

Study on the Need to Increase the Quality of the Services Sector in Romania

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Abstract

The economic literature and practices show that an efficient sector of services, with a high level of quality, is a decisive factor of the sustainable economic development and competitiveness of modern economies. In this paper we would like to highlight, through a statistical-economic analysis, the importance of the services sector in the process of economic growth and job creation, compared with other sectors of Romanian economy in the period 1990-2007. For Romania to accede to the status of a country with a developed economy, a knowledge-based economy, it is imperative that both at the national and trader level there should be a constant concern for efficiency and services quality.

1. Introduction

At the moment the world's developed countries have become "economies of services" within which the economic and social role of the services is recognized paying particular attention to the tertiary sector within the strategies on development.

In the specialist literature [2], the services are activities useful to society, but which do not have as result the making of products.

The services' typology is determined by needs; among the typological operational criteria, the following have the highest frequency:

- Materiality (material/immaterial services)
- Addressability (personal/social)
- Economic goal (profitable/unprofitable)
- Period of providence (permanent/cyclic/seasonal/ sporadic)
- Parties' mobility (provided at the providers' residence/provided at the customer)
- Personalization degree (personalized/standard)

The character specific to the services' domain is connected to the possibility of showing the certain

technique, providence, the customer having the possibility to visualize the providence, instance that brings the customer an addition of satisfaction.

The quality management system includes all the activities that influence quality together with the establishing of the inter-correlations that exist between these elements. The quality system contains the structure of responsibilities, procedures, processes and resources necessary for the achievement of quality management [4].

Because there has been a tendency of customer exigency increase in terms of quality worldwide, the International Standardization Organization has formulated the series of ISO 9000: 2000 standards, ISO 14000 environmental management standards, standards specific to the different industrial sectors.

The exigencies of a service have to be clearly defined, "in terms of noticeable and susceptible features to be evaluated by the customer"[1].

The acceleration of the globalization process leads to the increase of the competitive level that organizations from more economic sectors have to face. Another important factor that contributes to the increase of the competitive pressure that the companies are submitted to is the development of the information and communications technology. Thus, the consumer becomes better informed and has the possibility to choose from a broader range of products and services.

The quality features typical for services are: accessibility, precision, promptness, comfort, competence, credibility, formalism, efficiency, effectiveness, flexibility, honesty, punctuality, response speed, trust, security.

According to the European Centre of Consumers in Romania [7], in the majority of cases, in 2008, consumers complained about a product/service, the delivery and the incorrect use of commercial practices.

Thus, concerning the services, the complaints made aimed at the lack of conformity of the service (an inadequately provided service, especially in the case of

flight operators, the delivery of another product than the ordered one or of a faulty product or one that does not meet the specifications), but also the refusal of providing certain services (the refusal of renting an automobile). With respect to delivery, consumers especially complained about the lack of it (services that were not provided – flights cancellation, undelivered products) or the delayed delivery (not respecting the flight schedules, products delivered with delay).

Consumers also complained about the use of incorrect commercial practices either by deceiving publicity (recording a car into another pollution category than in reality) or by omitting some essential information.

The other types of problems that the consumers complained about were:

- problems concerning the contractual clauses (disrespecting contractual clauses or inserting abusive clauses),
- payment and price (the unjustified price increase),
- reimbursements (low level of reimbursements, the refusal to pay reimbursements),
- frauds (especially electronic frauds, a product that was ordered and paid for but which was not delivered and the seller disappeared, etc.)

