly expresses his point by saying that: “cultures are to society what personality is to individuals” Consequently, some common aspects of “culture” found among the list of descriptions include that culture is learnt through social interactions, that culture is not genetic, that culture is shared by members of a specific society, and that culture is transmitted from generation to generation, (Hofstede, 1991).

Cultural influences on consumer behavior and consumption can be summarized in propensity to change (Sheth and Sethi, 1977), purchase behavior; post purchase behavior (Samli, 1995), why people buy products — function; form and meaning, specific products people buy, the structure of consumption, individual decision making and communication, (Engel, Blackwell and Miniard 1995) product acquisition and consumption behavior, adoption/diffusion of innovations, complaining/complimenting behavior, responses to advertising/marketing communication, responses to distributional aspects, responses to pricing aspects (Manrai and Manrai, 1996), and consumption characteristics: product versus service consumption in culture, cultural orientation, social class/ reference group influences, urban versus rural sector consumption patterns and disposal (Raju, 1995). Cultural factors (values and belief systems, communication and language systems, rituals, artifacts, symbols etc.) influence people's decision. In this way, it is understandable that culture has a strong impact on consumer behavior. (Craig and Douglas, 2005). There are many examples in regards to cultural impact on consumption. For instance, Americans like big and convenient cars, Japanese rather small and fuel efficient vehicles. In France, McDonalds adapted their famous menu to the French appetite by introducing smaller burgers.

Featherstone entitles three perspectives on consumer culture: The first one emphasizes the expansion of capitalist commodity production leading to the deployment of leisure and consumption activities in contemporary western societies. This situation is welcomed as enabling individual freedom and equality by some, while criticized by others as increasing the capacity for ideological manipulation. The second perspective underlines the satisfaction derived from goods related to their socially constructed meanings. Consumption functions as a source of status differentiation as people use goods and experiences to “create social bonds or distinctions”. The third perspective considers consumption as a source of fantasy and pleasure “celebrated in consumer cultural imagery and particular sites of consumption such as malls which generate direct physical excitement and aesthetic pleasure” (Featherstone, 1991; 1996).

Basic characteristics of consumer culture can be summarized in the transformation of needs to desires, utilitarian/hedonic needs-values, commodity fetishism, conspicuous leisure and consumption, cultural values, aestheticization, alienation, differentiation and speed.

Since the consumer does not give money for just any product or service, the consumer reflects some needs and desires in his/her purchase decision. Individual “needs” are influenced by both culture and personality. These needs are translated into “wants”, which coupled with purchasing power, become “demands” (Cleveland and Laroche, 2007). For Barthes “there is always a dual aspect to

consumption – that it fulfilled a need, as with food or clothing, but also conveyed and was embedded within, social, cultural symbols and structures.” One does not need to buy and own dresses, furniture items, any objects, but by thinking about them, dreaming about them, experiencing the spectacle presented with the display of images, shortly through the “idea of that practice”, one can get pleasure. Accordingly, the ideology of consumerism is not limited to those who can actually afford goods, but surrounds those who can dream about them, who can have access to that dream-world. Bocoock defines consumerism as: an active ideology in which the meaning of life is to be found in buying things and pre-packaged experiences that spread through modern capitalism. This ideology of consumerism serves both to legitimate capitalism in the daily lives and everyday practices of many people in global world and motivate people to become consumers in fantasy as well as in reality. (Bocoock, 2005).

In hedonism, Epicurus theorizes that the most important human pursuit is pleasure. He claims that humans at a congenital level focus on maximizing pleasure and minimizing pain. Accordingly, value lies in the pursuit of pleasure (Ueda, Takenaka, Vancza and Monostori, 2009). According to Solomon’s model of “Motivation Process”, the consumer recognizes a need. This need may be utilitarian or it may be hedonic. Utilitarian needs imply that product utility having a useful function, quality and minimum cost for consumers. Hedonic needs are subjective and experiential; that is, consumers may rely on a product to meet their needs for excitement, aesthetic impression, the symbolic associations, self confidence, fantasy, and so on. Consequently, product may have two types of benefit at the same time for consumers (Solomon, 1996).

