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CONSTRUCTION SITE’S DISPUTES IN THE CONTEXT OF MONEY

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ABSTRACT:
Money disputes might or always happened in construction site due to some circumstances and most of the past studies agreed that it is an important issue which often arises in the context of construction projects in construction site. Thus, this paper was attempted to give a general discussion on the classifications of construction site’s disputes in the context of money and a general conclusion was also drawn from presenting these classifications.

Key words: Disputes, Construction sites, Money

1. CLASSIFICATIONS OF GENERAL CONSTRUCTION SITE’S DISPUTES

It is undeniable that monetary problems are always unavoidable in all industries; of course, it is including construction industry which involved high cost of operation and transaction for its product. Therefore, most of the clients and contractor will tend to seek financial institutions and banks for their financial support. Besides, the fluctuation of interest rate of funding and market prices will significantly affected the cost of production, operation and transaction, and sales price. Subsequently, the disputes regarding finance or monies are seemed to be most serious and frequent of its occurrences. Below are some monies disputes that might happened or always happened in construction site.

1.2 Unpaid Retention Sum
The practice of holding back or setting aside a portion of monies due to the contractor by the client (normally referred to as the employer under construction contracts) is an entrenched practice within the construction industry the world over (Entrusty Group, 2006). This money held back, is referred in the industry as retention sum, which is normally stipulated and spelled out clearly as one of the clauses in the condition of contract. The purpose of such retention sum is to protect the employer in the event when the contractor fails or defaults in its performance under the contract, such as abandonment or the works is of poor or defective quality (Entrusty Group, 2006). The construction contract usually states that this money set aside as retention sum is to be kept by the employer “fiduciary as trustee” for the contractor. This basically requires the employer to set up a trust fund on behalf of the contractor. A trust fund is basically holding on behalf of another party’s monies or property without the right to use or invest the monies or property. The retention sum has been the cause for many disputes between the employer and contractor. First of these is that the employer never set up a trust fund for the retention sum (Entrusty Group, 2006; McGuinness, 2008). Secondly, when the time comes for the release of the retention sum, the employer
refuses to release the retention sum; usually citing its right to set-off against monies due from the contractor for the contractor’s alleged defaults. The recent case on retention sum appear to have distinguished the treatment of retention sum before and after the conclusion of the contract or when the contract is terminated contractor’s employment is determined. The High Court case of Teh Ah Khoon Enterprise Sdn Bhd v Puncakdana Sdn Bhd ([2005] 2 AMR 52) provides some insights into whether an employer must set up a separate trust fund to keep the retention sum and whether an employer is entitled to set-off against such retention sum directly against a claim for liquidated and ascertained damages (LAD). The decision of this case follows the decisions of two important cases on retention sum. First is the English Court of Appeal case of Henry Boot Building v Croydon Hotel & Leisure Co, (36 B.L.R. 41; (1986) 2 Const. L.J. 183 CA (Civ Div) and the Malaysian High Court case of LEC Contractors (M) Sdn Bhd v Castle Inn Sdn Bhd (No 2) ([2001] 5 MLJ 510). The facts of the case is where the Plaintiff, Teh Ah Khoon Enterprise Sdn Bhd is the contractor and has entered into a contract with the Defendant, Puncakdana Sdn Bhd who is the Employer for the construction of a condominium project under the PAM 98 Contract. After disputes have arisen, the employer determined the employment of the contractor and set-off from the retention sum for Liquidated Damages claim against the contractor for its failure to complete the project on time. The contractor then applied to the court to have the employer to keep the retention sum in a separate trust account and restrain the employer from using the retention sum until the disposal of an ongoing arbitration proceeding. The Court held that if the application is made prior to the termination of the contract, the Court will uphold the application for the contractor to keep the retention sum in a separate trust account per Clause 30.5(i) of PAM 98 (Now under Clause 30.6(a) of PAM 2006). This part of the decision is consistent with the decision of Rayack Construction Ltd v Lampeter Meat Co Ltd ((1979)12 BLR 30), where the application in Rayack case was made without any termination of contract. However in this case of Puncakdana the application is after termination and the Court held that upon termination of the Contract and if there exist a certificate to entitle the Employer to deduct Liquidated Damages that exceeds the retention sum amount, then there is no obligation for the Employer to set up a separate trust account. This echoes the decision of Henry Boot where Mr Justice Thomas in refusing to grant an injunction held that:

Although under Clause 30(4)(a) [similar to PAM 2006 Clause 30.6(a)] the Employer was under an obligation to appropriate and set aside amounts retained as a separate trust fund and that obligation could be enforced by the grant of a mandatory injunction, no such injunction could be granted at the time when the employer was entitled to deduct a greater amount of liquidated or ascertained damages because there was no subsisting obligation to appropriate and set aside.

As discussed by Entrusty Group (2006), it is the same situation with the Puncakdana case where the architect has issued a certificate of non-completion under clause 22 of PAM 98 and the employer from there on has the right to deduct Liquidated Damages per clause the second part of clause 30.5(i) which states “....the right of the Employer to have recourse.....for payment of any amount as the Architect may certify.....to deduct from such sum due or become due to the Contractor.” The only other procedural requirement is that the employer has to inform the contractor in writing if he is to deduct any monies due to the contractor and provide the reason of such deduction (PAM clause 30.5(ii)) The Puncakdana case followed the decision of Dato’ Justice Kadir Musa in the case of LEC Contractors (M) Sdn Bhd v Castle Inn Sdn Bhd (No. 2) [2001] where it was held that once the LAD claim exceeded the retention sum, the obligation of the employer to set aside the retention sum into a separate bank account will cease. The defendant in such a situation is entitled to deduct the LAD claim without having to set aside the retention sum. What were not answered by the
court were whether the court will compel the employer to set aside the retention sum in a separate trust fund if the amount deductible was less than the retention sum, at least for the remaining amount, and that the employer cannot use this retained monies held in trust (Entrusty Group, 2006).

Dato’ Justice Kadir Musa in the Castle Inn case emphasized that “The plaintiff’s right [to have the retention sum set aside in a separate account] can only be insisted upon during the life time of the contract and not after it was rescinded. As such, by virtue of s 56 of the Contracts Act 1950, the defendant cannot be ordered mandatory to fulfill his “obligation” of setting aside the required Retention Sum after the material date when the plaintiff rescinded the contract. What would be most probably justifiable for the plaintiff, if it can be so proved, is to claim compensation for damages for the defendant’s non-fulfilment of their “obligation” under the contract by virtue of s 76 of the Contracts Act 1950.”

1.3 Underestimate of Construction Cost

In construction industry, the conflict arise when failure of someone to accurately estimate the costs. It could be that the owner did not properly understand the magnitude of the project’s cost and then finds itself in a position in which it must force the situation in order to meet the economic limitations (Dorn, 2001; Meredith & Mante, 2009). Or perhaps the designer’s fee was not large enough to accomplish the studies, investigations, or whatever is needed to deliver a product timely and satisfactorily to its client. The designer decides it must take short cuts in order to avoid financial loss. The contractor often will not estimate a job properly. It could fail to provide for means, methods, and materials thus become involved in a contract based on a difficult bid. Often a subcontractor will not include everything the general contractor insists or believes was written into the subcontract proposal and agreement, or perhaps the subcontractor made an error. The initial failure to account the cost in a construction programmed accurately by any and all of the participants is fertile ground in which to construction dispute. Builders, subcontractors, suppliers, and designers need to make a profit, as do people in all endeavors. Poor estimates often reduce or eliminate the profit margin, make the party with slim or negative profit projections supersensitive, and lead to search for every opportunity to create income to recover estimate errors.

1.4 Disputes Regarding Changes of Condition (Variation Order)

There is no one definition of what is a variation. Each of standard form of building contract has its own definition but clearly ‘variations’, in the generic sense, refers to any alteration to the basis upon which the contract was let. This means the term embraces not only changes to the work or matters appertaining to the work accordance with the provisions of contract, but also changes to the contract conditions themselves (Hibberd, 1986). As stressed by Soon (2010), change condition dispute often begin with the problem of deciding if the condition discovered or experienced is in fact a changed conditions. A change of conditions can also have an impact on an entire program and cause what are known as ripple damages. More often than not the scope and quantification of ripple damages comprise a dispute of major proportion. ‘The valuation of variations has been recognized as a prime cause of conflict and dispute in construction industry. Such disputes often concern the prices and/or rates to be applied to the varied works (Monty Sutrisna, Kevan Buckley,Keith Potts & David Proverbs, 2005). A variation disputes can be taken to be any, a combination of any or all of the following:

i) Variation in building projects may mean ‘the alteration or modification of the design, quality or quantity of the works, as shown upon the Contract Drawings and described by or referred to in the Contract Bills, and includes the addition, omission or substitution of any
work, the alteration of the kind or standard of any of the materials as goods to be used in the works, and the removal from the site of any work materials or goods executed or brought thereon by the contractor for the purpose of the work other than work or material or goods which are not in accordance with the contract.

ii) Variation in building projects together with instructions regarding the expenditure of provisional sums, prime cost sums and instruction concerning the nature of the work which are not specifically termed a variation in the contract documents.

iii) Variation of contract in law, i.e. if the both parties alter a contract document by agreement after execution of the original contract this is a variation of the contract terms or conditions.

iv) Variation of price clause which enables the contract sum to be adjusted for rises and falls in the cost of labor or materials.

1.5 Loss and/or Expense

Given the nature of the construction process which uses costly equipment and highly paid staff arising from the project based employment, it is common for a contractor to suffer, or allege that he suffers, disturbance in the regular progress of the works due to causes within the employer’s or architect’s control (Maverick, 2005). Loss and /or expense claim can usually arise from these reasons:

1. Direct loss & expense involved in variations;
2. Direct loss & expense caused by excusable delays (i.e. disturbance of regular progress of work).

In either case, the contractor has to make a written application within a reasonable time having incurred the loss and/or any part of the works have been affected or delayed as a result of the instruction. The broad purpose of the loss and/or expense clause provided in any contract is to reimburse the contractor for any loss and/or expense, which he has suffered or incurred as a direct result of certain specified events in the contract. As emphasized by Maverick (2005), contractors can also make a claim under this clause if regular progress of the works or any part thereof has been "materially affected" by one or more of the stated events specified in the clause. Nature of direct loss and/or expenses are:

- Actual losses of money (which ought to have been received) as a result of the circumstances giving rise to entitlement; and
- Actual expenditure of money which ought not to have been made occasioned as a direct result of the same circumstances. “The primary meaning of the word expense is actual disbursements.”

Tan (2011) and Mbaya (2008) stressed that in all cases of loss and expense the contractor is under a duty in law to “mitigate his loss” so far as it may be reasonable for him to do so. For an example if a contractor is issued with a variation order which necessitates plant lying idle for some days, he (the contractor) would not be entitled simply to accept the situation, but would be bound to make reasonable endeavours to use the plant productively elsewhere or to persuade the plant owner to accept an early return.

1.6 Performance Bond Fraud

Generally, as a rule, a performance bond remains in force until the stated discharge date which is usually either after practical completion of the works or after making good any defects. However, should the practical completion or making good of defects occur earlier than the bond date, the bond cannot be recalled or withdrawn unless the client agrees to an earlier release date (Entrusty Group, 2006). Furthermore, a performance bond is not an insurance policy which normally is a contract of indemnity under which the insured is
indemnified in the event of loss, subject to the adequacy of the sum insured. Moreover, there are three parties under a performance bond (i.e. the contractor, the client and the surety company) as opposed to two under an insurance policy (i.e. the insurer and the insured). Once a bond is issued, it cannot be cancelled until the stated discharge date or until the subject matter of the indemnity has been completed satisfactorily, however, an insurance policy can be cancelled before its expiry date. The financial limits of liability are invariably expressed in the contract of guarantee. It should be made clear, in order to avoid disputes, whether interest on money due, and legal costs, are included in the overall limit. It is also worth noting that some bonds provide for the entire sum guaranteed to become payable on any breach by the principal, regardless of how serious or trivial that may be. If this is the case, the provision is likely to be struck down as a ‘penalty’ and the beneficiary will be entitled only to so much of the sum as will compensate for the actual loss which has been suffered (Entrusty Group, 2006). Much of the difficulty which the courts have faced when dealing with performance bonds can be traced to the earlier decisions of the English Court of Appeal in Edward Owen Engineering Ltd v Barclays Bank International Ltd ((1978) QB 159). It was held that a guarantee or bond payable on demand without proof or conditions imposes an obligation on the guarantor to pay. This is irrespective of whether or not the person whose performance was guaranteed has in fact performed his obligations or was in default. The only exception is in cases of fraud of which the guarantor had notice. The distinction between a bond (an on demand bond) and a guarantee (a conditional on-default bond) is important, but not always easy to make (Atkinson, 2001). In IE Contractors Ltd v Lloyds Bank Plc; IE Contractors Ltd v Rafidain Bank ((1990) 2 Lloyd's Rep. 496; (1990) 51 B.L.R. 5, CA (Civ Div)), it was held that although in the case of letters of credit the documents presented must be precisely those called for, there was less need for such a doctrine in the case of the performance bonds. The UK’s House of Lords considered the question whether the bond which was in the form of a guarantee would allow the surety to take into account unpaid sums due for work done and cross claims for set off in Trafalgar House Construction v General Surety Guarantee Company ((1994) 66 BLR 42). It was held that the bond itself contained indications that it was intended to be a guarantee. So, the description ‘the surety’ was used. Also there was provision that alteration of the terms of the construction contract would not release the surety from liability. This pointed to the bond being a guarantee. In addition there was relevant authority in decided cases which supported the view that the bond was a guarantee. The terms of the bonds in these cases could not be distinguished from the terms of the bond in the instant case ((Atkinson, 2001; Entrusty Group, 2006) The UK’s House of Lords also considered that the particular words ‘damages sustained by the Contractor thereby’ were sufficient to limit the liability of the surety. It was held that in order to do so the words used must be clear and unambiguous. Case of Syarikat Perumahan Pegawai Kerajaan Sdn Bhd V Bank Bumiputra Malaysia Bhd ((1990) 2 CLJ 1052; [1990] 3 CLJ (Rep) 159) shows the approach of the Malaysian courts to the troublesome problems thrown up in this area (Entrusty Group, 2006). Choon had to consider the effect of Section 81 of the Contracts Act 1950 on a bank’s obligation to pay on a performance bond or guarantee given to support the performance of a building contract. In any event, it was necessary to discern the case law of Edward Owen in light of the provisions of Section 81 of the Contracts Act, and especially the closing phrase ‘unless it is otherwise provided by the contract’. In Syarikat Perumahan, it was not clear from the face of the document that the bank was absolutely bound to pay ‘on demand’ (Abdul Aziz, 2014). It is considered that a different construction was tenable and that the document was not plainly of an ‘on demand’ type. This is now a discredited view in light of the recent restatement and clarification of the applicable principles by the English Court of Appeal in IE Contractors (Entrusty Group, 2006). Although, the wording of the document in Syarikat...
Perumahan Pegawai Kerajaan Sdn v Bank Bumiputra Malaysia Bhd was plainly based on the current Public Works Department form of bond, there are material differences between the wording of the two documents. The material part of the PWD Bond reads:

If the Contractor (unless relieved from the performance by any clause of the Contract or by statute or by the decision of a tribunal of competent jurisdiction) shall in any respect fail to execute the Contract or commit any breach of his obligations thereunder then the Guarantor shall pay to the Government up to and not exceeding [\(x\)] on the Government’s demand notwithstanding any contestation or protest by the Contractor or by the Guarantor or by any third party.

As stressed by Entrusty Group (2006), this is plainly intended to operate as an ‘on demand’ bond; the same cannot be said of the document in Syarikat Perumahan. The words which are emphasized in the quotation did not appear in the bond used in Syarikat Perumahan, and it is respectfully submitted that the case should not be regarded as laying down any general principle at all. Where English case law is to be cited locally, IE Contractors Ltd v Lloyds Bank plc should now provide the starting point. Lord Denning’s view that performance bonds stand on a similar footing to letters of credit - with the inevitable arising consequences – should be relegated to the home of lost causes.

### 1.7 Failure to Pay Certified Payments

Yin (2011) suggested that Prompt payment of certified amounts is essential to the contractor’s cash flow. This cannot be repudiation if there is no contractual duty to pay them. Where there is such a duty it is a question in each case whether failure to pay is repudiation. As a general principle of law, failure to pay on time what is due under a contract will not normally be treated as a sufficient breach to justify the other party in terminating the contract. Not every failure to pay a certified amount will amount to a repudiatory breach. In some cases, an employer who does not pay the sum certified on the presentation of a certificate may be held to have committed a breach which strikes at the root of the contract. The contractor is entitled, in the circumstances, to treat the breach as a repudiation of the contract. However, it is considered that such a drastic set of consequences only arise where the non-payment is part of some persistent conduct or is otherwise of such a serious character as to threaten the fundamental premise on which the contract was founded in the first place. An employer may have an arguable defense where his failure to pay arises from his belief that the amount due to the contractor can be set off against the contractor’s liability for liquidated damages or defective work. There is, however, a distinction between this situation and one where non-payment amounts to intimation by the employer not to be bound by the payment terms of the contract regardless of how well the contractor fulfilled his obligations under the contract. To determine this, the courts may be expected to consider the likelihood of the repetition of the breach and the fact that in most construction contracts, the time for payment may not be of the essence of the contract. If the employer makes any deduction, the contractor must seriously consider whether such deduction is justified before launching into the determination procedure. But if the contractor is in error in determining, he could be held to be in repudiatory breach of contract by his actions although much will depend on the extent to which the contractor has honestly relied on the contract provision, even though he may do so mistakenly. The condition of whether there is a failure to pay amounts to repudiation will largely depend on the circumstances of the case (Yin, 2011; Burke, 2005).

### 1.8 Conflict of Under-Certification Payments

Can an employer who pays certificates issued by the architect be guilty of repudiation if those certificates are substantially too low? These are difficulties in saying that he can
because prima facie he is doing what the contract requires of him (Roger, 2005). But it has now been settled that the architect is the employer’s agent when giving his certificate. It has been held that an employer cannot stand by and take advantage of his architect applying a wrong principle in certifying. It has been more recently held that, where there was a wide arbitration clause and where the employer was not obliged to pay more than the amount stated on the certificate. The contractor’s simple remedy was to go to arbitration and have the certificates corrected. There is thus a narrow dividing line between cases where an employer who has paid certified amounts may be in breach of contract and cases where he may not. In principle, if there are circumstances in which he may be in breach, he could also in extreme cases be in repudiatory breach (Yin, 2011; Chappell, 2006). But it seems that this would at least require both clean knowledge by the employer that the architect was persistently under certifying and a contract without a relevant arbitration clause (Yin, 2011; Chappell, 2006).

The general position under common law used to be that the employer may be answerable for the defaults of a certifier of progress payments only if he is aware of these defaults and did nothing to rectify them. In _Ludenham Fidelities v. South Pembrokeshire District Council_ ([1986] 33 BLR 39 844), the English Court of Appeal decided that where the only problem was that the architect exercised his judgment wrongly, then given the presence of a wide arbitration clause, there was no need or scope for the implication of any further term into the contract which seeks to attach liability to an owner for an architect’s exercise of his certifying powers. A simple remedy was available to the contractors to fog or arbitration and to have the interim certificates corrected. The Court of Appeal in Singapore has affirmed this position in _Hiap Hong & Co. Pte. Ltd. v. Hong Huat Development Co. (Pte) Ltd_ ([2000] SGCA 14). Accordingly, in the light of _Hiap Hong_, the principal expectation of an architect or any certifier is that he must act fairly and independently in respect of his certification duties and that in discharging these duties, he should not be regarded as an agent of the client. The subject of the disputes in relation to payment was found to be as shown in Figure (1) below and it is clear that the overwhelming subject is cross claim. The other issues such as refused/withhold payment, challenge the validity of remedies and allegation of fraud in certification pale significant alongside the issue of cross claim (Sin, 2006).

![Figure 1. Subjects of Construction Disputes in Relation to Payment](Source: Sin (2006))
Significant area of controversy that has surfaced is the one pertaining to the employer’s right to set off or deduct from monies owed to the contractor. It is criticized that many employers tends to arbitrarily, either withhold payment certified, or effect set off / deductions on merely trivial ground. Also, it is perceived that local culture or attitude is one of the frequent causes of late and non-payment. There are also unreasonable behavior typically involves refusing to make a payment when it is due, or discounting a payment for alleged defects.

2. WHERE AN EMPLOYER’S DELIBERATE AND UNJUSTIFIED REFUSAL TO PAY WHAT WAS ALREADY DUE COUPLED WITH HIS UNJUSTIFIED ORDER TO THE CONTRACTOR TO STOP WORK

Prompt payment of certified amounts is essential to the contractor’s cash flow, and in some cases the employer may be held to have repudiated the contract by his failure to pay instalments when due. This was well defined in the case of Ban Hong Joo Mines Ltd v. Chen & Yap Ltd ([1969] 2 MLJ 83). In this case, the plaintiff and defendant entered into an agreement for earth excavation in May, 1963. The preamble to and clause 1 of the agreement provided for the removal by the plaintiffs of earth to a depth of 25 feet from an area of approximately 9 acres of land situate at Timor to be pointed out by the defendants. They were to complete excavation work on an area of not less than 3 acres within a period of four months. Under clause 4 of the agreement the defendants were to pay to the plaintiffs a sum of fifty cents per cubic yard of earth so removed by the plaintiffs, seventy per cent of the amount due for the work done being payable once in every two weeks. The defendants made the first progress payment of $ 1,500 on 11th June, 1963. The second progress payment of $ 1,600 was made on 16th July, 1963 by which date the plaintiffs had removed 10,655 1/2 cubic yards of earth which had been excavated to a depth of 17 or 18 feet over a part of the area of 3 acres which was to be excavated first. This was the first phase of the work. Before making the two progress payments the defendants did not complain about the earth not having been dug to a depth of 25 feet. The plaintiffs next moved to the second phase of their work but no progress payments were made in spite of demands for them. Work was carried on until 9th September when the plaintiff was told by the defendant company to stop work. It was agreed that during the second phase the plaintiffs removed a total of 16,940 cubic yards of earth and that the average depth of the earth dug was only 7 feet. The issue arose in the case was, whether the defendant was in repudiation of contract when they failed to make payment. However, there were a few contentions put forward by the defendant in their defence. The main point taken by the defendants in denying the plaintiffs’ claim was that on a true construction of clause 4 of the agreement, when read in conjunction with the recitals and clause 3, the plaintiffs were not entitled to any payment until and unless they had excavated the earth to a depth of 25 feet. That was also their major ground of appeal. It was argued that the non-payment by them of the sum of $ 1,800 did not, ipso facto, amount, in law, to repudiation of the contract and did not, in law, entitle the respondents to rescind the contract and to sue to recover a sum of money in respect of work done. In support of this argument the defendant cited a number of authorities, the first three of which relate to contracts for the sale of goods. In Simpson v Crippin (L. R. 8 Q. B. 14) the goods were to be delivered in monthly quantities. It was held that the breach by the plaintiffs in taking less than the stipulated quantity during the first month did not entitle the defendants to rescind the contract. In Freeth v Burr ((1874) L.R. 9 C.P. 208), there was to be a delivery of goods in parcels at different times. It was held that the mere refusal to pay for the first parcel did not, under the circumstances, warrant the defendant...
in treating the contract as abandoned and refusing to deliver the remainder, and that the plaintiffs were entitled to damages for the breach.

In *Mersey Steel and Iron Co. v. Naylor, Benzon & Co.* ((1884), 9 App. Cas. 434), the goods were to be delivered by installments. Affirming the decision of the Court of Appeal, the House of Lords held that, upon a true construction of the contract, payment for a previous delivery was not a condition precedent to the right to claim the next delivery, and that the respondents had not, by postponing payment under erroneous advice, acted so as to show an intention to repudiate the contract, or so as to release the company from further performance. However, the learned trial judge held that the plaintiffs' right to the fortnightly progress payments for work done in digging and removing the earth is not dependant on their digging down to the agreed depth of 25 feet. It is to be observed that the contract was not a lump sum payment contract. It is also to be observed that the first progress payment was, in fact, made at the end of or not long after the first fortnight from the date of commencement of the excavation work. Therefore, there was no merit in this major ground of appeal either. It is abundantly clear that the defendants had at all times been in breach of their obligation to make periodic payments and the plaintiffs would have been completely justified, if they were not in fact told to stop work, in treating be defendants' breach as repudiation of the agreement on the part of the defendants and in suing for payment on the basis of *quantum meruit* (Yin, 2011).

3. CONCLUSION

It can be concluded that the appellants were in breach of their obligation to make fortnightly payments. Their deliberate refusal to pay what was already due by way of fortnightly payments was an important element on the question of their repudiation of the contract. Furthermore, they ordered the respondents to stop work. As stressed by Yin (2011), this stoppage of work by them clearly went to the root of the contract. In this circumstance, the respondents had no option but to treat the contract as at an end and to sue for payment for the work which they had already done. They were entitled to recover the amount claimed either on the basis of work done by them at the appellants' request or by way of damages on the basis of *quantum meruit*.

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SOME ISSUES AND PROBLEMS IN HOUSING AND LANDSCAPE DEVELOPMENT RELATING TO LANDSCAPE ARCHITECT PROFESSIONAL PRACTICE: THE WAY OUT

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ABSTRACT
The level of professional conduct depends upon integrity of each individual member to conduct him or herself in a responsible manner in dealings with clients and other professionals. This paper presented five case studies in different locations and countries where 2 cases were China, one in India, 2 in Malaysia with a little reflection to Cambodia. Every case has a problem and this paper and each problem has been provided with several solutions to minimize it.

Key words: Housing, Landscape development, Architect professional, Practices, Problems.

1. INTRODUCTION
The level of professional conduct depends upon integrity of each individual member to conduct him or herself in a responsible manner in dealings with clients and other professionals (ILAM, 2012). Codes means the written guidelines adopted by an organization in an attempt to assist those in the organization called upon to make a decision understand the difference between ‘right’ or ‘wrong’ and to apply this understanding to their decision. Code of ethics refers to ethical code that includes conducts, practices, and professional responsibilities. The code should be central to the professional life of a landscape architect not only as a source of guidance but also as a common sense indicator to the principles of good practice. As stated by Fleckenstein and Huebach (1999), code of ethics is to maintain harmony among professional and to settle dispute among them. The Professional Landscape Architects must act in professional conduct: truthfully and clearly inform the client/employer of his/her qualifications and capabilities to perform service/project. He/she shall not exaggerated, misted, deceptive, false statement/claim to public about his/her qualification, experience and performance. He/she must not advertising and soliciting his/her name, and shall not give, lend, promise only thing of value to any public official in order to influence official’s judgment/action in the letting or contract. He/she must also make full disclosure the client/employer any financial interest bears upon the services or project and avoid conflict of interest.

2. PROBLEMS AND ISSUES: THE WAY OUT
In highlighting some of the problems and issues, this article discusses matters relating to:
1. Oil palm plantation, Sabah, Malaysia,
2. Ramganga dam and hydropower project in Uttaranchal, India,
3. Current Situation and Protection of Traditional Village and Cultural Heritage Resources, Li Jiang, China,
4. Deforestation in Cambodia and Malaysia, and
5. Ecological City Construction Abroad Legislative Experience and Revelation to China.

2.1 Oil Palm Plantation, Sabah (Malaysia)

Malaysia, one of the 'Asian tiger' economies, has enjoyed remarkable growth over the last few decades, with industrialization, agriculture and tourism playing leading roles in this success story. As stated by the World Wildlife Fund (WWF) (2010), at least 85% of the Kinabatangan Lower Floodplain has been converted from forest to agriculture due to oil palm plantation. But today, despite a relatively positive environmental record, Malaysia faces problems of deforestation, pollution of inland and marine waters, soil and coastal erosion, overfishing and coral reef destruction, along with air pollution, water pollution and the problem of waste disposal. Oil palm plantations are a prevalent feature of the Malaysian landscape, as this industry has become a major contributor to the country’s export earnings. The increase in palm oil production has been driven by strong global demand for oils and fats, notably from Europe and China. However, this expansion of land for oil palm cultivation has taken place at the expense of lowland tropical forests, which are ecologically sensitive habitats. As stated by State Environmental Conservation Department (SECD), Sabah Malaysia (2000), oil palm cultivation is one of the main economic activities of the state, which not only effect extensive land development but also provides substantial revenue to the state as well as the nation as a whole. It is also one of the pivotal aspects that act as the catalyst for regional infrastructural development, particularly road network within interior areas. Oil palm cultivation, that is economically viable to be developed in the scale of plantations, may result in destruction of ecological habitats, change in hydrological regime of the region, and contribute to waterway pollution in terms of increased suspended solids content and elevated levels of agro-chemicals. As oil palm cultivation normally take place covering large areas, the impacts are regional in nature and thus activities related to its development and implementation need to be subject to a holistic planning in order to control and eliminate as much as possible any adverse repercussions. However, the environmental impacts due to oil palm plantation development activities will be provoked. First of all, ecological impacts due to loss of habitats for diverse species of flora and fauna as a result of land development. Moreover, soil erosion due to land clearing brings the impact of water quality and hydrology (flash flood). The environmental impacts due to oil palm plantations also bring harm to the air pollution due to open burning for biomass disposal and water pollution due to usage of agro-chemicals. In Sabah, the Environmental Conservation Department is charged with regulating the development of oil palm plantation effective September 1999 to ensure that the implementations are conducted in an environmentally responsible manner. The guideline provides an easy to follow and practical means for assessing environmental impacts, recommending mitigation measures and proposing monitoring programmes for land clearing, biomass management and disposal, earthworks, infrastructure development, planting, palm maintenance, harvesting and transportation within the State of Sabah. This guideline also includes replanting activities for oil palm plantation already exceeding their reproductive life span and conversion of other types of cultivation and crops into oil palm plantation. Effective September 1999, Environmental Impact Assessment (EIA) is a mandatory requirement for oil palm plantation development activities in Sabah under the Conservation of Environment 1996 and the Conservation of Environment (Prescribed Activities) Order 1999. Oil palm plantation development is a Prescribed Activity,
which requires an EIA approval prior to project commencement. It falls under the following category (SEDC, 2000):

**Section 1: Agricultural Development**

Paragraph 1.: development of agricultural estates or plantations covering an area of 500 hectares or more- (a) from land under secondary or primary forests; (b) which involve the resettlement of 100 families or more; or (c) which would involve modification in the use of the land; Paragraph 2.: conversion of mangrove swamps and other wetland areas into agricultural estates having an area of 50 hectares or more; or Paragraph 3.: development of agricultural area adjacent to any conservation area, park or sanctuary declared under any written law. Failure to observe this directive, the authority, body or person in default shall be guilty of an offence and shall, on conviction, be liable to a term of imprisonment for 5 (five) years and a fine of RM 50,000.00 (Malaysian Ringgit fifty thousand only).

**2.2 Ramganga Dam and Hydropower Project in Uttaranchal, India**

The Ramganga Dam is part of the Ramganga Multipurpose Project irrigation and hydroelectric project. It supports a 198 MW power station and provides water for the irrigation of 57,500 ha (142,086 acres) of farmland. In addition, it provides for flood control and recreation. Construction on the dam began in 1961 and it was completed in 1974. The three generators in the power station were commissioned in December 1975, November 1976 and March 1977. The environmental impacts of the proposed of Ramganga Dam projects are being forecast in light of the activities that would be undertaken during the construction of barrage, coffer dam, drilling and blasting during tunneling for head race tunnel, construction of permanent and temporary housing and labor colonies and dumping of muck generated from various project works and other working areas. The likely impacts have been considered on ecosystems, both aquatic and terrestrial, as a whole, and also on individual critical species, if any. Impacts have also been assessed on the geophysical environment of the area which may lead to serious negative consequences. This project brings the impact on terrestrial ecosystems. Habitat disturbance, degradation, fragmentation and destruction due to construction activities would lead to disruption of flora and fauna. The proposed area to be submerged by the proposed project is about 2.27 ha, which is mainly under forest. Besides, the reservoir would hamper the movement of wildlife. The creation of a barrage across the river and formation of a reservoir would result in the change of habitat and would lead to fragmentation of habitat. This reservoir will function as a physical barrier, which comes in the way of animal migration and dispersal. The proposed project activities like drilling, blasting, etc. would lead to increase noise levels in the area, which may cause disturbance to the wildlife in the underground and large area of cultivable land is required for the project. The construction of Ramranga Dam would involve deforestation. Thus, the danger of erosion and disturbance to hill slopes is high. In additions, the most obvious impact of hydroelectric projects is the upstream inundation of terrestrial ecosystems and, in the river channel, the conversion of lotic to lentic systems. They also alter the downstream flow regime. The execution of Environment Management Plan is the one of the method to control and protect the landscape environment of the surrounding of Ramranga Dam. In view of the foreseen disturbance and degradation of natural ecosystems, a biodiversity conservation and management plan for proposed of hydroelectric project area has been proposed with some objectives.

- Conservation and preservation of natural ecosystems and areas which may hold potentially important species from the conservation and economic significance,
Preservation of natural habitats in the catchment,
Rehabilitation of critical species, if any,
Special efforts for in situ or ex situ conservation of critical/ important plant/ animal species,
Mitigation of biotic or abiotic pressures/ influences on the habitats,
To improve habitat conditions by taking up forestation and soil conservation measures, and
To create awareness regarding conservation and ensure people’s participation in the conservation efforts.

Poaching has been one of the major cause destruction of wildlife. Besides poachers from the town and cities who kill these animals just for the sake of fun. The poaching is to be checked by regular patrolling and deployment of anti-poaching parties and enforcement of the Wildlife Protection Act of 1978. It is recommended that the Reserved Forests be declared as non-interference areas for any human activities. No activities should be permitted either by private or public agencies in these areas except for the rights of the local population which must be maintained in a regulated manner. The State Government through its Department of Forests and Wildlife shall take up the work of Biodiversity Conservation for the critical areas with the financial support of the power development agency. This work should be under the direct administrative control of the Principal Chief Conservator of Forests/ Chief Wildlife Warden, Uttaranchal. A committee under the chairmanship of the Principal Chief Conservator of Forests, Uttaranchal shall execute the conservation work. It shall include two representatives each from the State Forest Department (of the rank of Conservator of Forests) and GMR Energy Ltd, two renowned Ecologists/ Conservationists, two representatives of local NGO and one Central Government representative of Ministry of Environment and Forests.

2.3 Current Situation and Protection of Traditional Village and Cultural Heritage Resources, Li Jiang, China

As with 7000 farming civilization country, our country each has spread all over the region and the national characteristics of the ancient village. Different historical era and different regions, different people form to the traditional village, a large number of bearing the different historical period, different regions and different national culture information is precious material culture and intangible cultural heritage resources, in the human world cultural heritage also has very important position. In the modern society high-speed economic development situation, especially in our socialism new rural reconstruction advancement, effective protection and in-depth study of the form and survived in the world are rich, regional and national outstanding characteristics, historical and cultural information bearing heavy ancient village, has a positive realistic meaning and profound historic significance.

China village culture research center of researchers in the early 1980 s began to our country "river basins" (i.e. the Yangtze river basin and the Yellow River) and other areas of the traditional village (town) fall of political, economic and cultural conditions in the field survey. Especially between 2009 and 2010, China village culture research center of 20 267 people to focus group of China's Yangtze river, the Yellow River basin and the northwest, southwest 17 provinces 113 counties (including county or city) 902 townships of the traditional culture of pangu village for 25 days to 30 days before the comprehensive review. According to "remains the truth" record statistical data show that traditional ancient village ecological status is concerned. These regional, national and regional rather history, culture
and architecture art research value of the traditional villages, in 2004 for a total of 9707, to 2010 survived only 5709 a year on average, 7.3% decline, die every day 1.6 traditional villages. Investigate its reason, although very complex, but can be roughly divided into five types:

First, the indigenous people under the constraints of the existing rural land policy of independent self destruction. Cover bridal chamber, live in a building, farmers improve the quality of life is the important content, but due to a lack of unified planning, going in a new highlights traditional ancient village, often highly coordinated, serious destruction of the traditional national architectural culture art village atmosphere. The emergence of lead to this situation, of course, with the traditional village indigenous own cultural quality, life value orientation and other reasons has the very big relations, but the most direct and the main reason, as our country at present in the vast rural areas the existing "the old ZhaiJi not removed, bridal chamber foundation of land and the house ownership policies, forcing the ancient village in the old site of the indigenous peoples and new.

Second, the policy misreading misunderstandings and the achievements of the quick had the constructive to destruction. This kind of situation, because part of the local government officials, in some policy the intrinsic essence and understand your target, appeared misreading misunderstanding that "ransacked SLATE road, build by cement, wood down the old houses built, blue bricks reinforced the red brick house", is the development of the rural road. Some places, in the governments’ direct intervention of powerful a great upsurge of demolishing old buildings and caused a lot of rich excellent national characteristics and historical and cultural value of the traditional villages destroyed.

Third, the tourism that over its in business model to cause environmental damage. To local government is leading, commercial mode of operation under excessive tourism development, to the traditional villages in our country the destruction of the most common. Because business mechanism to access, a lot of ancient buildings according to developers of business will be optional transformation and broken down, and its destructive is difficult to measure.

Fourth, absence of laws and regulations, protection standard loss, protect the environment caused by the lack of funds under the protective damage. China remains the most traditional architecture and its villages down cultural heritage and form, on the one hand, has the characteristics of cultural relics, properties, and values, on the one hand, and often between "cultural relic" and "the cultural relic" between. The cultural relics of can't, unfavourable also will all of its cover and into the protection scope. And for the protection of traditional village, at present there is no other regulations and can depend on. Some place although published a few local regulations, but its limitations are very obvious, from nature to protect traditional village on the meaning, thus resulting in a large or unfavourable, cannot listed in the protection of cultural relics in the category of traditional villages, is facing protection laws of absence of destruction.Lastly, other social problem and natural problem cause the severe damage. With China's urbanization construction and promote and expansion of the size of the city, many traditional village became "hollow village", "the old man village", traditional village in the accelerated decadent. In addition, frequent various geological hazards, flood, fire, the destruction of the building of traditional villages, is not in the minority.

