

# ROMANIA'S CAPACITY TO CHANGE REFLECTED BY CHANGE READINESS INDEX

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## Abstract:

*The changes that take place on the world stage affect people, companies, countries and continents alike. Numerous changes, significant for our century, can be economically, politically and socially identified, having major effects on a long term. In many cases, the change is inevitable and considered to bring risks and disadvantages, being much more difficult to identify the opportunities and advantages it can offer. In order to survive the changes and especially to benefit from them, a high level of adaptation is required.*

*The purpose of this article is to analyze a country's capacity to change adaptation, the complexity of this process and the factors influencing it. To identify Romania's level of adaptation to change, the research method we have used the content analysis of the latest three reports which examine the Change Readiness Index.*

**Keywords:** *Change, Change Readiness Index, capacity to change*

**JEL Classification:** *O1, O3*

## Introducere

In the context of the dynamics of the economic, political and social environment, the scientific and technical progress and increased competitiveness, change has become a highly debated issue intensively analyzed by theorists and practitioners. However, the failure rate in implementing changes remains high at organizational level and in certain countries.

As change is one of the laws of life, knowing the process of change is one of the factors that can ensure the competitiveness of organizations and national economies in a competitive environment.

Stanciu Ș. și Ionescu M.A. (2005, p. 85) believe that “change is a problematic issue with a broad audience in the history of knowledge. Change can be found in the texture of most areas of interest of social sciences: economics, sociology, political science, anthropology, psychology, etc.”.

Clarke L. (2002, p. 33) stated that “stability is an illusion. The pace of change has increased in the last decade... the rapid and appropriate identification of the environmental and market transformations is one of the secrets of survival and development. The change is continuous, there is no end point”.

Gary Hamel (2012, p. 135), considered that “during our generation, the pace of change has sharply increased and the change has changed. People are surrounded by all kinds of things that change exponentially, from data storing to the the number of genes which have been sequenced, from the world energy consumption to self-knowledge”.

The academician Mircea Malița stated that “the experience of global crisis constitutes an imperative of change” given that “the world stage is a whirling scene and the vision of the near future is unclear”. (Malița M., Georgescu C., 2010: 23)

Romania must face major changes caused by the economic crisis, whose effects are still felt today. Given that these changes are inevitable; our country must be able to have a better capacity to adapt to the new requirements of the global economy. Călin Georgescu, executive director of the Institute of Projects for Innovation and Development (IPID) and the National Centre for Sustainable Development, believes that the main cause of many of the troubles we have faced in recent years is “the absence of a coherent and realistic vision on the future that we want and that we are able to build”. (Malița M., Georgescu C., 2010: 10)

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The main objective of this paper is the analysis of the factors which determine the ability to adapt to change in Romania, taking into account the national and international political, economic and social environment.

The research method used is the analysis of Global Change Readiness Index for a period of three years, based on the specialized reports elaborated by relevant institutions at international level.

## **2. Setting the level of adaptability to change of a country using the Change Readiness Index**

In times of crisis (economic, political and social) and during the following periods, people, companies and countries face major challenges because changes become even harder to anticipate and plan. Change is natural, the weather and the times also change, our (economic, social, political) environment changes, attitudes and mentalities change. The last decades have been characterized by periods of unprecedented transformations in all areas of activity and no one is immune to the revolutions. The world is changing and change will happen with or without our will. (Ridderstrale, J.; Wilcox, M., 2010)

Clarke, L., (2002) believes that “change is the very essence of development: it is inevitable. It is strange to act stubbornly according to the misleading assumption that things will remain unchanged. Unfortunately, what was appropriate in the past will no longer bring results in the future – a very hard lesson to assimilate by successful companies and countries who believe in their own mythology.”

The literature is very rich in terms of models and methods of adaptation to change of organizations and individuals, but much poorer regarding a country’s ability to adapt to change. No government, business or society is immune to change. The way they prepare for and respond to sudden shocks or longer-term trends has a huge impact on the prosperity and welfare of citizens and institutions. Some examples of change are: shocks such as financial and social instability and natural disasters, political and economic opportunities and risks, growing populations demanding higher living standards, shifts in wealth distribution, climate change and new technologies.

Change readiness relates to the capability of a country – its government, private and public enterprises, people and wider civil society – to:

- Foresee, manage and respond to a wide range of change drivers:
  - Domestic and external change
  - Positive and negative change
  - Short and long-term change
  - Anticipated and unanticipated change
- ... Including by proactively exploiting any of the resulting positive opportunities and mitigating negative change drivers,
  - Leading to more sustainable and long-term economic growth and improvement in living standards for a majority of its citizens

Elaborated with KPMG International in partnership with Oxford Economics, Change Readiness Index is the only global study that can be used both in the public and in the private sector for este singurul studiu global, care poate fi utilizat atât de sectorul public cât și de cel privat for better policy making and investment. Thus the CRI started in 2012 and in 2015 is its third iteration. The 2015’s index features 127 countries and 97% of the global population is included in the latest index.

