

MICROECONOMIC IMPLICATIONS DURING THE STAGES OF SOCIO-ECONOMIC DEVELOPMENT AND TRANSITION TO THE “NEW ECONOMY”

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Abstract: *This paper aims to show the characteristics of the different stages of socio-economic development peaking with the “new economy”. We also aim to highlight the implications of the “new economy” features on the economic organisation/entity. The “new economy” (also called “post-modern”, “post-industrial”, “post-capitalist”, “post-structural”, “post-traditional”) reflects the current transition from the industrial society to a new type of “information”, or “knowledge” society, marked by complex, deep transformations in all areas of activity, with important economic, social and environmental consequences, process of unprecedented scale in the history of humanity. The speed of the current changes produced mutations in the way we look at things, which fit no longer the present moments, while the shocking speed at which these mutations occur, make us change the manner of thinking in the future or even distant future.*

Keywords: *new economy, sustainable development, corporate governance, knowledge economy*

Jel Classification: *G32, O12*

1. Introduction

Within the context of the emergence and development of the “new economy”, the organisation, as central entity, experiences structural evolutions at all the levels of the organisational process. The characteristics of the “new economy” are assumed at the microeconomic level under the form of revaluation of the old economic and organisational theories, or under the form of new theories, adapted to the new framework of development.

The *new economy – economy of sustainable development*, involves at the level of organisations, operationalization of the notion of sustainable development through the concept of global performance. The approach of the performance as Triple Bottom Line might be defined as an endeavour to measure the global performance of an organisation function of its triple contribution to the economic prosperity, environmental protection and improvement of the social cohesion, stressing on the corporate social responsibility.

The *new economy – economy of information*, involves at the level of organisations, changes of organisational paradigms at different levels of activity: paradigm change of the processes of organisation by the emergence and development of multinational and transnational companies; shift from mass production to flexible, diversified production (function of individual clients requirements); the change of market paradigms is characterized by the profile change of the potential consumers (the client-consumer becomes a citizen-consumer eager to know the social costs involved by the products/services he/she consumes; higher demand for ICT (information and communications technology) products and services and relative lower demand for products and services from the traditional industries; change of work paradigms characterized by work flexibility, disappearance of work and professions in the industrial sectors, with a higher role of ICT in the qualifications that matter.

The *new economy – economy of knowledge*, which determines continuous learning and initiative; these are vital elements which contribute to a higher efficiency of the activity and of the global performance of the society.

The *new economy – innovation-based economy*, involves at the level of organisations, adaptation of the provided goods and services to the increasing consumer requirements, process which can only be accomplished by a continuous concern for innovation, unique aesthetics and experiences. Within this context, the intellectual capital becomes the main instrument for competition and economic survival.

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The *new economy – economy of corporate governance*, generates changes within the managerial system of the organization, which now relies on a complex of components which form the corporate governance. Important aspects are here: the transparency of the property structures; shareholders protection; transparency of information; separation of the executive management function from the function of president of the board of administration; higher role of the audit and internal control committees, of the remuneration of nomination committees.

2. Main characteristics of the different stages of socio-economic development

Peter Drucker considered that: “We may be sure that the world resulting from the present rearrangement of the values of belief, of the economic and social structures, of the political concept and systems, in other words, of the conception about the world, will be different from anything that we might imagine today. In some areas – particularly within the society and its structure – basic transformations already have taken place. The fact that the new society will be a non-socialist one, a post-capitalist one, is a fact. It is also sure that its basic resource will be the knowledge”

The human society shifted gradually the accent from manufacture production to automatic production, from individual knowledge to group knowledge, thus highlighting the importance of communication. The human society changed a lot and keeps changing faster and faster. The table below gives a synthesis of the specificity of the different stages of socio-economic development.