Mental connection of objects with meaning beyond their use-value that Marx conceptualized as commodity fetishism lies at the physical foundation of consumer culture. We purchase the meanings of objects rather than the objects themselves. Symbolic dimension of consumption has expanded to lower classes with the availability of mass-produced goods in which pursuit of pleasure is not limited to the upper classes. However, consumption does not bring equality since privileged groups find new ways for distinction, and stylistic distinction has become important. Therefore, the aestheticization of everyday life operates as a new distinction tool mostly in the form of cultivation of the self. On the consumer side, cultivation of the self means consuming cultural products as an artist’s experiencing himself. The claim of the artist for freedom to create without limitations brought a consequence on the modern consumer side as a claim for freedom to experience all artistically mediated experience (Marx, 2004).

Veblen had observed the American nouveau riches in the late nineteenth century as a new class imitating the aristocratic life-styles of the European upper classes.

These groups used consumption to differentiate themselves from other groups and constitute an identity. For Veblen, people used two ways to demonstrate their wealth: conspicuous leisure that is also part of lifestyle construction (such as wining and dining, jewelry design, driving an expensive car, adventure holidays) and conspicuous consumption. Furthermore, both conspicuous consumption and conspicuous leisure are indicators of social status and prestige. With the rise of the capitalist society the upper classes began to set the standards to which the rest of the society aspired. In this way, consumption patterns in society became more and more imitations of upper-class behavior. Veblen assumed that all classes want to emulate higher classes, rather than they might live according to different and competing principles (Veblen, 1994).

Holbrook defines consumer value as an “interactive relativistic preference experience”. The typology of consumer value framework categorizes eight obvious types of consumer value against three dimensions. Each cell correlates with an obvious type of consumption value: efficiency (input/output, convenience), excellence (quality), status (success, impression management), esteem (reputation, materialism, possessions), play (fun), aesthetics (beauty), ethics (virtue, justice, morality) and spirituality (faith, ecstasy, rapture, sacredness, magic). The three key dimensions of consumer value include: extrinsic versus intrinsic value; self-oriented versus other-oriented value and active versus reactive value. An example of a single product fulfilling multiple types of value is perhaps the purchase of a cashmere sweater. The sweater may be valued for its efficiency because it keeps the individuals warm. The sweater provides excellence value because it is made out of a high quality material, such as cashmere. The sweater may be valued for its status because the individual shows to others they are able to afford such a luxurious material. The sweater is valued for its aesthetics because it looks beautiful. Additionally, the sweater may be valued for its ethics because the individual believes they are supporting the economy by purchasing the sweater (Holbrook, 1999).

Featherstone divides the aestheticization of everyday life into three categories (Featherstone, 1991: 66-68): These are: the attempt to break the boundary between art and everyday life, the avant-garde and the surrealist movements. Thus, the boundaries between art and commodity are blurred. The realization of Featherstone’s blurry boundaries can be seen in advertising and popular media within consumer culture. The project of turning life into a work-of-art is the dandyism movement. This approach emphasizes personal affections, aesthetic enjoyment in life and new sensations. It is appropriated by postmodern theory, where ‘the criteria for the good life revolve around the desire to enlarge one’s self, the quest for new tastes and sensations.’ The concept of lifestyle is developed

through this approach; constructing one's life with the 'achievement of originality and superiority in dress, demeanor, personal habits and even furnishing', saturate everyday life with a rapid flow of signs and images in contemporary society. Featherstone cites from Haug: "Commercial manipulation of images through advertising, displays performances and spectacles of urban life which entails a constant reworking of desires through images. Thus consumerism confronts people with dream-images which speak to desires and aestheticize and de-realize reality".

Estrangement in the labor activity, writes Marx (2000) in the Economic and Philosophical Manuscript of 1844, involves first "The relation of the worker to the product of labor as an alien object exercising power over him" The product that the worker creates is not his but is appropriated by the capitalist. This product stands opposed to him as capital. Second, 'labor is external to the worker, i.e., it does not belong to his intrinsic nature; in his work, therefore he does not affirm himself but denies himself'. Man's powers and 'nature' are transformed into objects, into material creations. Labor, too, is transformed into a commodity because now it has exchange-value (wages) and becomes an abstraction measured by money (Thompson, 1979: 25). Consequently in the light of alienation, consumption increases the dependency to others, limits freedom and changes the meaning of happiness- prosperity.