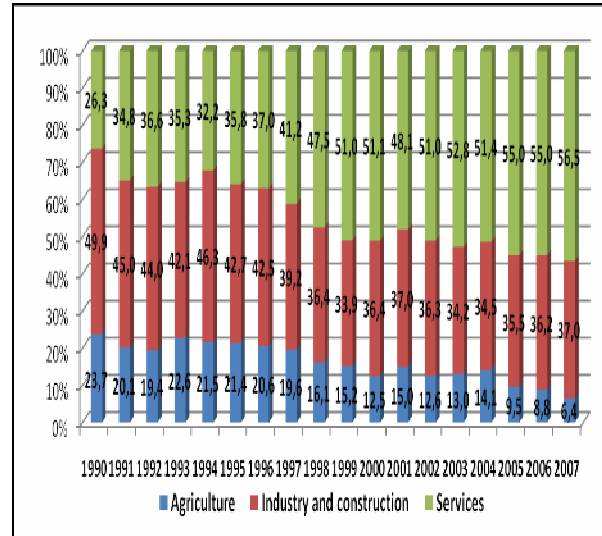
The ratio of the cases presented by the Romanian consumers compared to the consumers from other Member States was of 78% to 22%. This shows that the Romanian market has difficulties in attracting foreign consumers, with the exception of the tourism services and air traffic.

In other words, the low quality of services in Romania is due to the lack of clear regulations but also to the lack of qualified staff in the domain. Therefore, the existence of a quality management in the services' sector is more than necessary – as a way of leading the organization oriented towards the client.

2. The importance of the services sector in the Romanian economy

Transition economies, including the Romanian economy, have inherited a deformed economic structure, where the forced development of the hard industry affected the increase in the services' sector and convenience goods' sector. After 1989, the commerce and prices liberalization open the way to a resource reallocation and a *change of the economic activity's structure on sectors, branches and domains, according to the market's needs*. In order to present these changes we have to start with the **gross value added (GVA)** evolution, but mainly with the evolution of the changes in the structure of the GVA, on

categories of resources. In the first year of transition – 1990, out of the GVA total 50% was achieved in industry and constructions, 23.7% in agriculture and the rest in services. This state changed during the transition period and in 2007 out of the GVA total only 37% was achieved in industry and constructions, 6.4% in agriculture (including hunting, forestry, fishing and fish breeding) and the rest in services and assimilated activities (56.5%), according to the data in the figure below.



(Source: Own calculations based on data contained in the Statistical Yearbook of Romania, INS, 2008, p.471-472)

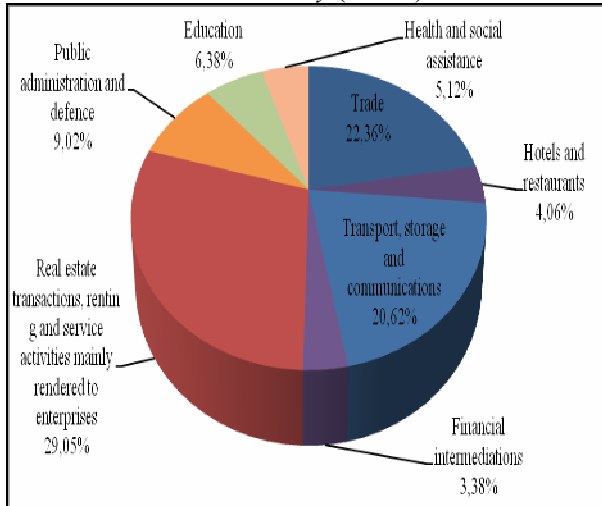
Figure 1. Share by sector of total gross value added, in %, 1990-2007

The statistical data prove, in this way, that in Romania the services sector has a higher contribution, as compared to the other sectors, to the economic growth. The economic and the social role is acknowledged in this sector, paying special attention to the tertiary sector within the sustainable development strategies of the Romanian economy.

The change of the economy's structure allowed the following situation, beginning with the year 2000 until now, the sustained economic growth process in Romania led to doubling the GDP per capita, from 4900 in 2000 to 10000, in 2007 (at market prices per inhabitant expressed in PPS reducing the gap compared the EU 27. Nevertheless the level of GDP per capita achieved in Romania in 2008, represents only 45.8 % from the EU 27's average.