The writers suggest that: First, the rapid organization a national "Chinese traditional village remains" special census work. May set up the China traditional village remains questionnaire", "Chinese excellent traditional village recommended table" or "protected traditional village recommended table" and so on the touch bottom form, by the village and township (town) fill in, to the county, city, province, country level summary report, touch our
traditional village distribution and lose all the number, and master the situation remains, and formulate regulations on protection of policies and measures. Second, in view of the country's existing and the current cultural relics protection law and the implementing regulations, and can't cover and adapt to Chinese traditional village and culture protection, suggest presided over by the state council, the state ministry of construction, ministry of agriculture, ministry of land and resources, the ministry of culture, the national bureau of cultural relic and related department, bureau to participate in, as soon as possible to make a is applicable for traditional village and culture protection special regulations, and to submit to the standing committee of the National People's Congress approved, implementation. Or by the state council promulgated the "Chinese traditional village culture protection regulations", will China's traditional village and culture protection, into legal system and standardized track. Third, by the state as soon as possible formulate and promulgate the definition of the Chinese traditional village standard. In the national traditional village special census, and on the basis of a deep investigation research, develop by national laws or regulations to protect traditional village building s standard, national culture form the lower standard, social form standard etc, and with reference to the protection of cultural relics in China experience, respectively set up national and provincial, county (city) level 3 standards and level 3 protection mode. Fourth, in view of the current rural land policy and rural dwellings ownership policies and traditional village and culture protection does not adapt the contradiction, the proposal, ministry of land and resources, and actively developing the rural land resources policies, rural residential property rights transfer of aspects to explore, relax appropriately or allow the collective and the individual buys protected traditional village construction, encourage "someone in the village, to the village", and then adjust in time, fixed in current land regulations on protection of traditional village and culture does not adapt part, adjust the new rural residential land policy, from the fundamental solution to the traditional aboriginal village for new housing and new and old causing the whole traditional villages of the destruction of questions, in order to resolve the protected traditional villages and peasants new residence contradiction of demand. Fifth, suggest the relevant departments on traditional village business tourism development, the administrative examination and approval system, set up about traditional village as a commercial tourism development project of the comprehensive evaluation standard system, strictly prohibited for commercial tourism development needs and destruction of the original traditional village ecology, landscape and environment, planning and construction. To clear in tourism development, which traditional village culture is to tourists can show, which is can't show; gradually lead to protect consumer travel type tourist development direction. Sixth, trade monopolies; adjust the current ancient cultural relic’s maintenance qualification certification system. To build in local, inheritance in rural, remains the village in rural traditional building maintenance protection, should make full use of traditional folk construction maintenance process and technical strength, make a used in place of the traditional village maintenance technology standards and maintenance quality control system, solve the protected traditional aboriginal village "looking at the house lousy, no qualifications are not allowed to fix, not qualified to can't fix" problem. Seventh, we need to positive, comprehensive and thorough development system, Chinese traditional village culture academic research, for Chinese traditional village culture effective protection to provide theory support. At present, China's academic circles to Chinese traditional village culture research, in the research object, most stay in for a specific case studies; In the research content, and also means more architecture category, and lack of Chinese traditional culture, village and multidisciplinary and multi-dimensional, Angle of research as a whole. In the social sciences research suggests that our country, set up a number of general, key, major research projects, and integrated in full, the use of domestic related disciplines, edge
interdisciplinary research resources and power, develops our country cultural heritage research new field, the introduction of a batch of outstanding achievements for traditional village excellent culture research and protection to provide experience.

2.4 Deforestation in Cambodia and Malaysia

The reduction of the world’s tropical rain forests constitutes one of the greatest crises facing the 21st world today. Deforestation concluded in massive soil erosion, widespread flooding climatic changes, disruption to agriculture, and loss of wildlife and displacement of native peoples. And forests are disappearing faster in Southeast Asia than anywhere else. As stated by Wolf, H. A. (1996), many factors account for the rapid deforestation including the need for fuel wood, agricultural expansion, shifting cultivation, urbanization, and logging. Deforestation is regarded as one of Southeast Asia's greatest environmental problems. Indochina's tropical forests have been heavily impacted by decades of war and illegal logging. Cambodia’s forests once covered seventy-three percent of the country in 1960 but now cover less than forty percent of the country. Environmentalists predict that if logging is not stopped, the country's forests will be completely destroyed within five years. Deforestation in Cambodia has affected the country's irrigation system, leading to floods, drought, and harvest failure. Many communities are running out of rice and face the threat of starvation. Additionally, Tonle Sap Lake, which supplies most of the country's fish, has been adversely affected by logging that has allowed top soil to be washed down into the lake. Silt has reduced the lake's depth, causing it to flood more often and thereby destroying crops. As a result of the logging, the removal of tree roots has reduced the land's capacity to retain water and to sustain crops. Malaysia, like Cambodia, has suffered intense deforestation. Because industrialized countries such as Japan and South Korea provide ready markets for Malaysian timber, Malaysian tropical forests are an easy source of wealth for those in power (Wolf, 1996). Malaysian officials grant forest concessions to timber companies that are either owned by politicians or their relatives. The demand for timber resources has been a major impetus towards a massive cutting of the nation's tropical rain forests. Malaysia's remaining timber reserves have been estimated to last only until the end of the 1990s. The promotion of the export-oriented timber business has necessitated the clearing of forests at the expense of cultivation and production of food crops which meet local needs. The continuing destruction of rain forests in Malaysia has adversely affected both the natural environment of the country and the socio-economic development of the indigenous people of Malaysia. The effect of logging on native lands can be seen in the devastation of the Malaysian timber-producing state of Sarawak, which produces the bulk of Malaysia's timber output. In 1992, eleven million cubic meters of Sarawak’s permanent forests were logged. Wolf (1996) suggested that Environmentalists around the world have taken up the plight of the native Penan tribe in Sarawak because rampant logging has been destructive to both the forests and livelihoods of Sarawak’s Penan people. Timber extraction has caused extensive and irreparable damage to the natural land surface and vegetation, and logging has threatened the habitat of wild birds and animals, depriving the local people of their hunting grounds. Additionally, the increase in sawmilling activities has caused widespread pollution to rivers as floating logs and sawdust leach water soluble chemical compounds into the water. These chemicals are often toxic and endanger exporting countries to control the tropical timber trade. The convention will be appealing to the exporting countries which want to limit their exports and to importing countries which want to limit their imports. The convention would prohibit parties from importing or exporting tropical timber from a non-party so that countries party to the agreement, including probably the exporting countries of Southeast Asia and the importing countries of Western Europe, would be forbidden from the health of native people who
depend on the rivers for their drinking and domestic needs. Logging has also caused severe soil erosion resulting in flooding. Floods have damaged native rice fields, crops, and livestock, resulting in frequent food shortages for native peoples. In order to solve the problem of the tropical timber trade, a multilateral agreement is essential. The advantages of a multilateral solution are that an international agreement is more effective than unilateral efforts and a multilateral solution is necessary to overcome obstacles created by the GATT and the World Trade Organization ("WTO"). When the WTO and its accompanying agreements came into force on January 1, 1995, it was unclear what effect they would have on international environmental restrictions (Wolf, 1996). The intent behind the establishment of the WTO was further trade liberalization through the removal of remaining barriers to free trade. The structure of the WTO facilitates this goal by extending the institutional capacity of the GATT. This extension of trade liberalization caused concern among environmental groups due to the lack of a serious commitment in the text of the WTO to the goal of environmentally sustainable development. However, there are indications that International Environmental Agreements (IEAs) may prove an exception in the prohibitions against using trade restrictions for environmental protection.Clearly, unilateral trade restrictions often come into conflict with the GATT; however, the GATT does not necessarily present an obstacle to internationally agreed trade restrictions on tropical timber. In 1991, the GATT reactivated its Working Group on Environmental Measures and International Trade ("EMIT") to consider whether IEAs violated the GATT. The EMIT did not give a definitive answer because current GATT rules do not explicitly address IEAs. Wolf (1996) stressed that, however, commentators have suggested that the GATT should be amended to allow countries to impose trade measures for environmental purposes only when those measures are "related to" an IEA. As emphasized by the World Trade Organization (WTO)(2004), although "related to" has also not been clearly defined, imposing trade restrictions is certainly "related to" and even necessary for an IEA which focuses on controlling the tropical timber trade in order to stem deforestation. The creation of the Committee on Trade and the Environment by the WTO adds support for reconciling GATT restrictions with IEAs. The creation of this committee demonstrates the WTO's commitment to resolving conflicts between environmental regulations and the GATT. There is no consensus regarding the effects of the GATT/WTO on IEAs. However, multilateral agreements appear to be able to withstand GATT challenges. Again, Wolf (1996) stressed that consequently, if Malaysia wanted to export timber without restrictions, it would be free to do so without fear of international retaliation. However, if Malaysia failed to manage her forests in a sustainable manner, parties to the timber convention would be free to choose not to import timber from Malaysia. A new multilateral timber agreement would allow Malaysia a voice which it might not have if Western European countries enacted their own import bans. As is evidenced from the Austrian and Dutch efforts to limit tropical timber imports, Malaysia has been faced with the trend towards tropical timber regulation. The problem of deforestation in Cambodia and Malaysia requires an international legal solution. The existing legal mechanisms have failed on both the national and international level to protect tropical timber. A multilateral trade agreement would provide the necessary trade restrictions at both the place of import and place of export by using the "prior informed consent" framework of the Basel Convention. Deforestation in Southeast Asia is a global problem requiring more effort on the part of importing and exporting countries alike to ensure the future existence of the world's tropical forests.
2.5 Ecological City Construction Abroad Legislative Experience and Revelation to China

Qingcai and Jiaojun (2008) mentioned that, since the reform and opening up, China's urbanization in a rapid development period. According to the World Bank report, China's urbanization level has development from 20% in 1980 to 38% in 2002. As the world urbanization process one of the quickest countries, China's population, resources, environment and urbanization the contradiction between the outstanding. Foreign experience shows that the legislation, using legal enforcement binding, coordinate population, resources, environment and the contradiction of urbanization, promote the sustainable development of the city basic system security. Since the end of the 1980s, China and medium cities have put forward some construction of ecological city goal, at present in more than 660 cities, has been nearly cities put forward the goal of ecological city construction. However, because of relevant legislation not perfect, the Chinese ecological city construction in the urban planning, the city industry structure, urban ecological and environmental infrastructure construction and operation of public participation in, there are many problems. Therefore, foreign ecological city construction legislative experience, through the perfect legislation to establish and perfect the security Chinese ecological city construction system of laws and regulations, to standardize the ecological city construction, to avoid repeated developed countries "treatment after pollution" made, is a priority. The legislation, China's relevant laws and regulations of ecological city construction three types: the environmental protection law of the ministries and pollution prevention law, these laws and regulations on city environment protection has played an important role (Qingcai and Jiaojun, 2008). For example, the prevention of air pollution "clearly put" defined key cities for the control of air pollution", "prevent and control the dust pollution", prevention and control of urban food service industry, the city will exist pollution use clean energy and other provisions. The solid waste pollution prevention and control of chapters in regulations "urban house refuse the prevention of the pollution". The water pollution prevention law "in emphasis on" urban sewage to concentrate on dealing with". The prevention of environmental noise ", there are many aimed at "urban area where noise-sensitive structures are clusters" legislation. The second is the urban planning act as the core, including the city green ordinance, the city appearance and environmental management regulations ", the city planning method "to solve many contradictions of city development for the purpose of laws and regulations. Three is actively carried out many provinces and cities are local urban ecological environment protection of the legislation of comprehensive regulations. For example, in November 2004, the National People's Congress standing committee, guiyang, guizhou formally promulgated "guiyang city construction circular economy ecological city ordinance to perform the, the circular economy from regulations ensure long-term ecological city construction standard to keep going. Shenzhen government since 2004 to carry out comprehensive ecological city construction planning work, and proposes the establishment and the consummation adapt to market economy, unite the local actual environmental laws system, strengthen the supervision and management in accordance with the environment, etc. At present, China's legislation of ecological city construction of legal system plays an important role, but also has the following questions:

First, although China is now the preliminary form including the constitution, the laws and the administrative regulations and rules of the corresponding and local regulations constitute security city ecological construction system of laws and regulations, but a more perfect, with foreign mature standard city of ecological construction of legal system in China than in the relevant legislation is at a low level, some laws, rules and regulations, or even the place of conflict. China's environmental law more emphasize for pollution prevention legislation, lack of promoting the ecological construction of the legislation. The initiative
from the environmental laws and regulations to see, because of the lack of public transparent
to promote the public, enterprises and social organizations to participate in the legislative
activities of the legal process and mechanism, leading some regulations promulgated in just
find after lacking pertinence, from reality and is difficult to implement, appear even
unnecessary legislation conflict. On the other hand, the legislative power of the current
environment of executive power to control belongs to administrative control legislation, to
citizen environment right entity and procedural regulation is less, and not clears, lack of
manoeuvrability. When citizens environmental rights and interests are infringed upon, it is
difficult to apply through the detailed legal achieve relief. This is a departure from the public
participation in environmental protection principle of environmental law, also caused
environmental awareness is not high, and the ecological construction force is weak.

Second, from the legislation oriented look, foreign legislation will sustainable
development, respect the ecological law, prevent pollution, polluters burden, comprehensive
pollutant control, especially public participation, economic development and ecological
protection principles of comprehensive decision into legislation, and China has not fully
enrolled. China's current environmental laws and regulations is formulated in the era of
planned economy, which represents the interests of the people to protect the environment of
human centre indirect socialist ethics, and the sustainable development of contemporary
environment ethic requirements completely false, it is required in sustainable development
guidance reconstruction environmental legislation, to set up the ecological system to promote
environmental changes and development environment of orderly legal system.

Third, the urban planning act in ecological city construction is important, but China's
urban planning is now lags behind the ecological construction requirements of city, exist in
the following problems: one is the construction of city planning of the soft constraint. Many
urban overall plan has not expire, but the city's construction scale has overcome the
phenomenon of the original planning and the implementation of the planning process
planning of lag behind time phenomenon coexist; A serious shortage of urban infrastructure
construction and repeat waste coexist; Urban construction sequence chaos, infrastructure
cannot reasonable layout and link up with each other, road construction repair dig, dug and
repair. 2 it is the general land use planning and the urban planning linking problem is lack of
specific legal definition. Because of the planning and management of the suburban areas
without specific rules, planning department and land management department to divide and
rule, make suburban joints became "two whether" dirty, disorderly and poor areas. 3 it is the
construction of the development zone of the lack of clears the legal standard of the
development zone, planning and construction and city planning disjointed, destroyed the
overall plan of the city. All kinds of development zone, the town, science and technology
park, software park, travel resort, such as independent planning, self-sustaining, to the healthy
development of the city long buried hidden trouble. Four is the lack of planning the
supervision and restriction mechanism, illegal building flood, environmental pollution is
serious.

According to Japan, the United States and European Union countries of the
construction of ecological city legislative experience, according to its actual conditions, China
needs from the following aspects of ecological city construction perfect legislation.

1. Establish sustainable development, the environment right the constitutional position
The constitution confirm and security "sustainable development", and with the international
community, common agenda 21 performance by the international obligations, ecological era
is constitutional the focus from the traditional industrial economy towards to ecological,
knowledge based economy appears necessarily. The evolution of the legislation from abroad
see, with the urbanization process to accelerate the contradiction between man and nature are
growing, especially the 1992 United Nations HuanFa after congress, many countries increased in the constitution "sustainable development" of the content, some countries also put in good citizens under the environment of the rights of life, namely "the environment right" as one of the basic civil rights provisions in the constitution. Along with the sustainable development, the environment right the constitutional position gradually established, the national laws "ecological" trend obviously, start to appear the global convergence of the environmental law. Although China's current constitution article 9, article 10, article 22 article 26 and have been defined in the country in environmental protection duties, it is environmental protection legislation of constitutional basis, but the concept of sustainable development connotation and extension of the concept of environmental protection than deep much more widely. Sustainable development involves population, food, species and genetic resources, energy, industry, living environment and so on a series of major economic, social and environmental issues, so if China established the constitutional status of sustainable development, will benefit to respect the ecological law, and promoting green production, green consumption and green trade legal spirit into the legal system. At the same time, the constitution clear the environmental right of citizens, will benefit from the constitution level, in order to promote environmental protection and ecological construction of public participation in the legislation to provide the basis.

2. Modification to perfect the current "environmental protection", "urban planning law system.

The city planning modification, the experience abroad, clear the “urban planning” Act (legislation) in the core status of urban law, coordination and land, rural planning, natural protection, municipal, transportation, cultural relic protection and related legal relationship. Urban construction should strive to economic and social objectives and goals of ecological target unifies, optimize industrial structure and block layout, the continuous improvement of urban economy function while trying to change the status of the fragile ecological function. Be reasonable control of the city scale, the urban construction from the extension to the connotation development. To develop the urban planning of urban land and space the regulation effects of resources, establish the competent administrative department for planning and supervision and restraint mechanism of civil servants.

3. Through legislation to promote the development of recycle economy

4. Through the legislation to strengthen environmental education, encourage public participation

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UNDERSTANDING HOW GENUINE EXPERIENCES INFLUENCE ROMANIANS CONSUMPTION BEHAVIOR

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ABSTRACT
I read studies which remind us of patriotism, I meet friends who are in permanent search for values and who are eager to prove themselves in this country - in their country. I check constantly Tudor Georghe’s (Romanian traditional singer and actor) events calendar, but I cannot offer a clear answer to the question “What is Romania for others?” For the last two years I have dedicate myself to a “juicy” subject, as Jean-Claude Kaufmann (2009) named his subject of interest and, in these terms, I look for defining Romanian consumers who decide to purchase goods by means of experiencing nostalgic moments or “complete experiences with objects.”

Key words: nostalgia, consumption, scarcity, abundance, genuine consumption.

JEL Classification: M310 Marketing

1. INTRODUCTION
The current socio-anthropological approach aims to better understand how NOSTALGIA for both products (brands) and shopping mechanisms (sitting in line) has the power to reinvent some Romanians HAPPINESS by “throwing them” into the past, in a not so easier-to-live-in moments, but a comfortable context, where scarcity was a status-quo and not an option.

To do that, focus group discussions and in-depth interviews were conducted in Bucharest, Cluj-Napoca and Timisoara, as these are the main cities where the revolution started back in 1989, in order to contact those who were directly involved in changing the political regime (stimulus that maintained scarcity). The information obtained through the focus group discussions and in-depth interviews is exploratory and even if the data are rich and valuable, these do not entail any form of statistical analysis in the sense of a quantitative research study. Of course, the philosophical perspective is also very important in terms of calibrating these three very ambitious concepts: consumption, nostalgia and happiness. Starting from Seneca’s definition of happiness, I suggest in my study to listen to today’s consumer’s voice and decide what to keep from ancient times and what is still actual from Seneca’s social radiography. This way I think we can get a very interesting perspective of the consumption dynamics and we’ll be able to predict other messes in the social order in general. That’s why time is also very important to define and I will be very glad to find new perspectives on this concept. My study is a voice that militates for abundance, but not from a marketing perspective, but a MORAL ONE. A people with strong initiatives in preserving nice, good memories will help that country to survive over time and make its citizens to believe in themselves.

As a conclusion of this first part of the study, but hopefully as a trigger to discover my entire paperwork, I’ve also decided to ennable the study with a participatory observation in order to better understand consumers shopping mechanisms by taking part to authentic
acquisition processes (online shopping and safari trips in hypermarket) of those who experience this kind of nostalgic sessions. More so, I’ve even added Banica’s perspective (2014) upon nowadays pilgrims’ behavior, as its mechanism (sitting in line) seems quite similar to how consumerism looked before ’89. Hopefully, this way I’ll be able to better understand what can we keep from our history and what is simply routine and we should get rid of.

For a simple observer, sitting in line can be perceived as a boring, pointless operation, but if nostalgia has a role there, it might be true that consumers are sitting in line because they want to re-experience past times scattered with pleasant perspectives upon short moments when they felt ALIVE, powerful and truly HAPPY. Why should we stop a process like this and not just observe it how it becomes less and less practiced in fast times like 2000s?

2. MAIN WORK AND THEORETICAL APPROACH

Since my research is supported exclusively within the borders of Romania, at least so far, I propose to focus next on the concept of authenticity in Romania. Taken individually, this concept seems, paradoxical, inconsistent. And perhaps it is. However, together with my two mentors of mine, Prof. Phd. Vasile Dancu and Prof. Phd. Emilia Titan, I managed to place the authenticity in a very dear context for me – consumption. Specifically, I try to establish a bridge between realities of consumer behaviors and the need for experiencing the authentique in itself (which some consumers developed lately). This Is why, recently, a BBC article drew my attention to Romania’s struggle to promote itself on a touristic faire this year (2015). I used the verb struggle as it was circulated the value of 3.5 million euros on this action. Ok, so what is the connection with authentique or with the concept of firesc (Romanian word which defines something extremely genuine). Well, leaving us guided by the dictum “know thyself”, let’s focus on what really means, the authentique, for Romanians, then let’s take a look on what does the state want to promote as the country’s image and finally to ask ourselves again: “What is Romania for others?”.

In this regard, I would first like to make a brief overview of the main concepts with which we are about to work from now on in this paperwork. Firstly, for better understanding the idea of consuming behaviors, I propose the idea to leave Tim Friesner, teacher of marketing and consumption, to tell us what he truly understands by this concept. He says that consuming behaviors represents nothing but a decision making process, which, the consumer follows before choosing a to buy or to experience a good or another consuming object. Specifically, with regard to a consumer decision, the entire system of values of the individual is engaged in a complex process of validating a certain position of him towards the object of interest.

Although such a mechanism, looked in detail, may seem very rational, the emotion playse an equally important role in making a decision” How many times have you bought a multicolored cotton candy just to obtain a smile from the kid who received it, even if you knew what a caloric bomb, the candy is and what impact it has on a human body? The same goes for authenticity. It represents a concept which is defined in dependent with the context it characterizes. As the theory of everything – the movie – reminds us of Nature doubts, simplified by Einstein into a simple formula – relativity, so our concept can have several meanings (described differently according to those who have experienced such situations). Keeping this idea in mind, if we choose this moment to explore philosophically the authenticity, where the “differentiate or die” motto is very actual (even today), we would have to relate separately to each individual. Therefore, it is very likely that at the end of this exercise to get more than six billion or 20 million (depending on how you look) answers, as
each person will definitely refer to their own system of values to do that in order to define authentique.

Luckily, we will not have to do this because there are quite lots of studies which focused on consumers segmentation, which clustered people in various categories of consumers. The study to which we will refer next, was presented by the Vocatus Research Company, in Germany in 2014, at the annual meeting conference of marketing research. In understanding and also defining the authenticity concept we will refer only to the five categories of consumers shaped by Vocatus: Bargain Hunters, Those who do not take risks, Careless Buyers, Loyal Byers and Those who accept prices. We will not go into details because of consumer groups’ vivid character that defines each label in a very intuitive way, the main characteristics of their members. Also, even if this segmentation focuses more on customers who choose to purchase than on those who prefer to simply experience the usage, in order to serve our purpose, I recommend you to take a look at the monetary issue and accept it as a link for customers which they use to get in the position of experiencing different situations or usage. However, I will not give up fully to bargain hunters and to those that support prices. How many times the tourism in Romania has meant also a consequence of reduced holiday budgets? According to IRES survey (2011), more than half of Romanians choose to spend their holidays in resorts within Romanian borders as the price and costs in general are a very important factor in consumers’ decision-making.

In presenting next ideas, I have used all the information already identified by Lancaster (1966), who wrote few studies on this problem, as he argued that the objects / products are consumed due to their characteristics, features and new objects / products are nothing but recombination of the characteristics that defined old ones. This is the main differentiation that Lancaster makes between what’s new and what’s old. Therefore, whith this things in mind, I propose the following exercise: let’s think at the definition of nostalgia, as the opposite concept of progress, “against which it is viewed negatively as reactionary, sentimental or melancholy” (Keightley and Pickering 2006), we can have as prerequisite work idea that the everything that can come in the category of new products will automatically awaken nostalgia for past consumption. “Even if in this way, the old features of objects are appreciated and will be in discussion for consumer preferences, recombination will prove to be purchased every time (Lancaster, 1966) – dynamic products on the shelves and even the appearance branding are the main proves for this idea.” (Amuza 2015).

Very interesting to note for this paper is the way in which the aura of Wund’s Curve (Lancaster, 1966) looks very actual: especially in the context of genuine consumers. “This concept focuses on people's reaction to the news and indicates neither their greater propensity to choose nor the newest the products / goods, but nor the oldest. We could say that this conclusion represents the virtual hedonistic victory’s reaction to innovation and it sustains our definition of genuine consumer, that stands before a decision and constantly bombarded by an abundance of products decides to choose those goods that serve he’s hedonistic need to experience (regardless how consumption nostalgia acts on the one hand and innovation on the other hand).” (Amuza 2015). If we embrace this idea and bring it into question the definition of consumption (Larousse, 1996) mentioned earlier in this paperwork, we can now tell that it is quite limited on a very specific context, which would actually remove the idea of consumption in a context of lack of goods / products, a context of Scarcity, as Craib written in his studies (1976). But for better understand the nuances between these concepts: Plenty / Abundance (Baudrillard, 2005) and Deficit Scarcity (Craib, 1976) we have to look from more than the perspective of a single variable. Therefore, I think the distinction between the two concepts aims rather the context of consumption, not its definition in itself. More so, Larousse's definition is incomplete, therefore I propose to discuss other perspectives on
consumption; one of them belongs to Falk (1994) “I consume, therefore I am” – by this sentence, we are pushed to think to a rather complex task, than a complete one. Basically, if we do a disciplinary parallel between socio-economics and philosophy, the Desein (Heidegger, 1927) becomes conditioned solely by the consumption. Another perspective on this is Paul Du Gay’s (1996), who outsources some perspective on consumption and places the concept in the industry by talking about consumption as a creative and imaginative activity – totally opposite to production. Now, what I think is relevant for both, your interest as readers and me as a sociologist, is a common note which born of these perspectives: The concept’s complexity.

3. METHODOLOGY

This study tries to set itself on an exploratory path by differentiating from other paper-works which offer „How to...” advices by implementing enough theoretical content, perfectly balanced with study cases. The second part of the project – the social survey- is designed to evaluate, from a qualitative perspective, using focus group techniques, shades, which people are inclined to attach to brands that were on the market both before and after 1989. Respondents were gathered both from Bucharest and Timisoara. In this way we tried to put around the focus group tables persons that were connected directly to the black market and had access to goods which weren’t sold legally, but continued to exist even after the revolution. The group agenda gathered respondents from a panel between 40 and 50 years of age and even persons with ages over 50 years, in order to meet the required age for speaking wittingly of the experience of smoking (two groups in which the brand Kent was discussed from a consumerist perspective) and to ensure a generous period in which respondents could be key decision makers regarding the products they choose to consume before and after 1989. We did not follow a differentiation on the basis of gender, because we chose for the debate products which addressed both male and female consumers.

The number of respondents participating in the focus groups is not nationally representative- the approach is specially designed for a qualitative study / step in the big picture of understanding current segmentation of population and consumers.

4. CONCLUSION

To be awarded with a complete definition, the concept of authenticity was often placed in a wider context, Glenn Carroll, from the Stanford University talks about authentique things, genuine situations as something that occurs due to the harmonization of appropriate techniques and ingredients (Glenn, 2009).

And to facilitate the identification of those genuine things, professor Baugh says that objects that match clearly and naturally, in a particular cluster or category (Baugh, 1988), have this propriety. In addition, the author completes his definition with the idea that if more people claim to an object or experience that is genuine, then it automatically becomes authentique (1988). The idea is interesting and is in line with what I have observed in my focus groups – respondents (consumatorii de firesc) tend to believe that everything they really need is actually the definition of relevance in their process of choosing the best for them. This is a very curious idea as when it is referred to the current level of knowledge is incomplete. Think, for example, to prejudices: “Prejudices is characterized by stereotypes that are not checked in reality, but rather have to do with their own feelings and attitudes of the owner.” (Marshall, 2003, p.438). Although we cannot support that biases or prejudices are the definition of
authenticity, what we really can say about this is that experiences or beliefs behind prejudices are authentique, because they are shared by many people. And if being shared is to be experienced, so consumed, we can speak of genuine consumers (consumatori de firesc). Where does this category shape? Probably in every each of the groups that compose the overall segmentation of the market today. Price, loyalty, risks, all of these are reflected in all decision-making processes, as the authenticity does too. And the need for genuine attracts consumption. Following the logic thread, I put the question directly – what is Romania? Given the methodology exclusively qualitative, my research, I will not soar to draw conclusions from the perception that “all Romanians” do or do not something. Yet, what I can do is to say that the interviewed Romanians spoke about unique things that make Romania what it is, and when buying goods, authenticity is what it triggers them to choose relevant objects of consumption for their needs. So, returning to the touristic point of view that I have proposed in the first part of my paperwork, I can easily say that: the Danube Delta, consumption experiences before 89, bygone brands (many of them revived in an attempt to exploit nostalgia> Kent, Pegas, Chocolate Rom) are all values taken from focus groups that spoke about genuine experiences in Romania. But I let this radiography behind and I come back to the article that triggered me to write about Romanian consumers – we see that the chosen symbol for promoting Romania is exactly the Danube Delta. Sure! This cry authenticity, so that why we can choose this symbol for representing Romania to a touristic fair, and not something that one or two want to use in this sense. But for you, dear readers, which do you thing are the places from Romania that talk about its image? And most importantly, what is Romania for others? If we think only of touristic places, probably we could not limit to one single place in order to answer this question, but whether you should participate on an international fair, with only one shot to prove the best image of your country? What would you choose? My answer to the question> Romania is what lets itself to be seen. And Romania is us!

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ABSTRACT

To measure a phenomenon depends very much on measurement instrument, more exactly on the methodology, which defines the criteria, which should be taken into consideration in order to separate the persons belonging to a specific category of population. As the criteria are more detailed, as the measurement reflects the reality more exactly and the image obtained has a higher quality.

The study of the size and the characteristics of the middle class in a specific country is a very interesting scientific approach due to its multiple uses and to its richness of information the analysis of this category of population can offer. Generally speaking, the knowledge of the size of the middle class can assist as a very useful proxy for the analysis of the living standard and it can represent a measure of the economic and social development of one country. It can offer indirect information about the degree of social inequality, about the measure with which the members of the society are able to provide a decent or comfortable living standard for themself, by own efforts, or by contrary, they need to be assisted, by redistribution of resources, to make ends meet. Finally, the size of the middle class can give clues about the size of poverty too, about how big the effort of the State should be in order to assure the sources for subsistence for the people situated below the poverty threshold.

The present paper presents the analysis of the socio-demo-economic characteristics of persons belonging to the middle class in Romania, using a measurement methodology which take into consideration several domains and criteria like professional category, incomes, level of education graduated, patrimony, social category of previous generation, but also aspects related to poverty and material deprivation, due to the special circumstances present in Romania.
STUDENTS’ INNOVATIVE BEHAVIOUR IN THE CONTEXT OF KNOWLEDGE BASED ECONOMY

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ABSTRACT

In a contemporary context, the use of new information and communication technologies in educational process is of particular importance in terms of students' and teachers' activities. The students' innovative behaviour is strongly influenced by how teachers apply interactive teaching methods. The main objectives of the study are: 1). presenting e-learning as an innovative approach to learning; 2). identifying main features of educational innovation; 3). highlighting the role of social innovation and creativity in the context of knowledge based economy; 4). presenting of a marketing research analysis on students' innovative behaviour. In recent years, modern teaching methods are frequently used in the Romanian education system, which assigns flexibility and efficiency to the process of learning / teaching. It is also very important for the educational-training process to be supported by the direct involvement of students, giving them the possibility of constant feedback. New technologies are designed to develop and improve the skills of young specialists. Thus, passing through a flexible educational-training process they can become better trained individuals in order to meet the challenges of the labour market. Quality in education should be promoted and supported permanently by optimal use of the most effective educational tools.

Key words: innovation, creativity, new information and communication technologies, e-learning, educational-training process

1. INTRODUCTION

Currently, the development of new information and communication technologies (NICT) contributes to change in education, which is facilitated by the phenomenon of globalization, by the progress of knowledge based society and the need for learning throughout life. In this context, it can be mentioned that knowledge society is only possible along informational society, and it cannot be separated from it. The educational-training process is flexible, the teacher's role is to train and help students develop their professional skills and their creative potential.

This paper presents the main elements that influence innovative behaviour of students in the context of knowledge based economy. A review of literature is also carried out to highlight the importance and role of e-learning as an innovative approach to learning. The main features of educational innovation are presented throughout the paper.

The paper is based on a marketing research, conducted on a sample of 100 people aged between 19 and 26 years (students at a university in Bucharest). The key question that arises at this level is: “Does the use of NICT in education influence students' innovative behaviour?”. The aim of the research carried out is to answer this key question.
This study is important because the theme of the paper is popular and it has potential for future research, as currently in the education system in Romania, the use of NICT is becoming more and more frequent.

2. E-LEARNING - AN INNOVATIVE APPROACH TO LEARNING

E-learning aims "the use of new multimedia technologies and the Internet to improve the quality of learning by facilitating access to resources and services as well as remote exchanges and collaboration" (Marinescu, M., 2009, p.80). Compared to traditional learning methods the e-learning strategy has the following advantages: it is a remote training process, it implies individual or group mentoring meetings, a large amount of updated information can be conveyed, different problems can be solved by working unilaterally, each student has the ability to manage his own time at one's own pace (Marinescu, M., 2009, pp.80-81).

Marinescu (2009) believes that e-learning "facilitates globalization and internationalization, massively contributing to disseminating values of knowledge (...)" and presents several differences between traditional training and e-learning (Marinescu, M., 2009, pp.81-82).

Sălăvăstru (2009) believes that “strategies are extremely important in the student’s learning activity. When proposing a learning situation, the teacher might find out that his/her students conduct a multitude of behaviours regarding how they select, acquire, organize and integrate new knowledge. These behaviours are designated by the term learning strategies” (Sălăvăstru, D., 2009, p.167).

Marinescu (2009) states the main objectives of the evaluation in the context of e-learning, namely: "the connection to a specific learning content considered to be important; the internalization of a way to take on learning; fruition and materialization of new acquisitions by the beneficiary" (Marinescu, M., 2009, p. 82).

Mingasson (2002, p.214) quoted by Marinescu (2009, p.82) believes that creating an e-Learning situation involves the association of five components, namely: 1) a strategic component - aimed at the emergence of specific needs such as needs of training, attracting external sources and resources etc.; 2) an organizational component - that facilitates the effective functioning of the system; 3) a pedagogical component - related to intervention strategies that are moving towards individualized training with a precise aim; 4) a technical component - achieved through the use of new information and communication technologies within the education system; 5) a human component - aimed at involving specialists in the field who contribute to the smooth functioning of an efficient training network.

The main features of an effective e-learning structure are identified in literature, as follows: it is interactive, students are emotionally involved facilitating their feedback, while encouraging them to respond promptly; a pleasant climate is created, favourable to learning interests of learners; each student has his own learning pace which must be obliged; at the beginning of the course its objectives and pass requirements must be stated clearly and concisely; students are constantly entrained through the use of modern and interactive pedagogical methods, techniques and strategies (Marinescu, M., 2009, pp.82-83).

Baban (2013) considers that “in the last years, the use of modern teaching methods and means has continuously increased, contributing to the efficiency of the training educational process” (Baban, E.G., 2013, p.922). Moreover, “using modern teaching methods teachers are trying to create and sustain the learning process by giving the students opportunity to explore and apply various scientific concepts” (Baban, E.G., 2013, p.922).

Mitea (2011) notes that “the use of Internet has already facilitated the development of an online learning community in Romania”, online system been able to improve learning process, because ”students are exposed directly to a lot of case study” (Mitea, N., 2011, p. 1469). In literature review, it is mentioned that success in the educational process largely depends on the following characteristics of the teacher: “attitudes towards self, students, peers, and what they teach; knowledge on subject and education theory; skills on planning, organization, and management; on communication, and on motivation” (Bacellar, F.C.T., Ikeda, A.A., 2006, p. 237).

Baban (2013) presents the distinction between traditional teaching methods and modern teaching methods reflected in the following table:
Table number 1:

<table>
<thead>
<tr>
<th>Traditional methods of teaching</th>
<th>Modern methods of teaching</th>
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<tr>
<td>• formal character</td>
<td>• informal character</td>
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<tr>
<td>• delayed feedback</td>
<td>• immediate feedback</td>
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<td>• follow the teacher's presentation</td>
<td>• emphasize debate and bilateral communication</td>
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<td>• emphasize the reproduction of ideas submitted</td>
<td>• emphasize continuous exchange of ideas</td>
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<tr>
<td>• impose points of view</td>
<td>• stimulate creativity and self-improvement</td>
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</tbody>
</table>


Baban (2013) notes that "it is important to learn not only for knowing things, but to know how to use them in order to became an individual prepared for meeting the demands of the labour market, because in Knowledge – Based society information means "<<power>>"" (Baban, E.G., 2013, p. 923).

3. EDUCATIONAL INNOVATION AND ITS FEATURES

In a contemporary context, education has to deal with a multitude of problems and challenges that were already present for some time, in the guise of the globalization phenomenon. In this context an attitude based on creativity and innovation is necessary. Nicolescu et.al. (2007) believe that "the university that lies ahead for this millennium will certainly be a centre of innovation, creativity and critical thinking", mentioning the effects of globalization on universities (Nicolescu et al., 2007, p.25). These effects are: "the development of university networks which will negotiate their market segment where they will achieve strategic competitiveness, while retaining their national identity; the emergence of hybrid universities that combine the processes of generating and conveying knowledge with structures of companies and corporations that work in these areas; emergence of virtual universities, organized as corporate structures" (Nicolescu et al., 2007, p.25).

One can note that "innovation aims at identifying solutions, opportunities, strategies, whereby the educational ideal can be achieved" (Neagu, G., 2009, p.119).

Huberman (1973) quoted by Neagu (2009) states that in education innovations are considered "innovations which introduce technical changes (TIC), conceptual innovations (new courses, new programs of education, educational methods) and innovations that introduce changes in interpersonal relations" (Neagu, G., 2009, p. 112). Furthermore, the Council of Social Research and Technological and Social Innovation of Canada suggests "taking into account three dimensions in order to establish a more effective definition of innovation in education: the curricular dimension – innovation at the level of curricula, pedagogical dimension - innovation at the level of the educational process and organizational
dimension - innovation at the level of structure, roles and tasks performed by those involved in education" (Neagu, G., 2009, p.112). Neagu (2009) presents the following definition of educational innovation, as follows: innovation in education is defined as "a deliberate process of transformation of practices by introducing curricular, pedagogical and organizational novelty subject to dissemination and aimed at sustainable improvement of educational success of pupils and students" (Neagu, 2009, p. 112). In this context, the following features of innovation in education are highlighted: "innovation proposes an improvement which can be measured", "innovation must be sustainable (decentralization of education)" and, "innovation must be a deliberate action that contributes to the educational success of a greater number of individuals" (Neagu, G., 2009, pp.112-113). In literature it is believed that those young people who have an innovative and sociable style know how to value educational opportunities that may arise during the learning process (Mitulescu, S., 2009, p.147).

In a modern society, when major changes are recorded in almost all fields of activity, changes are expected to produce in education. Thus, special emphasis should be given to creativity and decentralization of education, interactivity and new information and communication technologies. We need to move from repetition and formal education to experience based on efficiency, to an "upgraded" teaching offer, to a non-formal education promoted by innovative ways (Mitulescu, S., 2009, pp.143-144). Bèchard (2001) quoted by Neagu (2009, p. 113) suggests four categories of factors triggering innovation in education, as follows: 1). factors that act on the environment: changing the content of education and re-editing contents of universities; 2). factors that act at the level of the institution: "the need to change curricula", formulating appropriate strategies that take into account the achievement of organizational strategies and the implementation of these strategies; 3). factors that operate at the level of the department: work climate, cooperation between teachers, the position and role of the head of department that can facilitate or inhibit cooperation between teachers; 4). factors that operate at class level (teachers and students): "favourable attitude towards change or resistance to change, at the level of the teaching staff; motivation and satisfaction through work or carelessness; school organizational culture" (Neagu, G., 2009, p. 113).