Table 1: Specificity of the different stages of socio-economic development

Stage of development	Preindustrial	Industrial	Post-industrial
Production sectors	Extractive	Manufacturing	Processing, services, recycling
Strategic resources	Raw materials	Financial capital	Knowledge
Technology	Force	Machinery technology	Intellectual technology
Methodology	Good sense, experience, Choice and error	Empiric, Experimenting	Abstract theory: models of simulation Theory of decisions: system analysis
Temporal perspective	Orientation towards the past	Ad-hoc adaptability; experimenting	Orientation towards the future, forecasting and programming
Axial principle	Traditionalism	Economic growth	Encoding the theoretical knowledge satisfaction and motivation
Key-concepts	Group of individuals, hierarchy, bureaucracy, strategies	Group of processes, teams, objectives, ecosystem, market, negotiation	Group of knowledge's, teams, free expression of creativity (with no strict objectives), innovation
Role of information	Vehicle along the hierarchical pyramid	Binder between the partners in common projects	Rare resource, support of the aware organization, continuous learning

Source: processing from W.J. Keegan (1980, p.6)

The specificity of these stages of socio-economic development creates the premises for the development of the “new economy”. The definitions of the “new economy” are as simple as they may seem, very complex when clear and defining characteristics have to be stated. As Drucker shows, “If there is a thing that can be forecast with confidence, is that the future will manifest in unexpected manners. Take for instance, the information revolution. They are almost all sure about two things: the first, it runs at unprecedented speed; second, its effects will be more radical than anything that happened before”. Isan, also depicts the simple-complex character of the “new economy”, estimating that “as novel as the phenomenon as such might seem, as much disarming is the variety of terms, so that any analytical attempt seems doomed to fail”. The rate of changes in our present times produced mutations in the way we are looking at things, which no longer fit the present time, while the shocking rapidity of these mutations also make us change the way we are thinking in the near or, even, distant future.

The term of *New Economy* is used and understood by most people as equivalent to the internet economy, or digital economy. For some analysts, the “new age” (the golden era illustrated by the American model) is characterized by a strong, long-term economic growth due to the benefits of the new technologies and of the market economy. A new type of capitalist economy (the New American economy) was discussed in the 90s, following market liberation of excessive governmental regulations, downsizing and reorganization of the American corporations and of the fast technological progress. Usually, the syntagm “new economy”, is used to design the economic mutations which occurred in the late 90s, following the emergence of the new technologies and the considerable expansion of the finances.

3. New economy – economy of sustainable development

The topic of sustainable development appeared as early as in the 1970s, with the publication of the first report of the Club of Rome “*The Limits of Growth*”. The best known definition of this concept is mentioned in *Our Common Future* (or the „*Brundtland Report*”) drawn up by the World Council for Environment and Development, in 1987: “*Sustainable development* is that development that meets the requirements of the present without compromising the capacity of the future generations to meet their requirements.” The purpose is, therefore, not to compromise the capacity of the environment to produce for the future generations, and this feature is very well captured by what we call *sustainability*, whose weak points are: the population, the climate changes and the energy consumption. The 1992 Rio de Janeiro World Summit developed and adopted Agenda 21, as instrument that promotes the concept of sustainable development. According to it, sustainable development is that development which doesn’t destroy and compromise the ecological, economic and social basis, on which continuous development depends.

In Europe, the European Council adopted at Goteburg, the first European Union Strategy for Sustainable Development. It was completed with an external dimension at the 2002 Barcelona Council of Europe, taking into account the 2002 Johannesburg World Summit for Sustainable Development. Subsequently, in 2006, the European Council adopted a reviewed European Union Strategy for Sustainable Development, which set a unique, coherent strategy for the way in which the European Union will observe more efficiently its long-term commitment for world solidarity and which acknowledges the importance of consolidating the work with non-EU partners, including with the fast developing countries that are to have an important impact on the global sustainable development.

The European Union Strategy for Sustainable Development understands sustainable development as *meeting the necessities of the present generations while not compromising the capacity of the future generations to meet their own requirements*.