Within the services' sector the highest contribution to the achievement of gross value added, in 2007, pertains to the activity of *real estate transactions, renting and service activities mainly rendered to enterprises*, 29% respectively, followed by the *trade activity* (22.3%) and the *transport, storage and*

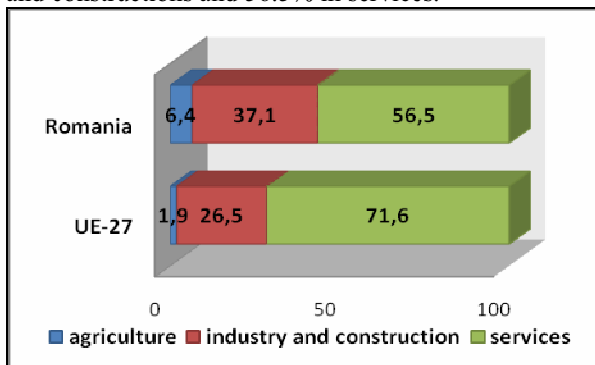
communications activity (20.62%). The lowest contribution to the gross value added pertains to the activity of *financial intermediations* (3.38%) and the *hotels and restaurants activity* (4.06%).



(Source: Own calculations based on data contained in the Statistical Yearbook of Romania, INS, 2008, p.471-472)

Figure 2. The GVA structure, in the tertiary sector, in 2007

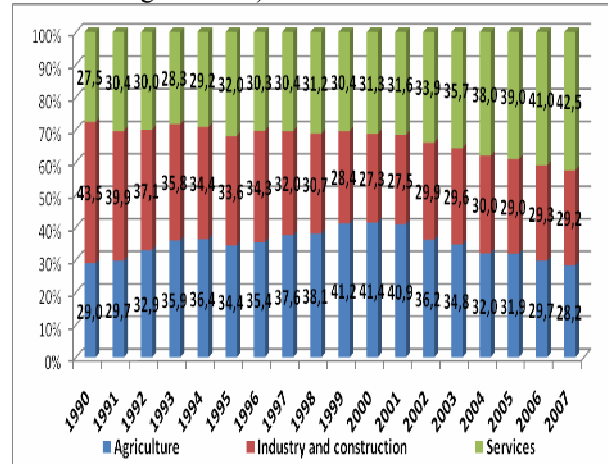
Although the services sector developed, between 1990 and 2000, in comparison with the countries of the EU we are still behind. In order to support this statement we present the following data in the table figure no.3 In the EU countries – 27, according to the information provided by Eurostat, out of the gross value added (GVA) achieved in 2007, only 1.9% was achieved in agriculture, 26.5% in industry and constructions and in services 71.6%. In Romania, in the same year, out of the total GVA nationally achieved, 10.1% was achieved in agriculture, 37.1% in industry and constructions and 56.5% in services.



(Source: http://epp.eurostat.ec.europa.eu/cache/ITY_PUB/LIC/1-18092009-AP/EN/1-18092009-AP-EN.PDF)

Figure 3. The ratio of gross value added (GVA) achieved on sectors of activity, in total GVA (%), Romania and EU in %, 2007

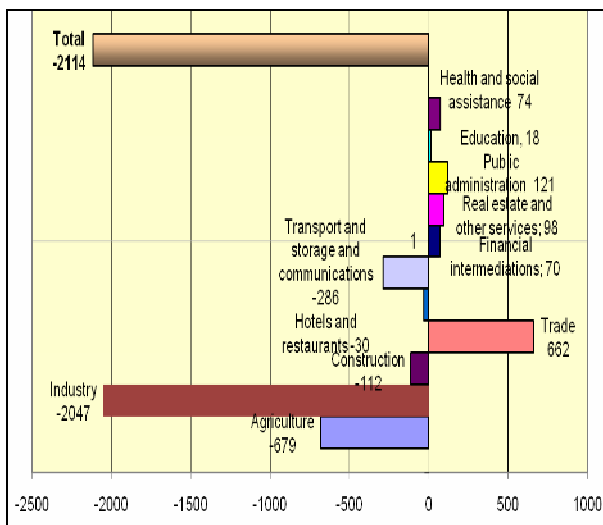
The services sector in Romania proves to be the only sector where an increase of the employed population is registered. Between 1990 and 2007, 724 thousand jobs were created in the tertiary sector (the employed population in this sector increased from 2,985 thousand in 1990 to 3,709 thousand in 2007), the ratio of the employed population in services, out of the total number of population, recording an increase of 15% (from 27.5% in 1990 to 42.5% in 2007, according to the data in the figure below).