Through the Global Change Readiness Index we may measure how effectively a country’s government, private and public enterprises, people and wider civil society anticipate, prepare for, manage and respond to change and how capable they are to cultivate opportunities.

**The Change Readiness Index** is structured around three pillars:

- enterprise capability relates to broad capability of private and state-owned enterprises
- government capability relates to capability of governmental and public regulatory institutions
- people & civil society capability relates to individual, societal and cultural determinants of capability

Table no. 1

**Component indexes of Change Readiness Index**

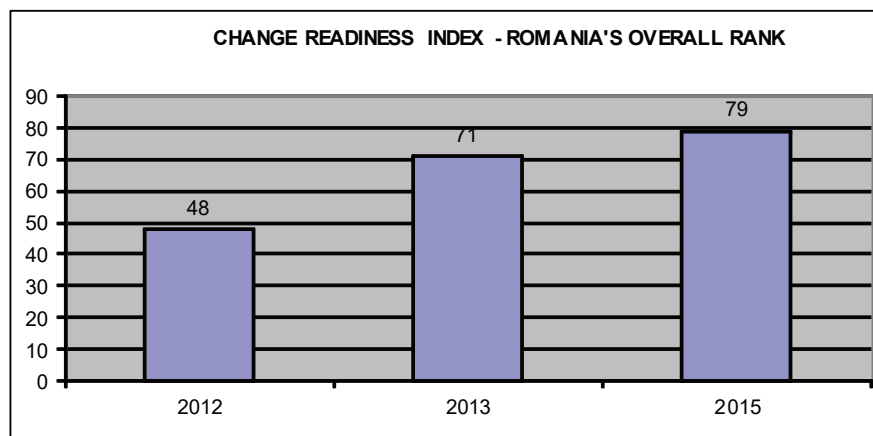
<b>Enterprise capability</b>	<b>Government capability</b>	<b>People&amp; civil society capability</b>
Labor market	Macroeconomic framework	Human capital
Economic diversification	Public administration and state business relations	Entrepreneurship
Economic openness	Regulation	Civil society
Innovation and R&D	Fiscal and budgeting	Safety nets
Business environment	Rule of law	Technology use
Financial sector	Government strategic planning and horizon scanning	Gender
Infrastructure	Environment and climate change	Inclusiveness of growth
Informal sector	Food and energy security	Demographics
Technology infrastructure	Security	Health
	Land rights	Access to information

Source: <https://home.kpmg.com/xx/en/home/insights/2015/06/change-readiness-index-methodology.html>

The CRI study in 2015 offered some surprising results regarding the ability of the countries to adapt to change, particularly of smaller countries, less wealthy and with smaller resources but which adopted essential measures to adapt to change. According to Șerban Toader, Senior Partner, KPMG Romania, the explanation would be that “the welfare of a country is undoubtedly a major factor, but many countries compensate prosperity with robust governance, a solid social basis and business positive environment”.

The countries on the top of the ranking for adaptability to change: the CRI study was extended to 90 countries included in the 2013 ranking to 127 countries in 2015. In 2015, Singapore was ranked in 2013 as the first country, while the northern and western European countries dominate the first 20 places.

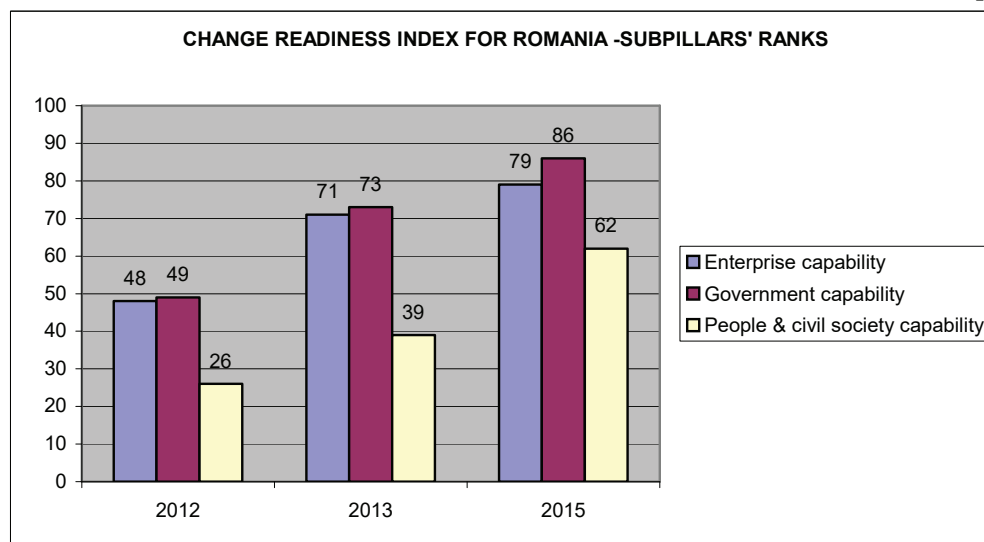
Graph no. 1



Source: made up by the author on the basis of the KPMG reports

Comparing the results with those obtained by our country in 2013 and 2012, we can see that Romania has improved its overall CRI score that highlights capabilities on three main pillars: business, government and civil society and people. Romania obtained the best score in the capabilities of people and civil society, although this is the only major category to which the country's score decreased when compared to the previous study.