The World's consumers are to be served by the same few global associations, the same fast-food restaurants, hotel chains, and clothing chains, wear the same jeans and shoes, drive similar cars, receive the same films, music and television exhibitions, live in the same kind of urban landscape and engage in the same kind of agriculture and industrial development schemes, while carrying the same personal, cultural, and spiritual values - a global monoculture (Cavanagh and Mander, 2002). The rise of a global culture doesn't mean that consumers share the same tastes or values. Rather, people in different nations, often with conflicting viewpoints, participate in a shared conversation, drawing upon shared symbols. One of the key symbols, in that conversation is the global brand (Holt, Quelch and Taylor, 2004: 70).

The culture construct is continuously evolving and the identification of the core of any specific culture is increasingly challenging. Furthermore, the boundaries between cultures are blurring and people are more than ever exposed to a variety of prominent cultural elements through human mobility and mass media. As a consequence, there is an appearance of new hybrid cultures integrating elements of different origins (Craig and Douglas, 2005). These changes in cultural comprehension are started by five global flows (Appadurai, 1990): (1) mediascapes, i.e. flows of images and communication, (2) ideoscapes, ie. Flows of political ideas



and ideologies, (3) ethnoscapas, ie. flows of tourists, migrants, students and delegated workers carrying with them their cultural heritage, (4) technoscapas, ie. flows of technology, (5) finanscapas, ie. flows of capital and money. These flows allow individuals from around the globe to input similar symbols and meanings into their daily lives. Mediascapas and ethnoscapas have been described as the fastest, the most far-reaching and the most influential global forces affecting today's societies and eliminating the barriers between them (Craig and Douglas, 2005).

Conventionally, culture has been characterized by its geographic properties; however, previously mentioned global flows have blurred culture's territorial boundaries. Consequently, cultural patterns and consumer behavior are no longer bound to a specific territory, but rather they interconnect across vast geographic areas. Craig and Douglas identified five outcomes (cultural interpenetration, de-territorialization, cultural contamination, cultural pluralism and cultural hybridization) that result from the abovementioned global flows (Craig and Douglas, 2005). For an example of cultural interpenetration, a large number of Turkish immigrants, who moved to Germany and the Netherlands, retained a strong ethnic identity, produced a significant demand for their ethnic food, opened restaurants, and exposed the mainstream population to the "doner kebab", which quickly became incorporated into the German and Dutch eating habits.

As a consequence, the globalization phenomenon is today creating a global culture that consists of many "subcultures". Worldwide consumers are familiar with many international brand names nowadays in different industries such as McDonald's, Hugo Boss, Nike, Ikea, and so on; however, each consumer behaves differently from another because of different acculturation levels of the individuals belonging to each "subculture". Acculturation to the global consumer culture (GCC) relates to "how individuals acquire the knowledge, skills and behaviors that are characteristic of a nascent and de-territorialized global consumer culture" It is a multifaceted construct composed of the following seven dimensions (Cleveland and Laroche, 2007): (1) exposure to and use of the English language (for instance; reading many of the books in English, watching English language TV, carrying on conversations in the English language) (2) exposure to global and foreign mass media (for example watching American/European/Asian films, favorite actors/actresses are from the America, listening American music) (3) exposure to marketing activities of multinational corporations (for instance many of the TV commercials are placed by international or foreign companies; there are many billboards and advertising signs for foreign and global products) (4) social interactions (travel, migration, and contact with foreigners), (5) cosmopolitanism (for example exchanging ideas with people from other cultures

or countries) (6) openness to a desire to participate in the GCC (a person's lifestyle is almost the same as that of people of this person's age group and social class in other countries) and (7) self-identification with the GCC (Advertising by foreign or global brands has a strong influence on people's clothing choices).

## 5. Consumer Society and Consumerism

The first section of this article has attempted to explain what the concept of consumption has become to mean to people who currently consume goods or services for reasons beyond their basic utilization value. Clearly the global consuming culture, elements of which have been examined in the previous section, is a driving factor behind such a transformation. Societies are groups of people who share identical cultures or cultural elements. Global consumer culture implies a society that transcends national borders and that has certain behavioral patterns. The similarity of the patterns is due to the members' inclination to respond invariably to the forces driving the engine of consumption.

In its simplest form, a consumer society is one in which for Baudrillard (1998) the entire society is organized around the consumption and display of commodities through which individuals gain prestige, identity, and standing. Similar to the Veblen's notion of "conspicuous consumption" (1994), Baudrillard (1998) claims commodities are not merely characterized by use-value and exchange value, as in Marx's theory of the commodity, but also in sign-value - the expression and mark of style, prestige, luxury, power, and so on - that becomes an increasingly important part of the commodity and consumption. Just like words take meaning in a system of language, consumer society uses a system of signs to signify prestige and status.