(Source: Own calculations based on data contained in the Statistical Yearbook of Romania, INS, 2008, p.146-147)

Figure 4. The evolution of the employed population, on activity sectors de (%), 1990-2007

Due to the fact that within the services sector different changes of the jobs took place, according to the economic activity, it has to be mentioned that the highest job increases were recorded in the activity of *trade* (+662 thousand), followed by *public administration and defence* (+121 thousand), *real estate and other services* (+98 thousand), *health and social assistance* (+74 thousand), *financial intermediations* (+70 thousand), etc, accounting for 1,025 thousand jobs. On the other hand the employed population in the following activities was reduced: *transport, storage and communications* (-286 thousand), *hotels and restaurants* (-30 thousand) and *other activities of the national economy* (- 3 thousand) with 313,000 people (see figure 5.)

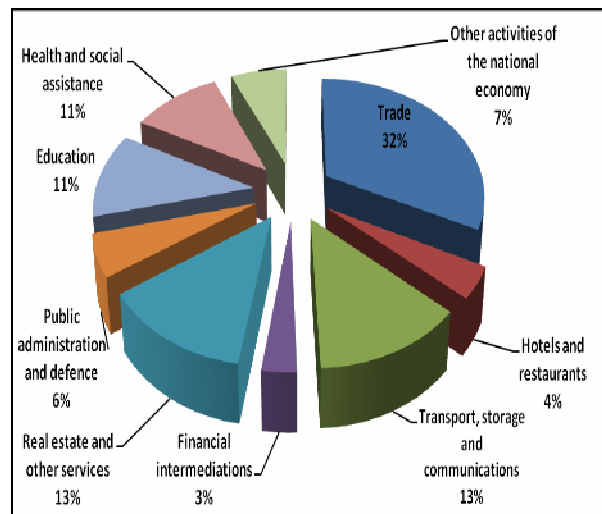


(Source: Own calculations based on data contained in the Statistical Yearbook of Romania, INS, 2008, p.146-147)

Figure 5. The evolution of the employed population on activities, 1990-2007

The apparent prevailing employment in the tertiary sector in Romania is not the result of job transfer from the first two sectors to the service sector, but it represents the effect of diminishing industrial activity, with all its implications, fact that resulted in reducing the global income and consequently, as has been stated above, in lowering the number of jobs even in the service sector. This sector has not proved the role of job generator and absorber of people laid-off from industry. We mention that though 724 thousand jobs were created in 1990-2007 in the tertiary sector, they were not enough to take over the work force laid-off from the primary sector (679 thousand people) and the secondary sector (2159 thousand people), creating by 2114 thousand less jobs in 2007 compared to 1990 [according to figure 5]. Agriculture was the „outlet” for laid-off people, a refuge zone. The economic reality proved that a subsistence agriculture is inefficient and effects are quite dangerous both in the short term and in the long term.

In 2007, out of the 3,709 jobs created in services, 32% are in the trade activity, 13% in transport, storage and communications, 13% in the real estate and other services. In the *hotels and restaurants* activity and the *financial intermediations* activity fewer jobs were created, according to the data in the figure below.