We are thus witnessing the shift from an *uncontrolled development*, accompanied by the irrational and inadequate exploitation of the resources and raw materials, driven by the

size of the profit, to the *sustainable development*, with three main dimensions: *economic, social and ecologic*, i.e., sustainable economic development, ensuring the population's quality of life and environmental protection.

The enterprises understood that in order to have success, they must provide for and ensure environmental protection and suitable conditions of work, give collective rights to their employees and cooperate with the local authorities, with the labour unions, with the non-governmental organisations and with the governmental institutions.

The concept of *corporate social responsibility* emerged gradually within the context of sustainable development. This concept defines the orientation and aptitude of a company to voluntarily integrate, in its strategy and current activity, the social preoccupations, as well as those for cleaner, friendly environment, while ensuring the economic success of their business.

At the level of organisations, the operationalization of the sustainable development notion is usually achieved through the *concept of global performance* about which Elkington introduced the *Triple Bottom Line* concept, which presumes economic prosperity, environmental concern and improved social cohesion. The triple bottom line can be defined as an attempt to measure the global performance of an organisation function of its triple contribution to the three aspects mentioned earlier. This is an approach which considers both the financial outcome and the social and environmental balance of a company.

4. New economy – economy of information

This new type of economy aims the maximal use of the potential of the products and goods based on information. The main consequence is that the principles that govern the world of information (intangible products and services) will soon govern the world of the hard (world of reality, atoms, objects, steel, oil and hard work), which will establish a new category of business and will transform the existing businesses.

Speaking of the new economy, as of an information economy, M. Dinu considers that the “information is not just primordial, but also prioritary, while also being ineffable and substantial, essential and concrete, functional and yielding”.

At the level of the organisation, the new information economy, involves *changes in the organisational paradigms* at different levels of activity.

a) *Paradigm change in the processes of organisation* by the emergence and development of multinational and transnational companies, and the shift from mass production to flexible and diversified production (depending on the requirements of the individual clients). A more radical approach is that, within the new economy, all the companies will be internet companies, or will not be at all; much of the old economy (“industrial dinosaurs” are “cannon fodder” together with their hierarchical managerial structures and history of attitudes.

b) *Paradigm change for the markets*. The evolution of the information technologies, the possibility of exchanging real time information at low costs, allowed an increasing number of people having access to information and demand more transparency regarding company behaviour. This contributed to the change of the potential consumers profile. The environment in which the companies are currently developing changed radically during the recent years

(i) The client took over the control, accepting less and less to be perceived as member of the collectivity and more as an individual person;

(ii) Change if client attitude towards products and services: higher demand for ICT products and services and relative lower demand for products and services from traditional industries. The type of passive receiver consumer (*client-consumer*) yields place to the active type, who wants to consume critically (*citizen-consumer*), who wants to know the social costs involved by the products/services he/she consumes. This active attitude of the consumer was shown by many studies. Thus, according to the surveys of McKinsey & Company (2008 on a

sample of 7,751 consumers from 8 large economies, they found that 87 % of the interviewed consumers were concerned by the social and environmental impact of the products they buy. According to the studies of Gunn E.P, 83 % of the respondents changed their purchasing and life habits in order to protect the environment.

(iii) The rules of the comparative game changed radically, and the single comparative advantage relies on the information technology – the internet. On the other hand, there are the opponents of this approach who, starting from the diversity of businesses and their share within the economy, consider that the Internet is not the only key to the competitive advantage, being simply a nonsense" (Turner, 2001). All these changes in market paradigms motivate business focusing on the client.

c) *Paradigm change for the work.* We are currently witnessing the change of the traditional paradigm of work from the routine work to the "ever changing work"; from "office (workplace) above all", to "work above all"; from fixed working hours, to "flexible working hours"; from workplace (career) for life to "career portfolio" which express the diversification of activities, professional and occupational mobility and flexibility; from the "fixed" place of work to the "mobile workplace "; from the worker going to work, to the "work coming to the worker"; from choosing the workplace depending on the place of residence to "living in a place – working anywhere" or to "distance working".