Within consumer society, objects are used fast and disposed wastefully. Recently this rapid use and disposal has been largely associated with the corruption of values and thus often carries a negative meaning. (Penpece, 2006).

Baudrillard (1998) argues that the consumer society needs its objects in order to exist, and in a way, consumer society needs to destroy its objects. The difference between abundance and absence is the connection to wealth. Thus, it is in destruction that consumption gains its meaning. Baudrillard (1998) believes consumption is merely an intermediate term between production and destruction.

Goodwin, Nelson, Ackerman and Weisskopf (2008), explains how consumer society can only make sense in its social context:

*"The modern consumer is not an isolated individual making purchases in a vacuum. Rather, we are all participants in a contemporary phenomenon that has been variously called a **consumerist***

*culture and a consumer society. To say that some people have consumerist values or attitudes means that they always want to consume more, and that they find meaning and satisfaction in life, to a large extent, through the purchase of new consumer goods. Consumerism has emerged as part of a historical process that has created mass markets, industrialization, and cultural attitudes that ensure that rising incomes are used to purchase an ever-growing output."*

It is clear from the above account that the origins of the consumer society are related to the historical evolution of society around the concept of production and the resulting form of society. The next section deals with the origins of the consumer society.

### *The Evolution of Consumer Society: From Mass Production to Mass Consumption*

Just a few centuries ago before the Industrial Revolution consumption patterns were very different from those that exist today. People had limited time and other sources to spare for shopping for goods, particularly those produced far from home with the exception of a few elite who had long enjoyed higher consumption standards. Most clothing items and household possessions were expected to last a life time with repairs if needed, and there was neither social pressure nor another forcing mechanism driving people constantly to make new purchases. Then the Industrial Revolution drastically transformed production. Production levels in England soared significantly. In the early 19th century about two-thirds of the increased output was sold to other countries around the world. However, growth through expansion into foreign markets had its limits that required the rise in the domestic consumption. English patterns of consumption were changing and leading to a growing middle class and working class, allowing these classes to become consuming classes. Workers would no longer prefer to work just to earn their traditional weekly income and stop to enjoy more leisure; rather they would prefer longer hours to earn and spend more. The former attitude was not compatible with **mass production and mass consumption** (Goodwin, Nelson, Ackerman and Weisskopf, 2008).

As Akbulut (2006) puts it, consumption society came to the scene with the development of a capitalist economic system. Similar developments were taking place in the United States of America, and the epitome of these developments can be found in the 'Fordist' mass production and the policies trying convert **workers into consumers** by trying to make it easy for them to buy a car.

The period just after World War II saw a crisis when factories previously producing war-related goods started to produce consumer goods. Americans were made to believe that consumption was the solution for poverty and it would

generate a more equal society. Saving - the opposite of consumption- became associated with anti-patriotic behaviour. Americans were urged to spend, to buy, to consume and also to pay on credit. Mass consumption took off (<http://leaparis10.free.fr/l3s2/anglais/civilisation/civiusp2c1.pdf>).

Ekin (2010) argues this post-war crisis also marked the eradication of **Fordism**. The new era was called the **post-fordism** stage of capitalism or, as the prominent cultural theorist Frederick Jameson puts it, “**late capitalism**”. Consumption was replacing production as the dominant factor in the society. With new technology transforming the production methods and factories getting smaller, labour lost its primary production element.

There was only one minor obstacle in the way of these changing roles: western society was largely based on a Protestant work ethic that previously shaped the society around production and work. Bauman (1999) explains how the protestant ethic gave in to the aesthetics of consumption. Bauman (1999) discusses how the societal norms and certain roles within society have changed:

*“The reason for calling that older type of modern society a ‘producer’ society was that it engaged its members primarily as producers; the way in which that society shaped up its members was dictated by the need to play this role and the norm society held up to its members was the ability and the willingness to play it. In its present late-modern, second-modern or post-modern stage, society engages its members –again primarily- in their capacity as consumers. The way present-day society shapes up its members is dictated first and foremost by the need to play the role of the consumer, and the norm our society holds up to its members is that of the ability and willingness to play it.”*