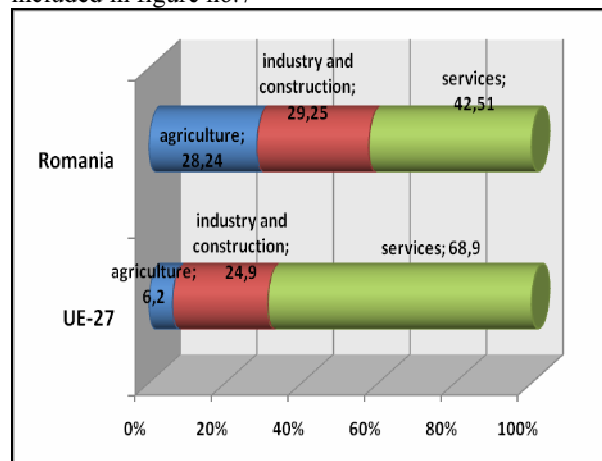


(Source: Own calculations based on data contained in the Statistical Yearbook of Romania, INS, 2008, p.146-147)

Figure 6. Employed population in services, on activities, 2007

The opinion expressed in economic literature and practice is that a society is as efficient economically and socially, as effective and functional as its people are interested, motivated, satisfied and efficient. „*We are what we produce*” state some economists [3].

In order to outline the place where Romania is, in relation to the EU, concerning the sectoral structure of employed population, the differences between Romania and EU-27 respectively are shown in line with data included in figure no.7



(Source: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/1-18092009-AP/EN/1-18092009-AP-EN.PDF)

Figure 7. Employed population, on sectors of activity (%), in Romania and EU-27, 2007

Reviewing data in the above figure it is noticed that concerning the structure of employed population on sectors of activity, Romania has a particular situation within EU's Member States, with an extremely powerful economic and social impact, characterized by

many unbalances, first of all due to the extremely high weight of *employed population in agriculture* and its maintaining during a relatively long period (1990-2007), in the prejudice of services. Apart Romania, the countries in EU-27 have lower weights that are much below the Romanian level.

It should be mentioned that the low level of employed population in agriculture reached by EU-27, is the result of a long historic process of transferring employed people in agriculture, firstly to the secondary sector, particularly to the processing industry, and then to both secondary and tertiary sectors.

To reduce the gaps in the field of employment it is necessary to emphasize the rise of employment rate in the tertiary sector because at present, a prevailing employment in the tertiary sector is the most important factor of changing the structure of employment. As a rule, economic reality proved this process has represented not only a transfer of work force from a sector to another sector but also a way of testing new forms of employment, involving in socially useful activities of some categories of population but also improving the professional structure. The main benefit of prevailing employment in the tertiary sector is increase of flexibility rate concerning productive sector operation and increase of labour movement.

The change of employment structure much as difficult and costly seems to be, is more than necessary. It must be done in order to shift from poverty to economic welfare. We consider that in Romania both secondary sector and tertiary sector still have an employment potential that should be exploited. But for this, macroeconomic policies focusing on stability and development are needed. On the other hand, macroeconomic policies cannot be sustained without structural reforms specific to labour market. And both are required to be sustained by the good operation of the merchandise, service and capital markets [5].

The transition from the centralized economy to the market economy has generated significant modifications both in the economic structure and also regarding the sectors composition of the employed population. In most countries of the Central Europe, the decline of the employed population from industry and agriculture was accompanied by significant increases recorded by services sector, a valid statement both from the GDP proportion of the tertiary sector perspective and as regarding its specific weight among the employed population.

In Romania, the correlation between the employment structure and the contribution of the employed population to the creation of the Gross value added permits us to state the following: The rise of the

proportion of the employed population in services from the total employed population with 15 percentage points (from 27.54% to 42.5%) has determined between 1990-2007 a rise of the contribution of this sector with 30.2 percentage points (from 26.3% to 56.5%). Between these two indicators there can be determined a statistically significant correlation because there can be recorded a direct, strong relation between the proportion of the employed population in services and the contribution to GVA, fact pointed out by a 0.79% Pearson's correlation coefficient.