In a contemporary context, "innovation is the one that brings forth novelty and continuity is represented by the environment and organizational culture"(Neagu, G., 2009, p. 117). Moreover, it is believed that "building school culture favourable to innovation is based on the professional motivation of teachers", their motivation and job satisfaction "representing one of the topics of interest for researchers, because it was found that educational success of pupils / students depends to a very large extent on the type of motivation of teachers, the degree of job satisfaction" (Neagu, G., 2009, p. 118)

4. SOCIAL INNOVATION AND CREATIVITY IN THE CONTEXT OF KNOWLEDGE BASED ECONOMY

In a contemporary context, when information means power "knowledge society gives new dimensions to the learning process because "in a knowledge based society changes are more consistent and unfold at a pace that is constantly accelerating" (Popa, I., 2004, p.85).

If in the past in the industrial society, the training – educational process was rigid, presenting some discontinuities, currently, in the knowledge-based society, the educational-training process is flexible and it presents certain continuity (Popa, I., 2004, p. 84). Popa (2004) notes that “knowledge-based society gradually replaces the industrial one, which in turn replaced the agrarian one, the last two being focused on the production of material values” (Popa, I, 2004, p. 83). The same author considers that "knowledge management
favors the existence of an organized framework for the integration of new strategic and management trends that emerged in the last 20 years due to the explosive development of information and communication technologies (ICT)” (Popa, I., 2004, p. 92).

According to Mitea (2011) “a major challenge of this century, the knowledge – based management appears like a result of knowledge’s progress” because “knowledge society involves a lot of changes in the mentality and behavior of individuals and institution, too” (Mitea, N., 2011, pp. 1469-1470). Baban (2013) considers that “in the contemporary context, education must face a variety of technological changes. Romanian teachers are also concerned about these changes and try to use modern teaching methods and means in order to asset the training educational process a dynamic and flexible nature” (Baban, 2013, p. 917).

Social innovation operates in various fields such as health, education, economy, administration, etc. We will focus on the effects of social innovation in education.

Neagu (2009) notes that social innovation means: "adhering to new cultural values", "changing the population's consumption pattern in a manner that would better meet its needs", "social management in order to increase efficiency and effectiveness of activities of organizations / institutions / enterprises" (Neagu, G., 2009, p.110). Moreover, Bouchard (1999) quoted by Neagu (2009) believes that "through social innovation we understand all new approaches, practices or interventions, along with all newly created products, all new services to improve a situation or solve a social problem and that occurs in institutions, organizations, communities" (Neagu, G., 2009, p.111).

Nicolescu et al. (2007) believe that “our entire biological and social existence depends in its essence on knowing the natural, social, political, economic, scientific and technological environment in which we live" (Nicolescu et al., 2007, p.15). Furthermore "processing knowledge can be performed at different levels of complexity and abstraction, from scientific theories to applied knowledge necessary to everyday existence"(Nicolescu et al., 2007, p.15). Moreover "in an organization, processing data into information and information into knowledge is made at the individual level of employees and at the level of working teams" (Nicolescu et al., 2007, p.15).

Mitulescu (2009) presents the results of a national survey among young people in 2003, as follows: "only 28% of young people had at least one idea of their own which they wanted to implement; young people' creativity, openness to innovation is rather a myth and a social stereotype, than a constant reality" (Mitulescu, S., 2009, p.144).

A loose atmosphere inside the classroom throughout courses contributes to fostering creativity. Also, teachers use modern teaching methods and strategies in order to achieve a relationship based on permanent feedback that can lead to the students' involvement in the learning process stimulating their perspicacity and creativity. Therefore, it can be seen that students "especially appreciate and feel stimulated by the flexibility of the organizational framework and practising a simple and accessible style" (Mitulescu, S., 2009, p.146). Sit, Chung, Chow and Wong (2005) note that “we must accept the fact that technology alone does not automatically improve the learning process. In order to be successful, the focus must be on teaching and learning, not merely the technological issue” (Sit, J. W.H., Chung, J. W.Y, Chow, M. C.M., Wong, T. K.S., 2005, p. 146).

5. MARKETING RESEARCH ON THE STUDENTS’ INNOVATIVE BEHAVIOUR

According to Marinescu (2009) "the training-educational process is a dynamic and extremely complex process, by means of which the individual acquires information as a result
of exercising educational influences on him and systematically changing beliefs, attitudes, behavior etc.” (Marinescu, M., 2009, p. 73).

In my opinion, from a theoretical point of view, the students’ innovative behaviour in the context of knowledge based economy requires the following:
1). developing a culture of innovation (involvement in innovative projects);
2). showing spirit of initiative and creativity (participation in national and international competitions);
3). developing Information and Communications Technology skills and abilities.

The main objectives of the marketing research are:
1). identifying if activities on e-learning platforms assign efficiency to the learning process;
2). identifying if the teaching and communication style adopted by the teacher can influence students' creativity;
3). identifying if students can acquire behaviour based on efficiency if they get involved creatively in the learning process;
4). identifying if e-learning platforms are more effective than face-to-face contact with academic staff;
5). analysing if knowledge based society creates new opportunities in education.

Table number 2: Respondents’ opinions regarding the five established statements

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Activity on e-learning platforms assigns efficiency to the learning process</td>
<td>50</td>
<td>50</td>
<td>9</td>
<td>5</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>b. The teaching and communication style adopted by the teacher can influence my creativity</td>
<td>64</td>
<td>29</td>
<td>5</td>
<td>2</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>c. I can acquire a behaviour based on efficiency if I get involved creatively in the learning process</td>
<td>58</td>
<td>38</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>d. E-learning platforms are more effective than face-to-face contact with academic staff</td>
<td>2</td>
<td>12</td>
<td>15</td>
<td>57</td>
<td>14</td>
<td>100</td>
</tr>
<tr>
<td>e. Knowledge based society creates new opportunities in education</td>
<td>53</td>
<td>38</td>
<td>8</td>
<td>3</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>41.4%</td>
<td>34.2%</td>
<td>8%</td>
<td>15.6%</td>
<td>2.8%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: own research

The data in the table are distributed in a scale (Likert's scale) with 5 levels - from strongly agree to strongly disagree. Cătoiu et al. (2009) mention that Likert's scale "is part of ordinal scales, leading to information of non-parametric nature"(Cătoiu et al., 2009, p.160). Therefore "each sample subject whose opinions are to be scaled is presented with a set of sentences and asked to give
his agreement or disagreement with the statement comprised in the sentence by circling one of the five levels of the following scale" (Cătoiu et al., 2009, p.161):

- strongly agree  : agree  : neutral  : disagree  : strongly disagree

✓ „If the sentence represents a statement of a favourable nature, after the questionnaire each level receives the following numerical values:

+2; +1; 0; -1; -2 (in case of an adverse statement the order of numerical values is reversed)” (Cătoiu et al., 2009, p.161).

So, in this case, an average of the assessments will be calculated, starting from +2 (strongly agree) to -2 (strongly disagree).

**Averages obtained are as follows:**

Statements no.1 : \[
\frac{30*2 + 56*1 + 9*0 + 5*(-1) + 0*(-2)}{100} = 1.11.
\]

Statements no.2: \[
\frac{64*2 + 29*1 + 5*0 + 2*(-1) + 0*(-2)}{100} = 1.55.
\]

Statements no.3 : \[
\frac{58*2 + 38*1 + 3*0 + 1*(-1) + 0*(-2)}{100} = 1.53.
\]

Statements no.4 : \[
\frac{2*2 + 12*1 + 15*0 + 57*(-1) + 14*(-2)}{100} = -0.69.
\]

Statements no.5: \[
\frac{53*2 + 36*1 + 8*0 + 3*(-1) + 0*(-2)}{100} = 1.39.
\]

Therefore the best assessments were attributed to statements number 2 and the worst to statements number 4.

The representative sample consists of 100 people, all students at the University from Bucharest, aged between 19-26 years old. The hypothesis is verified by using the \( \chi^2 \) test.

To assess the statistical significance of the differences registered at the level of the opinions of the surveyed students' regarding the use of NICT in the education process influence the students’ innovative behaviour are statistically significant, is used the \( \chi^2 \) test for a single variable.

The completion of the \( \chi^2 \) test starts from a null hypothesis. The null hypothesis is: the differences registered at the level of the opinions of the respondents are not statistically significant.

\[
\chi^2 = \sum \sum \frac{(O_{ij} - A_{ij})^2}{A_{ij}}
\]

- \( O_{ij} \) = frequencies of \( i \) row and \( j \) column resulting from the observation;
- \( A_{ij} \) = frequencies of \( i \) row and \( j \) column corresponding to the null hypothesis;
- \( r \) = number of rows, \( k \) = number of columns of the contingency table.

Cătoiu et al. (2009) note that "values resulted from using the above formula have a sampling distribution that can be approximated by a $\chi^2$ cu (r-1)(k-1) degrees of freedom; if the calculated value of $\chi^2$ is equal to or less than the theoretical value (tabled), corresponding to a number of degrees of freedom and a certain level of significance, then the null hypothesis is accepted" (Cătoiu et al., 2009, p. 537).

So, the null hypothesis will not be accepted if calculated $\chi^2$ is superior to theoretical $\chi^2$.

Therefore, the number of degrees of freedom is 16. A significance level of 0.05 (95% probability) is chosen. In this case, $\chi^2_t = 26.296$ (theoretical value of $\chi^2$ table: Anghel, L., Florescu, C., Zaharia, R., 1999, p. 243). In this research will be use the $\chi^2$ test for a single variable.

<table>
<thead>
<tr>
<th>Statements</th>
<th>Opinion</th>
<th>$O_i$</th>
<th>$A_i$</th>
<th>$O_i - A_i$</th>
<th>$(O_i - A_i)^2$</th>
<th>$\frac{(O_i - A_i)^2}{A_i}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Strongly agree</td>
<td>41.4</td>
<td>20</td>
<td>21.4</td>
<td>457.96</td>
<td>22.89</td>
</tr>
<tr>
<td>b.</td>
<td>Somewhat agree</td>
<td>34.2</td>
<td>20</td>
<td>14.2</td>
<td>201.64</td>
<td>10.08</td>
</tr>
<tr>
<td>c.</td>
<td>Neutral</td>
<td>8</td>
<td>20</td>
<td>-12</td>
<td>144</td>
<td>7.2</td>
</tr>
<tr>
<td>d.</td>
<td>Somewhat disagree</td>
<td>13.6</td>
<td>20</td>
<td>-6.4</td>
<td>40.96</td>
<td>2.04</td>
</tr>
<tr>
<td>e.</td>
<td>Strongly disagree</td>
<td>2.8</td>
<td>20</td>
<td>-17.2</td>
<td>295.84</td>
<td>14.79</td>
</tr>
</tbody>
</table>

$\chi^2_c = 22.89 + 10.08 + 7.2 + 2.04 + 14.79 = 57$

Therefore $\chi^2_c > \chi^2_t$ (57> 26.296), so the null hypothesis will not be accepted. Thus, the differences registered at the level of the opinions of the respondents regarding the use of NICT in the education process influence the students’ innovative behavior in the context of knowledge-based economy are statistically significant.
Graphic sample of opinions:

Source: based on data from table number 2.

Also, the interviewees were asked to identify what are the main advantages / disadvantages of using NICT in education. The following information resulted:

- main advantages - students can more easily access courses or other educational materials, documentation is faster, access to more information, creative learning, information reaches its destination faster, the recipient can have at anytime access to certain information, not only when it is presented, information reaches students in a more structured way, diversity of information, fast and efficient communication, it can be studied individually, it represents an additional opportunity for in-depth study, it offers the possibility of sustaining long distance lectures and seminars, it offers interactive teaching / learning methods, it assigns flexibility to the process of teaching / learning;

- main disadvantages - lack of face-to-face interaction between students and teachers, the possibility of obtaining erroneous information, not all people have access to the Internet, students are tempted not to take notes during courses, they lose interest in effective participation in courses.

Popa (2004) notes that “today the fundamental feature of world economy is the rapid evolution towards globalization”, and it is important to mention that “knowledge-based policies - research, innovation, education and training - are of exceptional importance for the future of the Union in the transition towards a Europe of knowledge” (Popa, I., 2004, p. 83).

6. CONCLUSIONS AND IMPLICATIONS

In recent years, NICT had a significant impact on academic life, helping to streamline the educational-training process. It is also obvious that knowledge based society is creating new opportunities in education, emphasizing in this context the importance of educational innovation in students' activities who are constantly involved in finding the most effective ways through which they can develop their creativity and spirit of competition. Using modern teaching methods and means teachers assign dynamism and flexibility to the educational process creating a favourable climate for teaching activities. The classroom is no longer an enclosed space where information is presented, but a comfortable space where students are
part of the teaching process, having the possibility to provide permanent feedback and actively participate in teaching. The teacher remains "a source of information", playing a key role in the transmission of ideas towards students. He is the coordinator of the learning process, stimulating students' creativity and constantly drawing their attention by using modern means and methods of teaching. The use of modern means and methods of teaching has an informal nature, fostering debates and contributing to personal development of all "actors" involved in the educational-training process.

Nowadays, “university teaching must be anchored in the academic realities and in nowadays social, cultural and political conditions which are the main requirements for achieving a stable and efficient system of education” (Marinescu, M., 2009, p. 157). Also "the future belongs to innovative institutions, educational networks connected to joint programs of experimenting teaching, learning, management and promotion of quality"(...) the successful school being the one "which ensures flexible educational programs tailored to the diversity of learning requirements and capacities" (Marinescu, M., 2009, p. 28).

REFERENCES

MARKETS AND/OR UNFUNCTIONAL STATES?

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ABSTRACT
Considering the theoretical and practical importance of this matter, a veritable theorizing has been made of the role played by the state in the economy. The difficulty of such undertaking arises among others from the multiple belonging of the researched theme, calling for enough thoroughness regarding the used concepts, techniques and methods of investigation.

By this article we have aimed for a brief analysis of the content and economic functions played by the state. The gained experience and complexity of the current economic issues emphasize the imperfect nature of the market and state and call for an equilibrium of such economic regulation mechanisms.

Key words: welfare – state, market failures, state failures, mixed economy, public intervention

JEL Classification: A23, E60

1. INTRODUCTION

The state’s intervention in the economy represents one of the oldest traditions ever since the 16th century, however especially after the industrial revolution.

Consequent to the increased speed in the changes and the increased number of “players” in the economic system, state activities have become increasingly numerous and diverse, however the diversity and particular features of the various national economies make it necessary for nuanced approaches to be used, far from expressing generalities regarding the state’s economic role (Y. Crozet, 2005, p.5). Also, this role should be analyzed based on the existence of the two conceptions regarding the state’s role in the economy: the state in a strict sense, based on a restrictive conception according to which the state identifies with public administrations and organisms of social security. It is bases on such delimitations that the nature, length and implications of the state’s intervention in the economic life should be assessed.

2. THE STATE’S AND MARKET’S FAILURES

The traditional measure supporting the economic role of the state is supported by the share of fiscal collections and social contributions. By such, the state’s intervention has referred to two correlated aspects, the social one (family, society and so on) and the economic intervention.

For a long time period, the public expenses of the state were destined to financing some activities (upholding the order, justice and national defense), corresponding to the “guarding state”. In the first half of the 20th century the economic and social intervention of the state has increased. The situation specific to the after war period, the increased concern of the state for simultaneously ensuring full occupation level, economic growth and social justice
contributed to the establishment in 1945 of the “providence state”. In a strict and historical sense, this refers to the state ‘intervention in the social field by means of social securities, aiming to guarantee a certain income for per- sons affected by social risks (labor injuries, illness, unemployment, aging etc.). The providence state or welfare state is the one supplying the material means necessary for these collective projections. Nonetheless, expenses for social security’s explain only in part the social intervention of the state. In the same time, it supports economic growth and occupational level, ensuring the orientation of production.

Depending on the state intervention level, a number of types of economic systems have occurred, which have had decisive influences over resources allocation an incomes distribution. Thus, through the 20th century the mixed economy has occurred and developed, which was characterized by coexistence of specific market means for resources allocation upon public sector manifestation. The transfer towards such an economy occurred due to the extension in the state’s activities and the state’s increased role. The states permanently expanded its objectives, by taking over some functions which had previously been achieved by the public study or by the market sector of the economy. The object of the public sector economy is to analyze the effects of public expenses and taxes over the economic system. Thus, it is important to establish the effects of the public sector over resources allocation in the private or market sector, as well as on the allocation of wealth throughout the economy. Such characteristic of the modern economies calls for a nuance analysis of the state’s economic role in the public and private sectors (Nicolas Thirion, 2007, pp.279 – 283).

Therefore, economic literature defines the role of the state in the following areas: efficient resources allocation, ensuring the correct resources distribution and stabilization of the macro – economy.

Nonetheless, in the opinion of many specialists the state also fulfils the role of correcting the macro-economic imperfections (insufficiencies) of the market economy. Thus, there are of relevancy in the economic theory six large types of market imperfections, representing as many reasons justifying the state’s intervention: business cycle, public goods, externalities, information insufficiency, monopoly and market power, redistribution of incomes and merit goods.

In the opinion of R.A. Musgrave, the existence of more categories of market imperfection determines the manifestation of the state’s role in a number of directions: the resources allocation role, the distribution role, concretized in ensuring social equity and justice in distributing income and welfare under market system conditions: the stabilization role by the intervention in the economy upon budgetary, fiscal and monetary policies in order to solve problems regarding inflation, unemployment, payment balances disequilibrium and so on; the regulatory role, represented by setting up the general system.

In the same time, it is also admitted the existence of certain imperfections of the state’s intervention, as well as the fact that sometimes governmental programs can act less efficient (Luc Weber. 1997, pp.197 – 199). Mainly, weaknesses in the state’s activates are a matter of the fact that the intervention consists in changes which are many times impracticable, of the difficulty in clearly setting out the objectives of the governmental policies, bureaucracy accompanying the government’s activity and so on, Furthermore, those emphasizing the low efficiency of the state’s intervention assert that the state serves the interests of the strong social groups, as well as the private interests of politicians and bureaucrats.

This proves that on the contrary, the market and the state are imperfect institutions.

However the optimization of the economic system should be grounded on the correct assessment of the imperfections, and the option regarding the share of one or the other of
such institutions (market or state) should have as a criterion the number and length of the imperfections.

3. THE ECONOMIC FUNCTIONS OF THE STATE

The functions the state can or have to fulfill have represented a widely controversial theme amongst economists, sociologists and politics theoreticians.

The political conception over the state represents the defining element in establishing its economic functions. Designing typologies of such functions represents a daring attempt, grounded on the very diversity of the approaches regarding the state. Not few are the cases when the functions are undertaken with no difference whatsoever being made, eluding the specific area of the state’s activity, the exercising level, the achievement means and tools and so on. When referring to the state’s activity in the field of economic processes, the term of “intervention” is preferred to the one of “function”. The first term, say some authors, can be used in order to reveal the relation between the state and the economy. This option is supported by the fact that it refers to a set of activities or results which can manifest or not, as well as by their rather flexible nature and the possibility of emphasizing that the presence of the state in the economic activity takes various, national and transnational forms. The state’s functions can be grouped in a variety of forms, and some can be found in more than one category.

The consecrated analyses of the state’s functions emphasize the mobility and possibility of transferring some of the said towards the market. By demonstrating the improvable nature of the state and market, the preference is suggested for that category of institution which, upon a certain moment, provides the lowest number of insufficiencies. Such types of comparisons lead to the conclusion that certain functions can be delegated to the private sector.

As regards the functions undertaken by that the state should only provide for those goods and services which cannot be provided by the markets. For others, no limits should exist in defining the stat’s objective, because such represent the materialization of the citizens ‘will and the expression of the political process. The theory of public choices, studying the way in which the state directs the economy and establishes its choices, makes a distinction between the regulatory role of the state – meaning types of economic functions which the state should undertake – and positive analysis, aiming to describe the state’s behavior.

To a great extent, economists have undertaken the classification of the state’s general functions as it was designed by R.A. Musgrave: efficient resources allocation, correct incomes distribution and macroeconomic distribution and macroeconomic stabilization (R.A. Musgrave, P.B. Musgrave, 1989, p.6).

The American economists P. Samuelson and W. Nordhaus treated both the economic functions of the state, and the main economic functions undertaken by the state in a modern mixed economy (Paul A. Samuelson, William D. Nordhaus, 1995, p.442)

a) Establishing the legal framework allowing for the market economy regulation. It should be noted the continuous evolution of this legal framework representing a condition for the economic behavior;

b) Interventions over the resources allocation for the purpose of improving economic efficiency;

c) Stabilization of programs for improving incomes distributions;

d) Economy stabilization by macroeconomic policies. Stabilizing the economy represent the economic function most recently undertaken by Western states;
An important role is played by public microeconomic insufficiencies (pollution, public goods and so on), but also of macro-economic insufficiencies of the market economy;

The premise is used that the market economy is unstable by default and that the public behavior refers to the economic policy tools used in order to promote macroeconomic insufficiencies of the market economy. The premise is used that the market economy is unstable by default and that the public behavior refers to the economic policy used in order to promote economic stability. These include taxation and expenses policies; banks control policies, interest rates and financial markets and so on.

The opinion also exists objecting to the unstable nature of the private economy and saying that to great extent unemployment and inflation are due to economic policy errors. By such attention is drawn that governmental programs can act less efficient.

The state’s economic role is achieved on a micro and macroeconomic level. The four economic roles can be summarized as it follows: allocation, distribution, regulation and stabilization (Stephen J. Bailey 1995, p.17). While the first three ones are exercised on a microeconomic level, the stabilization role is of macroeconomic content.

It should also be noticed the interaction of these roles regardless the level where they are achieved. Thus, the action of the fiscal policy, which is characterized to the stabilizing role, calls for changes in the taxation and public programs, also affecting the incomes distribution.

Despite the complexity of the governing forms, certain basic functions exits, which are common to all states. Nonetheless, over time both the volume of the functions and the size of the achieved operations. Thus, a standard set of functions exists, which is applicable to most states. Some are market insufficiencies, others are not. Gradually, new functions have added to the basic ones, destined to contribute to increasing the social welfare.

The performed functions, which also define the economic role of the state, can be either compatible or conflicting. Thus expenses for fighting against unemployment have at the same time economic and social objectives, however not all governmental objectives are compatible. Incomes redistribution, to the extent in which it contributes to reducing investments, can affect the economic growth stimulation policy.

In some countries, it is entirely to the central authorities to perform some functions or such can be transferred to local authorities. In federal government states (USA, Germany, India, Nigeria), the performance of functions can be in charge of feudal, state or local governments. The scission and volume of the performed functions can be established by the political and economic system, as well as by the level of economic development.

Rationality and intervention techniques are closely dependent on the ways or types of achievement. In general, the types of intervention refer to the ways in which political strategies pursue the rebuilding and reorganization of a certain configuration of the social system. Their features can be emphasized by presenting the main dominant state strategies.

a) The neo-liberal strategy represented a new intervention of the modern policies in the USA and England and produced an ideological mutation in the political discourse, from the maxim occupational level objective, achieved by expansionist fiscal policy, the accent is shifted to the control of inflation and reduction of payment balances deficits, by using incomes and monetary policies. By such the transfer is registered of the governmental economic policy to-wards the micro level and the economy of offer.

b) Neo-state strategies (France, Japan), characterized by fighting against the market forces and by strong bureaucratic control. Contrasting to the neo-liberal strategy, neo-state strategies include an active structural policy for improving and directing the market forces.

c) Neo-corporatist strategies (Sweden, Denmark), the essence of which consists in building strong mixed economies, characterized by combining liberal and Keynesian elements.
As regards the nature of their effects over the economic system, the public intervention modalities can be classified as it follows: urging interventions (markets organization, promoting competition and monopoly control, correcting externalities, coordinating certain behaviors of economic agents); productive interventions (public production and competition with the private sector, monopoly public production, public orders, supplying collective goods); redistributive interventions (creating incomes and ensuring equity; redistributing incomes by direct taxation and transfers) (Jacquemin, H. Tulkens, 1997, pp. 229 - 247)

4. CONCLUSIONS

The types of interventions are changed from one phase to another. The state has always pursued economic objectives, even if such have not been explicit and have been expressed in non-economic terms. However its role of manager of the economy, with the explicit and certain purposes has developed after the Second World War II. Thus, this function of economic management is a relatively new one.

Interventions tools, namely the mechanisms used in situations when public actions are justified have become increasingly diversified, and their manipulation, increasingly frequent. For the purpose of stimulating economic policies more and more sophisticated economic models are being used.

Establishing the types and tools for achieving the state’s intervention should be subordinated to the prerequisite of instating an optimal level of such. With good reason, it is considered that the main problem is not the global reduction of the intervention, but the increase of its efficiency. (R. Boyer, D.Drache, 1997, pp. 108 – 111)

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SPECIFICS OF FEMALE ENTREPRENEURSHIP IN ROMANIA AND RUSSIA

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ABSTRACT

Romania's and Russia's integration into global economic processes requires more active participation of women in the country's economic life. The independent factor in the gender liberation process for women in the economy is entrepreneurship. The society is renewed and democratized encouraging female entrepreneurship as the ultimate resource of the real economy.

The problem of formation of women's entrepreneurship in Romania and Russia delineated in recent years significantly, and continues to be important as a woman, despite more than a seventy-year period of the establishment of equality of men and women, remains a captive of the traditional stereotype of the secondary value of a business career and a limited range of such a career. This article shows the main reasons, which pushed women to start their own business, the characteristics of female entrepreneurship and the main problems women usually deal with in this sphere.

Keywords: female entrepreneurship, specifics, gender discrimination, employment, Romania, Russia

JEL Classification O1, M13, O52

The problem of changing of the socio-economic status of women in the context of market reforms has become an increasingly popular topic of economic research in the post-Soviet societies due to the depth and drama of experienced change. It also has its own background, as during the Soviet period, the participation of women in production, the problem of combining family and work functions was quite actively studied by sociologists and economists.

At the present time in Romania and Russia many small businesses are run by women, or they are feminine in their composition. Although women mastered many areas of business and professional manifestation of activity today, the dynamic of business can prove to be active or not on the woman business’ ability to manage the organization for success, showing her business potential, her credibility to overcome outdated perceptions, in one word, her leadership quality.

The last is rich in the phenomena of paradoxical nature, among them existing the mass appearance of women in the world of free enterprise, a so called "quiet revolution on a global scale" as women's entrepreneurship American researchers R. Peterson and Weirmair K. (1998, p.18-95) named it in their book “Women entrepreneurs, economic development change”.

Western feminism and the international women's movement consider the problem of ensuring an equal economic status of women, the elimination of discrimination in the labor market and an equal access to economic resources as one of the central problems in both developed and developing countries. The strategy of the women's movement in the developed Western countries in the last decade has focused on legislative reforms in the field of labor
and education in order to ensure the full participation of women in economic activities, creating opportunities for them to achieve economic independence and realize their knowledge and creativity.

An attempt to identify the causes of gender inequality in transition economies, particularly in such countries as Romania and Russia, to find ways and mechanisms to overcome this inequality identified the main directions of gender studies development in these countries. Democratic reforms in post-Soviet societies and the transition to a market economy have created the conditions for the development of an independent economic movement and active protection of women's economic and political rights. Nevertheless, at the end of the 20th century we were faced with rapidly deteriorating situation of women, the growth of female unemployment, the feminization of poverty, the collapse of the social security system, the displacement of women in the informal sector and increase in volumes of domestic work.

The important role in the development of female entrepreneurship, both in Russia and in Romania, also have discriminatory factors that make the process of women's business development largely forced process that is especially true for Russia.

The basis of social discrimination against women is their social inequality with men. This inequality as an American sociologist Smelser N. (2011) is "one of the conditions under which people have unequal access to social goods such as money, power, prestige".

The essence of the idea of equality between men and women, their equal opportunities is that their intellectual and physical potential of a woman is in no way inferior to men. In principle closed, inaccessible areas of mental and physical labor for women does not exist. No law should forbid a woman to engage in some business, develop a particular profession. Her sacred right is a complete freedom of personal choice of types and forms of activity for self-realization. This approach, of course, does not mean that the physiological characteristics of women cannot restrict (sometimes temporarily) their professional duties. Gender equality, not being absolute, can be sufficiently complete and comprehensive according to the research done by Gilmanova (2007) and Vasile (2003).

Women entrepreneurship is a relatively new phenomenon in Romania and Russia due to significant economic reforms associated with the transition to a market economy, on the one hand, and with the gradual deterioration of the socio-economic status of women, on the other hand.

The study of women's entrepreneurship in the modern society has both theoretical and practical significance because of the need of the sociological study and awareness of this phenomenon in both countries.

Entrepreneurship is a complex socio-economic phenomenon when personal business interests are combined with complex external social, economic and geographical factors. It heavily depends on the development and changes of these factors. Personal interests of women - entrepreneurs to conduct business can vary considerably depending on achieved results, on the internal and external environment. As a rule, business can successfully adapt to external factors, which affect the choice of forms and methods of the goals to be achieved. Personal interests, in its turn, vary according to the success of adaptation to the environment. Entrepreneurship creates the fabric of a society, mediating the economic life of the people, turning it into an economic system, combining economic and social spheres, political and spiritual life.

Female entrepreneurship today, despite the abundance of various scientific publications, is a poorly understood phenomenon. Philosophers and economists, historians and psychologists, lawyers and sociologists made a significant contribution into the development and understanding of this phenomenon.
This article is an attempt to have a holistic view of this phenomenon. It is very important "to catch" the features of the present moment in the development of women's entrepreneurship in both countries and assess its future in order to fully contribute to its formation and development. From this point of view it is worth of noticing here of quite obvious social contradiction: on the one hand, the market model of development of modern Russian and Romanian society allows us to freely develop female economic initiative, self-reliance and independence in entrepreneurship, and, on the other hand, its clearly shows the social vulnerability of women comparing to men in these countries. Women's economic activity is in conflict with social discrimination having the leading motives of business start-up as self-realization, interest, self-assertion, career and professional growth, material reliability and money.

The problem of this situation lies in a deep contradiction which has developed between the formal course of democratization of the society, of implementation of the constitutional principle of "equal rights and opportunities" on the one hand, and discrimination against women in the field of labor and employment, denial of their social rights in economic life, on the other hand. Reality "de jure" and the situation "de facto", alas, are in contradiction with each other.

If we talk about the specifics of the female entrepreneurship in general, we presume that specifics are the characteristics, distinctive property of someone or something.

Women, as a rule, are more law-abiding and reliable, responsible and cultural. It is easier for them to fit into an unfamiliar business environment and give higher importance to interpersonal relationships. Many women-entrepreneurs show successful examples of socially responsible business. Of course, the quality and the degree of entrepreneurial women are different.

It is clear today that in the modern Romanian and Russian society the potential of gender asymmetry, inherited from the socialist past, is markedly reduced, allowing women to develop "male" business sectors, such as the development of various innovative technologies and the development of education - from pre-school to higher and postgraduate, and the formation of new types of social services (Moor, 2000).

According to the statistical information in the both countries the working population has been redistributed in accordance with the requirements of the market economy and the number of people employed in the tertiary sector (services, intermediary services, finance, insurance) has increased and the number of private sector workers has almost doubled.

The base of this re-orientation/re-structuration of the economy in Romania and Russia was the development of small businesses, which involved a large number of women too. At the same time, in the process of the creation a new economic structure, it raises domains such as education, services, manufacturing and selling various goods, journalism, publishing and agriculture - which made a strong valuable contribution to total economic growth.

The causes that affected women to decide to open their own business are presented below Many authors found them similar to both countries and mentioned as specifics of the post-communist survival typical for the transition economic period (Dragusin, 2007; Rjanitsina, Sergeeva, 1995):

In the early 90s, when the transition period began in both countries, many research institutes and state enterprises were close, and women turned out to be unemployed. Due to the economic, social and politic context the men's support were very poor and, the women having multi-tasking activities in family they were simply forced to accomplish them and go into a business. For many women at the beginning to the transition and change period setting a business it was a forced phenomenon, but for some of them doing business has become part of a vocation. Although the women's business in Romania and Russia was mostly created by
necessity, for more women became an success. Today, when women, especially young, set your own business, they assume it a conscious approach as the result of their excellent education inside the country or abroad, that lead them to real interesting niche in the market (Woman and..., 2000).

In fact, for women to earn money is an important point, because money gives a certain freedom, opportunity and brings them a sense of fulfillment. In my opinion, the creative nature of women is an important quality, as well as their “inner builder” vocation. In a society like in a family, it should be the situation of harmony and equal opportunities when business for both - men and women, is a necessity.

The entrepreneurial activities of women are induced by many problems and factors of discrimination that exist in the labor market. We consider the problem of discrimination against women on the part of the economy, i.e., in the industrial sector where women combine family and professional responsibilities. Societal discrimination against women manifests itself in the areas of labor and employment; the distribution of power over the property; loans; culture and education; political and spiritual life of society. It is a form of violence against the woman (Delokarov, 2000).

The privatization of the public sector had a negative impact on the situation of working women. And during the transition to a market economy state-owned enterprises are the main employers for them. Conditions of employment, salaries are better (of course, if the company continues its business). The gap between the earnings of men and women in the public sector is lower than in the private one.

Besides societal discrimination, discrimination of women in salaries, in career development and during the hiring process are the main obstacles. Women are often forced into the sphere of less skilled labor, they predominate in the public sector, where pay levels are lower. According to Rosstat (Abritalina, 2009), the average salary for women is 64% of the average earnings of men. In addition to that, the level of officially registered unemployment rate is higher among women than among men. Women's labor force is less competitive in the labor market, find a new job is more difficult for women than for men, the search for a new job takes more time for women than for men.

This issue is exacerbated by current demographic trends. The increasing number of single-parent families with young children, a growing number of divorces forces the need for women's independent income.

In addition, for women the progress on the career ladder is often hindered due to the discontinuity of women’s career caused by a period of maternity leave, and discrimination of working women by male leaders. The lack of career growth causes a woman a feeling of dissatisfaction and as a consequence, the desire to start her own business, where she will not have obstacles in her management growth. In this case, the fact of having private successful business is a factor of self-realization for women and a place of business and creative potential which could not be implemented in a state company.

The transition period has had a mixed impact on women. On the one hand, it acted destructively, pitting women to the bottom of the social hierarchy. On the other hand, it opened new opportunities, and they were able to successfully use them to open their own business. Among them are women with experience in corporate management and former housewives with limited work experience, unemployed women and those who have worked for years as ordinary employees or workers. Russian and Romanian women have started their the business in not initially equal starting conditions with men - without access to the privatization of property, financial credit, in the absence of start-up capital.
Thus, an important role in the development of women's entrepreneurship is played by discriminatory factors that make the process of formation of women's entrepreneurship as a forced process.

Having determined the roots of women moving into self-employment, let’s distinguish main features of women's entrepreneurship.

Entrepreneurship is still a predominantly male sphere of activity. Today, according to expert estimates, business women make up to 25-30% among the male businessmen, most of them have small businesses. Having the distribution of women and men in different branches of business there is a retained tendency of separation by gender. Construction and transport are industries less developed by women. Heavy industry with 12% of women—entrepreneurs, agriculture, wholesale trade, market services, financial sphere—up to 21%—are industries with low gender tendency. And finally industries highly developed by women—entrepreneurs are as follows: retail (up to 38%), catering, science (up to 58%), culture, health. According to Barsukova S.Yu. (2011) the main reasons for the priority areas of services and trade in the development of women's entrepreneurship are as follows:

• previous experience of women, including their domestic work, forms the skills and knowledge appropriate to work in these industries;
• women are less likely to have technical education, which prevents the creation of enterprises in the field of construction, transport and industrial production;
• it is more difficult for women to find start-up capital, "non-traditional" for women industries require big initial capital;
• preferences by nature, imitation of "home" in relations with colleagues.

In terms of turnover and number of employees, the proportion of small businesses in the women's business is significantly higher than in the men business. For example, among all small businesses run by women, the proportion of enterprises with number of employees up to 20 people is 80%, with a population of 21 to 100 people - 15%, more than 100 people - 5% (for comparison among enterprises headed by men, the figures are 58%, 26% and 17%, respectively) (New Generation, 2010).

This trend can be explained by several characteristics of female entrepreneurship:
• women's entrepreneurship is mainly concentrated in industries where technology is not intended for the large number of employees;
• women entrepreneurs are more focused on the control over their time, rather than profit growth. Trial to find a good balance between work and home limits the expansion of the private enterprise;
• the small size of women's business is largely determined by small "age" of female-headed businesses, as women came to this area later than men, therefore, many of them have not been able to develop their business.

According to Vysotzckaya M.I., Chalova A.I (2013) women-entrepreneurs can be divided into 3 groups:

1) women – co-owners and leaders of the big joint-stock companies, which were privatized from the state-owned organisations. Light industry mainly, where women-leaders were inherited from the Soviet era traditions.

2) women-founders of the new small businesses where women perform general managers’ functions at the same time. This new entrepreneurial activity is tightly connected to their previous business activity, ex.: designing and architectural bureaus, restaurants, beauty salons, dentist and cosmetology services. Or completely new types of business like tourism, securities trade, advertising, etc.

3) women- individual experts - highly qualified accountants, financial officers, architects, teachers who provide individual services like consultants.
Studies in several cities showed that the majority of women in small businesses is mostly the age group of women older than 40 years (70%) (Nurbekova, 2013), with a high proportion of divorced and widowed women. Their business has been developed without any financial support, start-up capital, they almost never used a bank loan. Income from their business activities has been almost entirely spent on family consumption. Women - small business owners are considering their business not as a source of wealth, but as a way to feed their families and children.

Women with higher and secondary special education dominate among women entrepreneurs as well as highly skilled professionals of middle age and older (group of potential risk of unemployment). In this case, those who take the initiative and independent creative activity are mostly women with significant managerial experience or have not only highly qualified skills, but also necessary material resources and contacts to start and develop their business. Thus, we are talking about women with high competitive capabilities, the share of which in our society is not so high.

According to the World Bank estimates, based on studies conducted in different countries, women's entrepreneurship is based on higher "ethical standards" (Semenova, 2014). Women show a greater tendency to compromise in cooperation with partners, greater desire to take into account the moral principles and ethical standards.

They are much more likely to pay attention to the social side of the business. Women - entrepreneurs show softer "conflict strategy" in cooperation with the authorities at all levels, more conciliatory behavior. More than 30% of women believe that the establishment of constructive engagement with the government is a feasible task.

Women have higher levels of consolidation and focused primarily not on financial but on legal and informational support of the state in order to strengthen and enhance the status of women's entrepreneurship. According to the survey, about 80% of women entrepreneurs do not wait for help from the state relying on their own abilities. Women tend to develop sustainable business strategies, conduct their business responsibly and carefully, preferring to keep to "moderate conservatism". All this serves as a guarantor of the security of public/state investments in women's entrepreneurship.

And finally, women's business in Russia is under much less pressure of criminal organizations than men’s business, so called mafia, (which different from Romania where this tendency does not exist), making contributions to business development more effective.