Consumer society has recently gained a global perspective. Ger and Belk (1996) examine how the consumption patterns of the western society – or as they called ‘More Affluent Societies’ spread to the rest of the world – ‘to the Less Affluent Societies’. Ger and Belk (1996) find that rising consumer expectations and desires are fueled by global mass media, tourism, immigration, the export of popular culture, and the marketing activities of transnational firms. They also talk of four distinct but interrelated ways in which **global consumer culture has been conceptualized**. The first is in terms of the proliferation of transnational corporations producing and marketing consumer goods. The second one is the proliferation of global capitalism. The third perspective is that of global consumerism, or a globalized consumption ethic. Shopping and consumption desires infiltrate daily life such that the meaning of life is pursued, identity is formed, and relationships are shaped and maintained more and more in and by consumption. Individuals interpret happiness more and more exclusively in terms of their relative success in gaining access to high levels of consumption. The fourth perspective on global consumer culture is an extension of global consumerism to global consumption homogenization. Increasingly consumers

throughout the entire globe eat the same foods, listen to the same music, wear the same fashions, watch the same television programs and films, drive the same cars, dine in the same restaurants, and stay in the same hotels.

### *The Features of Consumer Society*

The paper already touched on certain attributes of consumer society (CS). Following is a more comprehensive list of these features which was a blend of the views of McGregor Consulting Group ([www.consultmcgregor.com](http://www.consultmcgregor.com)), Ekin (2010), Çınar and Çubukçu (2009) and Baudrillard (1998):

- CS builds identities largely out of things
- Obey the 'consume now', do not postpone the desire.
- Economic growth depends on the consumption
- the key issues of enjoying life are consumption of goods and services
- to consume is the surest perceived route to personal happiness, social status and national success
- you are what you own and the more you own, the happier you will be
- in a consumer society, people use spending and materialism as a way to build a new ego or become a new person by buying products which support their self-image
- to keep the economic machine moving, people have to be dissatisfied with what they have; hence, who they are
- in a consumer society, consumption must be organized so production can continue
- the demand for consumer goods has to be sustained and accelerated or the consumer society cannot survive
- widespread lack of moral discipline; glorification of greed and material accumulation
- everybody is a walking advertisement
- things have symbolic meanings
- social space is reorganized around leisure and consumption as central social pursuits and as bases for social relationships

- mainstream economics believes that marketplaces are abstract, stripped of culture (except the culture of consumption), of social relations and of any social-historical context
- a tension exists because the isolated, personal, private moment of consumption (purchase, use and enjoy), work within the home and cultural endeavours are seen by those engaged in them as private when they are actually inherently tied to global economic and political processes
- commercialization of leisure and mechanization of the home (free up time and energy to shop and provide more things to buy)
- consumer choices (taste and style) are seen to be indicators of who they are as a person and of their moves within the games of class, prestige, status, hierarchy, fashionability
- consumer culture at worst as an entity that manipulates its citizens (mass deception) or at best as a resource for their creativity and needs
- CS is the religion of the market (a system of beliefs) co-opts aspects of our humanity and spirituality
- in CS, people eventually begin to think that things are in disorder, priorities are mixed up, moral center is being lost - so they spend more to cover up the fear
- loss of cultural diversity via cultural homogenization
- a consumer society is based on round the clock in CS,
- all problems have a material or money solution

It appears that altogether the very spirit of consumer society dictates that consumers are beings living in a material world. Consumers are encouraged to use their purchasing power to exercise their freedom and choose from a variety of goods to make their life more meaningful. Consumers' sovereignty is presupposed. This freedom is not attributed to their civil rights but comes from the ability to make personal choices in the market that let them identify themselves. At this point the sovereignty of the king or queen becomes irrelevant in comparison to that of the consumer in the market (Gay, 1996: 76).

Another defining characteristic of consumer society is that consumption became the ultimate goal rather than being a means to fulfilling of the needs. Aslan (1996: 14) notes that nowadays people spend their weekends and holidays at shopping malls instead of going for picnic or walking leisurely in a park. They purchase regardless of their need. People go to shopping malls as a family to spend their leisurely time and relax.

In consumer society, there appears to be organized mechanisms manipulating peoples' desires and needs. In line with this Bauman (1999) believes in consumer society nothing should be embraced firmly and in terms of people and their relation to consumption objects there is no lasting commitment, no ultimate desires and no needs can be fully satisfied either. Any commitment or pledge for loyalty is only valid 'until further notice'. This is how new desires for future objects are assured.