Within the context of the new economy, the companies are looking for flexible forms of work, for a wider variety of styles, even though they are experimental, for the ability to accomplish several types of works, for a higher orientation towards the client and to use the new information and communication technologies. The qualifications that matter are only in the ICT area. There is increasing talk about work disappearance in the industrial sectors and the disappearance of professions as occupation in industry decreased constantly all over the world, while the industrial production increased. Man-power is increasingly replaced in an increasing proportion of economic processes and sectors. ICT bears the germs of workplace disappearance. „Work disappearance” as main factor of the production process has been, however, forecast many years ago by people such as Alvin Toffler, John Naisbitt or Peter Drucker. Other authors have even talked about the „end of work” done by people as ICT takes over, while Arthur C. Clarke predicted this for the year 2040.

d) *Paradigm change for the investors.* The huge financial scandals from the late 19th century deteriorated the confidence of investors in the processes of company administration. The investors have now, in the new economy, more than ever, need of concrete, full and transparent information about the management processes, about the structures of the corporate governance, a transparent reflection of those. They want to know whether company governance has a social trait, if it considers the adoption of responsible practices under the conditions of multi-stakeholder economies. Only in this way will the investments be sustainable. Thus, OECD was deeply concerned with the development of principles of company administration which to protect stakeholder/investor interests (1999), principles which were thereafter adopted by most countries. Among these principles there is the transparent character of the corporate governance activity – with the financial, social and environmental components. Information is the key to the “new economy”, which develops further new features of the economy: knowledge and development by innovation.

5. New economy – economy of knowledge

Information per se has no role whatsoever, if it doesn't build up within the organisation by “knowledge”. Winston Churchill noticed in a speech at the Harvard University, in 1943, that the “empires of the future will be true empires of the mind” (The Economist, 2006). The “new economy” or the knowledge- economy reflects that economy which passed the stage of development beyond which *knowledge is the key-resource*. What makes knowledge so important? There are many ensuing factors, the most important being:

progress in ICT, higher development rate of the new technologies, global competition, market liberalization, continuous change of the demand determined by the increasing proportion of people with medium and high incomes (sophisticated demand, good quality products), higher importance of the quality of life (characteristic to the capitalist society) was replaced by: „knowledge is power” (characteristic to the information society – knowledge society). The power belongs now to the “knowledge”, and the battle shifted from the realm of tangible (battle for resources) to the realm of intangible (battle to exploit “brain power”), which seems to be decisive for the “balance of power”.

Within the organisation, one can notice the “struggle” of the entrepreneurs to draw in their team people with high levels of education and training, which can cope with the future requirements and exigencies of the economy and society.

The world is dominated by the power of the mind and brain. Areas such as microelectronics and biotechnologies no longer depend on a particular resources-dependent geographical location; they can be located anywhere, where there is enough capacitated intelligence and mind power. This explains why many international organizations have the people and their competency as their top priority.

Education and continuous learning have an important role in knowledge, as well as the rate of technological renewal and the demands of competitiveness, which require a continuous updating of the knowledge, and which revolutionise the system of education and training, bringing forth the life-long learning concept.

In terms of the technological progress, we get “obsolete” every 5 years and we need training. Hence, the process of learning is critical for the “new economy”, being a cumulative and continuous process. The new information and communication technologies provide new forms of education and training: distance learning, virtual universities, computer-assisted training, etc. The process of learning must take place any time and anywhere. Life-long learning and initiative become vital for the “new economy”, as they determine the efficiency of any activity whatsoever.