It also seems necessary to identify the main and specific problems and obstacles impeding the starting of private business by women. Vysotzckaya M.I., Chalova A.I. (2013) have a clear picture of these problems and obstacles divided into two separate groups common for both countries:

Some main problems are as follows:

- non-flexible, very complicated system of taxation, licensing and reporting, corruption and bureaucracy;
- the lack of credit lines for commercial projects with social significance;
- difficulties in finding guarantees for credits;
- the lack of risks insurance system;
- unreliable contracts payments from partners;
- very low governmental support.

Some specific barriers to the development of women's entrepreneurship are as follows (Torgubaeva, Kotomanova, 2014):

- the lack of experience of women in business;
the problem of obtaining funds to start up her own business and to develop it further, unequal access to credit and financial resources;

- the lack of time for doing business, as a woman entrepreneur has to combine her business management functions with parenting and housekeeping;

- the prevailing gender stereotypes in a society, impeding the participation of women in business on an equal basis with men and at the level of perception of woman as a business partner;

- the low status of women in society, politics and culture and related to it limited possibilities.

Thus, women seeking to open or continue to develop their own business, had to overcome not only the major problems that are typical for Russian and Romania small business as a whole, but also those specific barriers that are determined by gender belonging. These double barriers explain the low entrepreneurial activity of women.

At the present moment, the problem of development of small business is paid attention to at all governmental levels in both countries. In Romania this field is under control of both European and national institutions. In Russia – it is the level of the governmental support and concern. Particular attention is paid to the development of women's entrepreneurship. However, for the full development of women's entrepreneurship the specific support from the regional Administrative Institutions is required. Administrative institutions and companies should have the right to decide most of the questions in the local context.

Therefore, to achieve real changes in the field of women's entrepreneurship development, it is necessary to develop and implement at the level of a particular region special programs and projects aimed at improving the competitiveness of women's entrepreneurship.

Female entrepreneurship in modern Russian and Romanian society plays an important role in the formation of a new quality of life in both countries and, of course, has good prospects for its further improvement.

Thus, the development of women's entrepreneurship will enable efficient use of labor opportunities for women, decrease gender inequality, reduce unemployment, promotes the growth of material well-being of women.

In addition, women's business is mostly focused on improving the quality of life of society, therefore, is socially significant. However, despite the high educational and business potential of women entrepreneurs, female business will not succeed without state and regional support.

Thus, we can conclude that the economic reforms of the transition period in Russia and in Romania led first to a sharp decline in women's employment, the deterioration of their financial position and increased discrimination in the industrial sector. Despite this, a good education and high qualifications enable women to start a business and assume leadership positions.

Participating in social production, women contribute to economic growth and, most importantly, ensure social harmony, maintain stability in society. Negative energy of female dissatisfaction with their status does not come out in mass protests, but has a devastating effect on the moral - psychological atmosphere in the family. These processes are hidden, but should not be underestimated. Today, it is important that government policy is aimed at an optimal use of the potential of all economically active population for the development of production and social progress.
Over the past decade as a result of the increasing participation of women in economic and political life, they own more than one third of the business. And 25% of women earn more than their husbands (Semenova, 2013).

In the post-industrial society women have an opportunity of special prerequisites. Production of goods goes into the production of services shaping a new pattern of relations in the workplace. The woman is in demand by society because of its natural qualities: because of the ability to inspire confidence, developed intuition.

One of the most successful types of economic activity of women was small and medium enterprises. According to a sample of regional statistics and experts, the participation of women in business organization, in contrast to men's participation can increase the growth of production in half.

Positive growth can be explained with the greater social orientation of women, higher levels of consolidation, relatively low potential of conflicts of interest, focusing on business strategy, low levels of corruption.

Among industries, actively explored by women are retail and business in education, services, culture, health care. The percentage of women in the retail trade is 39%, in science - 42%, education - up to 80%. Few women mastered such industries as construction, industry, trade, financial sector, where the proportion of women entrepreneurs is up to 20%.

Despite the positive trends that are characteristics not only for a capital but also for other small cities, women's entrepreneurship in the way of its development experience a lot of difficulties. This is the problem of the professional competence of women entrepreneurship security organization, particularly political consciousness and behavior of women, lack of proper system of interaction between government and business.

According to experts, a major problem is low self-esteem of women, lack of access to bank loans, administrative barriers, stereotypes in assessing the professional qualities of women, etc. These facts prevent women from becoming heads of organizations and founders of their own business.

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SOCIAL PROFILE OF ROMANIAN AND RUSSIAN WOMEN-BUSINESS LEADERS

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ABSTRACT

The article deals with the social and psychological characteristics of female business leaders in Romania and Russia, who had to deal with the reality of a transition economy from post-communism planned economy to the free market system. The trial to find the internal drives to start their own business allows to have a vision of and try to explain the phenomenon of women-owners of business who achieved success during the transitional economic period in both countries.

Some social and psychological characteristics, drawn based on the multi-layer analysis, of women business leaders are offered and these women are described as persons who agree to move forward, to change themselves or the world. The main basic psychological parameters based on which the research was done: broad vision and thinking, predisposition to leadership, adequacy of self-esteem, tendency to educational behavior are among those to be taken into consideration.

Keywords: women-leaders, social and psychological characteristics, private business, Romania, Russia

The problem of studying the social and psychological capacities of women - leaders and the characteristics of their personality structure has always been more a subject of interest for Western rather than Russian and Romanian researchers due to the lack of analytical interest in this issue.

Psychological characteristics of women leaders under research who have attained success in business, do not fundamentally distinguish them from other women and therefore put them on leadership positions. It was generally acknowledged that these women are people who agree to move forward, to change themselves or the world around in order to achieve goals and to seek any means to preserve their human dignity. Four basic psychological parameters, which accompanied their success in business: broad vision and thinking, predisposition to leadership, adequacy of self-esteem, tendency to educational behavior became the set of core values attributing to the pattern of women-leaders’ characteristics.

The subsequent interpretation of the results of the research study and the socio-psychological literature convinced me that these psychological characteristics may determine the success of any professional activity where the woman is the head as these personal traits of women-leaders make an impact on their leadership style.

The goal of the research done is more centered around the situation in both countries – Russia and Romania – as countries with the transition economy from the planned system to the free market one. This transition pushed women to find their way of social and financial adjustment. What are the social and psychological profiles of women- business leaders and what are the internal drives and characteristics that helped them to succeed?
The question of what contributes to success in business is still open for me and I can contribute only the “current version” of the problem prefacing it by the analysis of the results obtained by both the foreign and the Romanian and Russian psychologists and sociologists.

Studies about social and psychological capacities of women leaders

Few works should be mentioned as a general orientation in this field, works dedicated to this subject abroad as well as in Russia and Romania such as: Wells, B., Pfantz, T., Blyne, J. (2003), Russian women business owners: evidence of entrepreneurship in a transition economy, with a descriptive profile of women-entrepreneurs or the environment for female entrepreneurship in their country. Izyumov A. and Razumnova I .(2000) Women Entrepreneurs in Russia: Learning to Survive the Market, with qualitative methodology and some samples which help to generalize the findings. Dragusin, M. (2007), Leading Women Entrepreneurs in Romania. Change Leadership in Romania’s New Economy. The author discusses the role of women-owned businesses in the former Soviet bloc emerging markets who are playing to create economic growth and sustainable businesses. She shows some findings in Romania compared to a similar study completed on women entrepreneurs in the Ukraine. Implications for sustainable strategic management in emerging economies are discussed.

While acknowledging the superiority of Western scholars on this issue, it is more important to focus on the most interesting of them with one purpose – to describe the psychological characteristics of female individuals stepped into business and managed it in order to achieve success. The most interesting findings from this point of view are the findings of M.Henning and A.Jaurdin, which I would like to analyse here in details as the most appropriate generalization of studies of this type.

M.Henning and A. Jaurdin. Western View

M.Henning and A. Jaurdin carried out their studies in 1977 which they expressed in their book “The Managerial Woman”. Their investigation took place at the Harvard Business School with the most complete features of the psychology of business women in the US. Their observations have revealed features of women’s thinking and perception of women in the implementation of their production functions.

The conclusions of the authors about the successful business women are characterized by:
- A bright personality,
- High level of general and intellectual activity,
- Collegiality in decision-making, delegating their powers, paying great attention to interpersonal relations in a company refusing at the same time to micromanage subordinates;
- The ability to quickly switch from one social role (leader, business woman) to another (daughter, mother, wife);
- Confidence in receiving, understanding, support and assistance from the family.

Women who have attained success, were convinced that relationships with colleagues should be built on the basis of competence and professional skills rather than personal relationships or gender. The continuous process of self-education made their life even more difficult though, on the one hand it is a requirement of a career, on the other hand, it was their personal needs.

According to M.Henning and A.Jaurdin, leadership style was elaborated under the influence of relations with her own leader and was built on a clear definition of mutual rights and responsibilities, promotion of subordinates, task-orientation, emotional distance. According to the findings, women would like to confirm their femininity along with the working qualities, but, at the same time, to avoid possible conflicts, they sacrificed femininity first.
Authors confirmed that leadership style went through transformation. Personality changes resulted in changes in behavioral style at work. The first decade of a career for the respondents was characterized by “close leadership style,” a tendency to excessive control, distrust to subordinates, lack of delegation of authority. Later they start to focus on people, along with task orientation, established a warm relationship with colleagues and subordinates, had led to increased job satisfaction and a sense of self-esteem. Feedback from the staff was grateful, high team spirit, best work, relaxed time. The success was due to a greater acceptance and expansion of Self-concept (Hennig M. and Jardim A., 1977). The psychological portraits of women – samples from the study of M.Henning and A. Jaurdin show the formation process which takes place in Western Europe and in the US where working women have the possibility of business education and business development in a free market economy.

Formation of women-leaders in Romania and Russia during the transition period
The formation of women-business leaders in the transition period from the communist to the free-market economy (like in Russia and Romania) is very different and very complex process.

The transition period (after 1989) was characterized by fundamental economic, political, and institutional reforms and profound social transformations and has produced new gender inequalities in both the public and private sphere. The privatization and liquidation of many state-owned enterprises raised unemployment significantly. Women continued to receive lower salaries than men, have been made redundant more often, and were discriminated in the hiring process. There was deterioration of social services such as state childcare support, which resulted in increase of women’s responsibility in the private sphere. Thus, entrepreneurship becomes an attractive employment option (Curseu P.L., 2006) that might enable women to overcome shortcomings in the labour market and to combine work and family lives. More women were becoming increasingly interested in entrepreneurship in the developing countries like Romania and Russia.

In order to go deeper in this complexity several concepts have to be mentioned here, such as Abraham Maslow Concept, Study of Sydney Lecker “The Money Personality”, Russian and East European View of Eugene Yemelyanov and Povarnitsyna Svetlana, and Galina Turetskaya and V. Khashchenko.

Abraham Maslow Concept with a “self-actualized personality” and its 13 basic personality traits:

- The high level of the perception of reality, the adequacy of the world and ourselves in the world;
- Developed ability to accept ourselves, others and the world as they really are;
- Increased spontaneity, simplicity and trust in life;
- Developed ability to focus on the problem;
- Strong detachment and a clear desire for solitude;
- Autonomy and expressed opposition to be attached to one culture only;
- Freshness of perception of the world and richness of emotional reactions;
- Frequent breaks to peak experiences that exceed the real power and the possibility of a person;
- Personal identification with all the human race, the prevalence of a sense of unity over the sense of separation;
- Self-sufficiency and independence;
- Democratic character, independence from the authorities, idols, hierarchies;
- High creative abilities;
- A positive value system, having a solid philosophy of life.
According to the “Psychology of Being” by Abraham Maslow (1997), the personality is the inner essence of human nature, aimed at its self-actualization. Self – actualization becomes the basic requirement for the inner effort.

An interesting study of Sydney Lecker “The Money Personality” (1979) or “money man” where an original perspective on the psychology of business people was given will add to the general picture of the inner drive. These features help to understand the inner drive of women-leaders whose working and leadership experience was shaped during the transition period in Romania and Russia.

The 7 specific psychological characteristics of the business people identified by Lecker are as follows:

- They are not afraid of variables; they do not confuse any large numbers or large projects;
- They know how to set simple goals; they know the purpose and mission of their business and are not distracted by tasks that do not coincide with the center line of the enterprise.
- A specific feature of these people in their way of thinking, is, which the cognitive psychologists call as “independence from the field”; they are not distracted by plenty of background details in the process of discussion and planning.
- “Money people” feature the development of abstract thinking, they are able to construct complex mental construction, linking the organization, functions and products.
- They have tolerance for ambiguity and are able to move forward on the basis of incomplete information. And, as a result, they are more likely to appear first in achieving success, and it brings them respect from other people who want to follow them in the future.
- A unique sense of total responsibility; they understand the importance of delegating authority to others, they also clearly understand that no one can delegate a sense of responsibility.
- They do not feel any sense of guilt in relation to their greedy desire to achieve a sense of success and, at the same time, they get along comfortably with the idea.

Eugene Yemelyanov and Povarnitsyna Svetlana. Russian and East European View

Similar position of organizational consultants and psychologists, Eugene Yemelyanov and Povarnitsyna Svetlana, who studied more than one Russian firm and have developed their own consulting and research experience in an interesting book called “The psychology of business” (1998). They believe that: “An important feature of a successful businessman is the lack of fear of money and their abilities, confidence in the fact that she is a worthy winner of all the opportunities and benefits that money will bring with them. And, for all the same - keen sense of responsibility” (p.405).

Galina Turetskaya and V. Khashchenko. A serious study of the peculiarities of social and psychological portrait of a business woman was held in 1995 at the Institute of Psychology RAN in Russia by Galina Turetskaya under the supervision of Dr. V. Khashchenko and recorded in their joined book in 1996 called “Socio-psychological portrait of a business woman” (1996). A distinctive feature of these studies are the attempt to follow Karen Horney (2000) who allocated to women in business not only features of the “positive psychological properties”, but such features of personality structure as the “fear of success” and “fear of separation.”

In their research done by V. Khashchenko and G.Turetskaya they showed the need which arises in the weaken position of women in the case when they were perceived primarily for their business qualities.

According to the findings the professional achievements of women are estimated lower by themselves than by their counterparts. One of the reasons was the incomplete implementation of their potential. In general, it showed that having a democratic style of
leadership and communication with colleagues, business women were reluctant to delegate their professional credentials in an effort to carry out the most important responsibilities.

It allows to conclude that women who participated in this study, both Romanian and Russian and Western ones, also had fear of success and fear of separation. These psychological mechanisms once again confirmed how complex is the psychological space necessary to operate and win for women-leaders. (Koncov, 2004).

The question naturally arises in our situation: what kind of “psychological benefits” help women to survive in business environment in both countries during the transitional economic period?

Social and psychological capacities - some findings during the research process

In this research study the social and psychological characteristics were assessed in a way described in details below.

The target group (the participants) were 50 Romanian and 50 Russian women entrepreneurs, sampled randomly based on their experience in business (5 years and more).

The sampled women entrepreneurs were selected with assistance of the Russian Women Business Association (RWMN) and Asociatia Femei – in – Afaceri in Romania, based on the mission of both organizations - to support the development of sustainable focused women – owners of their business. These associations are locally managed institutions which create an effective financial, consulting and technical structure that provides high-quality services.

The questionnaire had been developed and applied to women-entrepreneurs in Romania as well as in Russia and, for better understanding and accurate information, the questionnaire was translated into Romanian, Russian and English. It was constructed based on the practices of two famous professors - Prof. James Sarros, Monash University, Melbourne, and Prof. Manfred Kets De Vries, INSEAD Business School, and was pre-tested with the help of 7 Romanian and 7 Russian women entrepreneurs, who were the decision-makers or the owners of business and who positively responded to the question “Are you responsible for the main decisions taken in the company?”

The structure of the questionnaire was as follows:

a. The general blocks having 6 parts as:
   professional data: area of business, function in a company, size of the company; influence of the external environment; leadership skills (successful female leadership skills) and the business performance of the companies against the international practice (both good and poor).

a. The personal block having 6 specific aspects:
   personal opinion on performance and competitiveness of the owned company; personal performance as a leader (an example of a real situation); leader behavior (yes/no answers); leader orientation (A/B answers) and personal leadership style (yes/no answers), age.

In order to find the possible correlation between business performance and leadership characteristics of women-leaders in Romania and Russia and to find the women-leaders psychological characteristics for both countries, on the received results from the questionnaires (from general block) Principal Component (Regression) Analysis” was applied.

In my opinion, the traditional financial measures are especially unreliable in the Romanian and Russian context during the transition period, due to - the heavy taxation rates which determine the small enterprises to report seldom the true economical results and
The statutory accounting norm and practices in both countries which differ greatly from international accounting norms and practices.

Thus, the performance as Dependent Variable was measured with the support of importance and satisfaction questions on certain items:

- 5 Romanian/Russian environmental issues (governmental, social, economic, political) that most influence your business performance and competitiveness.
- 5 areas where businesses are performing well or very good in Romania/Russia.
- 5 areas in which business in Romania/Russia is performing poorly or very poorly in comparison with international performance.

Leadership Characteristics and Entrepreneurial Self-Efficacy as Independent Variable was measured based on respondents self-perception and perception of their own leadership attributes necessary for the requirements of business environment in Romania and Russia.

The responders were asked to:

- List five (5) attributes of the effective leadership which in their opinion, are necessary in the Romanian/Russian business environment today.

The results of this analysis coincided with the fundamental hypothesis that women with strong leadership characteristics, in particular with high Self-Efficacy operationalized as opportunity competence (with very high self-perception), are more likely to have successful and higher performing ventures than women-leaders that do not have these characteristics.

Besides the quantitative method mentioned above, the qualitative methodology was applied:

- Rokeach’s method or questionnaire of Allport—Vernon—Lindsey
- George Kelly’s method of role constructs, and the variation of Charles Osgood’s method of semantic differential
- Method of Individual/collective portrait modeling
- Biographical method
- Interview method

Thus the principle of “multi-layer analysis” - the combination of quantitative and qualitative methods - was used with the purpose of obtaining wider range of the obtained results. This approach allowed to study women’s leadership and the formation of women’s entrepreneurship in Romanian and Russian regions based on complementary methods and techniques of research. I was focused on getting results with both Quantitative and Qualitative methods studying phenomenon and data, which would allow conducting an in-depth socio-psychological analysis of the key women-leaders in both countries.

Analysis was focused on the following main areas:

- Specific of women’s leadership style in crisis and during implementation of business development strategies. The advantages and limitations;
- Men and women as head of the company: a comparative analysis of business behavior;
- Women-leaders: self-concept and motivation to achieve a leading position in the organization;
- Women-leaders in an extreme situation;
- Women-leaders and political processes;
- Women-leaders and the family: technologies to reach a compromise;
- Discrimination against female leaders: myth or reality;
- Psychological specific of the leaders of women’s entrepreneurship.
The analysis showed that the activity of the development of the female leadership in Russia and in Romania has many characteristics, deriving from the problem of those countries, such as:

The first group of problems is related to: an incomplete and uncertain system of relationship between business and government;
the paternalist behavior of the authorities combined with an aggressive policy towards the private business
a steady distance between the authority and business, which does not satisfy either party.

The second group of problems related to gender: the poor integration of leadership in general and women’s leadership in particular, in spite of the existence of associations of women’s entrepreneurship and Business Women’s Club.

The third group of problems (typical for Russia) is the criminalization and security of business, which in the context of the formation of women’s leadership is of particular importance.

The fourth group of problems is related to the professional competence of women leaders. Despite the fact that business women often undergo training abroad, women leaders are dominated by persons “with the crisis and chaotic” education in management. At the same time motivation in this field of education is very high.

The fifth group of problems: This group is related to the particular problem of political consciousness and leaders behavior. Attention is drawn to the phenomenon of polarization of the political opinions of women-leaders, with a gradual awareness of the need for political means to protect their business.

The sixth group of problems deals with the imperfections of infrastructure support to small and medium-sized businesses.

Main findings:

Studies in recent years as a whole can add findings from Romanian and Russian researchers (Bibu Nastase, 2003; Aoanei, 2006; Achievements…, 2011; Babaeva, 1995) and make it possible, based on observations and interviews material, to describe some of the psychological features that allow women to build the necessary capacity of leadership:

(1) First matters the difference of the overestimated fear of success and fear of separation, when it comes to women having their business for 3-7 years. During this time, they manage to offset the negative impact of fear of success and fear of separation. If we consider that before starting their own business they held leading positions in state companies, than the development of new social fields of activity is accompanied not by fear but by a sense of personal discovery of new opportunities, which often was a key motive.

The vast majority of women (80% of participants from both countries) are inclined to accept even some of the advantages of women over men as leaders, and do not want to share the thesis of discrimination against women executives. This indicates that they are not inclined to experience increased anxiety about their leadership qualities and quite seamlessly coexist with them.

(2) A more typical feature for women-leaders is the feeling of guilt and fear for their children and the lack of time and opportunities to be together that women-leaders compensate by all sorts of means, but not always successfully.

(3)Attitude towards work. Women believe that they should be considered as “workaholics” because they love their jobs more than anything else and the time period of 10-12 working hours per day is considered normal.

This nature of respondents, in its turn, gives rise to such a reckless approach to business, and leadership qualities make work “psychological nature” to the prosperity of business. Therefore, if these women will be put in a different field of activity, in any case they will behave in a similar way.

(5) Multivariate personality of a leader and psychological types of personality.

The specifics of entrepreneurial activity generate uniqueness of personality structure of a businessman, whose distinctive feature is its multi-variation. It is manifested most notably in the analysis of personality structure of men-leaders. Similar psychological characteristics distinguish women-leaders. Only they have softened multi-variation and its manifestations do not have such an unexpected nature. Paradoxical as it may sound, the woman better control themselves and have less room for errors. Multivariate structure of personality may be manifested in the presence of rigid logic and impulsive behavior. Very often these women are in the process of changing the mood or feelings, have unexpected psychological care of the situation. It is an impulsive personality type that have strong motivation for action and an increased tendency to take risks.

(6) The nature of the internal psychological processes allows these women to take “irrational solutions”, which later turn out to be the most rational ones.

Women-leaders demonstrate the features of open impulsive behavior, which they manifested themselves in the process of a dialogue. These women are aware of their differences from others, know how to deal with them and how to see their benefits and do not have the ability to think on long term, and in an effort to act quickly and pass high barriers, while remaining faithful to her business to the end. That strength of character and perseverance allow them to win in business.

(7) A psychological problem of “temporythme” and psychological age.

According to Samoukhina N.V. (2003), “temporythme can be described as “internal and external conditions of human psyche”. Temporythme can be determined based on the walking speed and movements, speech, how fast the person is in processing the information, thinks and makes decisions.

Women-leaders are characterized by the increased internal temporythme, which generates a special sense of reality when it is necessary that a decision should be done quickly. It provides women-leaders with the ability to keep up everywhere, and to monitor a number of multi-level processes.

High temporythme raises another important psychological problem – the problem of mental age. Women-leaders tend to underestimate the psychological age and feel younger. On a personal level, among the integral characteristics of the leader personality structure there can be assigned such a characteristic as a personal scale. The greatest success in business have achieved those women-leaders who daily expanded the psychological boundaries of their job and their own capabilities.

(8) Women successful in business are not afraid of variables and scope of their business. Nor a situation of uncertainty, or aggression from society cannot stop them in their desire to expand business and take the new internal boundaries. External conditions do not always contribute but also can prevent from the mentioned behavior, but women-leaders deal with all the circumstances and negative results.

The motive for this behavior is in the scale of the individual, which serves as an internal filter to implement certain business strategies. The higher is the scale, the more you can expect from the owners desire to move beyond their business or to become a leader in the professional community.

Business and success in it is possible only if the leader is able to vary according to the tasks that appear and require solutions.
It is especially difficult to change the strategy of business conduct and internal guidelines, which are usually shaped by personal characteristics. To rebuild them is possible only under the strong pressure of circumstances, and not always. Individual differences in psychological flexibility of a personality are very important, and therefore it is interesting to know, where there is a “limit of individual changes” in the business, and how people who achieved success in business, restructure their view of the world.

In the analysis of the psychological changes the emphasis was placed on broad vision and thinking, predisposition to leadership, the adequacy of self-esteem and tendency to educational behavior of women –leaders of the basic ways in which business is restructuring a woman from inside.

**CONCLUSIONS**

Thus the line can be drawn here with the following statement that women-leaders have the following characteristics:

- they know how to think about several matters at the same time and to make plans for the future - multitasking,
- women are inherently organized and able to act effectively because of their nature as mothers. To take responsibility - this is the nature of women;
- women are consistent and purposeful, they analyze and take into account the nuances and details of the work;
- women are more sociable, they tend to trust more and have developed networking skills;
- women demonstrate better organizational and planning functions and quickly adapt to changing conditions, listening to subordinates, thus contributing to increase productivity;
- women leaders know better "key" members of its business products, more oriented to customers and new products (services), in which the market needs.
- Women-leaders show orientation to their job. Production efficiency is the main focus with sufficient emphasis on the human factor. The hierarchy in the relationship is carefully smoothed. There is a clear tendency to make decisions collectively. Woman leader finds it necessary to discuss decisions content, to explain to subordinates meanings inherent in these decisions in order to obtain their support. Thus, she behaves as a leader rather than the owner or boss. Subordinates have considerable autonomy, the relationship is largely based on trust. The work is organized flexibly, it is assumed to have mutual assistance and support.

In Romania and in Russia, in contrast to many developed countries from Western Europe, the state failed to establish a reliable system of social protection for women. Thus women have not found a suitable wage work and can only rely on themselves, fear of success and separation was the first drive but the inherited self-actualisation put the personality development at a higher level.

The success of the women’s business is influenced by the market in transition which now is saturated with ideas and people. In these economic conditions the success is difficult to be achieved. The success belongs to those who have fighting spirit, coupled with the knowledge and skills.

Romania’s and Russia's integration into global economic processes requires more active participation of women in economic life. The independent factor in the gender liberation process for women in the economy is entrepreneurship. The society is renewed
and democratized encouraging entrepreneurship as the ultimate resource of the real economy.

The problem of formation of women's business in Romania and Russia delineated in recent years significantly, and continues to be important as a woman, despite more than a seventy-year period of the establishment of equality of men and women, remains a captive of the traditional stereotype of the secondary value of a business career and a limited range of such a career.

REFERENCES

THE USE OF THE GEOMETRIC BROWNIAN MOTION FOR FORECASTING VALUES OF THE BET INDEX ON THE ROMANIAN CAPITAL MARKET

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ABSTRACT

One of the major challenges for the investment and academic area represents the possibility of shaping the financial assets’s behaviour for obtaining forecasts with a high degree of accuracy. The goal of this paper is to use Geometric Brownian Motion for providing forecasts for the rates of return of the BET Index from the Bucharest Stock Exchange. The aim of the article is the applicability of the stochastic process named geometric Brownian motion for the BET Index time series during the time period between 24th of October, 2013 and ending to the 30th of September, 2014.

Key words: geometric Brownian motion, rate of return, forecasting error

JEL classification: C20, C22, C29

1. INTRODUCTION

The study was conducted by reviewing the literature regarding the Brownian motion regarded as a simple Wiener process, the generalization of the Wiener process as the Brownian motion with drift, the Ito’s process which is a generalised Brownian motion, and reaching to a particularization of the Ito’s process which is the geometric Brownian motion or gBm. In order to apply the gBm on the Romanian capital market, there was used the closing price time series of the BET Index on the above mentioned period. Some mathematical adjustments of the standard gBm function were performed in order to obtain the parameters of the function. It is also important to mention that the initial time series of the daily closing values has suffered some modifications and has been transformed into the rates of return time series, for which the most important statistical measures have been computed, namely the mean and the variance, which in technical terms are being referred to as of expected rate of return and risk.

1.1. Literature review

It was the year of 1827, when an English botanist, named Robert Brown, observed that small particles suspended in fluids performed peculiarly erratic movements. This phenomenon, which could also be later on also attributed to gas, is referred nowadays to as Brownian motion. After that moment further, the theory has been considerably generalized and extended by Fokker, Planck, Burger, Ornstein, Uhlenbeck, Chandrasekhar, Kramers and others. On the purely mathematical side, various aspects of the theory were analysed by
Wiener, Kolmogoroff, Feller, Levy, Doob (1939) and Fortet (1943). Even Albert Einstein has contributed to the development of this theory.

The limitations of this theory were already recognized by Einstein and Smoluchowski (1916), but are often disregarded by other writers. An improved theory, known as „exact”, was advanced by Uhlenbeck and Ornstein (the Ornstein-Uhlenbeck Process) (1930) and by Kramers (1946). The well-known random walk theory was developed by the discrete approach of Einstein-Smoluchowski, and it consists in treating Brownian motion as a discrete random walk. The main advantages of this discrete approach are pedagogical, but it may suggest various generalizations which will contribute to the development of the Calculus of Probability.

Mathematician Osbourne, whose paper was published in 1959 and was entitled „Brownian Motion in the Stock Market”, studied the mathematical model of the Brownian motion applied in stock markets. By the means of this paper, he proved something that will imply major changes for future researches, namely the use of the logarithm of the share price instead of the historical price, for the purpose of increasing the accuracy of the forecasts on financial markets, due to the following reason: the logarithmic time series can be regarded as being normal-distributed, fact easily justified in the modelling process. In the same paper, Osbourne remarks „the square root of time rule”, meaning that the standard deviation of the process increases with the square root of time.

1.2. Geometric Brownian Motion

A particular case of an Ito process is the geometric Brownian motion with drift. The difference regards as the two functions turn into: \( a(x,t)=\alpha x \), and \( b(x,t)=\sigma x \), where \( \alpha \) and \( \sigma \) are constants. In this case, the equation describing the general case of an Ito process:
\[
dx = a(x,t)dt + b(x,t)dz \quad (1)
\]
becomes:
\[
dx = \alpha xdt + \delta dz \quad . \quad (2)
\]

From enunciating the three properties of the simple Brownian motion, we know that percentage changes in the variable, \( \Delta x/x \), are normally distributed. Since these are changes in the natural logarithm of \( x \), absolute changes in \( x, \Delta x \), are lognormally distributed.

Now we need to introduce another function, in order to simplify calculus:
- if the above equation defines \( x(t) \), then \( F(x) = \log x \) is the following simple Brownian motion with drift:
\[
dF = (\alpha - \frac{1}{2}\alpha^2)dt + \sigma dz \quad . \quad (3)
\]

The above equation has the following interpretation: over a finite time interval \( t \), the change in the logarithm of \( x \) is normally distributed with mean \( (\alpha - \frac{1}{2}\alpha^2)t \) and variance \( \sigma^2 t \). As regards the \( x \) variable, it is proven that if currently \( x(0) = x_0 \), the expected value of \( x(t) \) is given by the formula:
\[
e[X(t)] = x_0e^{\alpha t} \quad (4)
\]
The variance of \( x(t) \) is also given by the expression:
\[
\nu[x(t)] = x_0^2 e^{2\alpha t}(e^{\alpha^2 t} - 1) \quad . \quad (5)
\]

It is important to mention that Geometric Brownian motion is frequently used for security prices modelling, as well as modelling interest rates, wage rates, output prices, and other economic and financial variables. As in the case of simple Brownian motion, we can
derive an equation for \( x(t) \), starting from annual values for the mean and variance, and we can provide sample paths of the equation presenting the Geometric Brownian motion, which may provide values for \( \alpha \) and \( \sigma \) based on annual computations.

In order to generate an equation for \( x(t) \), deducted from the Geometric Brownian motion, the parameters expressed in the equation above need further processing.

In this way, we can generate equation regarding the Geometric Brownian motion as the following:

\[
x_t = (\alpha + 1)x_{t-1} + \sigma \varepsilon_t. \quad (6)
\]

Starting from this equation, one can derive sample paths by taking a time interval, and calculating \( x(t) \) using the values starting from \( x(0)=x_0 \). It has again to be mentioned that, at every time interval \( t \), \( \varepsilon_t \) follows a normal distribution function with zero mean and unit standard deviation. In order to describe the trend line, in the above equation the term \( \varepsilon_t \) must equal 0. The sample paths can outperform the stock market, or underperform it.

As described above, one can generate sample paths from a certain point in time, \( t_0 \), to a certain time interval, at time \( t_n \), and from that point in time after, there can be constructed forecasts of \( x(t) \), from that point in time \( t_n \) up. Also, a realization is obtained, meaning a continuation of sample path. Once again, as explained at the beginning of the paper, due to the Markov property, only the value \( x(t) \) for the moment \( t_{n-1} \) is needed to construct the forecast.

The forecast value of \( x(t) \) is constructed using the formula:

\[
x_{n-1:T}^* = (\alpha + 1)^T x_{n-1}, \quad (7)
\]

where \( T \) represents future time intervals from point “n” on.

As in the case of simple Brownian motion, we can establish the upper and lower bounds of a 66% forecast confidence level, which are:

\[
(\varepsilon + 1)^T (\sigma) \sqrt{T} x_{n-1} \quad \text{and} \quad (\alpha + 1)^T (\sigma) \sqrt{T} x_{n-1}. \quad (8)
\]

2. USING THE GEOMETRIC BROWNIAN MOTION TO FORECAST THE EVOLUTION OF THE BET INDEX

In the predictability area, so interesting both for investors, practitioners and academicians all over the world, due to capturing the accuracy of the proposed model, we’ll be studying its application method starting from the time series closing prices of the BET Index during the time period 24.10.2013-30.09.2014.

In order to process the calculus, we’ll rewrite the geometric Brownian motion function as:

\[
dP_t = P_t \mu dt + P_t \sigma dz_t, \quad (9)
\]

where: \( P_t \) current price level, the closing price of the BET Index at the \( t \) point in time, respectively

\[Dz= \text{Wiener process, described as: } dz_t = \varepsilon_t \sqrt{dt}.\]

In this case, in order to simplify calculus and to accurately identify the parameters of the geometric Brownian motion model, we’ll use a short time interval, of one unit, such that the starting premise is \( dt=1 \).

The geometric Brownian motion equation of the closing prices becomes:

\[
P_{t+1} - P_t = P_t \mu + P_t \sigma \varepsilon_t, \quad (10)
\]

The first step is to divide the entire equation by \( P_t \), the equation becoming:
\[ \frac{P_{t+1} - P_t}{P_t} = \mu + \sigma \epsilon_t. \quad (11) \]

But the first part of the equation, the term on the left side of the equation, is the expression of the daily rate of return of the BET Index, expressed as:

\[ \frac{P_{t+1} - P_t}{P_t} = r_t. \quad (12) \]

With the new notation introduced in the previous equation, it becomes:

\[ r_t = \mu + \sigma \epsilon_t, \] process expressing the geometric Brownian motion of prices based on daily profitability.

By studying the new process, we can note the following characteristics:

1. The mean of this process, \( E(r_t) = \mu \), i.e. the expected profitability rate, calculated based on the daily rate of return value and taking into account the fact that the sequence of random variables \( \epsilon_t \) follows a normal distribution with mean 0 and variance 1, \( \epsilon_t \rightarrow N(0,1) \).

2. The variance of this process, \( Var(r_t) = \sigma^2 \), i.e. the variance of the profitability data series equals \( \sigma^2 \), taking into account the fact that the sequence of random variables \( \epsilon_t \) follows a normal distribution with mean 0 and variance 1, \( \epsilon_t \rightarrow N(0,1) \).

Based on the historical data for the time period 24.10.2013 – 30.09.2014, the parameters derived from calculus have the following values:

1. \( E(r_t) = \mu = 0.00078 \) (13)
2. Standard deviation has the value: \( \sigma = 3.24 \).

Based on these values, we can now represent the general equation, which will help forecast future values of the BET Index, using as benchmark the closing value pertaining to the day of 30.09.2014.

Thus, the price for the day after this reference day will be calculated starting from the following formula:

\[ P_{t+1} = P_t + \mu P_t + \sigma P_t \epsilon_t. \quad (14) \]

By replacing the values obtained above, the equation becomes:

\[ P_{t+1} = P_t + 0.00087P_t + 3.24 P_t \epsilon_t. \quad (15) \]

According to the theoretical description regarding the way in which forecasts are made using the geometric Brownian motion, we can now deduce that formula, starting from the forecast for the day following the chosen moment, as follows:

The mean of the process described above by the last ratio, expressing the expected value of the Index for the day of 01.10.2014 is as follows:

\[ E(P_{t+1}) = (1 + \mu)P_t, \ i.e. \ E(P_{01.10.2014}) = (1 + \mu)P_{30.09.2014} \quad (16) \]

Following the same procedure, for the day of 02.10.2012, the expected value of the index for that point in time is expressed in the following ratios:

\[ E(P_{t+2}) = (1 + \mu)P_{t+1} = (1 + \mu)(1 + \mu)P_t = (1 + \mu)^2 P_t, \ i.e. \ (17) \]

Generalizing, we can extract the following formula:

\[ E(P_{t+T}) = (1 + \mu)^T P_t. \quad (18) \]
3. FORECASTING TECHNIQUES USING GEOMETRIC BROWNIAN MOTION

In order to highlight the applicability of this method, we’ll make forecasts for the following 10 days, with the starting date 30.09.2014, and the closing price for that date 7,263.23 Ron for the value of BET Index.

In order to obtain the forecasting value for the day of 01.10.2014, we’ll be using the value of the closing rate on 30.09.2014, that is 7,263.23 Ron for BET Index. Thus, the forecasting value is:

\[ E(P_{01.10.2014}) = (1 + \mu) P_{30.09.2014} = (1 + 0.00087)x7,263.23 = 7,269.56 \]  

As a result, we can compare the forecasting value obtained through this method with the actual closing value obtained on 01.10.2014, which was 7,278.03. In this manner, we can calculate the deviation or the lack of accuracy of the model, specifying that for the day of 01.10.2014, the deviation was 0.12%, or 0.0012, that is a deviation which is acceptable from the standpoint of forecasting fulfilment.

For the day of 02.10.2014, using the same procedure, we can forecast the value as follows:

\[ E(P_{02.10.2014}) = (1 + \mu) P_{01.10.2014} = (1 + 0.00087)^2x7,263.23 = 7,275.90 \]  

One can note that the forecasting error of the rate as compared to the actual value obtained on 02.10.2014 market is 0.65%, that is 0.0065. As an observation, the forecasting error is slightly increased as compared to the previous day.

For the day of 03.10.2014, we can forecast the value as follows:

\[ E(P_{03.10.2014}) = (1 + \mu) P_{02.10.2014} = (1 + 0.00087)^3x7,263.23 = 7,282.24 \]  

The forecasting error here is 0.49%, i.e. 0.0049, a very low value, but the model needs to be retested.

For the day of 04.10.2014, the forecasting value is calculated:

\[ E(P_{04.10.2014}) = (1 + \mu) P_{03.10.2014} = (1 + 0.00087)^4x7,263.23 = 7,288.59 \]  

The forecasting error is 0.66%, i.e. 0.0066, again a low value, but the model needs to be retested.

For the day of 07.10.2014, the forecasting value is:

\[ E(P_{07.10.2014}) = (1 + \mu) P_{06.10.2014} = (1 + 0.00087)^5x7,263.23 = 7,294.95 \]  

The forecasting error is 0.86%, i.e. 0.0086, a value which starts to increase the difference between forecasted and real price value.

For the day of 08.10.2014, the forecasting value is:

\[ E(P_{08.10.2014}) = (1 + \mu) P_{07.10.2014} = (1 + 0.00087)^6x7,263.23 = 7,301.31 \]  

The forecasting error is 2.1%, i.e. 0.021, a value which is abruptly raised as compared to the previous ones.