Consumer society also has other helping mechanisms and institutions assuring its continued existence. Advertising, consumer credit (Goodwin, Nelson, Ackerman and Weisskopf, 2008) and mass-media culture (Baudrillard, 1998) are the main drivers in nurturing consumer society. The concept of fashion (Çınar and Çubukçu, 2009) and planned obsolescence strategies and perhaps the hyper reality created in 'shopping cathedrals' are also some of the elements that propel consumer society.

## 6. Conclusions

Consumption is a social and cultural process involving cultural signs and symbols beyond an economic, utilitarian process (Bocock, 2005). Culture defined as a "learned, transmitted, and shared phenomenon" is one of the most important factors affecting consumers' attitudes, behaviours and lifestyles. Each individual gets exposed a large number of thoughts, values, norms, and cultures and thus learns to differentiate between the good and the bad ones, thereby choosing a certain belief system that keeps on changing with more and more experience (Kim, Lee, Kim and Hunter 2004).

In the light of globalization consumers in almost every corner of the globe are increasingly able to eat the same foods, listen to same music, wear the same fashions, watch the same television programs and films, drive the same cars, dine in the same restaurants and stay in the same hotels (Ger and Belk, 1996). The rise of a global culture doesn't mean that consumers share the same tastes or values. Rather, people in different nations, often with conflicting viewpoints, participate in a shared conversation, drawing upon shared symbols. One of the key symbols, in that conversation is the global brand (Holt, Quelch and Taylor, 2004: 70).

Global culture, is eclectic, timeless, technical, universal and cut-off from the past; unlike national cultures which were particular and time bound (Smith, 1990). In this context, basic characteristics of consumer culture can be summarized in the transforming of needs to desires, utilitarian/hedonic needs-values, commodity fetishism, conspicuous leisure and consumption, cultural values, aestheticization, alienation, differentiation and speed.

Acculturation to the global consumer culture (GCC) relates to ‘how individuals acquire the knowledge, skills and behaviours that are characteristic of a nascent and deterritorialized global consumer culture’. Major dimensions of GCC can be portrayed in exposure to and use of the English language, exposure to global and foreign mass media, exposure to marketing activities of multinational corporations, social interactions, cosmopolitanism, openness to a desire to participate in the GCC and self-identification with the GCC (Cleveland and Laroche, 2007).

Alternative outcomes or strategies of global consumer culture can be summarized in integration, assimilation, separation, marginalization and creolization. The integration strategy represents adopting some specific characteristics of the new culture while maintaining other aspects of the original culture. The assimilation strategy consists of a complete acculturation to the new culture while rejecting all aspects of original culture. The separation/segregation strategy is about rejecting all aspects of the new culture while maintaining all traditional values and beliefs. The marginalization strategy is when an individual rejects or shows little interest in both his/her traditional/original culture and the new culture. Creolization describes the creation of an entirely new behaviour or object, via the transmutation of local and foreign or global influences. Each of these strategies strongly affects consumer behaviour and consumption.

From the center-periphery, culture flow perspective, Appadurai (1990), has declared that as rapidly as forces from various metropolises are brought into new societies, they tend to become indigenized in one way or another. This fragmentation wrought by globalization is portrayed by Firat (1995: 115): Yet what seems to be occurring is a globalization of fragmentation. All images, products, brand names and lifestyles that create excitement, sensation, attraction and interest can and do find their markets. The consumers, regardless of their nationalities and countries are willing to experience and sample the different styles and cultural artifacts, if at different times and for different purposes. Globalization, therefore, does not seem to be an event in which one form or style dominates and eliminates all others. Rather, globalization is the diffusion of all different forms and styles all around the world. Because postmodern consumer experience is not one of committing to a single way of being or a single form of experience, the same consumers are willing to sample the different, fragmented artifacts. The consumer is ready to have Italian for lunch and Chinese for dinner, to wear Levi’s blue jeans for an outdoor party in the afternoon and to try the Gucci suit at night changing not only diets and clothes but also the personas and selves that are to be represented at each function.



Consequently, ethnic and cultural fragmentation and modernist homogenization are not two arguments, two opposing views of what is happening today, but two constitutive trends of global reality. The cultural and by implication intellectual fragmentation of the world has undermined any attempt at a single interpretation of the current situation.

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### **Acronymes**

**GCC:** Global Consumer Culture