Graph no. 2



Source: made up by the author on the basis of the KPMG reports

The 79th position occupied by Romania in the “business sector” reflects the robustness of corporate and entrepreneurial capabilities of a country. Romania has a better position in technological infrastructure (the 50th position), the degree of economic openness (the 51<sup>st</sup> position) and labor market flexibility (the 61<sup>st</sup> position). The subdivision of this category which is a cause for concern is the Innovation and Research & Development, where Romania was ranked on the 109<sup>th</sup> position. The reasons that led to the closure of our country were poor funding and cooperation among research institutes and businesses. Romania has also recorded a low score (number 95) regarding the difficulties in setting up a business, the level of regulation, the legislation on property rights and contracts, taxation and investor protection. Romania has not achieved a satisfactory score in the financial sector (ranked 93), the main indicator measuring the effectiveness of financing companies and entrepreneurs.

The CRI study in 2015 reveals that Romania's weakest pillar in terms of adaptability to changing index is the government sector. The country ranks 86, especially because of poor strategic planning of government and tax administration and budget deficit. Another problem is the response of Romania's climate and environmental change as well as on food security and energy security. The indicators that there have been signs of improvement compared to the previous study were bureaucracy, positive regulatory policies and a stable macroeconomic framework, where Romania was situated close to a middle position in the classification.

Although the score has decreased since the last survey, people and civil society represent the most robust capability of Romania, which is ranked 62 in the rankings. Accordingly, it should focus more closely on the development of human capabilities, the more so as it takes a long time for the results to become visible in this direction. Romania's weakest link lies in demographic, which was ranked second to last (126 instead of 127), due to a falling birth rate and migration huge.

According to the analyzed report, Romania has deficiencies in terms of social protection and entrepreneurial capabilities due to reduced support from the state. Instead, Romania has a better rank in the use of technology, inclusive growth and health, with high life expectancy (74.6 years) and a low rate of infant mortality.

Table no. 2

**Romania's scores and ranks for the pillars of CRI - 2015**

<b>Enterprise Capability - sub-index</b>	<b>Score</b>	<b>Rank</b>
Labor market	0,56	61
Economic diversification	0,6	72
Economic openness	0,73	51
Innovation and R&D	0,21	109
Business environment	0,49	95
Financial sector	0,41	93
Infrastructure	0,38	68
Informal sector	n/a	n/a
Technology infrastructure	0,55	50
<b>Government capability - sub-index</b>		
Macroeconomic framework	0,63	65
Public administration and state/business relations	0,49	54
Regulation	0,51	54
Fiscal and budgeting	0,45	100
Rule of law	0,43	74
Government strategic planning and horizon scanning	0,25	113
Environment and climate change	0,39	96
Food and energy security	0,29	96
Security	0,55	64
Land rights	n/a	n/a
<b>People &amp; civil society capability - sub-index</b>		
Human capital	0,54	51
Entrepreneurship	0,39	87
Civil society	0,55	55
Safety nets	0,27	110
Technology use	0,53	38
Gender	0,6	64
Inclusiveness of growth	0,61	41
Demographics	0,14	126
Health	0,84	44
Access to information	0,6	45

Source: <https://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/2015-change-readiness-index-v1.pdf>

**Conclusions**

Governments and investors can learn from the information offered by Change Readiness Index:

- governments may improve their policy by benchmarking national strengths and weaknesses and identifying areas in need of reform

- governments can identify best practices and see how they are stacking up to their peers. By understanding the states strengths and weaknesses the government can better engage investors
- investors can also use the CRI as a starting point when creating more comprehensive risk assessments for states for potential investment or states where investment is already occurring
- NGOs can also use the CRI to analyze potential candidates for aid by looking at the lower ranking nations. These development agencies can also look at CRI data to see what weakness they can help addresses
- build best practice by stimulating debate on change readiness and learning from higher-ranking countries

Another conclusion of the study is that “a relevant trend emerging from the CRI study this year is that countries that have achieved a higher score for economies favorable to the inclusion tend to have a better index of adaptability, while conversely, income inequality tends to be associated with a reduced level of adaptability to change”.

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