For the day of 09.10.2014, the predicted value is:

\[ E(P_{09.10.2014}) = (1 + \mu) P_{08.10.2014} = (1 + 0.00087)^7x7,263.23 = 7,307.68 \]  

The forecasting error is 2.4%, i.e. 0.024, a value which is abruptly raised as compared to the previous ones.

For the day of 10.10.2014, the predicted value is:

\[ E(P_{10.10.2014}) = (1 + \mu) P_{09.10.2014} = (1 + 0.00087)^8x7,263.23 = 7,314.05 \]  

The forecasting error is 4.1%, i.e. 0.041, a value which is abruptly raised as compared to the previous ones.
For the day of 13.10.2014, the predicted value is:

\[ E(P_{13.10.2014}) = (1 + \mu) P_{10.10.2014} = (1 + \mu)^9 P_{30.09.2014} = (1 + 0.00087)^9 \times 7,263.23 = 7,320.42 \]  (27)

The forecasting error is 4.6%, i.e. 0.46.

For the day of 14.10.2014, the predicted value is:

\[ E(P_{14.10.2014}) = (1 + \mu) P_{13.10.2014} = (1 + \mu)^{10} P_{30.09.2014} = (1 + 0.00087)^{10} \times 7,263.23 = 7,326.81 \]  (28)

The forecasting error is 5.3%, i.e. 0.053, the highest one in the data sample.

Figure 1. Chart presenting the evolution over time of the actual market value as compared to the forecasted value

4. CONCLUSIONS

The graphical representation of the way in which the closing values of the BET Index evolved as compared to the forecasted values according to the geometric Brownian motion model shows that the error initially accepted in the first few days tends to grow considerably while the time horizon expands or, practically, the error tends to grow as we move away from the benchmark period. Thus, it is required that the period for which the forecast is made be as short as possible, preferably for one day or two days at most. This conclusion is also drawn as a simple necessity of the fact that the information that reaches into the market and influences the investors’ expectancy regarding price fluctuations is automatically included in the market value of that asset, which is the reason why a period of time longer than two days is fairly risky to make financial decisions, as new information may occur at any time and the investors are also subject to behavioural changes, derived from the mere investor condition, when the re-evaluation of current opportunities asserts itself as a necessary condition to optimize the profitability of a financial investment.
ACKNOWLEDGMENTS

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QUALITY OF LIFE - DIMENSION AND OBJECTIVE OF SUSTAINABLE DEVELOPMENT

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ABSTRACT
The paper will present the connection between quality of life and sustainable development in the respect of the new changes in the European Strategies. The quality of life through its various dimensions such as education, health, safety, environment or monetary conditions and adequate income, aimed at meeting the basic needs of human as an aspect of sustainable development and, more specifically, its ultimate goal. The evolutions in time, the monitoring of changes or effects it has on sustainable development the increase or decrease the quality of life makes imperative to build a system of indicators, divided into each field component of quality of life. In the paper will be presented the main systems of life quality indicators used to monitor sustainable development.
REGIONAL CHARACTERISTICS OF TIME-USE PATTERNS IN ROMANIA

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ABSTRACT
The objective of this study is to analyze the Romanian population living in different development regions across the country, by socio-demographic characteristics (gender, age, occupational status, education level, etc.). The study is also focused on the differences registered in number of hours for work and leisure for people living in urban and rural areas of residence.

The data source is the Romanian Time Use Survey conducted by National Institute of Statistics during 2011-2012, according to the Eurostat methodology of the Harmonized European Time Use Survey (2008). This research will contribute to understand the geographical disparities between people according to the time spent in different activities.
#DIGITALDIVE – A DISRUPTIVE INNOVATION WEB EXPERIMENT WITH ERASMUS STUDENTS IN SZCZECIN POLAND

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ABSTRACT
An experiment in Szczecin, Poland: During the lectures of international marketing and communications in marketing with erasmus students a big interest developed about the aspects of disruptive innovation. While this element of behavioral economics is often seen connected to turnover like Uber or TransferWise there are other targets too. Disruptive Innovation can have an impact in raising awareness, generating leads and reinforcing the network as well. Focusing on the effect that Erasmus students are digital nomads too, there was a decision made to conduct an experiment for the digital behavior: being in another city, studying at another university, reinforcing the digital network. Followed by the creation of some parameters to move into the digital life of Szczecin.

1. OVERVIEW
December 2014. As an analogy to a corporation diving into social media and distributing a promotion the experiment was equipped with parameters for the #DigitalDive in Twitter. 8 students, 1 teacher, 1 goal: squeezing into the twitter life of Szczecin. At the same time there was the aim to push the name of the West Pomeranian University of Technology Szczecin (ZUT.edu.pl). The preparation created a time period of about one month in the manner of a hackathon, normally done in 24, 36 or 48 hours. For #DigitalDive this was reconfigured to a projectathon which embraces a longer time period. Mixed with the nature of disruptive innovation and the theory of digital nomads a performance between digital natives and digital immigrants it provided an observation of the experiment team by pushing incidents based on #DigitalDive.

2. QUESTIONS
Will the disruptive behavior by squeezing in the digital life of Szczecin have an impact to the own behavior? Will the experiment create connections or contacts to und in Szczecin? Does the experiment reveal economical aspects?

3. OBJECTIVES
Disruptive innovation describes a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors. Clayton Christensen popularized the idea of disruptive innovation in the book “The Innovators Dilemma” published in 1997. Philip Kotler and Kevin Lane Keller mentioned in the Book “Marketing Management” (2011) in the section “scenario planning”: “The world is too uncertain to predict exactly what’s going to happen”, but this process will build your team’s skills and make the business more flexible in future uncertainty, Kotler and Keller said and: Driving the market is based on strategic
planning that relies on tools and technologies for managing the uncertainties of the future. At the same time knowing that an experiment starting with a simple application as per the theory of disruptive innovation this could create a little moment of practical study.

The interactions created by diving into different Twitter accounts in Szczecin with retweets, favorites and conversations were more than expected. One of the highlights was a personal meeting with a local twitterer. And the transfer of some results in the forthcoming documentary One Way Ticket (digitalnomaddocumentary.com).

4. FINDINGS

To explore theory with an experiment is still a useful way. Economics, marketing and economics move more and more into web, social media, mobile. The need to break through the overstimulation of users and customers is growing. Or at least there is a trend to do that. Disruptive Innovation offers an additional way of contacting target groups. #DigitalDive was an inspiration, provoked unlogical ideas, established contacts and exchange, delivered new thoughts for the real thing. And by scratching on the digital surface the experiment revealed the knowledge gain when Erasmus students as digital nomads start being disruptive. And for the experiment it was important too, to do that in a careful way, as disruption is directly connected to responsability.

CONCLUSION

#DigitalDive is a gateway to more. As a reflection after the observation of interactions and reinforced network the question about influencing opinions is coming up. Behavioral Economics already deal with a lot of such issues (Nudge, Thaler and Sunstein, 2009). Economics will enter the opinion building even further, digital nomads are part of that development as well as disruptive innovation like the content-driven form of native advertising in the web. More and classical research has to be done here. There is a value in it for upcoming case studies and commercial adoptions.

ACKNOWLEDGMENT:

The #DigitalDive Experiment wouldn't be possible without the very special help of the two students Ioana Vasiloiu (vasiloiu.ioana@yahoo.com) and Eugenia Oprinescu (oprinescu.emilia@gmail.com) from Romania. Their continuous support in Twitter, Instagram and Linkedin, the reservation of the Hashtag DigitalDive and use of monitoring instruments was crucial to the success of this special project. Their final experiment paper "Digital Dive Project / Disruptive Innovations" (2015) is available as a PDF. And special thanks go to Dr. Joanna Hernik, Vice-Dean Faculty of Economics, West Pomeranian University of Technology Szczecin, Poland, which enabled the experiment within the faculty.
CULTURAL PATTERNS IN CONSUMER BEHAVIOR

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ABSTRACT

With businesses becoming more international, an understanding of how culture influences consumer behavior will be crucial for managers, marketers and consumer researchers. In this paper, the author compares how values, symbols, rituals and heroes influence consumer behavior in countries that belong to the cultural patterns described by Hofstede (1980). The exploratory study I conducted was meant to investigate whether subjects belonging to the two cultural patterns (individualistic, low-context, equalitarian versus collectivist, high-context, hierarchical) would manifest different orientations when buying an automobile.

My findings show that differences exist not only in terms of brand choice but also in terms of the importance of automobiles characteristics for the participants in this study. In the end, some managerial implications were presented along with recommendations for future directions of research.

Key words: values, symbols, rituals, heroes, cultural patterns

JEL classification: M310, M370, M390

1. INTRODUCTION

Other than a few studies discussing changes in national values, research in consumer behavior has been in the context of expectancy-value analysis based on the models of Rosenberg and Fishbein. Research interests have centered on predicting brand choice and assessing the relative importance of various product attributes in determining brand preference. The expectancy-value approach has been useful in predicting brand choice but does not explain why consumers differentially evaluate product attributes and thus prefer one brand to another.

Consumer behavior researchers have traditionally used Hofstede’s definition of culture (1990, 1997) which equates culture to the “collective programming of the mind which distinguishes the members of one group or category of people from another” (1997, p. 5). The focus of this definition is the comparison of one culture with another. This is an etic definition of culture (Luna, Gupta, 2014). Researchers that follow an etic approach in consumer research generally look for universal theories and concepts. They search for variables common to all cultures that can be directly compared in order to discover how those cultures are different from or similar to each other.

An alternative approach is the emic methodology (Luna, Gupta, 2014) which focuses upon understanding issues from the viewpoint of the subjects being studied. In this context, culture is defined as “the lens” through all phenomena are seen. It determines how these phenomena are understood and assimilated. Second, culture is the “blueprint” of human
activity. It determines the coordinates of social action and productive activity, specifying the behaviors and objects that issue from both (McCracken, 1988).

The two definitions of culture (etic and emic) can be considered as two sides of the same coin. Culture is a lens, shaping reality and a blueprint, specifying a plan of action. At the same time, a culture is unique to a specific group of people. By utilizing research provided by both approaches, we gain more complete understanding of how consumers think, react and make choices. In other words, culture and consumers influence each other.

In order to understand how this mechanism works, this article is focused on: a general description of Hostede’s cultural typology; a discussion on the meaning of values, symbols, rituals and heroes and their relationship to consumer behavior; results of an empirical investigation of the impact of values, symbols, rituals and heroes and the importance of product characteristics in the specific case of automobiles; the implications of this analysis for managers, producers and marketers.

2. GENERAL PATTERNS OF CULTURE (HOFSTEDE, 1980)

A unique culture exists whenever a group of people share distinct beliefs, norms and customs. According to Hofstede (1979, 1980, 1983), societies differ along four cultural dimensions: power distance, uncertainty avoidance, individualism and masculinity.

Power distance is the degree to which weak individuals in a society accept injustice in power and view it as normal. Although various injustices occur in every society, different cultures accept varying degrees of it. Uncertainty avoidance is defined as the extent to which people within a culture can cope effectively with vague, obscured and unstructured situations and the degree to which these individuals adopt rules, ideals and norms that help them clear such ambiguities. Individualism is the extent to which individuals in a society are concerned mainly with their personal interests and the welfare of their families. Collectivist cultures, in contrast, view individuals as part of a larger group, such as an extended family. Masculinity is the degree to which individuals in a culture expect men rather than women, to be forceful, ambitious, strong and materialistic.

Hofstede’s typology shows how cultures can be described in terms of pairs of dimensions. I used only one such pair – individualism versus collectivism – as a unique criteria of distinction between countries. Since my purpose is to investigate the relationship between culture and consumer behavior, I focused on the relevant pairs of values that shape the individualistic or collectivistic profile of a country. Next, I focused on equality versus hierarchy and assertiveness versus interpersonal harmony as the most important values in the participants’ countries of origin: the US, Germany, Italy, the Netherlands, China, Indonesia, Romania and Hungary.

2.1. Individualism versus collectivism

The most important value orientation in EU countries and in the USA is individualism. Generally speaking, individualism refers to the doctrine, spelled out in detail by the 17th century English philosopher John Locke, that each individual is unique, special, completely different from other individuals and “the basic unit of nature”.

Goleman (1990, p. 40) highlights some of the characteristics of the culture that values individualism: “People’s personal goals take priority over their allegiance to groups like the family or the employer. The loyalty of individualists to a given group is very weak; they feel they belong to many groups and are apt to change their membership if it suits them, switching churches, for example, or leaving one employer for another”. Therefore, in countries such as the United States, Germany, Italy and the Netherlands, an “I” consciousness prevails:
competition rather than cooperation is encouraged; personal goals take precedence over group goals; people tend not to be emotionally dependent on organizations and institutions; and every individual has the right to his or her private property, thoughts and opinions. These cultures stress individual initiative and achievement and they value direct explicit communication and individual decision making.

Collectivism, on the other hand, is characterized by a social framework that distinguishes between in-groups and out-groups. People count on their in-group (family, relatives, affiliations) to look after them and in exchange for that they believe they owe loyalty to the group. Triandis (1990, p. 52) gives us a summary of this situation: “Collectivism means greater emphasis on: the views, needs, and goals of the in-group rather than oneself; social norms and duty defined by the in-group rather than behavior to get pleasure; beliefs shared with the in-group rather than beliefs that distinguish self from in-group; great readiness to cooperate with in-group members”.

In countries that value collectivism such as China, Indonesia, Romania and Hungary, a “we” consciousness prevails: identity is based on the social system; the individual is emotionally dependent on families, institutions and affiliations; and individuals trust group decisions. They tend to be more conscious of the consequences of their actions on their group members are likely to show traits such as indirectness in communication, saving face, concern for others, group cooperation and decision-making etc.

Although we speak of individualism as the underlying value possessed by Western European countries in general and the United States and collectivism as an outstanding value orientation manifested by the Asian countries, they are not separate entities, that is, all people and cultures have both individual and collective dispositions.

2.2. Equality versus hierarchy

Closely related to individualism is the Western European countries’ value of equality which is emphasized in everything from government to social relationships. As it was essential for the Enlightenment and the utilitarian concept of society for each individual to make free choices, it was also essential for each member to be considered an equal. The American constitution also established the legal basis for social equality, though two hundred years later the details of this social equality still remain to be worked out in practice.

In the Western European countries and in the United States, equality is prevalent in both primary and secondary social relationships: for example, most of the primary social relationships within a family tend to advance equality rather than hierarchy. Formality is not important and children are often treated as adults and call their parents by their given names. Kinship is far from being felt as a significant tie among members of society. In secondary relationships, we find that most friendships and co-workers are also treated as equals. Subordinates consider superiors to be the same kind of people as they are and superiors perceive their subordinates the same way. People in power, be they supervisors or government officials often interact with their constituents and try to look less powerful than they really are. The powerful and the powerless try to live in concert.

On the other hand, relationships in countries such as China, Indonesia, Romania and Hungary are said to be hierarchical. Everyone should behave according to his/her social status. Asians, in particular, are especially conscious of relationships within extended family structures, with each person carefully placed with a kinship term which tells all participants to which generation they belong in relation to others. Any individual is acutely aware of his/her obligations and responsibilities to those who have come before as well as those who come after. From birth, one is made conscious of the debt owed to one's own parents which is largely carried out in the form of duty and obedience.
In secondary relationships in these countries, we can observe signs of social hierarchy in nearly every setting. In schools, children seldom interrupt the teacher, show great reverence and respect for authority and ask very few questions. In organizations, one finds a greater centralization of power, a large proportion of supervisory personnel and the belief that power and authority are facts of life and everybody has a rightful place in society.

In business, problems may also arise because of how people perceive equality and hierarchy. In China, Indonesia, Romania and Hungary, there is a tendency for businesses to be small, family-owned and controlled structures which operate much along traditional lines, closely associated with kinship. Meanwhile, Western companies emphasize finding “the right person” for each job, selecting individual employees based on their training and experience. This is obviously in contrast with their Chinese counterparts for example, who may think it is important to employ their in-group members or certain persons who are well placed in the local structures, even when they may not have the initial training and experience.

2.3. Assertiveness versus interpersonal harmony

Western cultures and the American one in particular are also known for their assertive and aggressive communication behavior. Studies of family life have shown that parents encourage, approve and even reward aggressive behavior. As these cultures value individualism, equality, competition and freedom of speech, assertiveness is bound to be encouraged. According to Wenzhong and Grove (1990, p. 23), “…people are expected to take the initiative in advancing their personal interests and wellbeing and to be direct and assertive in interacting with others. High social and geographic mobility and the comparatively superficial nature of many personal attachments create a climate where interpersonal competition and modest level of abrasiveness are tolerated and even expected”.

One can easily imagine that communication problems may arise when cultures which value assertiveness come in contact with cultures that value harmony. In China and Indonesia, for example, “self is subordinated in the interests of harmony” (Moran, 1968, p.75). For the Chinese, harmony is one of the primordial values of Confucianism. The principle of harmony leads the Chinese people to pursue a conflict-free and group-oriented system of human relationships. Because harmony is a guiding principle for the Chinese, they will not tolerate outward displays for anger. Two Chinese proverbs speak to the issue of outward signs of anger: “The first man to raise his voice loses the argument” and “One hurtful word wounds like a sharp sword”.

Culture influences behavior through its manifestations: values, symbols, rituals and heroes (Hofstede, 1997). These are forms in which culturally-determined knowledge is stored and expressed. Thus, each cultural group has different cultural manifestations. Next, I shall detail the four manifestations and show their relationship with consumer behavior.

3. VALUES, SYMBOLS, RITUALS AND HEROES OR HOW TO RELATE CULTURE TO CONSUMER BEHAVIOR

3.1. Values

The term “values” rests at the heart of most definitions of culture. In fact, most research seems to agree that values drive an individual’s behavior. Historically, consumer researchers have often cited Rokeach (1968, p. 161) who viewed “a value as a centrally held, enduring belief which guides actions and judgments across specific situations and beyond immediate goals to more ultimate end-states of existence”. Examples of values are “freedom”, “pleasure”, “inner harmony” and “happiness” (Rokeach, 1973).
There are different taxonomies of values. For example, Rokeach’s view of values implies a differentiation between preferred end states of being (terminal values) and preferred modes of behavior or means to achieve end states (instrumental values). Other authors divide values into the desirable and the desired (Hofstede, 1980). Yet other authors classify values into global values, domain-specific values and evaluations of product attributes (Vinson et al, 1977). Global values are the most centrally held, while attribute evaluations are the least central and are situation-specific. Hofstede’s landmark study of the dimensions of culture (1980) can be considered an etic approach to the study of cultural values. That study explicitly describes values as the core of culture and defined them using Rokeach’s definition. Hence, its premises that the values preferred by a group of people separate them from other groups and thus cultures can be compared with each other using values as a standard.

Emic research focusing on consumption and the meaning of objects in the lives of the individual has also applied values theory to explain how we organize information in our environment. McCracken (1988), for example, refers to “cultural principles”. These are the ideas according to which phenomena are organized, evaluated and construed. Examples of cultural principles include “strength”, “refinement” and “naturalism”. Cultural principles help people assign meaning to the world that surrounds them. People’s behavior embodies and expresses these principles. McCracken’s cultural principles bear a strong resemblance to Rokeach’s values. We can conclude then that both the etic and the emic philosophies seem to refer to similar constructs but from different perspectives (between cultures versus within cultures) and the notion of values, or at least some variants of it, is central to most views of culture.

The effect of values on consumer behavior

Numerous studies have examined the role of cultural values on the attitude formation process. We can distinguish between advertising studies and consumer behavior studies. Affect toward the ad or product represents two of the most important gauges of success in advertising. Therefore, a number of advertising researchers have examined affective variables in cross-cultural advertising. In particular, several studies have attempted to ascertain the role of cultural values on ad-elicited attitudes. For example, Taylor et al. (1997) compared high and low context cultures (Korea and the USA respectively). A high context message is one in which most of the information is already in the person while very little is in the coded, explicitly transmitted part of the message. A low context communication is just the opposite – the mass of the information is vested in the explicit code. Their results indicated that consumers from low context cultures preferred commercials with high levels of information. Asian countries such as China and Indonesia fall into the category of high-context cultures in which, according to the Halls, people are very homogenous with regard to experiences, information networks and the like. High context cultures, because of tradition and history, change very little over time. Meaning is not necessarily contained in words and information is provided through gestures, the use of space and even silence. Meaning is also conveyed through status (age, sex, education, family background, title and affiliation) and through an individual’s informal friends and associates.

On the other hand, Western countries such as the USA, Germany, Italy and the Netherlands fall into the group of low context cultures in which the population is less homogenous and therefore tends to compartmentalize interpersonal contacts. The verbal message contains most of the information and very little is embedded in the context or the participants. In these countries, communication tends to be direct and explicit – that is everything needs to be stated and explained.

These differences between high and low context cultures are most likely to influence consumer behavior. For example, an individual of a low context culture expect ads to be
detailed, clear-cut and definite. If there are not enough data, or if the point being made is not apparent, that individual will ask questions and restrain himself from buying the product since the ad was not convincing enough for him/her. He/she would feel uncomfortable with the vagueness and ambiguity often associated with limited data. A high-context individual does not expect much background information. An ad may be indirect and implicit about a product’s characteristics and performance and yet a Chinese or Indonesian may wish to buy it. Therefore, less information about product characteristics does not necessarily make the ad less credible.

3.2. Symbols

Symbols are a broad category of processes and objects that carry a meaning that is unique to a particular group of people (Geertz, 1973). Hence, a society’s symbols may not exist in different cultures or their meaning may be different. Language is a set of symbols, as are different gestures, pictures or objects. The symbols most frequently studied by consumer researchers are language (Sherry and Camargo, 1987) and consumer products.

Several authors have examined the symbolic nature of products and consumption. We can infer from this body of research that product symbolism is generated at the societal level (Solomon, 1983). Cultural values, expressed in society’s perceptions of reality and beliefs of what is desirable, seems to be transferred to products through vehicles like advertising (Belk, 1985). These products then become charged with cultural meaning. For example, a pair of sneakers can be elevated to a cultural symbol for a value such as “a sense of accomplishment” by ads that show Michael Jordan wearing them. Finally, individuals, in their efforts to define their social self, are moved to consume the products which are now charged with symbolic meaning (Durgee, 1986).

The effect of symbols on consumer behavior

Studies that focus on the impact of symbols on the observed behavior of consumers across cultures follow two distinct methodologies. Some practice traditional methods adopted from psychology and others employ an interpretative approach in the anthropological tradition. The former tend to focus on the role of language on consumer’s behavior while the latter venture into symbols other than language. For example, Dolinsky and Feinberg (1986) examine language and how consumers from bilingual subcultures process information in their first versus their second language. They find that second language processing leads to information overload and suboptimal decisions more easily than first language processing. Schmitt and Zhang’s study (1988) suggests that language shapes some mental schemata which may lead to different choices across cultures.

Other studies of symbols and consumer behavior focus on the symbolic nature of consumption using an interpretative research methodology. Ger and Ostegaard (1998) show that the symbolic consumption of clothes reflects the often conflictual values of the Turkish and Danish cultures. Wallendorf and Arnould (1988) found that personal memories give meaning to the possession of favorite objects in the Asia. Therefore, the symbolic nature of consumption varies from one culture to another.

3.3. Rituals

The concept of rituals is often erroneously interpreted as behavior of religious or mystical significance. While religious rituals are indeed an important type of ritual, Rook’s definition of rituals (1985, p. 252) is much broader: “The term ritual refers to a type of expressive, symbolic activity constructed of multiple behaviors that occur in a fixed, episodic sequence and that tend to be repeated over time. Ritual behavior is dramatically scripted and acted out and is performed with formality, seriousness and inner intensity.” McCracken (1988,
p. 84) adds that a ritual is “a social action devoted to the manipulation of the cultural meaning for purposes of collective and individual communication and categorization. Ritual is an opportunity to affirm, evoke, assign or revise the conventional symbols and meanings of the cultural order”. While Rook’s definition (1985) focuses on the form that rituals take, McCracken’s emphasizes the goal of ritual behavior.

Rituals are pervasive in any society. There are grooming rituals, romantic rituals, feeding rituals and they are constantly being performed by all members of a society. Rituals are important for consumer behavior because they involve the consumption of goods and services. Rituals give origin to consumers’ cognitive schemata and scripts which ultimately reinforce ritualistic behavior. Marketers’ actions moderate the reciprocal relationship between rituals and consumer behavior through advertising which models ritualistic behavior and helps it spread. Consumer products play a significant role in ritualistic behavior. Products can be employed in their symbolic capacity to operationalize the ritual (Solomon and Arnould, 1985). Products can be considered therefore, as ritual artifacts and their consumption as part of a ritual.

**The effect of rituals on consumer behavior**

Few cross-cultural studies explore the role of rituals in consumer behavior. One exception is Mehta and Belk’ study (1991) of the possession ritual of Indians and Indian immigrants to the United States of America. The authors describe the use of possessions by immigrants in securing identity. Possessions are seen as a symbol to retain their Indian identity in public settings and the possession ritual helps shape their cognitive structures, their perception of the self. Arnould (1989) describes the preference formation process within ritualistic behavior in Nigeria and also how rituals influence the behavior of consumers in that culture. Solomon and Armand (1985) describe how female rites of passage in contemporary New York determine clothing consumption.

### 3.4. Heroes

The term “heroes” refers to “persons, alive or dead, real or imaginary, who possess characteristics which are highly prized in a culture and who thus serve as models for behavior” (Hofstede, 1997, p. 8). Heroes may influence consumer behavior through their association with certain products and brands (e. g. Michael Jordan and Nike sports). Marketing communications offer an obvious vehicle for this association.

**The effect of heroes on consumer behavior**

Wilkes and Valencia (1989) explore how heroes influence the cognitive processes of consumers. Their results show that there may be an “ethnic bias” in the perception of the prominence of the roles played by actors of the same ethnicity as the consumer. For example, Hispanic consumers may see Hispanic actors as playing a more important role than they actually do. At a more theoretical level, McCracken (1989) described how celebrity endorsement operates as a process of meaning transfer. Culturally-constituted meaning first moves into the individual celebrity. Then the meaning moves from the celebrity into the product. Finally, it moves from the product into the consumer.

The effect of spokesperson ethnicity on the effectiveness of advertising has been explored in several studies (Deshpande and Stayman, 1994). One significant result from this research is that the more consumers are aware of their own culture/ethnicity, the more effective will be a spokesperson from the consumers’ cultural group. Additionally, consumers holding a higher degree of racial stereotypes will tend to employ racially focused heuristics in their product evaluations (Whittler, 1989).

Most research examining the relationship between culture-specific heroes and consumers’ behaviors has focused on the role of reference groups on consumer decision
making. Childers and Rao (1992) examined family and peer influences in consumers’ decisions across cultures. Both studies found differences in the groups influencing consumers; in countries with traditionally strong family ties (China, Indonesia), family members had a stronger influence on a consumer’s choices than in countries in which the family plays a less prominent role (USA, Germany, etc).

4. THE EFFECT OF MANIFESTATIONS OF CULTURE ON CONSUMER BEHAVIOR

Cultural differences between social groups materialize in four manifestations: values, symbols, rituals and heroes (Hofstede, 1997).

Values have received most of the attention from cross-cultural consumer researchers. The literature on the effect of values on consumer behavior dimensions need to be complemented by research on the other three manifestations of culture – symbols, rituals and heroes. Models of new product adoption (Rogers, 1983) need to be generalized to include cultural variables (Takada and Jain, 1991). For example, cultures in which following tradition is considered a terminal value may have relatively slow adoption and diffusion. In contrast, cultures in which innovation is seen as an important value will have much faster adoption cycles.

In advertising research, according to Peracchio and Mayers-Levy (1997), an ad’s effectiveness depends on finding a balance between the required and available resources to process the ad. When targeting other cultures, it is likely that a firm will be targeting bilingual or multilingual individuals. As shown by Luna and Peracchio (1999), if individuals are presented with a message in their second language, the resources available for processing the ad will be substantially diminished. This will subsequently impact the relative effectiveness of ads. Therefore, the resource matching hypothesis could be generalized to take into account cultural variables like language or, more generally, symbols.

Consumer purchase models relying on scanner data which incorporate variables such as price, promotions or advertising may need to be generalized to include cultural variables. For example, if an item is consumed as part of a ritual, price and other variables might lose at least some of their significance.

As far as heroes are concerned, models such as the Fishbein behavioral intentions model may need to be revisited. For example, a specific culture could place a strong weight on certain subjective norms like the household elder’s opinion while other cultures may tend to place emphasis on other heroes or on none at all. The relative weight of attitudinal norm components may also shift from one culture to another. For example, in Western cultures, group interests are not considered as important as they are in Eastern cultures.

In sum, consumer behavior models must take culture into account as the relationship between the manifestations of culture and the dimensions of consumer behavior is bidirectional: through their actions, consumers validate and reinforce their culture.

5. METHODOLOGY

I have suggested that values, symbols, rituals and heroes will lead to variations in preferences for products and brands. To investigate this, an exploratory research study was undertaken to see whether subjects from two culturally distinctive groups of countries would manifest different orientations in their buying decisions based on their cultural dimensions mentioned above. And, if so, the extent to which their different values, symbols, rituals and
heroes may be related to attitudes toward automobiles and the importance of automobile attributes.

Subjects used in this research were selected from students in business management at four state universities located in the US, Germany, Italy and the Netherlands. These countries are low context, highly individualistic, praise equality and assertiveness. The 27 students in this group are exponents of the liberal attitudes in their universities and countries as well. The 38 subjects comprising the second group were selected from students in business management with a more conservative education. Their countries of origin were China, Indonesia, Hungary and Romania, countries known as high context, rather collectivistic where hierarchy and interpersonal harmony are considered important. All students participated in a one week tour of Maramures, a Romanian county, in the spring of 2014. Data collected on demographic variables indicated that subjects were equivalently matched in terms of age, sex, education and income.

Each group was administered an identical questionnaire which included a number of seven-point Likert scale designed to measure the importance of values, symbols, rituals and heroes presented in table 1. In addition, data were also collected on the importance of 15 automobile attributes for all the participants in this study (table 2).

6. FINDINGS AND DISCUSSION

The results, summarized in table 1, indicate a large number of differences between the two groups.

Table 1: Summary of differences between the liberal group and the conservative group

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<th>Liberal group (I)</th>
<th>Conservative group (II)</th>
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<tr>
<td><strong>Values</strong></td>
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<td></td>
</tr>
<tr>
<td>Pleasure and joy</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Comfortable life</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>Independence</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Imagination and excitement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Respect and politeness</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>Friendship</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td><strong>Symbols</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-of coolness</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>-of prestige</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>-of luxury</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td><strong>Rituals</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-of strengthening</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>-of affirmation</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>-of preserving (old and new) memories</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td><strong>Heroes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Steve Jobs</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Hercules</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>Nadia Comaneci</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>Winston Churchill</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Mahatma Gandhi</td>
<td></td>
<td>*</td>
</tr>
</tbody>
</table>
While the first group seems to embrace more liberal values such as pleasure, independence and excitement, the conservative group was rather interested in values such as respect and politeness and a comfortable life. Therefore, when buying a car, the first group would prefer automobiles that make them feel excited and independent, ready for new experiences. Instead, the second group would prefer a comfortable car which instills respect to the outside world. Interestingly enough, both group mentioned friendship as an important value in their lives. As a consequence, all students would choose a friendly car, both in terms of easy-to-drive and efficiency.

The differences between the two groups were not so striking in terms of the symbolic meanings attached to their cars. The liberal group would prefer their cars to be “cool”, luxurious and a personification of their social status while the conservative group manifested interest in luxury and prestige, as symbols conveyed to the others by their vehicles. The act of buying a new car is perceived by both groups as an act of affirmation of self identity. And yet, the more liberal students would choose brands and models that signal power, influence and strength – messages that should be perceived as such by the community. The second group is more likely to buy cars that both say something about their identity and make a connection between their past and present. In this context, more traditional models would probably be preferred.

Finally, the liberals would like their cars to impersonate the virtues of Steve Jobs, Hercules and Winston Churchill – heroes that are associated with intelligence and creativity, power and leadership. The conservatives show different preferences in terms of heroes: they mentioned Nadia Comaneci, Hercules and Mahatma Gandhi as their favorite personalities to be reflected into the design and characteristics of their new cars. For them, these heroes symbolize excellence, resilience and wisdom.

It is particularly interesting to examine how these two groups rated the importance of the automobile attributes and their appeal for classes of automobiles. The more liberal group had a higher preference for compact cars than standard size cars. They also showed higher preference for automobiles attributes which enhance their desire for an exciting life, yet with non-polluting, durable characteristics. On the other hand, the more traditional group preferred more prestigious standard-size cars which are consistent with respect, politeness, friendship and a comfortable life (table 2).

**Table 2: Preferred characteristics of automobiles indicated by group 1 and group 2**

<table>
<thead>
<tr>
<th>Automobile attributes</th>
<th>Liberals (group I)</th>
<th>Conservatives (group II)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High speed capabilities</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Smooth riding</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Quality workmanship</td>
<td>√</td>
<td>*</td>
</tr>
<tr>
<td>Advanced technology incorporated</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Luxurious interior</td>
<td>√</td>
<td>*</td>
</tr>
<tr>
<td>Low level of pollution emissions</td>
<td>√</td>
<td>*</td>
</tr>
<tr>
<td>Durable materials</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>Compact car</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Standard size car</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>Operates on gas</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Operates on diesel</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>Easy to repair</td>
<td>√</td>
<td></td>
</tr>
</tbody>
</table>
7. MANAGERIAL IMPLICATIONS FOR THE AUTOMOBILES MANUFACTURING AND DESIGN

Careful assessment of values, symbols, rituals and preferred heroes will allow the identification of new product opportunities and the repositioning of existing products. Values such as pleasure, excitement, imagination and friendship may signal the need for cars having brand names, colors and designs which enhance these important values in their use. A car manufacturer, for example, might connect these values with an increasing demand for bright, bold colors, unique materials of construction and sophisticated devices addressed to consumers concerned with fashion, individuality and self-expression. A different perspective would be that of a car manufacturer that bears in mind the needs of consumers guided by values such as respect and politeness, friendship and a comfortable life. In this case, designers could use more soft colors, tested, durable materials and command-and-control mechanisms that may respond to more traditional consumers who prefer safety and comfort instead of excitement, fashion and fun.

A new line of automobiles could be designed taking into consideration the need for coolness, luxury and prestige manifested by the more liberal consumers. For example, one such car could incorporate not only all the symbols of high tech (television, internet, GPS, etc.) but also the possibility to change the atmosphere inside the car depending on the mood of the customer: if he /she feels tired, he may “order” a summer breeze or the smell of a daffodil. If he/she feels in a mood for work, he/she may wish to breath the subtle lilac or the more aggressive lily. If he/she is depressed, he/she may need to be reminded his accomplishments, so why couldn’t he just look on the board and see incorporated items related to what or who is really important for him. And all with a click away.

Whether it is about intelligence and creativity, power and resilience, excellence and wisdom, all consumers feel the need to transmit a message to the outside world. Understanding that these messages are connected with rituals of affirmation of the self may be useful for designers as they need to better address the values that are really important for consumers. In doing so, they may appeal to the symbols and heroes the consumers feel most attached. And ultimately, managers, designers and marketers should try to understand that for most consumers, to buy a car is a ritual of affirmation of the self whether that self is in search of more strength and power or in search of old and new personal stories.

8. CONCLUSIONS AND DIRECTIONS FOR FUTURE RESEARCH

Because of different geography, history, language, politics, social norms and customs, lifestyle and economics, people in different parts of the world do differ profoundly in their cultural patterns and consumption behavior.

Cultural values are derived from the larger philosophical issues that are part of a culture’s social surroundings. Cultural values are transmitted by a variety of sources – family, media, church, state – and therefore tend to be broadly based, enduring and relatively stable. Most important, cultural values guide both perception and communication and, in the end, get translated into action.
For instance, Western countries are generally low-context cultures and need direct and explicit ad messages because they share little background information or context. These countries value individualism, equality and assertiveness in their social interaction. The Asian countries, on the other hand, are believed to be high-context and do not require in-depth background information since most of the information is already in the individual. Asians tend to respect collectivism, hierarchy and harmony in the society. In this category fall also some countries in Europe such as Romania and Hungary (less developed economically) and the Nordic countries (economic performers within European Union).

Values, symbols, rituals and heroes are important components of culture that determine what we perceive, how we react and what we buy when having to make a choice. Since a primary objective of producers and marketers is to satisfy the culturally learned needs of their customers, they both must understand what drives their consumption behavior. A useful umbrella term which enables us to talk about these orientations collectively rather than separately is cultural patterns which refer to both the conditions that contribute to the way in which people perceive and think about the world and the manner in which they live in the world. From a consumer behavior perspective, a cultural pattern is the archetype that allows us to understand why and how different values, symbols, rituals and heroes guide consumers’ decision making and explain what lies behind their beliefs, attitudes and preferences for certain brands.

I used Hofstede’s typology that shows how cultures can be described in terms of pairs of dimensions. I used only one such pair – individualism versus collectivism – as a unique criteria of distinction between countries. Since my purpose was to investigate the relationship between culture and consumer behavior, I focused on the relevant pairs of values that shape the individualistic or collectivistic profile of a country: equality versus hierarchy and assertiveness versus interpersonal harmony. These are the most important values in the participants’ countries of origin: the US, Germany, Italy, the Netherlands, China, Indonesia, Romania and Hungary (as indicated by them). While differences exist (as proven by the exploratory study) my next question was related to the extent to which these differences exist and how could they be related in the specific case of automobiles’ purchasing. Are automobiles’ characteristics important for the two groups of participants in the research? Do they prefer different brands because they are culturally driven by their values, symbols, rituals and heroes attached to their chosen brands? I found that in the case of the undergraduate students originating in individualistic and collectivistic countries, cultural patterns manifested in values, symbols, rituals and heroes drove the subjects towards distinct and very different choices of brands.

My findings also show that subjects of the first group (more liberal) are driven by specific values such as strength, are prone to rituals that praise the uniqueness of the self and attribute a symbolic meaning to what they buy, (again) related to the affirmation of the self. In contrast, consumers from the second group (more conservative) that belong to collectivist, high-context, hierarchical countries praise values such as respect and politeness, perceive their consumption of brands as rituals that celebrate their own identity which changes in time while gaining new meanings and are concerned with symbols that highlight their prestige and social status. For these consumers, their chosen brand represents wisdom and resilience in the first place.

In the end, I suggested several examples of how variations in consumer behavior due to cultural differences should be taken into account by managers, marketers and consumer behavior researchers.

There are some limitations of this study. First, this topic is extremely large and one paper cannot cover all the aspects of this field. Second, I could focus only on a small number
of components that shape national cultures: whether Western or Asian, besides them there is a large kaleidoscope of nuances and manifestations that make categorization of countries very difficult as so many of them possess individualistic and collectivistic traits or affirm universal equality between individuals while in organizations hierarchy and authority is more often met than interpersonal harmony and collaboration. Therefore, I had to refer only to the dominant cultures/patterns since it was not possible to take into consideration any of the subcultures present in the subjects’ countries of origin. Third, even within one cultural pattern, there are varieties of individual behaviors. Having said that, what I could do was to refer only to those attitudes and choices specifically indicated by the participants in this study.