5. New economy – economy based on innovation

The higher competition, induced by the phenomenon of globalization, generated the necessity of client-driven approach, and the higher requirements of the consumers force the organisation to use innovative practices, aesthetics and unique experiences. Under these circumstances, the success of the companies no longer depends decisively on the production facilities or the material capital, as it was several decades ago. Peter Drucker said that: “The company has just two basic functions: marketing and innovation. Only marketing and innovation yield results – all the other are costs”. The adaptation of the organisation to the, ever changing and transforming, needs of the clients requires the development of the intellectual capital, of the load of knowledge on which the company relies. The future belongs to the economic organisation which, by training, takes care of the permanent development of its intellectual capital, of the development of its foundation of knowledge. The global economic system is, therefore, becoming a system of “technological ideas and innovations”, in which the potential “intellectual capital” of the enterprise represented by: organisational knowledge’s and abilities (organisational capital), loyalty and cohesion of its staff (human capital), credibility of the enterprise (relational capital), become a competitive factor enabling the economic survival.

6. New economy – economy of the corporate governance

The term of corporate governance appeared in the everyday language in the 70s, in the United States of America, in the midst of the Watergate scandal, when was disclosed the involvement of the American corporations in the American policy by contributions given to the various political parties. Later, at the end of the 20th century, the financial scandals Xerox

Guinness -1986, Poly Peck International-1989, Maxwell-1991, BCCI-1991, Enron-2001, Allied Irish Bank- 2002, WorldCom-2002, Xerox 2002, Merrill Lynch-2002, Parmalat-2003/2004, Andersen-2001/2002, shattered the financial world and raised serious problems regarding the trust in the corporate governance of these companies. The uncontrolled development of the financial innovations, particularly of the derivatives, favoured the dematerialization of operations and the practices of “creative” accounting aiming to baffle those analysing the financial statements.

The *stock-options* technique and manager remuneration depending on their performance didn't align completely the interests of the managers with those of the shareholders, which resulted in prejudices for the minority shareholders, which didn't belong to the management control bodies. The shock of these bankruptcies was more so strong as they emerged on the background of a seemingly consolidated financial state of the companies; the figures have been knowledgeably manipulated by the managers-auditors tandem in order to provide a “cosmeticized” image.

The economic-financial crisis which started in 2008 affected the restoration of the world economic order. The current crisis caused “disruptions in the history of world economy, as reality, concomitantly with a fracture in the economic thinking. The detachment from such model presumes both the reform of the financial capitalism and of the architecture of the international relations, and the construction of pluralist paths of development”.

Within the new framework of economic and organizational development, the corporate governance appeared as a change in company leadership.

The efficient corporate governance allows the shareholders to make sure that the companies in which they invested are managed according to their own interests. At the same time, the corporate governance responds to the mutations which occurred in the mechanism which evaluate company performance. From the performance based on profit and yield, the early 21st century brings new approaches in terms of creation of value for all stakeholders.

Conclusions

The rapidity with which the information society changes into a society of information and knowledge determined the perspective on the “new economy” which to take into account the internet and the effect of internet information on all the economic actors, the effect of knowledge as economic factor which requires the acknowledgement of the role of intangible goods in general in the creation of economic value.

On the background of the recent financial crises, it is important to redesign the institutional architecture of the national capital market by adopting efficient stock exchange regulations, next to the development and implementation of measures which to stimulate the development of the corporate sector, starting from the premises that a strong economy with a solid, open and transparent financial market, can cope with the challenges of the globalized international environment. The developed countries were the first to become aware of the need for financial transparency, as successful requirement for the corporate governance.

Capital markets globalization and the competition for funds require the adoption of internationally acknowledged standards and procedures of corporate governance, which is very important for the emerging and transition economies which have to cover the gap of credibility in the eyes of the investors. Thus, the role of the corporate governance and resized approaches of the managerial and control structures becomes very important within the current context. Hence, the efficient corporate governance is primordial for company sustainability, as also shown by the international, and EU, concerns to develop and adopt codes of corporate governance and also at the level of the Romanian economy.

The corporate governance of the organisations within the new economy aims to create added value for the shareholders, while meeting client requirements, observing staff opinions

and the environment. This requires the existence of a complex of components which compose the corporate governance, which creates a synergic effect in which the transparency of the property structure; shareholder protection; information transparency; separation of the executive management from that of president of the board of administration; a higher role of the audit, remuneration and nomination committees, play important roles.

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