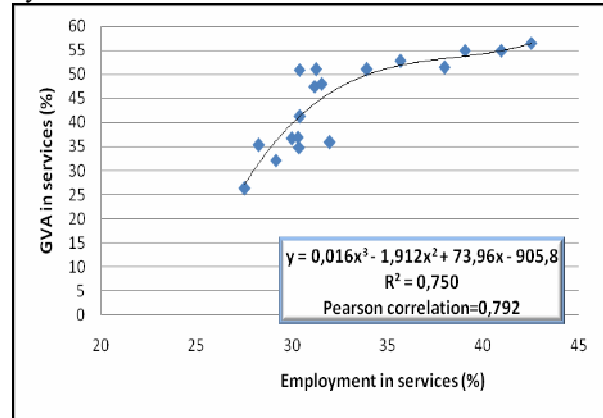


Figure 8. Direct correlation between the employed population in services (%) and the services contribution to the creation of gross value added gross value added (%), 1990-2007, in Romania

Generally, the firms providing services are part of the small and medium-sized enterprises, being small firms they are sometimes in impossibility of assimilating and developing the modern technology, of applying a modern management (Table 1 and figure 9).

Table 1. The structure of enterprises active from services, on size classes (%)

Indicators	2000	2007
Total <i>active enterprises</i> ¹	308064	499857
out of which SMEs	306073	498014
Total <i>active enterprises from services</i>	253886	391469
out of which SMEs	253530	390913
The ratio of enterprises in services out of the total number of enterprises (%)	82,41	78,32

¹active enterprises from industry, construction, trade and other services

(Source: Own calculations based on data contained in the Statistical Yearbook of Romania, INS, 2008, p.723-724)

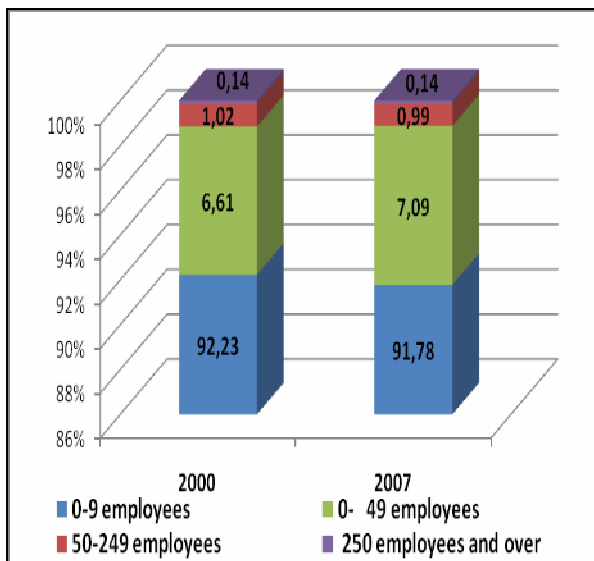


Figure 9. The structure of the active enterprises from services, on size classes (%)

Small and medium enterprises (SMEs) represent the backbone of the national economy and the EU's experience clearly attests that the SMEs sector can provide a substantial contribution at the growth of the internal offer, create new jobs and stimulate the growth of exports. Small and medium enterprises have the ability to respond in a flexible way to the demands of the strongly competitive markets and to quickly adapt at the cyclic and structural changes of the national and global economy. A good developed SME sector can thus sustain the macroeconomic stability and prosperity.

The small and medium enterprises must be regarded as primal promoters for innovation and employment, as well as for European integration, fulfilling an important and irreplaceable function in a market economy, the dynamics of their development being one of the requisite conditions for a sustainable economic development.

3. Conclusions

Services represent one of the most dynamic areas of the modern economy, the research of the services quality from an economic as well as social point of view is mandatory. The normalization development in the sector of service activities can be a considerable trump both of competition and growth of consumers' life quality.

The economic reality of Romania reveals the direct relation between the proportion of the employed population in services and the contribution to gross value added, proving, through statistical data, that in

Romania, the services sector has a higher contribution to the economic growth compared to the other sectors. For this reason we consider that this sector should be acknowledged the economic and social role, giving higher importance to the tertiary sector, under the quantitative, qualitative and structural aspect, a special attention within the sustainable development strategies of the Romanian economy.

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