If a firm is considering which foreign markets to enter and with what marketing mix, it may want to evaluate which markets possess similar characteristics. Once this is ascertained, the firm could offer a relatively standardized marketing mix in those cultures possessing similarity ratings. Culturally similarity ratings could be built by listing a series of issues of importance to the firm and taking into consideration the intersection between cultural manifestations and consumer behavior components.

Finally, it should be said that marketing communication can be a powerful tool to shift or reinforce cultural manifestations. Advertising can create symbols. Hence, a firm interested in transforming a luxury automobile in a symbol for values like “natural living” can associate its brand with that value through advertising until consumers perceived the automobile brand as synonymous with a healthy life. Rituals and heroes can similarly be created by advertising. As for values that are the most enduring manifestations of culture, it may be difficult to change. Research in this area is still needed.

REFERENCES

COST-EFFECTIVENESS OF METABOLIC SYNDROME RISK ASSESSMENT THROUGH CHAID ANALYSIS

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ABSTRACT
The aim of our study was to point out the key factors on the metabolic syndrome (MetS) occurrence and their order of significant influence. According to National Cholesterol Education Program guidelines, patients diagnosed with metabolic syndrome account at least three criteria of the 5 abnormal values for: blood pressure (BP), fasting plasma glucose (FPG), triglycerides (TG), high density lipoprotein cholesterol (HDL-C), and waist circumference (WC). Romania exhibited high rates for the prevalence of MetS. We developed a CHAID decision tree of MetS diagnosis using a data set of patients over 40 years old, with a predominance of elderly senescence group, enrolled in some general practitioner offices in North-East region of Romania. Laboratory information was focused on TG, HDL, and low-density lipoprotein cholesterol values, and FPG. Each individual was also characterized by: systolic and diastolic pressure, hypertension severity, serum creatinine, uric acid, total cholesterol. Abnormal values of waist circumference associated with hipo-HDL (< 40 mg/dl) have the same probability to develop MetS, as in the cases with pathological WC with uncertain HDL (40-49 mg/dl) and with abnormal TG values. The visceral obesity (identified by waist circumference value) was chosen as user-specified variable because it’s easy to look for it in clinical practice and most of all for financial reasons having a negligible cost. In the decision tree, below WC, significant factors are emerging: TG, IFG, HTN degree, LDL, and they are displayed in an ordered sequence from top towards the 12 terminal nodes. The categorical variables on the second, third and fourth levels are laboratory parameters that can be assessed free of charge once every year in asymptomatic patients, or frequently when monitoring patients with chronic conditions. Further studies should search for the existence of correlations between socioeconomic status and the amount of drugs used to delay the occurrence MetS.

Key words: CHAID, metabolic syndrome, cost-effectiveness, key factors, elderly.

JEL Classification: I110

1. INTRODUCTION
Metabolic Syndrome (MetS) is an agglutination of both clinical and economical importance due to the simultaneously existence of more than three cardio-metabolic risk factors and their consequences on health status and treatment demand. At the end of the ‘80, the clinical research put evidence on the cluster and relationship of diverse factors – inflammation, impaired fibrinolysis, hypertension, atherogenic dyslipidemia, visceral obesity, and dysglycemia – and called syndrome X; it was associated with the onset of chronic
diseases such as cardiovascular disease (CVD), and insulin resistance (Reaven 1988, 1595, Grundy 2011, 1).

A comparative analysis regarding hypertensive patients’ financial costs between Germany, Spain and Italy, found that the burden upon health care system is three-fold higher in subjects with metabolic syndrome compared to those without, and it is predicted to rise incrementally with the addition of the other components of metabolic syndrome (Scholze et al. 2010).

Featuring socioeconomic status, MetS became a major worldwide problem considering its burden along or together with its components, regarded as individual risk factors (O’Neill and O’Driscoll 2015, 1). Previous trials have drawn attention on time difference between the obesity and the occurrence of the other clinical criteria for MetS, the first preceding in most cases (Deedwania and Gupta 2006, 797).

Hypertension, an important component of metabolic syndrome, is proved to have a positive linear dependence with epidemiology of major cardiovascular events (Mason et al. 2004). A cost-effectiveness analysis of hypertension treatment vs. a hypothetical no-treatment strategy, based on Greek-specific observational data and oriented to attain the target blood pressure values, showed an incremental cost for a patient to achieve blood pressure control, along with the disease severity (Athanasakis et al. 2014). Amongst few studies, this one confirms that reduced mortality in controlled blood pressure patients is directly linked to clinical and economic benefits.

One of the few cross-sectional studies developed in Romania regarding the prevalence of metabolic syndrome was performed in 2006, including selected patients with different cardiovascular diseases that were admitted to 15 cardiology departments of county hospitals (Matei et al. 2008). The prevalence of MetS according to NCEP ATP-III (National Cholesterol Education Program Adult Treatment Panel III) criteria was 40.6% (38.3% in men and 42.3% in women), showing a slightly increase for women. Comparative to ATTICA study performed in Greece, another Balkan country, Romania exhibited higher rates for MetS (Panagiotakos et al. 2007); however, both studies were developed before the most recent economic crisis.

Thus far, studies have focused both on younger people and populations over 40 years old. For example, a recent study (Miller et al. 2014) showed that waist circumference was the most important predictor of developing MetS for people between 20 and 39 years old.

Another aspect addressed in recent studies refers to the cost of investigations which highlights the risk of developing metabolic syndrome along with multiple cardiovascular risk factors accumulation. Among the components of metabolic syndrome, waist circumference measurement is an exploration with the lowest cost.

This paper aims to develop a CHAID (Chi Square Automatic Interaction Detection) decision tree of MetS diagnosis using a data set of patients over 40 years old enrolled in some general practitioner offices in North-East region of Romania. CHAID algorithm output is a decision tree which emphasizes the significant influence factors on the target category of the response variable, beginning with the one having the highest influence, till the one with the smallest significant influence.

The paper is structured as follows: next section presents the most recent results of CHAID methodology in predicting MetS diagnosis, third section gives the main steps of research methodology in applying CHAID algorithm. The fourth part describes the data set and the main results on the identified pathways of MetS diagnosis. The last section is devoted to conclusions, limitations and suggestions of further research.
2. LITERATURE REVIEW

Recent studies focused on early or accurate diagnosis of MetS. A study on urban population from Thailand (Worachartcheewan et al. 2010), on a subset of 5,638 individuals with an annual medical check-up, showed that triglyceride level was found to be the most informative predictor in the decision tree using CHAID analysis. Other independent variables responsible for best classifying the MetS and non-MetS populations were: sex, SBP (Systolic Blood Pressure), DBP (Diastolic Blood Pressure), FPG (Fasting Plasma Glucose) and HDL-C (high density lipoprotein cholesterol).

Focusing on young adults (20-39 years) from 2009-2010 NHANES (National Health and Nutrition Examination Survey), the CHAID decision tree revealed that waist circumference (WC) is the best signal to predict the risk for MetS (Miller et al. 2014). On a study performed on more than 10,000 patients, using cohort data from 1999-2012 NHANES, the pathways resulting from the decision tree identified new models with less than 3 of 5 current classification criteria in early identifying Metabolic Syndrome (Miller and Fridline 2015). As Worachartcheewan, Miller have found that TG level is the risk-factor the most highly associated with MetS.

In the attempt to predict the occurrence of essential arterial hypertension, coronary artery disease, and diabetes mellitus in an early stage, researchers found the CHAID decision tree algorithm or CART tree regression models as some helpful tools (Ture et al. 2005, Ture et al. 2007).

Statistical analysis based on various decision trees have found out that the resulting models are useful not only for their high clinical classification accuracy of diseases, but more over for their cost-effectiveness essential for the relationship between decision making techniques for providing the health care and the drug demand and consumption. The pathways revealed in the decision tree can support medical reasoning in the decision clinical and paraclinical exploration sustaining the progress in clinical medicine (Podgorelec et al. 2002).

3. METHODOLOGY OF RESEARCH

The model we want to use is based on the CHAID Algorithm and is intended to explain the diagnosis of MetS by building a succession of influential factors, from the best predictor to the least important, but significant one. Using analysis of variance, this algorithm designs a decision tree which explains the interaction between the explained variable and predictors (Kass 1980, 119). At each level, the algorithm identifies the best predictor for the response variable. This is an exploratory method using no assumption on the distribution of data. CHAID is a classification method that partitions the sample into exhaustive and mutually exclusive subsets of statistical units.

The first step of the algorithm refers to: building contingency tables between the response variable and each independent variable, calculating Chi-square statistics for each pair of categories and the associated level of significance (p-value). If \( p-value \geq 0.05 \), for each categorical independent variable one can identify categories that will merge, according to the principle of existence of a high degree of similarity of the influence on the response variable.

The second step refers to splitting, that is choosing the best predictor for each node, thus confirming/invalidating the occurrence of the outcome of interest (MetS). This follows the phase of merging and the most significant predictor is chose, namely that with adjusted \( p-value \) less than 0.05, a value calculated using Bonferroni multiplier.

Another important step refers to the criteria of stopping the development of the decision tree. These are: reaching the maximum tree depth level (e.g. 10 in our case, or 3 by
default), or the node can’t become a parent node because it can’t split into child node given its size (less than the specified minimum number of cases).

Using IBM SPSS 19\textsuperscript{th} version, we used one of the algorithms of classification that generates decision tree models, namely CHAID. We identified the dependent binary variable and the target category, together with the independent variables – defined as categorical variables. Taking into account the number of independent variables chosen for this decision tree algorithm, we set the maximum tree depth on 10 (different from the default settings for CHAID in SPSS), the minimum number of cases in parent node was 20, and in child node was 5. The level of significance, both for merging and splitting, was set to 5%.

4. DATA SET DESCRIPTION AND THE CHAID DECISION TREE MODEL

Study Group Description
We selected a number of 399 patients enrolled in some general practitioner offices of Iasi, in the North-East region of Romania. The inclusion criteria used in the working data set were: age over 40 years old, and the presence or absence of the components of metabolic syndrome. The exclusion criteria were age below 40, and BMI < 18.5 kg/m\textsuperscript{2}. The subset retained 259 individuals.

The mean age of the study group was 68.47 years old, while the youngest subject in the sample was 44 years old, and age range was 51 years (Table 1).

Most patients were from urban area, and a few from rural areas close to the city. Other demographic data included: gender, socio-economic status – education level, current level of income and marital status. Anthropometric parameters were waist circumference (cm), obesity degrees (normal weight, overweight, 1\textsuperscript{st} degree obesity, 2\textsuperscript{nd} degree obesity and 3\textsuperscript{rd} degree obesity).

Laboratory information was focused on Triglycerides (TG) values (mg/dl), high density lipoprotein cholesterol (HDL) values (mg/dl), low-density lipoprotein cholesterol (LDL) values (mg/dl), total cholesterol and fasting plasma glucose (FPG) (mg/dl). Descriptive statistics for laboratory values of the sample set are given in Table 1. Each individual was also characterized by: blood pressure (BP) ranges for systolic and diastolic pressure, HTN (hypertension) degree, creatinine, uric acid.

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Mean</th>
<th>Median</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age (yr)</td>
<td>68.47</td>
<td>69.00</td>
<td>12.39</td>
<td>44.00</td>
<td>95.00</td>
<td>51.00</td>
</tr>
<tr>
<td>Triglyceride (mg/dl)</td>
<td>131.26</td>
<td>111.00</td>
<td>79.70</td>
<td>37.00</td>
<td>770.00</td>
<td>733.00</td>
</tr>
<tr>
<td>HDL (mg/dl)</td>
<td>49.00</td>
<td>48.00</td>
<td>12.98</td>
<td>23.20</td>
<td>102.00</td>
<td>78.80</td>
</tr>
<tr>
<td>LDL (mg/dl)</td>
<td>135.44</td>
<td>134.20</td>
<td>43.50</td>
<td>39.20</td>
<td>318.20</td>
<td>279.00</td>
</tr>
<tr>
<td>Total Cholesterol (mg/dl)</td>
<td>210.69</td>
<td>207.00</td>
<td>48.99</td>
<td>85.00</td>
<td>403.00</td>
<td>318.00</td>
</tr>
<tr>
<td>FPG (mg/dl)</td>
<td>111.53</td>
<td>106.00</td>
<td>30.16</td>
<td>62.30</td>
<td>358.00</td>
<td>295.70</td>
</tr>
</tbody>
</table>

Numerical variables as age, monthly income, waist circumference and obesity measured by body mass index (BMI), were set out into class intervals, using international agreed bins, as well as the classification of hypertension severity (Table 2). Body mass index was not found to be an important predictor for development of metabolic syndrome, as it had normal values for more than a third of the study group participants. This is why we haven’t considered it in the decision tree algorithm. From metabolic syndrome definition, the obesity is revealed by the waist circumference and not by the body mass index.
The modal classes for the previous mentioned numerical variables, along with gender, areas of living, marital status and level of education, are given in Table 3.

**Table 2.** Classification of Hypertension severity upon Systolic and Diastolic Blood Pressure Values in our sample.

<table>
<thead>
<tr>
<th>Classification of Hypertension</th>
<th>Blood Pressure Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal blood pressure</td>
<td>SBP &lt; 140 mmHg and/or DBP &lt; 90 mmHg</td>
</tr>
<tr>
<td>Grade 1</td>
<td>SBP 140-159 mmHg and/or DBP 90-99 mmHg</td>
</tr>
<tr>
<td>Grade 2</td>
<td>SBP 160-179 mmHg and/or DBP 100-109 mmHg</td>
</tr>
<tr>
<td>Grade 3</td>
<td>SBP ≥180 mmHg and/or DBP ≥110 mmHg</td>
</tr>
</tbody>
</table>

SBP – systolic blood pressure; DBP – diastolic blood pressure.

**Table 3.** Categorical variables: modal classes.

<table>
<thead>
<tr>
<th>Categorical variable</th>
<th>Modal class</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age categories (years)</td>
<td>65-69 yrs</td>
<td>19.30%</td>
</tr>
<tr>
<td>Chronological age classification</td>
<td>60-74 yrs (young old)</td>
<td>42.50%</td>
</tr>
<tr>
<td>Gender</td>
<td>Female</td>
<td>52.10%</td>
</tr>
<tr>
<td>Areas of living</td>
<td>Urban</td>
<td>93.10%</td>
</tr>
<tr>
<td>Marital status</td>
<td>Living with partner</td>
<td>86.10%</td>
</tr>
<tr>
<td>Monthly income classes (lei)</td>
<td>500-999 lei</td>
<td>42.50%</td>
</tr>
<tr>
<td>Level of education</td>
<td>Technical college</td>
<td>38.20%</td>
</tr>
<tr>
<td>HTN severity</td>
<td>HTN 2nd degree</td>
<td>36.30%</td>
</tr>
<tr>
<td>Obesity WC</td>
<td>pathological</td>
<td>73.40%</td>
</tr>
<tr>
<td>Obesity (BMI)</td>
<td>normal</td>
<td>84.60%</td>
</tr>
</tbody>
</table>

According to NCEP ATP-III guidelines, the patients were diagnosed with metabolic syndrome if they met at least three of the following metabolic syndrome criteria: BP ≥130/85 mmHg or under treatment for previously diagnosed hypertension, FPG ≥100 mg/dL or previously diagnosed type 2 diabetes, TG ≥150 mg/dL, HDL-C <40 mg/dL in males or <50 mg/dL in females or specific treatment for abnormal lipid profile, and waist circumference (males > 102 cm, females > 88 cm).

From the selected group (259 patients), 34.4% didn’t account for at least three metabolic syndrome criteria. So, 2 of 3 patients presented with the diagnosis of metabolic syndrome according to NCEP criteria for MetS.

**Results**

The aim of our study was to point out the contributing/key factors on the metabolic syndrome occurrence and their order of significant influence.

In order to obtain a decision tree, we took the entire sample of 259 patients, and we defined the dependent variable as “metabolic syndrome diagnosis”. The explanatory/independent variables considered were: HTN degree (the severity of blood pressure values classification in 4 categories as shown in Table 2), FPG (fasting plasma glucose, variable named as “Impaired fasting glucose”), TG values (set up upon cut-off risk limits), LDL-cholesterol (set up upon target values given the cluster of cardiovascular risk factors), HDL-cholesterol (normal ranges set up according to gender). In addition, we chose as user-specified variable the visceral obesity (identified by waist circumference value), because in clinical practice it is the first to be noticed when the patient visits his general
practitioner or other specialist, and most of all because from financial reasons its measurement might be considered of a negligible cost.

The CHAID Decision Tree Algorithm revealed the tree displayed in Figure 1.

![Decision Tree Model](image)

**Figure 1.** CHAID decision tree model for MetS diagnosis.

CHAID classification algorithm determined the formation of 21 nodes, and 12 subgroups in the sample that correspond to profiles of influential factors in developing MetS (i.e.: 12 terminal nodes). These profiles represent risk factors sequence represented by nodes, from the most influential risk factor to the weakest. The decision tree had 5 levels in depth. The overall classification accuracy was 90.7%, and the ability to detect MS was 92.4%.

The obtained decision tree showed obesity as significant predictor on the first level (node 1 and 2) because this was the user-specified variable.

For the second level, TG and IFG were the next most important predictors for the WC splitting nodes. In the third level of the tree, IFG, HTN degree, and HDL were the following best predictors, but IFG was succeeding TG, and HTN and HDL were secondary to IFG splitting. The fourth level is characterized by other three predictors: HDL succeeding IFG splitting from third level, LDL following HDL protective values, and TG ensuing HDL protective values for men and unprotected ranges for women. The last level is given by HTN severity.

With respect to the waist circumference splitting factor, the prevalence of patients with MetS was 77.9% in obese subjects, which is significantly higher than that of thin patients, who exhibit 39.1%.
For pathological waist circumference, the IFG variable was found as the second most important predictor for developing MetS. In node 5, the presence of both pathological variables explains 94.1% of MetS patients, while for normal basal glycemia and pathological WC, the outcome of MetS appears within a probability of 59.1%. The parent node 5 splits according to HTN severity into two terminal nodes, pointing out clearly the difference in MetS prevalence between non-hypertensive patients (66.7%) and any degree of hypertension (100%). That shows that the patients comprised in the pathway determined by pathological WC, IFG and HTN severity, meeting 3 of the 5 MetS diagnosis criteria, have the highest likelihood of MetS occurrence.

One quarter of the terminal nodes gathers patients with the highest probability of MetS (Table 4).

Table 4. Pathways explaining MetS with likelihood 100%.

<table>
<thead>
<tr>
<th>Node</th>
<th>Pathway</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Level 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Pathological WC → IFG → HTN</td>
<td>Pathological WC</td>
<td>IFG</td>
<td>HTN severity</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>Pathological WC → Normal basal glycaemia → HDL &lt; 40 mg/dl</td>
<td>Pathological WC</td>
<td>Normal basal glycaemia</td>
<td>HDL &lt; 40 mg/dl</td>
<td>-</td>
</tr>
<tr>
<td>19</td>
<td>Pathological WC → Normal basal glycaemia → HDL 40-49 mg/dl</td>
<td>Pathological WC</td>
<td>Normal basal glycaemia</td>
<td>HDL* 40-49 mg/dl</td>
<td>TG ≥ 150 mg/dl</td>
</tr>
</tbody>
</table>

*HDL 40-49 mg/dl = uncertain cardiovascular protection: unprotected level for women (protective HDL levels in women begin ≥ 50 mg/dl); protective level for men (HDL risk values for men are below 40 mg/dl)

Node 11 has a particular characteristic: apart from the pathological WC, it has normal basal glycemia together with protective and high protective HDL values (available both for women as for men, e.g. > 50 mg/dl and > 60 mg/dl). The next predictor with respect to this node would be LDL-cholesterol which splits the subjects in two terminal nodes (Nodes 16 and 17). For node 16, the predictor LDL is merging two extreme ranges: one below 70 mg/dl, and the other greater than 160 mg/dl. In clinical practice, LDL above 160 mg/dl is considered a pathological level with cardiovascular negative risk. In general, there are multiple cut-offs target for LDL, depending on the simultaneously presence of other cardiovascular risk factors, as: < 160 mg/dl for no risk factors, < 130 mg/dl in case of one risk factor, or < 100 in case of 2 risk factors. On the other hand, the lowering LDL target is lesser (< 70 mg/dl), in case of more than 3 risk cardiovascular risk factors. So, in node 16, the merge between categories with < 70 mg/dl and > 160 mg/dl should reflect patients with controlled LDL under treatment and respectively uncontrolled LDL in patients with or without other risk factors, except for pathological WC, and would explain the likelihood of MetS occurrence in 78.6%.

In comparison with patients with a controlled LDL (70-160 mg/dl) (Node 17), dependent on the presence of 1 or 2 cardiovascular risk factors apart from pathological WC, the likelihood of developing MetS is only 7.4%.

A special node is nº 18. The pathway representative for this group of patients comprises: pathological WC, normal basal glycemia, and uncertain protection of HDL range between 40-49 mg/dl. The last predictor in this pathway, that brings light to the risk of developing MetS in this group, would be the TG level. Thus, the prevalence of MetS is only 42.9% versus 100% in patients with TG level above 150 mg/dl from Node 19 (Table 4).

A five level depth pathway is met for nodes 20 and 21. Their first characteristics account: normal WC, normal TG level (< 150 mg/dl), impaired fasting glucose, and uncertain
and high protective HDL values. At the fifth level, the HTN degree comes as the ultimate predictor variable. HTN merge normal blood pressure and 1\textsuperscript{st} degree HTN resulting in node 20 with 0\% likelihood of MetS, different from node 21, where 2\textsuperscript{nd} and 3\textsuperscript{rd} degree HTN induce a MetS prevalence of 36.4\%.

In terminal node number 4, gathering patients with normal waist circumference and TG level above 150 mg/dl, the latter is the major reason for the high probability of 92.3\% for developing MetS. In those 12 cases, the risk of MetS is explained only by the abnormal TG values, not accounting the minimum three criteria for the diagnosis of MetS.

Terminal node nº 8 having normal WC, normal TG values, and normal basal glycaemia provides a very low probability of 4\% for MetS occurrence.

A distinctive path is seen in terminal node nº 15, comprising normal waist circumference, normal TG level and impaired fasting glucose, but also associating an HDL risk level (< 40 mg/dl) both for women and for men. In this node, the likelihood of MetS is 83.3\% and is determined only by abnormal plasma glucose level and low HDL values.

5. CONCLUSIONS/DISCUSSIONS AND IMPLICATIONS

Main outcomes

The aim of our study was to point out the contributing/key factors on the metabolic syndrome occurrence and their order of significant influence. The overall classification accuracy is 90.7\%, and the ability to detect MS is 92.4\%.

Waist circumference measurement is of negligible cost and lesser time consumer in MetS screening, as well as an important clinical sign associated to cardiometabolic risk. Given its clinical and economical characteristics, we decided to impose it as user-specified variable in the development of a CHAID decision tree.

In the decision tree, below WC, significant factors are emerging: TG, IFG, HTN degree, LDL, and they are displayed in an ordered sequence from top towards the 12 terminal nodes. The terminal nodes show 12 pathways, each one composed by a sequence of risk factors for MetS whose categories are split into nodes, from the most influential risk factor to the weakest, but still significant.

There have been found three pathways with the likelihood of developing MetS of 100\%.

Although the blood pressure measurement (‘HTN degree’ variable) is a significant predictor in our study (p-value < 0.05) and it’s a parameter that is cost-effective, it comes out on third and fifth level respectively.

A trouble in glucose metabolism, identified by impaired fasting glucose, associating a hipo-HDL (< 40 mg/dl) is responsible of a very high prevalence of MetS.

Implications of the outcomes

Abnormal values of waist circumference associated with hipo-HDL (< 40 mg/dl) have the same probability to develop MetS, as in the cases with pathological WC with uncertain HDL (40-49 mg/dl) and with abnormal TG values. As it was expected, in the case of three criteria for MetS, the condition was certain.

Even though, the blood pressure measurement is a common investigation in patients over 40 years of age, the chances to find high values are greater in elderly populations.

The categorical variables on the second, third and fourth levels are laboratory parameters that can be assessed free of charge once every year in asymptomatic patients, or every trimester in patients with chronic conditions (The package of basic services in primary

**Limitations**

In terms of study limitations, we can identify at least two. One limitation regards the sample size, as the CHAID algorithm works better with large sample sizes. The other one refers to particular issues of the health system and to identification procedures of metabolic syndrome.

Due to advanced age, the elderly populations are more prone to have more than one risk factor for metabolic conditions, with a greater likelihood of presenting MetS at the very first visit to a new family physician or a specialist.

In order to determine more accurately the moment of MetS diagnosis, the today elderly patients should have been observed during several decades before. In our country, the health care system introduced the screening of cardiovascular risk factors by free of charge lab assessment, and only last year the National Health Insurance Agency promoted the screening for the prevention of cardiovascular diseases.

**Suggestions for future research**

Further research should focus on decision tree models developed using larger data sets and considering as user-specified variables gender and age, respectively. For the latter one should consider senescence categories.

In this form of analysis, the outcome of the CHAID algorithm is presented without a validation criterion, so further analysis could be expected to focus on that aspect.

In clinical practice, physician judgment already follows a series of these algorithms for early detection of metabolic syndrome, but the singular existence of some components (IFG, WC, normal BP) most often stops other further investigations. One possible research direction should deepen the existence of correlations between socioeconomic level and the amount of drugs used in chronic or acute stage of chronic conditions, as well as the control of these diseases or risk factors for the purpose of delaying the occurrence of MetS.

In the future, we can expect a higher prevalence of MetS in young people and adults, with repercussions for advanced ages, because they are ‘Fast-Food Era’ children.

**ACKNOWLEDGMENT**

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**REFERENCES**


ABSTRACT

One of the major tenets of the Keynesian economic proposes that a given increase in a nation’s gross economic output is met with an increase in final consumption of a lesser magnitude. This contention has been tested and verified on numerous occasions and has been shown to hold true in various contexts and during various historical periods. In this paper, we break down final consumption into durable and non-durable goods and conduct a comparative analysis of these two categories as a function of Gross Domestic Product. We aim to determine if the Keynesian relationship still holds for consumption sub-categories. Our methodology uses panel data, collected from 23 European countries, over a period beginning in 2008 and ending in 2013. We rely mostly on static analysis to ascertain the breadth and depth of pooled effects, fixed effects and random effects.
FINANCIAL MANAGEMENT OF PROJECTS
FINANCED FROM EU FUNDS

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ABSTRACT

Development of human capital and increase of competitiveness by linking education and learning activities during the whole lifetime with the labor market and ensuring more opportunities for future participation on a modern and flexible labor market can be accomplished through running projects financed using structural funds. Financial management of such a project is very important, taking into consideration that there are some limits for the financial expenses involved in such a project. This article’s scope is to identify main aspects of financial management for a project financed from European funds.

Key words: project, financial management, budget, eligible costs, refund request

JEL Classification: M41, M10

1. INTRODUCTION

POSDRU program had the highest rate of application in practice. Human resource is very important inside an organization, not from the point of view related to the number of employees, but from the point of view of the knowledge that they have. Operational program regarding development of human resources took place in the period of 2007-2013, which will be followed by a new program during 2014-2020. The general objective of this program is development of human capital and increase of competitiveness by joining education and learning during the whole lifetime with labor market and ensuring increased opportunities for future participation on a modern and flexible labor market for 1.650.000 persons. At the end of 2014, the number of signed contracts was over 3000. Until 31 December 2012 over 850.000 persons were trained (employees, unemployed or inactive persons).

For running the projects related to this program, financial management is mandatory and useful. Any project has its own allocated budget, a series of activities that needs to be done and off course, all money spent within the scope of the project needs to be justified. More than that, it’s not enough to have invoices and payment evidences, but also an important role in the project is represented by forecasting costs, payments planning and rigorous management of money that are at disposal for the project. There is also special attention given to respecting specific ceilings for specific expenses. This article objective is to identify what project management means from the financial perspective.

In first part of the article are presented the documents that lays at the basis of financial management and recovery procedure of the amounts spent for running the projects activities. Then the article presents the categories of expenses considered eligible and documents that needs to be annexed to the refund requests. The requirements from accounting point of view
are covered by presenting the monograph accounting for the beneficiary and in the same time for the partners (private juridical persons). The article identifies as well the financial involvements within the project.

In order to be able to answer to all this points we will have in mind the experience from practice of the authors in the field of financial management of projects financed with European funds through POSDRU program. Theoretical information (rules of the game) is mentioned in ordinances, guides, decisions and instructions given by the management authority of this program.

Implementation of projects was held at first without much guidance. With time, meeting various problems in practice imposed issuing instructions (there are currently 106 instructions issued) and decisions that clarify certain aspects, limiting or modify the provisions of previous instructions.

Implementation of projects in Romania has been the subject of various articles, many of them issued by people who were involved directly in the implementation of such projects. Financial auditors have issued relevant opinions on the financial aspects of projects. In the literature review section are mentioned articles on the subject of projects financed from European funds.

2. LITERATURE REVIEW

Implementing projects with European funds was subject of research for many authors in Romania, Most article are however related to the auditing costs of these projects. Thus, Dobre(2009), Pitulice(2009), Serban (2012), Botez (2012) showed differences between related legislation and its implementation for auditing projects financed from European funds. As those who check the justification for money spent, auditors identify errors in implementation.

An important role in a project plays auditing costs involved. The audit procedure meet various organizational difficulties or financial–accounting difficulties: cash-flow forecasting, failure to comply with the provisions mentioned in partnership agreement, accounting policies on accounting for subsidies received, reporting period mentioned in the refund request (Hategan, 2013).

Kameniczki (2014) concludes that the large number of instructions issued reflects the fact that we were not prepared to carry on such programs and not understood the structure and implementation on the program proposed by our country. The authors analyzes the differences between same document “terms of reference” for two program POR and POSDRU, regarding the requirements for auditing the cost of a project, sensing that paying final audit report is considered an ineligible expense, as a payment made after completion of the project implementation period. Subsequently, the costs incurred during the implementation period but paid after this period, were considered eligible under the Instruction no 85/ 16.12.2013.

Implement a project financed from European funds requires amending the legislation for harmonization with European standards (Bigioi, 2015), adapting accounting and fiscal policies of the entity, and improve the expertise of professional accountants (Bigioi, 2015).

Articles targeted also implementing projects in Romania (Popa, 2011), the absorption of European funds (Cace et al, 2009; Boldea, 2012) and causes of low absorption rate (Tatulescu, Patruti, 2014).
3. TERMS, RULES AND IMPLICATIONS OF “THE GAME”

3.1 Costs management

Necessary documents for financial management of a project consists in: financing contract, partnership agreement, projects budget and estimated schedule of refund requests.

Financing contract specifies the value of the project, value of pre-financing, beneficiary contribution (which differs depending on the category of beneficiary), percentage of indirect costs, period of running the contract, percentage of holding on to pre-financing at each reimbursement request.

The agreement specifies the partners involved, their responsibilities, the value of the expenses that each partner will make, pre-financing value for each partner, co-financing value of the project and the way the indirect cost is split between partners.

Project budget contains the split of the projects value during the period of the contract and is presented on budgetary lines.

At the beginning of POSDRU program, pre-financing was given in two phases, having a value of 35% from the project’s budget. Afterwards, this percentage was reduced. Pre-financing is recovered at each reimbursement request as a percentage from the approved value of the request. This pre-financing must be monitored for each partner.

Inside the project it is important to plan the cash flows in order to be able to ensure the running of activities and to avoid financial blockage. Many beneficiaries confronted with financial blockages in 2011 and 2013 when deadlines for reimbursement of expenses related to reimbursement requests were much over the limit, fact which produced not only financial blockage of the project, but also to building up debts regarding wages contributions and blocking of bank accounts. OUG 50/2013 allowed the canceling or postponing of penalties related to this financial debts, but the procedure has been complicated by the fact that the norms to apply the new legislation appeared much more later.

There have also been cases in which the expenses involved couldn’t be paid until the deadlines of submitting the final refund request. Therefore, this expense represented a loss for the entities in discussion. OUG 29/ 2014 allowed preparing an additional reimbursement request, no matter the status of the project, in order to be able to reimburse expenses related to running the project, reimbursed from own resources and not reimbursed through reimbursement requests. Deadline for submitting a request was of 60 days from the effective date of OUG 29 (Instruction 97/ 11.06.2014).

It’s important to monitor each partner that he respects the rules from the agreement regarding the costs, the amount of pre-financing and administrative expenses.

Financial manager must take into consideration on one hand that the eligible values are not going over the limit specified in the financing contract and on the other hand the budgeted values are not overcome for each budgetary line (human resources, participants, other types, administrative expenses). Special attention will be offered to percentage of FEDR expenses.

For an accurate picture of the budget it needs to be known possible changes approved budget (approved possible reallocation between budget lines).

Care should be taken that none of the partners not to request in two refund requests the same payment.

The balance sheet of the project must be modified if there are expenses required to refund that were deemed ineligible after applying for reimbursement. The refund request shall include expenses settled during the reference period of the relevant request.
3.2 Recovery of expenses incurred

Expenses involved in running project’s activities can be recovered through a reimbursement request or a payment request. These request are mentioned in estimation graphic of reimbursement /payment requests (Annex 26 and 27 of Instruction 27). The difference between this two type of request consists in the fact that a payment request contains expenses that were not paid (the request represents in fact a way to pay obligations in the lack of sufficient cash flow), and a reimbursement request contains already paid expenses.

The term of payment request was introduced at the end of year 2013 through OUG 84 in order to avoid financial blockages. Instruction 82 specifies the conditions for creating a payment request:

- Pre-financing that was given is spent or the remaining value is not enough for payment of outstanding obligations;
- it can be submitted every month only one payment request, of minimum 5000 lei;
- recovery of pre-financing is suspended in the case of payment requests with the condition of submitting quarterly minimum of one reimbursement request which has a value at least equal with the pre-financing related to the payment request submitted in the 3 months;
- the payment request must be submitted within maximum 3 working days from receipt of invoices and payroll preparation or state scholarship / grants, accepted for payment by the beneficiary
- supporting documents shall be submitted to all relevant expenditures included in request
- the beneficiary must have the financial resources needed to support its contribution expenditure required in the payment request
- opening a separate bank account at Treasury
- the documents underlying the accounting for project costs will be mentioned "Asked reimbursement from FSE - agreement POSDRU No ..."; the beneficiary will apply the seal and signature on invoices received for "Best Payment" and mention "they had been included in the payment request No .. / ..." (Article 10.)

The refund request related to payment request is filed within 10 days from the date of cashing the amounts paid by AMPOSDRU and will include only those amounts related to the payment request.

Except for the first and last request supporting documents shall be submitted according to a sample generated by the ActionWeb. As of June 10, 2013 was dropped filing these documents in physical format, opting electronic format (Instruction 73 / 07.06.2013) in order to improve checks.

For the first request for reimbursement is specified for a period of advance, otherwise there is a risk to repay the pre-financing received.

Instruction 102 / 12.17.2014 specifies that all financial documents will bear the stamp "Request reimbursement from FSE - POSDRU agreement No..." and supporting documents related supporting activities developed in the project will be additionally signed by the project manager on first or last page of the document.

In each request for reimbursement is envisaged not to exceed the maximum percentage for indirect costs in relation to the direct costs of the request.

Each partner will submit a claim for reimbursement by the project beneficiary accompanied by supporting documents and the transfer of sums due to each partner is in 3 days from the date of cashing the beneficiary. Each partner will have bank accounts designed specifically for project-related payments or collections.
For a refund request must be drawn up a detailed list of expenditure, a balance sheet of the project, and various lists (list of experts involved, administrative support staff list, the list of locations for implementation, list of expenditures related to public procurement procedures required to refund, the list of acquisitions made during the implementation, table summarizing the bank charges, table summarizing the interest).

3.3 Eligible costs

The budget of a POSDRU project includes expenses grouped by 4 categories: human resources, participants, other costs, indirect costs.

The eligible costs are re listed in the Order 1117/2010, as amended by Order 989/2014. Additional specifications can be found in the instructions issued by AMPOSDRU and Guidelines for Applicants.

For an expense to be considered eligible it must meet several conditions:
- be actually paid
- do not be settled only once (if a bill is allocated to two projects, overall not to settle more than 100%)
- be provided in the project budget
- be included in the approved list of eligible expenses
- be supported by a document

a. Human resources

Human resources expenses include costs related to salaries and travels staff.

Any expert involved in projects financed from structural funds should not exceed a total of 13 hours / day and 65 hours / week worked which are settled in such funds (Instruction 64 / 02.01.2013). Applicant Guide 2015 provides limited 12 hours / day, 60 hours / week. Guidelines expressly mentions as eligible expenditure for the leaves during work on the project.

Attention will be paid to social security contributions paid by the employee. It should be capped at 5 average gross salaries. It will pay attention to these contributions a person who has two employment contracts with the same employer.

There must be correlation between the employment contract (and last addendum), payroll, time sheet and activity report, in terms of the number of hours worked.

It is also very important to check the hourly rate of people employed. Applicant's Guide (2015) mentions maximum levels of remuneration which varies depending on the type of staff (manager, specialist, support staff, auxiliary staff) and, depending on experience. These values do not include fees incurred by the employer (the previous documents did not mention this, which is why it is considered that the maximum settled and all taxes included net salary withheld employer and employee).

Instruction 47/2011 provides that the activities of each partner in the project will be carried out by that partner’s experts, meaning the partner will use its own human resources or resort to outsourcing. Instruction 44 / 11.04.2011 expressly mentions the prohibition of employment of staff partner partnership leader and vice versa.

The documents required to justify expenditure on staff are:
- Contract work and related addenda
- Job description
- Time-sheet (mentioning all hours worked in the month)
- Activity report (which describes the activities undertaken by the expert in the hours mentioned in the Time-sheet)
- Payrolls
- Provisions for payment / Orders / Account Statement
- List of experts and support staff involved in the project as an employer (Annex 5 of Instruction 87/2014)

Care must be taken in case of expenditure on personnel changes in structure (which must be notified and approved by management authority in a given period).

Expenses incurred by trips made by its staff are: per diem, transport and accommodation. Order 1117 mentions some limits on these trips.

For the staff of public institutions rules apply HG 1860/2006 and HG 518/1995. For other beneficiaries personnel are mentioned eligible spending limits.

Attention should be given to the calculation of the eligible amount of per diem and fuel for transportation. Hours mentioned in travel orders and tickets or receipts are very important. These expenses must be related to the activity report of the expert concerned and in terms of location.

All expenditures must be made with maximum efficiency (for example is not justified a higher cost of a double room for one person).

**Per diem** is a daily lump sum received by the beneficiary's staff participating in an activity of the project, covering the costs of food and other miscellaneous expenses, excluding accommodation costs. The maximum values for diurnal are: 350 lei / day for foreign travel and 200 lei / day for domestic travel. (Order 3/185/2008 mentions the 350 lei / day / person).

The number of calendar days in which the person is in the delegation are calculated from the date and time of departure to the return date and time car / train / plane in place of his permanent place of work, considering every 24 hours one day delegation. For delegation lasting one day and the last day, under delegated several days, allowance is granted only if the duration of the delegation is at least 12 hours.

**Transportation** may settle in these conditions:
- By plain – price for economical class
- For transportation by train can settle tariff II class for distances up to 300 km, and I class fare for distances greater than 300 km;
- For passenger vessels are settled class I price;
- The fare for public transport
- For transportation by car, up 7.5 liters of fuel / 100 km; Order three mentioned "the real cost of fuel"
- Are eligible expenses for sleeper only if nighttime journeys over distances exceeding 300 km.

For **Accommodation** is required supporting document issued by the tourism accommodation. (Order 3 allowed cost for accommodations "classified with 3 stars maximum"). Maximum cost for accommodation is:
- 600 lei per day / person for trips abroad;
- 300 lei per day / person for travel within the country.

It settled accommodation expenses for journeys over a distance more than 50 km from the place of residence (inserted by Order 989).

Supporting documentation for these trips is:
- Order travel
- Invoices, receipts, tax receipts
- The provision of payment / Payment Order
- Decision of travel, signed by the legal representative
- Tickets fuel / train or plane tickets
- Roadmaps
- Summary table mentioning the names of all persons accommodated, accommodation period, the tariff charged, annexed to the accommodation bill
b. Participants

This budget line covers expenditure on accommodation, transport and subsidies for participants.

Accommodation and transport rules are similar to those of their staff (introduced by Order 989).

Supporting documentation is:
- Deduction of expenses
- Invoices / tickets / receipts
- The provision of payment / Payment Order
- Summary table mentioning the names of all persons accommodated, accommodation period, the tariff charged, annexed to the accommodation bill
- Rules of organization contest prizes / Background note on the criteria for awarding grants / scholarships
- Decision on granting subsidies / prize / scholarship;
- The grant application file / prize / scholarship or contract (eg study contract) if applicable;
- Minutes of file analysis (if applicable)
- List of grants / permissions / scholarships granted;
- Schedule of payment of the grants / permissions / scholarships bearing the signatures of beneficiaries of subsidies / awards / scholarships
- List of grants awarded (if applicable);
- Register of target group (Annex 21 of Instruction 87)

It is necessary to pursue that grants / awards were granted under the rules for granting them and be justified in correlation with activities calendar.

Participants do not receive per diem.

In accordance with the Order of eligible expenditures nr.1117 / 2170/2010 complete package comprising accommodation, transport and food (or various combinations of the three mentioned) are considered expenses related to outsourced activities.

c. Other costs

This category includes lease and rental costs, FEDR costs and outsourced services: event planning, transport and accommodation packages, financial audit, accounting expertise, editing and printing of materials for training sessions or advertising.

The value of outsourced services may not exceed 49% of the total eligible project (Order 1117). Applicant's Guide (2015) provides for information and publicity costs a maximum rate of 10% of total direct costs.

In terms of leasing, are eligible only leasing rates. Order 989 restricts eligibility leasing rates based on usage within the eligible operation. Thus, in the situation where usage per month (number of days of use / 30 days) is greater than 50% (minimum 16 days / month) lease rate will settle in full. If the usage per month is maximum 50% (maximum 15 days / month) lease rate will settle in proportion to their use. It is considered eligible only operating leases.

Maximum eligible expense for renting is 75 lei / m2 / month, and if the rental vehicle is 200Lei / day (range introduced by Order 989/2014). In most cases the rent is allocated to the project in a percentage less than 100%. In must be signing a decision for the allocation.

FEDR costs refer to land, construction (eligible only for public institutions), technical installations, furniture, equipment, office supplies, and other investment expenses. Order 989 provides maximum ceilings for equipment classified in this category of costs:
- laptop/notebook - 4.000 lei including VAT;
- computer / desktop - 3.500 lei including VAT;
- video projector - 2,500 lei including VAT;
- printer - 3,000 lei including VAT;
- multifunctional printer - 12,000 lei including VAT.

The amount of FEDR costs should not exceed 10% (priority axes 1-5) or 15% (Priority Axis 6) of the total eligible project.

Supporting documents for expenditure budget settled in this line are:
- Contracts and reception records
- Invoices
- Payment Orders
- The procurement procedure
- Monthly activity report for each of the outsourced activities
- Sheet asset
- Plan and made acquisitions provided (Annex 10 of Instruction 87)
- Internal decision issued by the legal representative of the beneficiary / partner, the share settlement proposed for the project (as a percentage of the total expenditure properly grounded)

For contracts concluded it will consider the billings do not exceed the values specified in contracts. It pays attention to the period of performance or delivery of goods mentioned in the contract. Very important are the minutes of receiving goods or services and consumer bills for supplies.

d. Indirect costs

Administrative expenses are also limited; the maximum percentage of the value eligible of the project (less FEDR cost) is mentioned in the Applicant's Guide-specific conditions.

Supporting documents may include:
- Contract work and attendance sheet
- Time-sheet
- Decision allocating a percentage of the value of contracts (eg internet)
- Invoices
- Payment orders / vouchers / receipts
- Sheet asset;
- Balance of fixed assets;
- The asset acquisition contract

e. Revenues

The value of expenditures is adjusted with revenues such as interest income in the bank accounts used for project activities. Such interest shall be mentioned in Annex 25 of Instruction 87.

3.4 Accounting of the project

Although representing the accounting profession in Romania, Body of Expert and Licensed Accountants of Romania he came in support of these professionals only in 2011 by issuing a guide on accessing accounting, taxation, audit and management of projects with European financing.

All operations carried out under the project will be reflected in the analytical accounts of the beneficiary and partners and supported by documentary evidence.

The question is whether the expenses declared ineligible but paid for the project development are deductible from income tax. Also, what happens to the percentage of co-financing of expenditure? Co-financing is actually a loss to the entity concerned.

From an accounting perspective project involves:
### 3.5 Value added tax

Some beneficiaries could recover VAT by drawing up an application for VAT refund. VAT was not included in the eligible value of the project. The procedure involved concluding an addendum on the estimated value of VAT and its reimbursement request on the basis of documents, as for a request for reimbursement of expenses. It was later repealed the order that allowed the recovery of VAT by this mechanism.

People who already were running projects were able to recover this VAT only if there were savings to the project budget. It could recover the VAT amount less than the savings. Thus, it was necessary to prepare another addendum stipulating inclusion of VAT estimated in budgeted project value. Budget value does not increase, but the amount of VAT was allocated to each budget line which included those expenses. Obviously, it was requested a statement signed by ANAF which includes all bills included in the application for reimbursement of VAT. The statement mentioned that the VAT had not been asked to be paid by ANAF. Notice the double work to mention the same data into multiple documents (list of expenses, VAT declaration).

It is not fair that the rules for recovery of sums to be amended during the period of implementing the project for which an initial budget was set. In the case of those who spent the entire budget, it is clear that they could not fully recover VAT, because there were no savings. This VAT is incurred extra cash from own funds, which was not foreseen at the beginning of the project implementation.

Currently any budget is drawn up with values that include VAT. The recovery procedure is so simple, requesting the recovery of the full amount of the invoice (if it was paid in full), in a refund request.
4. CONCLUSIONS

Implementation period 2007-2013 can be considered a preparation for future implementation of the program implemented in 2014-2020. Lessons of the first projects may allow the implementation to be done with fewer obstacles in the way more clearly, with sufficient information.

Financial management of a project funded by grants involves a large volume of papers, primarily to justify every cent spent. These documents are financial, technical and other centralized documents. Very important is the presence of signatures and stamps "Request refund – agreement POSDRU no…” on documents.

Financial management requires knowing the list of eligible expenses, schedule project activities, the project activities.

A financial manager must be able to estimate cash flows and the period of reimbursement requests. Implementing such a project involves own funds. In previous years there have been long periods in which reimbursements were late coming in, which prompted financial bottlenecks. Therefore it is important to caution in predicting periods of cashing redemption requests. Aid is given to existing payment applications which require only the corresponding own contribution.

During the project implementation rules of the game can change, often not for the better. It is recommended to use funds more effectively, because it may need money at one time. The budget initially planned will not change ever in the sense of increasing value. Experience has shown that there may be additional costs. Therefore it requires a rigorous management of the funds.

It remains to be seen how the projects will be implemented in the new program for 2014-2020 that are new requirements and difficulties encountered.

Considering the risks assumed own funds required, we believe the only win of an entity in carrying out such a project financed from European funds gained lies in advertising. Winners are participants and experts involved in the project.

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ABSTRACT:

Since 2009, the real estate prices indices are high on the list of policy-makers’ data needs. This needs has been clearly listed by the IMF and Financial Stability Board in its Report to the G20 entitled “The Financial Crisis and Information Gaps”. Recommendation 19 calls for the inclusion of “real estate prices (residential and commercial) in the Principal Global Indicators (PGI) website” and for measurement standards to be developed under the coordination of the Inter-Secretariat Working Group on Price Statistics (IWGPS).

Also at the European level, the house price indices has been included in the set of indicators used for early identification and monitoring macroeconomic imbalances.

Four main methods have been suggested in the literature to control for changes in the amounts of the property characteristics: stratification or mix adjustment, repeat sales methods, hedonic regression methods, and the use of property assessment information.

Knowing available input data on real estate transactions and the regional differences and spatial processes in Romania, the most reliable method to be considered in our country is the hedonic method.

This paper presents the comparison of the real estate price indices through the use of different hedonic methods, presented by the professional literature.

Keywords: hedonic regression, price indices, property characteristics, outliers, multicollinearity
LEADERSHIP, ORGANIZATIONAL CULTURE AND EDUCATION

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ABSTRACT
Leadership and organizational culture are two of the most debated concepts in the business literature. The aim of our paper is to highlight the relationship between these concepts within the education field. In education, leadership and organizational culture play a large role in the development of an organization.

Key words: education, organizational culture, leadership, organization, performance

JEL Classification: A20

1. INTRODUCTION

Nowadays, there is a rising interest in studying leadership and organizational culture as main contributors towards achieving a higher organizational performance. There are different views in the business literature regarding the influences these two concepts (leadership and organizational culture) have over organizational performance. Some researchers (Bycio et al., 1995; Howell and Avolio, 1993) have treated them separately, whereas others have linked them together (Ogbonna and Harris, 2000). One of the fields where this link can be employed is education.

The aim of our paper is to highlight the relationship between leadership and organizational culture within education. The methodological approach is based on literature review.

2. LITERATURE REVIEW

There is a growing body of literature that analyses the two concepts above-mentioned. Within it, there are a multitude of definitions concerning leadership and organizational culture (Table 1 and 2).

<table>
<thead>
<tr>
<th>Authors</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Armstrong, M. (2014)</td>
<td>&quot;The process of setting the direction and ensuring that the members of the leader's organization or team give of their best to achieve the desired result.&quot;</td>
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</tbody>
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Leadership plays an important role in the development of an organization. One must set a goal (be a visionary), share it with the others and use different tools towards stimulating their followers in order to achieve the desired outcome(s).

Table 2. Defining organizational culture

<table>
<thead>
<tr>
<th>Authors</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Bal, V., Quinn, L. (2001)</td>
<td>“An organization’s values, beliefs, practices, rites, rituals, and stories—all of which combine to make an organization unique.”</td>
</tr>
<tr>
<td>Sharma, S.K., Sharma, A (2010)</td>
<td>“Culture is the medium by which organization expresses itself to its employees or members.”</td>
</tr>
</tbody>
</table>

There is a common body when defining an organization’s culture; it consists of organizational drivers and cultural features that work together towards forming the core of an organization. Both leadership and organizational culture should be regarded as a whole, which suggests the fact that there is an interplay between the two that is sometimes difficult to point out in a quantitative manner.

3. LINKING LEADERSHIP AND ORGANIZATIONAL CULTURE WITH EDUCATION

Nowadays, an institution such as those functioning in the academic field, just as any other performing in this sometimes turbulent economic environment, is prone to handling change rapidly and has an imperious need to adapt to changes as best as it can. Thus, an educational organization should and therefore is driven by achieving different standards such as quality, speed, results, etc. which may set forth the basis for forming its cultural features (values, practices, beliefs, etc.- Fig. 1). “These business drivers affect policies and procedures throughout the organization, thus creating its culture (Bal and Quinn, 2001).”

Figure 1. The relationship between leadership, organizational culture and education. The organizational culture is inherently linked to leadership in such a way that they impinge upon each other. Education is the particular field under discussion and it also represents the domain where more and more efforts are being made in order to achieve a competitive advantage against other institutions of the kind. Paradoxically, education is also the area where leaders are formed, and where organizational culture is prone to discussions.
CONCLUSIONS

In education, leadership and organizational culture play a larger role in the development of an organization. Together they should draw a higher performance. Further studies should focus upon highlighting these complex interconnections.

REFERENCES


ENTREPRENEURSHIP IN THE CREATIVE INDUSTRIES

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ABSTRACT

The paper explores the creative industries, a field which has not yet been sufficiently researched, within which the entrepreneurial initiative becomes more and more prominent. The creative industries represent one of the most important areas of the twenty-first century’s global economy and a vital, exciting and rapidly changing field of activity.

One of the most problematic aspects of engaging in creative entrepreneurship is the necessity to balance artistic, financial and self-development considerations. In no other industry sector is the dilemma of balancing the art and the science of entrepreneurship more evident. By referencing the literature, the paper presents the status of creative industries in the European Union and in Romania and highlights the precise nature of entrepreneurship in the creative industries.

Key words: entrepreneurship, creative industries, creative entrepreneurs

JEL Classification: O11, O38, M10

1. INTRODUCTION

There is increasing recognition of the growing significance of creative industries within the economy. The sector has significant potential for wealth and job creation through the generation and exploitation of intellectual property, covering a wide range of industries, from crafts to advertising, designer fashion to antiques, entertainment to leisure software, and an extensive range of support services. The variety of the industries that make up the creative sector are connected, either directly or indirectly, to the information, communication and entertainment sectors of the economy, and are typically very receptive to foreign collaborations. Hence, there is a huge potential for exports, international partnerships and foreign direct investment. As a result, there is a large business opportunity, in terms of sales, knowledge and technology transfer, to be exploited. (Henry, 2007)

Besides the fact that the creative industries have a significant economic contribution, there is another important reason why they should get more attention from decision makers. They have a special creative potential, relying deeply on the human factor, in a higher proportion than on the material factor. The technologies used obviously matter, but if we think about the IT industry, about the theatre or book industry, the human factor is vital in obtaining good financial results. As such, the creative industries represent a very propitious field for the development of the specific entrepreneurship.

The article is structured in three sections, plus introduction and conclusions. The first section will deal with conceptual issues regarding the creative industries and entrepreneurship, as well as with the particularities of the entrepreneurs within the creative
industries. The second section will present the contribution of creative industries to the European economy, and the third section will analyze and interpret statistical data related to the economic creative activity in Romania.

2. DISTILLING AND DEFINING TERMS

The concept of creative industries, first defined officially in Australia, in the 90’s, was assumed and popularized by the labour government of Tony Blair. “In European countries, the term ‘creative industries’ was first introduced by the UK’s Department of Culture, Media and Sport (DCMS) in 1998, to denote ‘those industries that have their origin in individual creativity, skill and talent and that have a potential for wealth and job creation through the generation and exploitation of intellectual property’. The significant size of the creative industries and the fast rate at which they have grown over the last two decades has aroused considerable interest among policymakers at national, regional, and international levels, in particular among those concerned with urban planning, regional development, labor market and education policies and, more recently, innovation policy.” (European Commission, 2010). Since the 1990s, they have been heralded as one of the fastest growing industry sectors, and are now seen as central to the success of most developing and advanced economies.

Often referred to as the “creative economy”, the creative industries represent a set of interlocking, knowledge-intensive industry sectors focusing on the creation and exploitation of intellectual property (DCMS, 2001). Such industries include, but not exclusively so, the following sectors: arts and crafts; designer fashion; publishing; broadcast media and recorded music. Interestingly, software development, computer services, digital media, communications and a range of activities within the heritage sector also feature strongly within the creative industries, resulting in an extremely broad economic spectrum which potentially overlaps with the culture, lifestyle and non-profit sectors. (Henry, 2007).

In the United Nations report about the creative industries (2010), a distinction is made between upstream creative activities, such as visual arts, and downstream creative activities. The latter represent activities which are close to the market, with immediate commercial application, which are transferable and which have a high economical scale potential. Such examples include advertising, editing or media representation activities. Taking this distinction that the 2010 UNDP report proposed, cultural activities can be considered as a subcategory – less commercial at times, of creative industries. (Volintiru &Miron, 2015)

According to European Competitiveness Report (2010), creative industries have several characteristics in common:

- “Most of the firms are small (employing fewer than 10 people) and most of the workers are highly skilled self-employed professionals.
- In addition, many people within the creative industries work part time and/or have temporary contracts.
- Creative industries also often feature a high degree of networking, an intensive supply chain and other inter-firm linkages, and are concentrated in major cities.” (European Commission, 2010)

In the field we are talking about, more than in others, an important vector which determines the evolution of the company is the entrepreneur – there are activities closely related to his / her personality and education. The creative businesses can save a country’s or a city’s economy even when the traditional economies, based on agriculture, industry or trade have failed. They represent the happy combination of two qualities: that of being an “artist” and that of being a “businessman”.

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John Howkins (2001), observes how the French economist and journalist, Jean-Baptiste Say, coined the term ‘entrepreneur’ in the late Eighteenth Century to describe a person who unlocks capital tied up in land and redirects it. Howkins makes this observation on the creative entrepreneur: “Entrepreneurs in the creative economy…operate like Say’s original model entrepreneur but with an important difference…they use creativity to unlock the wealth that lies within themselves. Like true capitalists, they believe that this creative wealth, if managed right, will engender more wealth.”(Howkins, 2001). There is some evidence in the literature to suggest that creative entrepreneurs are different to those in more traditional industry sectors and are, to some degree, part of a new and emerging social group (Fussell, 1983). They represent the valuable new knowledge workers (Drucker, 1993); the basic tools and materials for creativity which are beginning to form a new type of creative class (Florida, 2002). Creative entrepreneurs display certain common core entrepreneurial characteristics within their particular creative sector.(Henry, 2007).

Risk-taking, among many other things, is the most talked-about character of entrepreneurship. In fact, for Cantillon (1680-1734), the first specialist who was concerned with defining the entrepreneurship, the central component of the definition of the entrepreneur gravitates around the risk assuming. It is distinctive because risk is the most common connection with failures; it is destructive if not dealt with properly, and fatal in many cases. In creative industries, the acceptance of the production is closely related to the “taste” of the customers, which is the most irrational factor in the array of customer behaviors. Therefore, the risk in operating the business as a creative venture to maintain a sustainable operation by obtaining the recognition of the market, in addition to all the other risks associated with enterprising in general industry, is even higher. (Watterson, 2009)

There is a widely held belief in the business literature that creativity and innovation are key qualities in entrepreneurship. In business, as well as in the arts, individuals need to be in touch with the wellsprings of creativity and imagination. (Henry, 2007). According to Schumpeter, entrepreneurs are the innovators who shatter the status quo through new combinations of resources and new methods of business. “The function of entrepreneurs is to reform or revolutionize the pattern of production by exploiting an invention, or more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way. . . . To undertake such new things is difficult and constitutes a distinct economic function, first because they lie outside of the routine tasks which everybody understands, and secondly, because the environment resists in many ways” (Schumpeter, 1942, p. 13). They could be deemed to act as a force of “creative destruction”, challenging current practices and replacing them with enhanced activities.

One of the most problematic aspects of engaging in creative entrepreneurship is the necessity to balance artistic, financial and self-development considerations. In no other industry sector is the dilemma of balancing the art and the science of entrepreneurship more evident.

Howkins (2001) outlines five distinctive characteristics of creative entrepreneurs: vision, focus, financial acumen, pride and urgency. Creative entrepreneurs are resolute in their “single-minded” ideas that cannot be wiped out of their mind until they make it reality or accept it is impossible on the way to reach the goal (probably with more than one attempt). Their financial acumen is manifested in the realization in their mind that only the financial numbers speak well for them, and they don’t easily give up on the idea they are so proud of. Most importantly, the fixation of their “single-mindedness” facilitates their urgency because they “cannot be bothered to think of anything else. (Watterson, 2009)
3. THE CONTRIBUTION OF CREATIVE INDUSTRIES TO THE EUROPEAN ECONOMY

The usual means of measuring the economic value of the creative industry sector is the contribution of the sector to gross domestic product (GDP) in terms of its distribution growth, as compared to the overall economic growth, as well as the sector’s potential for job creation in terms of employment share in the overall working population. (Henry, 2007)

According to the European Commission (2012), in quantitative terms, the economic performance of the creative industries is impressive: the cultural and creative sectors account for 3.3% of the European Gross Domestic Product (GDP). “Between 2008 and 2011, employment in the cultural and creative sectors proved more resilient than in the EU economy as a whole with growth rates varying, however, between subsectors. This tendency is all the more interesting because some sectors have a higher percentage of youth employment than the rest of the economy.” (The European Commission, 2012)

According to an EY study, with an annual income of €535.9 billion and over 7 million employees, out of which 19.1% are people under the age of 30, the cultural and creative industry is placed in top three employers in Europe, immediately after the construction industry and the food and drinking service industry. The study analyzed 11 cultural and creative European markets: newspapers and magazines; music; performing arts, visual arts; television; film; radio; video games; architecture and advertising and it is the first study to analyze in detail the cultural and creative industry in the European countries.

The biggest three fields in 2012 were the visual arts (€127 billion), advertising (€93 billion) and television (€90 billion), which generated more than a half of all the revenues of the cultural and creative industries. The publishers of newspapers, magazines and books have generated at the same time a revenue of €107 billion. The biggest employers within the cultural and creative European industries were the visual arts, the performance acts and the music industry.

The cultural and creative industries are well positioned within the digital economy. Being a source of innovation and creativity, they have surpassed the challenges of new media and have increased the cross-media use. The study reveals that 70% of the time the users normally spend on a tablet is allocated for the consumption of cultural goods. Between 2001 and 2011, the revenues from the digital market have generated additional income of over €30 billion in all cultural sectors. (http://www.business24.ro/companii/angajatori/industriile-creative-asigura-mai-multe-locuri-de-munca-decat-producatorii-auto-1552337, Accessed 5 February, 2015)

Understanding that the creative industries stimulate the local economies, trigger the emergence of new activities, create new and sustainable jobs, generate ripple effects throughout the economy – they have been included in the EU program of regional politics (which Romania is part of, as well) for the period 2014-2020. They must be immediately integrated in the regional development strategies, thus ensuring an effective partnership between the civil society, the business environment and the authorities, at the regional and national level and in the context of The European Union.

4. CREATIVE INDUSTRIES IN ROMANIA

The creative industries, as might have been expected, exploded after the totalitarian period, the opportunity of their emergence being connected to a potentially big and complex market, reasonable costs with high added value and a great growth potential. The emergence of a business is connected to opportunities and markets, but at the same time to
entrepreneurial spirit and potential. All these points clearly lead to the capital city’s hegemony in this field; ever since the beginning of the market economy in Romania, Bucharest (and later on, the periurban area) provided optimal conditions for the development of creative industries: economic conditions, demographic ones and social ones. Moreover, the capital offered and still offers the most suitable conditions for the development of these industries: space, infrastructure, market, workforce.

According to a study by Volintiru & Miron (2015), in Bucharest there are 16,398 fiscally registered companies specialized in creative activities, which is approximately 12.5% out of the total economic entities in the city. In terms of aggregate turnover, the creative industries reached approximately 19 billion RON in 2013. Both from the point of view of the number of companies and from the point of view of turnover, the Romanian creative industries are dominated by the sectors characterized by immediate commercial applicability (downstream activities), such as media activities: cinema, TV, radio or advertising. This trend illustrates the ratio between the cultural and commercial activities within the field of creative industries. The two subsectors must be regarded, though, as complementary sides which stimulate one another, triggering multiplication effects, both within the creative industries and in other economic fields.

According to the number of active companies in creative industries, most economic agents in Bucharest operate in the following fields: Advertising – 4,194 companies, Software, Web, IT solutions – 4,167 companies. Both these fields have a high degree of rapid commercialization. Thus, the attractiveness of these fields, both for entrepreneurs and for employees, is very high. At a significant distance in terms of numbers other fields of creative activity are situated: Printing, Editing, Translating – 2,216 companies, Media – 1,818 companies and Architecture – 1,577 companies. Although less numerous than the companies operating in Advertising and IT solutions, this second category represents fields which are better consolidated with regard to the duration of activity. If the emergence of Advertising and IT companies is characteristic of the last decade, the main media, architecture or publishing activities have been operating for almost two decades. Thus, the lower number of companies in these areas can also be interpreted as an indicator of consolidation. (Volintiru & Miron, 2015)

The creative companies have been distributed in the areas with already existing high economic density: Bucharest, Cluj, Timisoara, Iasi, Sibiu, Brasov, subsequently other centers emerging, with a centrifugal tendency. They have reacted as a strong catalyst for the other economic activities in the middle of which they operate, giving an even greater economic impetus to the respective economic area. This fact, as well as the better resistance of these industries in times of crisis is a fact that is well-known both to local authorities, as well as to the political decision makers, so that the measures of promoting creative industries will also be intensified in the less developed areas so as to trigger a process of increasing them (one of the levers).

It is also worth mentioning that, within the creative industries field, the branch with the biggest contribution to the Romanian GDP, to employment, to labor productivity, is the software industry. This branch, by itself, surpasses the accommodation and catering industries. Another branch that stands out is the book industry. Within the core industries (the so-called “nucleus” of creative industries), it occupies a share of 17% gross value added.


The industry of the software “factories” has constantly increased, almost linearly, given a pressure in demand. In this field, more than in other fields, the presence of bigger or
smaller foreign investors is significant, which is a clear recognition of the native Romanian creative potential and pattern of intelligence.

Creative industries have a tendency to become essential components of economic subsystems, their share in economy reaching 5.7% of the total number of companies, surpassing the European average and being closer to the Scandinavian countries, well-known for their high values of this indicator. The capacity to adapt to the economic crisis the creative industries have is remarkable. If other economic fields have registered significant decreases after 2008, the creative industries have entered a path of growth.

The fact that Romania is placed above the European average is due to a number of factors, among which we identify the economic factors: lower input and operating costs that are more advantageous for the operator in this field – usually, they are small companies with no more than 10 employees, there is no need for special locations; the human resources receive a reasonable stipend and there are enough of them. There is also a sociological factor that is specific to this geographical area that is also worth mentioning: the inhabitants of Romania are people with imagination, creative people and they have a kind of logic that is more appropriate to variety than to serial production. This fact has been observed and speculated by a significant number of foreign investors.

The creative Romania has economic strength. The creative industries represent 7% of GDP and generate the eighth part of exports. The Romanian IT companies are among the few which are going international. Romania is an European leader as far as the number of IT specialists is regarded. We are the fifth country in the world in terms of internet connection. The film production domain has continually brought us awards (at Cannes and Berlin). Despite this, the exports in film production are absent.

Without a doubt, the engines of the economies in Europe and especially in Romania are: the rapid advancement of digital technologies, the network globalization – the internet has created new distribution channels and even new business models; the abundant source of creative people with IT abilities. It is more and more clear that politics that favor these fields are being implemented. The impact they have on the national educational process should not be neglected.

CONCLUSIONS

The creative industries represent one of the most important areas of the twenty-first century’s global economy and a vital, exciting and rapidly changing field of activity.

The creative industry becomes a key concept in the economy of knowledge contributing to the increase of territorial competitiveness by implementing coherent policies, development strategies and inter-institutional cooperation for the development of creative activities.

The creative businesses can save the economy of a country or a city, where the traditional businesses, based on agriculture, industry or commerce have failed.

Besides the fact that the creative industries significantly contribute to the national economy, they are also based on the human factor, to a higher extent than on the material factor. The technologies used obviously matter, but, if we are thinking about the IT industry, the theatre or book industry, the human factor is essential in getting good financial results. As such, the creative industries represent a very favorable field for the development of specific entrepreneurship.

From the data analysis, it follows that the creative Romania has economic strength. The creative industries represent 7% of GDP and generate the eighth part of exports. The analysis and interpretation of data reveals that there are differences between the creative
sectors, according to the prescriptions of literature. Thus, upstream activities with more intense cultural or artistic components do not perform as well from the commercial point of view as the downstream creative activities, such as advertising.

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A NEW ETHICAL AND POLITICAL PARADIGM.
THE CURRENT POLITICAL CRISIS

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ABSTRACT
The underlining idea of this essay is that nowadays politics, in its entirety, is going through a profound crisis that impairs on its efficiency (performances that is), on its relationship with other fields and, last but by no means not least with the destiny of individuals, of human communities and humanity as a whole. We are talking about a general, structural and relational global crisis, a crisis that touches issues like efficacy, legitimacy, authority, trust and none the less morality.

The overcoming of the current political crisis, requires, among others, a more intense professionalization combined with a process of "on-going" re-moralization of politics through the concerted action of the new civil society with the help of mass media.

Key words: crisis, ethics, politics, political Ethics paradigm

The twentieth century was labelled as "a century in crisis, a century of crises " (Edgar Morin), and, as it has started, the XXIst century doesn't seem to be any exception to this statement. We live, indeed, in a world profoundly marked by crises in all areas, crises which, together, generate a multiple crisis of planetary dimensions.

On September 4th 1993, we were informed, solemnly, in a Statement read in front of over 6,500 people in Grand Park in Chicago, on behalf of the Parliament of the World Religions, reunited after exactly 100 years, that: "The world is in agony " and that "agony is so comprehensive and so pervasive that we are required to disclose all its manifestations, thus underlining the depth of the crisis in which the world is found."

The text of the Declaration for Global Ethics (because that is how it is called) developed by the Roman Catholic theologian Hans Kung, at the request of the Committee of the PRL Council, notes that: "The world nowadays is going through a fundamental crisis which manifests itself within the world economy, ecology and global politics ".

About this latest crisis we will discuss in this essay. We aim to answer some questions such as: Is politics in crisis? What are the manifestations of this crisis? Is the twentieth century totalitarianism an expression of this crisis? What can be done to overcome the crisis or at least to mitigate its effects?

1. IS POLITICS IN CRISIS?

The answer seems to depend on the “constraining evidence" that the philosopher D.D. Roșca invokes, in another political context. Indeed, it's enough to take a look around the world, as the British theologian Malcolm Muggeridge urges us, to figure out that something is not going well. And, if something goes wrong, politics is surely or primarily responsible for this, as Aristotle already knew, it decides, by regulation, on all the other spheres of social life - from economics to culture - its purpose is considered a priori "the most chosen" in the practical order of things. But, what we call politics crisis has currently more obvious manifestations that prevail over any metaphysical arguments.
But, as Nicolas Tenzer notices, the reality of the crisis is not obvious for everyone. It is not unanimously acknowledged even in the world of specialists. Thus, some prefer to simply neglect it. Other prefer to play it down and not few are those who avoid even the use of the term crisis, choosing to use less inconvenient terms such as: decline, difficulty, issue, erosion, etc. At the opposite pole are those who lay stress on crisis by disputing the survival of politics itself. (Guehenno 1995)

Accusations regarding an abusive use of the word crisis are frequent as well, going until that certain point that, as Guy Braibant believes, the day when we will have to analyse the crisis itself of the term crisis is not that far away. (Braibant 1976)

Eventually, it's important to say, every time, what we mean by crisis. And maybe it's not too exaggerated to recognize, in this context, together with the French historian Pierre Chaunu that leaving from words means leaving from the essential. (Chaunu 1986) It will thus be easier for us to identify the politics crisis defining the terms that make up this phrase. The phrase "crisis of politics" brings together two known terms, but whose frequency of use and the level to which they are typically used differs a lot. The term crisis comes from the Greek language, from krisis, meaning decision, judgment. In the language dictionaries, the term designates, among others, "the manifestation of some difficulties (economical, political, social, etc.); period of tension, of disorder, of attempts (often decisive) that manifest in the society "; the acute lack of something. The word crisis is less used in everyday speech although, in recent years, due to the financial and economical crisis haunting the world, it is on everybody's lips. In the perception of the common sense, the word crisis is associated with the presence of some difficulties, of some serious situations that affect our daily lives. Few know, for instance, that a crisis can provide opportunities for changing things into something better. This does not make the crisis more agreeable. The word continues to retain an air of discomfort being assimilated, as a rule, with everything that could be worse.

Unlike the word crisis, the term politics is frequently used at all levels: in scholar language, but also in the media and in every day speech. Everyone believes to be good at politics and to know what politics is. Nevertheless, in what specialized language is concerned (philosophy and political science, for instance), things are not so clearly shaped. There are many “definitions” of politics which not once or twice generate confusion even among specialists. Amongst the clearest definitions of politics, the ones from Plato’s dialogue “Political Man” deserve all attention. To Plato, politics is the science of people’s joint living or the science of leading people. (Plato 1989). The essence of this definition can be found with contemporary scientists in political science. In the wording of researchers within Laboratory of Political language analysis from Saint Cloud, politics is the activity which aims the management of public affairs. We can find a similar definition with the British political scientist of Romanian origin Ghiță Ionescu. He enunciates the following definition of the role of politics: „the role of politics is to adjust the public coexistence of human beings”.(Ionescu 1996)

Science to some, art for others, science and art altogether, for the most generous, politics has as essential task the governing of politically organized human communities (in a structure of the type: citadel, state, etc.). Returning to the phrase “crisis of politics” it is appropriate for us to make two parentheses:

a). the term politics from the phrase crisis of politics has the function of a noun, in the genitive case, which suggests that globally, as a whole, politics is in distress. This forces us to add that the phrase “crisis of politics” has a totally different connotation than the phrase “political crisis”. The latter is usually associated to a governmental or ministerial crisis settled by a change of the government or by other administrative measures. The crisis of politics we refer to herein target politics in is capacity of human activity meant to deal with public affairs,
to administrate general interest or public welfare, human cohabitation, as Plato states.

b). crisis of politics does not mean, as some authors intend to suggest, the “end” or “death of politics”. On the contrary, it could mean an opportunity for a political reform.

It is not a coincidence the fact that the term crisis was first and for a very long time used in the medicine and psychiatry field from where it penetrated into other fields, including the political one. By analogy with the medical field, it can be said that, as an illness has its external actions, its symptoms according to which it can be diagnosed, in the same way a crisis can be identified according to its outer manifestations, to its symptoms.

2. THE SYMPTOMS OF THE CURRENT CRISIS OF POLITICS

Different authors have differently identified the symptoms of the current crisis of politics, but taken together, these relevant issues figure out the phenomenon as a whole.

According to Rene Remond, the main symptoms of the crisis of politics, as it manifests in France, but certainly things are the same in other Western countries, are the recoil of the participation, the weakening of the political parties, the divorce between the civil society and the political class and the corruption which embraces political life. (Remond 1993).

In turn, Nicolas Tenzer, identifies four fundamental aspects that the politics crisis takes: the public domain restriction, first; the feelings of worthlessness of the politics, secondly; the disappearance of the sense of community, third or more precisely, the will to arrive at a common purpose, namely to build a space where words have the same meaning for everyone and in which it is worth the toil of working on a common task and, finally, the strong idea and yet the wrong one of an antagonism between society and politics. (Tenzer 1995).

The list of symptoms of the current crisis, is however considerably wider and it attests, indeed, that what we call crisis of politics is not just in the minds of some authors, but also in the reality. The negative perception of politics, the perversion of its genuine goals, the growing mistrust in the political institutions and politicians, the drastic erosion of credibility of political parties, once considered the keystone of modern politics, the lack of effectiveness of political actors in managing public affairs, despite the increasing costs that the politics involve, the corruption of the political class, the proliferation of immorality, falsehood (duplicity), cynicism and political Machiavellianism, the increasing discrepancy between what people expect, legitimately, from politics and politicians and what the politics really offers, the poor recovery (waste) of the natural resources, the alienation of the political class with the rest of society, the inability of politics to meet the challenges of the world we live in (globalization, the increase of violence, environmental degradation, etc.), the increase of chaos and insecurity at a global level and, certainly, the list could be extended. All this attests to the fact that politics today is in a multiple and profound crisis, a crisis of unprecedented proportions.

3. TOTALITARIANISM AS AN EXPRESSION OF THE POLITICAL CRISIS IN THE XXTH CENTURY

The totalitarianism pushed to the extreme the politics crisis in the twentieth century. It perverted politics’ tasks transforming politics into a mere instrument of terror. Hannah Arendt noticed how the excess of violence destroys power. Or, the totalitarian regimes have relied heavily on the book of violence, of terror. However, the twentieth century totalitarianisms sometimes generated paradoxical situations. Thus, in certain circumstances, the totalitarian
regimes have managed to create the impression of effectiveness and even to be effective (e.g. the Nazi regime in Germany, under the circumstances of the Second World War, managed to determine an economic development that stunned the world, absorbing a significant part of the workforce made redundant by the market economy which was in recession). The same regimes have succeeded, for a time, to generate a certain adhesion and thus to create the appearance of legitimacy and credibility, despite the means that disqualified them politically and morally.

Another paradox that characterized totalitarian regimes lies in the excessive politicization of society (by the control of the State over all areas of life; "Everything through the State, nothing outside the State", said Mussolini) simultaneously with a terrible degradation of politics as an activity destined to the administration of public affairs.

In the end, totalitarian, fascist and communist regimes altogether managed to pervert all the components of political life and to corrupt the reference function of politics itself: that of administration of public welfare (interest).

In the case of any totalitarian regime, we are dealing not only with a deliberate annihilation of democracy, but also with an extreme degradation of politics itself reduced to the state that wishes to keep everything under its control but which is controlled, at its turn, by the sole party. According to Raymond Aron, totalitarianism achieves the absorption of civil society within the state and transfigures the ideology of the state in a doctrine imposed to intellectuals and universities. The totalitarian State, which identifies itself with the sole party, exerts a complete control over society, culture, science, morals and this control goes forward to individuals themselves whom no freedom of expression or of consciousness is acknowledged to. Giovanni Gentile stated, in the article dedicated to fascism from the Italian Encyclopaedia, that „for a fascist everything is in the State and nothing human or spiritual exists and has value besides the State”. So that, by its defining characteristics: an ideology enforced to everyone, a sole party controlling the state apparatus, ideally driven by a charismatic leader, a police apparatus turning to terror, a centralized management of economy, a monopoly of the mass means of communication and a monopoly of the army force, totalitarianism disqualified politics turning it into its opposite, the anti-politics.

As they manifested during the 20th century, totalitarian regimes pushed politics to the worst crisis it has ever known. What is there to do? Leave the political man rest because he is ill, Michel Mafesolli, professor at Sorbona suggests. But who will replace him?

The theocracies, as it is known, failed, one by one, starting with the theocratic regime of the "chosen people". The God's Law was certainly good in its essence, but those who had to apply it had in them another law that the apostle Paul revealed in The Epistle to Romans, chapter. 7 vs. 21: "I find but in me this law: when I want to do good, evil is present with me”. This is the law that most often was confirmed and validated in politics.

The philosophers that Plato wanted at the head of the cities, as a prerequisite of good governance, never came to govern any state. And today, the philosophy and the philosophers enjoy even less confidence, which caused a sociologist like C.W. Mills to assert that he would rush to leave the city where the philosopher would be king. (Mills 1974)

In the ‘60s in the headlines there was a new theory which suggested the substitution of the political factor, believed as inefficient, for the technical factor, replacement of politicians with technocrats and the instauration of the “technical state” described, among others, by Helmut Schelsky. Nowadays, more recent variants appeared, put up-to-date of technocratic theories, variants which gamble on “artificial intelligence” and on the invention, within a few years, of super intelligent machines (computers), capable of taking over in a near future the entire decisional process, thus depriving people of the prerogatives and functions of human society governing.
In the long run, all these solutions which seemed tempting at a certain point proved themselves to be a mere utopia. Neither theologians nor philosophers or technocrats managed to successfully substitute the politicians. Rather they suffered a process of " politicization", visible especially in the case of technocrats.

Solutions should first of all aim not the removal of politicians, throwing politics overboard, which could be impossible to do at this point, but rather the change, reorganization, reformation of politics itself, idea currently embraced by several analysts, philosophers, political scientists, etc.

In the specific case of totalitarianism, I think the first duty would be to try to learn from past mistakes in order not to repeat them. Many believe that the totalitarianism is a dated historical phenomenon, that can no longer return. It must be said that nothing can ensure us against this, not even democracy. Let us not forget, moreover, that Hitler and his regime came to power in democratic conditions (through elections). In various forms the totalitarianism and the tyrannies of all kinds can come back anytime. The psychologists could tell us how within the man the sanguineous tyrant is stronger than the democrat. The tyrannical impulses are within us, each of us, while the democracy is won and learned in time. We are not born "democrats", but we can become, in a process that is never easy.

Goethe said: "One deserves life, freedom, only the one who conquers them daily and tirelessly". The tyranny and the totalitarianism are installing themselves, in times of inattention, without asking for permission; instead, the democracy has to be won, installed, maintained, improved. The prevention of the degeneration of politics as well as the resolution of the present crisis that the politics is facing, an unprecedented crisis not only in size (in magnitude), but also in the difficulty and complexity, claim, without a doubt, a radical reform of the politics.

A first step could be, for example, a greater professionalization of politics. The first author who talked about politics regarded as a profession was Max Weber. He distinguished the "politicians of opportunity" of "professional politicians", the latter being considered as those who earn their living by making politics. Their number has steadily increased. As René Remond remarks, today most of the political parties are form by the professionals. However, according to the French political scientist, it has become today increasingly more difficult to do politics and at the same time to practice a profession, whatever that is. The political activity claims time and energy and thus the one who is engaged in such activity is de-professionalized whether he wants it or not. A doctor or a lawyer who decides to make politics, for instance, will lose not only his customers, by not doing his job, but also his professional dexterities, in a word he will become de-professionalized. "By the force of things, notices René Remond, politics has become a profession that fills all the time; it justifies the allowances allocated to functions or mandates". (Ionescu 1996)

But, although the politics has seen in the last decades, an intense process of "professionalization", one can still not speak, literally, of a professionalization of politics as such. The fear expressed by some authors is that a professionalization too sharp of the political function could affect the democratic process. But this fear is unjustified. For example, it is possible that the share of "professionals" in the executive function increases, in which, however, those who occupy various positions are appointed, not elected, most often based on partisan criteria (belonging to the ruling party or parties). In this situation there are the members of the government, headed by the prime minister and all the functions that are beneath them, starting with the Secretaries of State to the last official.

Representative assemblies could, from now on, be chosen by popular vote but employees on various functions subordinated to the mandate of a congressman could be politicians by profession without this affecting democracy in any way. On the contrary,
providing University-trained professionals for all non-eligible jobs would make the political activity a much more efficient professional activity.

The increased turning of politics into a profession shows several advantages hard to argue with. The first is the one involving specialty training. As any other specialist, the one who studies politics in a university basically assimilates all the necessary knowledge and approaches for an efficient, competent activity.

The second scenario that could be made aims the moralizing or re-moralization of politics (increasing the morality of politics). It's about, as René Remond noticed, a "moralization on-the-go" of the politics, through the concerted action of several factors and courts. The first impulse towards moralizing the politics could come even from politicians that today face countless allegations of corruption, immorality, political Machiavellianism. The development of ethical codes as well as the existence of specialized structures such as commissions and ethics committees could be a step towards moralizing politics from within. But certainly, the most important impulse in this direction should come from the civil society and its various structures, the civil society being the main beneficiary of the measures, decisions or actions good or bad of the politics and politicians.

Civil society or what it is more recently called the new civil society could manifest itself in an efficient way – and there already are countless signs in this respect – by means of non-governmental organizations (the NGO-s). There already are successful experiences to that effect.

Finally, a mostly efficient action regarding the attenuation of the current crisis of politics could come from the media. Acknowledged as “the fourth power” or “the watchdog of democracy”, the media undertook, in democratic societies, an increasingly active in exposing the deeds of corruption, demagogy and immorality of political men. It is a fact that the media became a fierce opponent of Machiavellian politics and politicians are more and more afraid of this “number one public enemy” which, as they did not manage to control as they would have pleased, learned to treat it with fear and respect. Anyway, in a time of generalized communication, the media became the main counter-power capable of keeping the behaviour and abuse of politicians under observation.

A third approach, the need for which is felt today more and more, regards the drafting of a new ethical-political paradigm able to explain and to guide the political action in the future. As Alexix de Tocqueville claimed, for the world in which he lived, a new political science, our world needs a new ethical-political paradigm more than ever. In the classical political and philosophical thinking, there were more intellectual-philosophical constructions that marked the evolution of political thinking and action on significant periods of time. Thus, we can talk about: the Aristotelian paradigm, the Machiavellian paradigm, the Kantian paradigm, the Hegelian paradigm, etc.

4. CONCLUSIONS

Today, a new ethical-political paradigm is needed for reasons that can be easily distinguished and argued. First, there is the inability of the traditional paradigms to provide explanations and viable courses of action. Then, the changing of the world, particularly evident after the fall in 1989 of the totalitarian communist regimes and after the terrorist attacks on the United States on September 11th 2001. Thirdly, we are witnessing a change in the relationship between politics and other areas of social life, for instance, between politics and economics, politics and religion etc. In turn, the globalization forces a rethinking of the traditional concepts of political science forcing us to rethink the relationships between politics and other manifestations of human life.
Of course, one could come up with scenarios and measures aiming certain aspects or components of the crisis such as the crisis of political parties or the crisis of democracy, for instance. For example, in order to surpass the crisis of democracy, a possible scenario would be the one involving digital democracy, a popular subject lately. But, since, in the end, the crisis of politics is a general and global one, its settlement claims general measures aiming the entire field of politics, politics in all its aspects.

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SELF-CONTROL AND TIME-PREFERENCE IN INDIVIDUAL SAVING/CONSUMPTION DECISIONS: THEORIES AND EMPIRICS

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ABSTRACT

This paper discusses the inter-temporal aspects of individual consumption behavior and their effects on the level of actual consumption and savings. Empirical evidence shows that quite often individuals fail to achieve their neoclassical consumption or saving goals and one of the reasons for this failure could be the self-control issues. It has been observed that individuals have a bias for present consumption. This aspect, not taken into account by neoclassical economic models, affects individuals’ actual consumption and saving behavior, resulting quite often in less than optimal decisions. Behavioral economists incorporated this feature in neoclassical models to make predictions closer to the observed reality. Individuals are quite often aware of the self-control problem and use heuristic, or rules of thumb, to help them overcome this problem. Some of the effects of the self-control problem can be observed in some economic phenomena, such as credit card debt overload or in the sub-optimal level of retirement savings in some countries.

1. INTRODUCTION

According to neoclassical economic theory, individuals, acting as perfectly rational agents, are optimally balancing inter-temporal consumption by maximizing a function of lifetime expected utilities. Franco Modigliani’s theory from the ‘50s, the life-cycle model, has been the mainstream model of consumption and saving behavior for decades, starting from the assumption that individuals maximize their lifetime consumption utility, such that consumption is continuous even if income is not continuous throughout individual’s different life phases. Empirical observations of individuals’ behavior do not always confirm neoclassical predictions, a reason why certain aspects of individual behavior are being discussed in most recent behavioral economics literature.

Self-control, or rather the lack of it, is being discussed as one of the human behavioral peculiarities that make the individual act in less than the perfectly rational manner predicted by neoclassics. The reason why self-control is interesting to economists is because this human behavioral feature affects the way individuals make inter-temporal choices. Empirical evidence of individual behavior shows that they have a preference for present consumption to future consumption. This concept is not included in neoclassical economic theory, being described by Thaler and Shefrin (2004) as “a trade-off between immediate gratification and long run benefits” (Thaler, Shefrin 2004, kindle location 10212). There is an individual cost associated with self-control and this type of internal conflict is not present when people have to decide between a white shirt and a black shirt. Contrary to neoclassics’ predictions, behavioral theory maintains that people tend to put more value on immediate consumption than to future consumption and as a result tend to spend their earnings instantaneously, resulting in less than optimal savings for future events, such as medical expenses or
retirement. It is said that people are time inconsistent and have self-control problems when it comes to their consumption and saving behavior (Tanaka, 2012).

2. THEORIES OF SELF-CONTROL

Behavioral economists, those economists concerned with deviations from the neoclassical rationality of individuals, explore aspects of human behavior in which individual decision making reflects real behavior, rather than purely theoretical speculations. In reality, individuals are subject to emotional-cognitive issues, self-control being one of them. When talking about self-control, individuals are described as either sophisticated or naïve (O'Donogue, 1999). Sophisticated individuals are aware of the self-control problem, whereas naïve ones do not foresee this problem. Sophisticated individuals take measures or apply heuristics or rules of thumb to help them overcome this problem and manage to exercise control over temptation, at least to some extent. These heuristics or rules of thumb could be financial instruments that imply signing up for some pre-set rules in order to prevent giving in to temptation. Such financial instruments could be: pension plans, saving accounts, Christmas clubs, etc.

It has been shown in experiments that individuals are time-inconsistent (Tanaka, 2012), meaning that they place a higher value on present consumption than future consumption. In the long run, this type of behavior can result in an irresponsible level of consumption that has a direct implication on the level of savings. Evidence of such phenomenon could be the over-charging of credit cards in countries where this financial instrument is popular. Quite often, one consequence of exaggerated consumption is the less than optimal level savings.

The self-control problem is often explained in the socio-economic literature by a bipolarity of the individual (Starr, 2007), inside whom there is a conflict between the planner–which is that part of the perfectly rational individual which is not facing the problem of temptation, so he/she does not need to exercise self-control – and the doer – which is always tempted to consume in the present moment more than the planner is willing to. Inside each individual, there is a conflict between the planner, able to take perfectly rational decisions based on intertemporal optimizations, and the doer, which is very interested in the present (Thaler, 2004). In this context, the literature discusses commitment devices, or financial instruments, that help the planner control the doer and help him overcome his impulses and carry on the planner’s plans.

The consumer behavior has often been attributed to an exaggerated drive for material consumption induced by our modern society that not only encourages consumption, tempting individuals at every corner, but also exercises social pressure on the individual for obtaining a social status associated with individual consumption level. It has been argued in the literature (Starr, 2007) that the self-control problem is derived from the “narratives of consumer society” but the explanations for this behavior cannot exclusively be attributed to the consumer society, Starr says that “as much as self-control problems may be enacted in the realm of cognition, their root causes are located as much in the social, cultural, and economic dynamics of capitalism as they are in the neuropsychological domain”. So, while the consumer society culture may be responsible partially for the excessive modern consumption, one should not limit oneself to this explanation, as there may be other neuropsychological factors involved, that may be just as responsible for excessive consumption and lack of self-control.

In order to understand profoundly the self-control problem, as it is affecting individual economic decision making, it is not sufficient to limit oneself to the widely
discussed problem of the current society in which excessive consumption is not only encouraged, but almost impossible to avoid, but one should carefully analyze the problem taking into account the neuro-psychological problem. In this context, the contribution of behavioral economists is welcomed as they bring an inter-disciplinary approach of the problem, analyzing the psychological but also the social aspects and trying to incorporate these issues in the neoclassical economic models.

3. MODELING SELF-CONTROL INTO ECONOMIC THEORY

When economics and psychology meet, as in the self-control problem, behavioral economists bring a welcomed contribution. Starting from neoclassical economic models, they develop economic models that consider psychological factors.

Prior to behavioral economics, as a new inter-disciplinary trend in social sciences, Strotz (1956) has done some interesting work. He has elaborated a behavioral model of individuals saving behavior, asking how should the individual allocate a fixed resource over a life-time. The main conclusion of Strotz is that the individual will not carry on her plans except when she has an exponential discount function. Practically, individuals will change their plans over time, displaying a feature called time inconsistency. If at time the individual changes a plan formulated prior to the analyzed moment, it is saif that she will be inconsistent over time. This change of plans over time could not be explained by the change of preferences or tastes, because this would not justify the fact that individuals are pre-committing to financial instruments which limit their future consumption options (pre-commitment devices). Strotz asks himself: “Why should the person with changing tastes bind himself to his current preferences, knowing that he will wish to break the binds in each succeeding period?” An example of such a pre-commitment device could be Christmas Clubs which have since long puzzled economists because they attract billion of dollars when basically paying no interest or very low interest compared to market rates. Individuals’ acting against their self-control issues could be one explanation for these devices. Strotz proceeds and describes the individual as an organization with a planner and a series of doers, one doer for each time period. The conflict arises from the fact that the current preferences of the doer are myopic compared with the ones of the planner. The preferences of the planner are time-consistent and she will adopt rules for governing the behavior of the doers.

Among behavioral economists, it is worth studying the work of Shefrin and Thaler. They have been concerned with adapting economic theory to the reality and postulated that in order to understand economic theories that model consumption and saving behavior, it is very relevant to understand the individual self-control problem. They proceed by adapting neoclassical economic models to take into account this reality.

The two economists (Shefrin, Thaler 2004) say that temptation can be controlled through willpower which is a personal cost associated with exercising self-control. They talk about the fact that individuals are behaving as if they had two sets of mutually exclusive preferences: one set of long term preferences and one set of present preferences. The long-term one is attributed to the planner, whereas the second one is attributed to the doer. The doer is concerned with the present and is maximizing current period consumption, while the planner is behaving in the neoclassical way and is maximizing a function of life-time expected utilities. Thus, the utility function of the planner is the neoclassical one, noted as V, in which the arguments are the levels of the sub-utility function Z, the utility function of the doer. The planner is the rational side of the individual, while the doer is the irrational or emotional side of the individual. The planner will try to impose constraints on the doer, but
she will have to exercise *willpower*, which is a cost that should be included in the choices she faces.

The utility of the doer $Z_t$ is defined as such:

$$ Z_t = U_t + W_t $$

$U_t(c_t) = \text{sub-utility function}$

$W_t = \text{willpower}$

If she were to choose among an opportunity set of consumption at moment $t$, $X_t$, the doer would prefer the least consumption but would have to exercise willpower which has the cost of $W_t$.

The authors describe the model with the following axioms: an increase of willpower is necessary in order to reduce consumption; an effort of willpower comes with a cost that results in a reduction of $Z_t$; an additional willpower effort is associated with an increase of the corresponding cost.

### 4. SELF-CONTROL AND THE DISCOUNTED UTILITY MODEL

When talking about intertemporal choice, such as consumption and saving, we should refer to future results discounting models. For a long time, the discounted utility model, elaborated by Samuelson in 1937 was the main model for intertemporal analysis of economic decisions, with applications in different areas, such as: saving behavior, security analysis or labor force supply. In this standard model, an individual is discounting future consumption with discount rates that are growing exponentially. Empirical evidence and experimental evidence refute this hypothesis, revealing the fact that the discount rates have the tendency to grow in time due to the proven fact that individuals have a present-time bias, meaning they prefer present consumption to future consumption, as a direct reflection of the self-control problem. In the economic literature, a few anomalies of the discounted utility model are discussed (Loewenstein, 1992).

**The Common Difference Effect.** Although the discounted utility model suggests that the preference between two consumption adjustments depend on the absolute time interval between them, it has been noticed in practice that *individuals are more sensitive to a consumption delay when it is closer to the present moment*, so, in other words people are more indifferent to consumption delays when they occur further from the present moment. Thaler (1981) illustrates this anomaly to the discounted utility model very clearly with a simple example: a person prefers an apple today in exchange for two apples tomorrow, but at the same time she will prefer two apples in 51 days to one apple in 50 days. In other words, the individual preferences between two identical sets of choices can be different when the sets are delayed in time. Basically individuals are more sensitive to a delay when the delay happens sooner.

**The Gain-Loss Asymmetry.** Empirical studies have shown that *losses are discounted at a lower discount rate than gains*. For instance, in one experiment the subjects were indifferent between receiving $10 immediately and receiving $21 in a year and indifferent between losing $10 immediately and losing $15 in a year. Thaler estimated more dramatic discount rates for gains that were three to ten times greater than those for losses. Several subjects even exhibited negative discounting, in that they preferred an immediate loss over a delayed loss of equal value.

**The Absolute Magnitude Effect.** Empirical studies reveal the fact the *large amounts of money suffer less proportional discounting than smaller amounts*. Thaler (1981) in another
experiment found that subjects who were indifferent between receiving $15 immediately and $60 in a year, were also indifferent between receiving $250 immediately and $3450 in a year, or between getting $3000 immediately and $4000 in a year. In other words, the larger the amounts of money that people have to choose among, the less the preferred discount rate.

To conclude, experimental evidence show that gains have larger discount rates than losses, that small amounts have larger discount rates than large amounts, and that discount rates for delaying consumption that is closer to the present moment are higher than those for delaying consumption that is further from the present moment (Thaler, 1981).

After realizing that the discount rates are not constant in time, but that they seem to decrease, an alternative model was proposed, namely the hyperbolic discounting model. The underlying hypothesis of the hyperbolic model is that the individual has a decreasing rate of time preferences, meaning that they prefer consumption that is closer to the present moment. For instance, in one experiment conducted to find out what are the decreasing discount rates, the subjects were asked to specify the amount of money they would need in one month, in one year, or 10 years in order to be indifferent among receiving $15 today, in one year, or in 10 years. The median response implies an annual average discount rate of 345\% for one month, 120\% for one year and 19\% for 10 years, respectively.

Moreover, some experiments go even further and prove that a given individual will not have one, but several discount rates for future amounts of money, depending on the way in which the choices are framed or presented to the individual, a phenomenon known as framing.

5. STRATEGIES FOR EXERCISING SELF-CONTROL

As it was mentioned above when discussing the bipolarity of the individual, the planner adopts measures in order to impose constraints on the doer. These measures could be financial instruments (commitment devices) that are limiting the future options of the doer and thus eliminate the necessity for exercising self-control in the future and the need for having willpower in order to overcome the temptation to consume. Practically, the planner has to come up with strategies in order to control the doer. The strategies taken up by the planner could be constraints, rules of thumb, or heuristics that will modify the set of opportunities for consumption available to the doer at a moment in the future. The planner uses the concept of mental accounting which means the decomposition of wealth in a series of mental accounts. These mental accounts could be financial instruments such as a current or a savings account, a pension plan, life insurance products, etc. The planner uses these instruments in order to assure that the doer will have interdictions or very high costs for a using certain amounts of money in the future for consumption purpose. With these instruments, the doer will not have to exercise self-control because she will not have the option to access the money, or the costs for accessing them are prohibitive. It is said that individuals divide their wealth into three parts, or mental accounts, for that matter (Thaler, 2004): current income, current assets and future income. The marginal propensity to consume is highest from current income account – which is at the doer’s disposal any time – while the smallest propensity to consume is from future income, which would imply taking up a loan, therefore higher costs.

Overcoming the self-control problem is possible when the consumer has available a series of investment instruments with little liquidity, requiring pre-subscribing to some conditions that suppose some mandatory periodical financial contributions. Such instruments typically generate future benefits, but apply penalties for early withdrawals of money.
In developed countries with sophisticated financial markets, the consumer can exercise self-control by making use of such instruments, if she is aware of the *self-control* as a behavioral problem. *Sophisticated* individuals (O’Donogue, 1999), or those who are aware of the self-control problem, can use financial instruments with low liquidity in order to control their future exaggerated consumption impulses. However, in less developed countries, where the access to pension plans and other financial instruments with a saving component is limited or even non-existent, exercising self-control is difficult. The lack of these financial instruments corroborated with poverty creates a *poverty trap*. In developing countries, individuals are looking for alternative means of exercising self-control that could be informal financial institutions, such as *Rotating Saving and Credit Associations*, through which a group of people make a saving arrangement in which every individual deposits an amount of money and at one point in time every individual cashes in a large amount of money collected from all members at a given time. This type of institutions is common especially in Africa and Asia. Another informal financial instrument are Christmas Clubs, that paradoxically attract annually billions of dollars in deposits even in developed countries (USA), without offering any interest rate income or a very small interest rate compared to current market rates.

### 6. EVIDENCE OF THE SELF-CONTROL PROBLEM

Excessive debt is a problem especially in developed countries where access to credit cards and other unsecured borrowing instruments is easily available. Credit cards are conducive to excessive accumulation of debt as they are easy to obtain and could be used instantaneously when temptation is at its highest. These instruments are practically feeding individuals inclination to gratifying consumption impulses when they are the least likely to exercise self-control and most likely to give in to temptation.

This type of consumption behavior is largely spread in the United States, where the popularity of credit cards has contributed to the debt overload of American households that owe up to $854 billion to credit card institutions. Recent data (Federal Reserve, 2014) on credit card debt of American households reveal that the average credit card debt for all households is $7,087, while the average credit card debt only for indebted households is double at $15,191. Approximately half of all households have credit card debt (47%), so we could conclude that the financial behavior is different from one household to another, some being more prone to consumption than others. This may suggest that there could be some psychological, social or cultural factors that influence consumption behavior; financial education could be one of them.

Maier (2009) is testing in one study whether individuals that have a higher propensity to immediate consumption (present-biased time preference) have also the tendency to borrow excessive amounts on credit cards. Not surprisingly, the results of the study show that individuals that have a time-inconsistent behavior show a larger tendency towards present consumption, as they are 15% more likely to have credit card debt and the level of their debt is 25% that those of individuals with a more time-consistent behavior.

In another study, the authors (Gross et al. 2002) analyze the way in which individuals respond to an increase of credit availability and conclude that an increase of the credit limit leads to an immediate increase of debt. They have also concluded that the *debt elasticity is higher for interest rate decreases than for interest rate increases*. These results explain excessive debt of individuals that overreact to low introductory interest rate offers from credit card companies, but fail to adjust the level of their debt when interest rates increase to normal levels (after the end of the introductory period when interest rates are lower).
As consumption and saving are like two sides of the same coin, the preference for immediate consumption has implication on the level of savings. Optimal life-time consumption can only be achieved through optimal life-time saving, which is directly affected by the present-bias for present consumption of the individual. Frank and Hutchends say: “Saving, like dieting is an act of self-denial. A person’s prudent self may not want to avoid eating dessert, yet realize that his impulsive self will be unable to resist if he dines at a restaurant where a dessert trolley appears after dinner” (Frank et al, 2004, kindle location 10258).

Saving for retirement is one subject where the self-control problem affects individual behavior, especially since retirement is such a distant goal, very far from the present moment. The economic reality fails to confirm the neoclassical prediction according to which individuals are optimally balancing savings and consumption, maintaining a similar life standard throughout their different life cycles (Modigliani’s Life Cycle Model). Thus, the neoclassics postulate that individuals are managing to accumulate wealth during their working age years such that at retirement they can start to decumulate their wealth until their final years, thus managing to maintain a similar level of consumption throughout their different life phases. The economic reality fails to confirm the neoclassical prediction according to which individuals are optimally balancing consumption pre and post-retirement. The reality is that individuals fail to save enough money for retirement and are in fact aware of this fact (EBRI, 2010). Some studies suggest that self-control may be one reason why individuals fail to save enough money for retirement (Thaler, 2004), resulting in a sub-optimal level of retirement savings. According to current European studies (UE, 2012), a consequence of the sub-optimal retirement savings, the forecast for income replacement rates at retirement (the ratio between the average first pension and the average last salary) show that this ratio will be sub-optimal in 2060 in the European Union. This ratio will be 30% in EU27 countries, compared with an optimal level of approximately 60-70%. A recent study (Aviva, 2014) shows that there is an annual deficit of retirement saving of €12,000 per person in European Union. This means that in EU, on average, every person should save €12,000 more than she actually does.

It is hard to achieve optimal savings for retirement without adequately available pension plans due to the fact that individuals have the tendency to postpone taking such financial decisions that have an immediate effect on their present consumption, but far-fetched benefits. Even when individuals have this option and choose to participate in pension plans, they have the tendency to maintain their initial or default contribution rate indefinitely with negative effects on their saving accumulations. When having to take an active decision about increasing contributions to pension plans, individuals fail to act. Thaler and Benartzi have conceived a concept of retirement savings plan, suggestively named “Save More Tomorrow”. This plan asked participants to subscribe today to contribution rates that will start to increase automatically in the future, without requiring any additional effort from the plan participant. The increases of the contribution rates were correlated to the salary increases, such that they were lower than salary increases, so that the participant can increase current consumption when the salary rises. This type of plan has been implemented in several corporations that were offering pension plans to their employees. After several years of following the behavior of the plan participants, the experiment results showed that those who subscribed to the plan had significantly higher contribution rates than the control group, which have not opted for an automatic increase of contribution rates but chose to voluntarily increase their rates when they desired so.
CONCLUSIONS

In spite of neoclassical theory prediction that individuals should perfectly balance saving and consumption throughout their life cycles, the reality shows that quite often they consume in the present moment more than they wished, as they are subject to temptation that can be overcome only by making a conscious willpower effort and by exercising self-control. It has been observed that, when having to choose between two identical sets of intertemporal choices, individuals are prone towards present time consumption. This present-time bias, coming from an internal conflict of the individual, is not taken into account by neoclassical economists. Standard economic models have been adapted to reflect the self-control problem, one example being the discounted utility model which is modified by taking into account a hyperbolic discount function that reflects more accurately human behavior.

Individuals that are aware of the self-control problem are called in the economic literature sophisticated individuals and they often use financial instruments to help them overcome their problem. These financial instruments imply agreeing to some rules that will limit future consumption choices, either by making the money unavailable or making the cost for accessing the money prohibitive. These financial instruments for controlling temptation are the way in which the planner in each individual will control future consumption impulses of the doer from each individual, which is impulsive and gives in to temptation, and thus limits her future consumption. Some of the economic phenomena that could result from a lack of the self-control could be considered the excessive credit card debt, but also the sub-optimal level of retirement saving.

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BOOSTING ROMANIA'S INNOVATION PERFORMANCE THROUGH PUBLIC PROCUREMENT TARGETED SPENDING

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ABSTRACT

Public procurement accounts for almost 19% of the European Union's GDP. Public sector spending can be used as an important demand factor in the market for innovation/ideas. It has the potential to incentivize production of new knowledge and innovative outputs and to project a competitive environment to markets. As Romania is experiencing severe underfinancing of its research, development and innovation sector, public procurement of innovation could provide a medium-long term solution. In this paper we explore the relevant legal and economic policy instruments, such as the legal and EU structural funds frameworks, that could be deployed at national level with a view to incentivize public spending/funding of innovative outcomes, e.g. products or services.

Keywords: public procurement, innovation, public procurement directives, structural funds

JEL Classification: H57, O31, O38

1. INTRODUCTION

In highly generic terms, public procurement is the process whereby public money is used to buy goods, services and works. Public contracts account for about 19% of the European Union’s GDP, representing a significant part of the internal market, worth almost EUR 2,400 billion a year (European Commission, 2014). While public procurement is known to be at the core of public services delivery and performance (e.g. in health or education sectors), recently, policy makers have determined that it also plays an important role in incentivizing innovation by leveraging the demand side. At EU level this reality has become an integral part of the Innovation Union initiative, part of Europe 2020 strategy, aimed at ensuring Europe’s competitiveness globally. As such, under Horizon 2020, the financial instrument implementing the aforementioned initiative, public procurement of innovative solutions is being recognised as a new form to support innovation.

At a more practical level, a new regulatory framework has been put in place at EU level through the adoption in 2014 of the new Public Procurement Directives set. Dedicated procedural tools have been designed in order to allow public purchasers to stimulate the development and marketing of new/innovative solutions (e.g. the innovation partnership, a

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1Opinions expressed in this paper belong solely to the author and do not reflect the opinions or position of KPMG Romania.
newly introduced, customized tendering procedure). The new directives support companies to develop their innovative capacity, maintaining at the same time the basic system prerequisites, i.e. transparency, competition and equal treatment. All Member States are required to transpose them into their national legislation by April 2016.

Against the above background, the total estimated value of the public procurement contracts published in 2012 in Romania was of approximately EUR 26 billion (ANRMAP, 2012), around the same value as in 2011. This makes Romania one of the largest markets in the EU in terms of Government spending volume. At the same time, Romania is experiencing severe and chronic underfinancing of the research, development and innovation sector. Largely due to this shortcoming Romania is constantly positioned at the bottom of all relevant rankings (e.g. the Innovation Union Scoreboard), as one of the most modest innovators in the EU, with poor performances along the whole innovation cycle spectrum (European Commission, 2014 (2)).

In this context, the main focus of the research is to analyse the potential impact of public procurement policies and legislation reforms currently being deployed at EU and Member States level on the innovation performance framework in Romania, with particular emphasis on the commercialization side of innovative products and services (intellectual output). To this end, the investigation follows two coordinates: a) the facilities that the new procurement directives provide to the Romanian research, development and innovation policy making and financing setting, as well as the way the former can translate into tangible, short and medium term economic benefits and, b) the tools available under the EU structural funds framework to create the necessary prerequisites for more demand for innovative products and services at national level. To our knowledge, this is the first research project approaching this subject matter in Romania.

2. THE PUBLIC PROCUREMENT OF INNOVATION: CONCEPT AND RATIONALE

As briefly mentioned above, public procurement is the process of purchasing, hiring or obtaining by any contractual means goods, works and services by the public sector. Public procurement differs from private procurement, as in the former’s case the economic benefits are benchmarked against more complex criteria. In addition, public procurement is operationalised with other considerations in mind, alongside the economy. These considerations include accountability, non-discrimination among suppliers and transparency.

With respect to innovation, there is not one single accepted definition. We do however define it for the purpose of this paper as a process whereby new products, technologies and organizational changes are being created. It includes all scientific, technical, organizational, commercial and financial activities necessary to ensure the success of inventing, producing, developing and commercializing new or improved products and processes, or for introducing and applying new organizational forms.

The relevance and importance of innovation is globally recognized as being one of the main driving forces behind economic development and social welfare and investment in R&D activities and initiatives is high on governments’ agendas around the world. The European Union lags behind its competitors, e.g. Japan or the United States. In order to address this issue the Europe 2020 strategy has as one of its main targets to invest 3% of the Union’s GDP into R&D by 2020. It is expected that following such measure some 3.7 million new jobs would be created while increasing annual GDP by EUR 795 billion by year 2025 (Zagamé, P., 2010).
In this context, policy makers at international and EU level (e.g. OECD, European Commission) have been trying to create functional links between innovation and public procurement. As such, it is considered that bigger gains could be realised if the results of R&D activities are adopted and implemented by the public sector in the products and services it uses.

According to Horizon 2020 Work Program public procurement of innovation is “procurement where contracting authorities act as a launch customer of innovative goods or services which are not yet available on a large-scale commercial basis, and may include conformance testing.” Consequently, public customers are driving the procurement of innovation in their attempt to solve particular aspects where tailored solutions are being required. This is not the same with pre-commercial procurement which, according to the same source, is „procurement of R&D services involving risk-benefit sharing under market conditions, and competitive development in phases, where there is a clear separation between the procurement of the R&D services procured from the deployment of commercial volumes of end-products.” While the European Commission largely considers pre-commercial procurement as being part of the innovation procurement framework, there are opinions according to which this type of procurement is rather a supply-side policy instrument due to the fact that it is a matter of R&D funding, as it concerns procurement of (expected) research results, in a targeted way, the commercialisation coordinate resting with the company (Edquist, C., 2013).

Public procurement of innovative solutions has the potential to solve important challenges at society level while influencing the quality and efficiency of public services. It allows governments (central and local) to become active contributors within the innovation cycle, to benefit from new solutions customized to their specific needs and disseminate the results at public sector level. The intervention of this “instrument” is particularly effective in those sectors where public spending accounts for a large part of demand, i.e. health, infrastructure, e-solutions, waste management, utilities, etc. At the same time, it acts as a signalling point to suppliers, the latter receiving information with regard to public purchasers’ needs, anticipating the demand for new solutions and becoming more efficient in terms of the time involved when preparing and during tendering processes.

However, despite its rather clear advantages, public procurement of innovation is not yet widely embraced by public purchasers. According to the Eurobarometer 2014 Report, The role of public support in the commercialisation of innovations (European Commission, 2014 (3)), one in twenty companies (6%) have been involved in the public procurement of innovative solutions since January 2011. According to the same source, only a small proportion of companies in the European Union (but also in the US and Switzerland) have been involved in the public procurement of innovative solutions. The only countries where at least one in ten companies has been involved in such activities are Slovakia (12%), Luxembourg (11%) and Italy (10%). By contrast, only 1% of Romanian companies have been involved in the public procurement of innovative solutions between January 2011 and February 2014 (this result is also matched by Estonia).

Several aspects have been documented as representing root causes for the abovementioned failures. One of the most important deals with the misalignment of public policies and strategies in terms of public procurement. As such, the operating elements of the system are regarded from a simplistic and isolated standpoint, be it legal, financial or administrative, with no links to the public policy objectives in relevant areas such as health, education, environment, energy, etc. This issue can be directly associated with the setting of wrong priorities at policy level which focus on incurring short-term costs without providing the necessary vision and analysis in terms of spotting from an early stage the cost savings and
efficiency gains in the long and medium term that public procurement of innovation may provide. The lack of knowledge and expertise of public procurers with regard to what innovation is and what are the benefits that can derive from deploying its results for solving public sector necessities is yet another aspect holding back the use of this instrument at a wider scale.

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HOW CAN INNOVATION BOOST SAVING AND NOT ONLY CONSUMPTION?
A CONCEPTUAL ANALYSIS

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ABSTRACT
The paper aims to reframe the standard innovation debate by discussing upon how behavioral economics principles and tools can be used to unveil other sustainability facets of innovation. The targeted sustainable activity is saving behavior, as opposed to the consumerist tendency partially induced and supported through technological progress. Even if only a conceptual analysis at this stage, the approach has the potential of driving significant changes by choosing not to enter the intense, and highly ideological, debate of growth versus de-growth. Moreover, it may generate interesting strategy recommendations for the case of a transitioning economy as the Romanian one.

Key words: innovation, saving behavior, consumption, behavioral economics

JEL code: D03, D14, 039.

1. INTRODUCTION

In last decades, innovation, and especially technological innovation, has increasingly become more and more acknowledged and praised, based on different research approaches, as a major driver of economic growth, either exogenously (Solow, 1956; Nadiri, 1993) or endogenously determined (Romer, 1990; Ruttan, 1997). Even if the focus seems to be only on the supply side, the growth becomes explicit once overall consumption responds to the changes in production. Usually, those responses are linked not to a reduction but to increase in consumption (being energy consumption or other type of consumer goods that become more available given the new consumer surplus, as a result of substitution and income effects). The literature classifies them as rebound or take-back effects (Chan and Gillingham, 2014), the main concerns being on how they can be addressed and minimized through appropriate taxation and regulation initiatives.

In this context, the paper aims to offer a different view on the problem by setting a distinct conceptual framework in what regards the intermediary variable between innovation and growth. More precisely, we replace consumption as a main lead in this intricate mechanism with the more discrete variable of saving. At a first glance, it may look extremely challenging given that savings are by definition the opposite of consumption. Nonetheless, an in-depth documentation reveals an important stream of research showing how increased savings generate economic growth (Carroll and Weil, 1994; Mohan, 2006). Thus, since the main role can be equated, we pursue the answer to the first part of the relationship: how innovation may lead to increased savings. The perspective brought by the paper strengthens the idea that innovation can equally contribute to economic development (Fagerberg et al., 2010), going beyond its most commercial exploited feature and enhancing sustainable behaviors. It is important to understand that this is not an extension that will automatically happen as a result of economic growth, but it needs a different framework of action in order to generate implementable results.
The remaining of the paper is structured as follows. In section two we first define the main relevant characteristics of the two processes at hand – innovation and saving. Section three briefly summarizes the short-run, visible effects of innovation for saving behavior, underlining also the different channels of rebound effects. Finally, section four discusses how elements of behavioral economics can be used to employ innovation in a way that would lead to positive implications for saving. We will coherently synthetize the existing functional experiences in the realm of innovation and savings, along with the particular case of saving products and services, as a segment of the Romanian banking sector. We conclude by addressing some challenges regarding the problem of resistance to innovation, pointing out some popular misconceptions and the need for future applied research in the area.

2. CONCEPTUAL VIEWS ON INNOVATION AND SAVING PROCESSES

To start our analysis in a top-down fashion and at large scale of generalization, but nonetheless of relevance also, we need to address first how a very high degree of uncertainty manifest itself in both processes of innovation and saving. The particulars may take different shapes depending on the context, but the inter-temporal choices and delayed discounting implied in each case stay the same at the core, in terms of similar intensities.

The crucial aspect lays on the formulation of predictions about the state of the economy in the future, market trends, dominant technologies and so on. The sum of unknown variables is large enough that it partially explains the (average) high failure rate of innovative products (between 40 and 90%) and also the low appeal of saving products. Moreover, inter-temporality assumes giving up in the present to a certain type of gratification (in the sense of using resources for current needs) in favor of accomplishing or working towards a future uncertain objective. It is only normal to register a high tension between the short and the long term, between amount maximization (which translated into a preference for saving or innovating, thus the larger and later reward) and delay minimization (a preference for not saving and not innovating, thus the smaller and immediate reward) (Paglieri et al., 2014), and implicitly a type of resistance in engaging in such an unnerved activity. It is undoubtedly that innovation may be crucial for the long-term wellbeing of a company but in most cases it needs investments that are not generating immediate results. This makes the innovation process vulnerable to pressures regarding the allocation of capital for immediate problems or opportunities, somewhat distorting the rationality of the decisional process by maintaining a myopic, or a ‘doer` view (Thaler and Shefrin, 1981) on the present (by contrast, a perfect rational perspective needs to take into consideration an extended time framework, thus a planner view).

A similar path is encountered in the saving area of decision-making. The current needs and desired are weighting more than future wellbeing in the decision of allocation personal resources between consumption and saving. It is of course the matter of imperfect self-control in the face of tempting consumption opportunities, along with various specifics of the banking systems, level of trust, financial literacy or temporal perspectives.

At this point, it is interesting to observe how the common features of the saving and innovation processes are not necessarily converging in their fruitful interaction. Therefore, for achieving a balanced understanding of the matter, we need to consider also the factors leading to potential divergences. What possible cause that orientates innovation more into consumption than into savings is represented by the appeal of loans. It is an important alternative to financing different activities, but it also bears some restrictions in the form of interest rates and particularly of very high interest rates if the financial resources are actually retrieved with the help of foreign credits (which is usually the case given the low level of
savings, even negative, in Romania). This is a neglected indirect link, illustrating the cost of ‘non-cooperation’ between innovation and saving, or in other words, how a reasonable level of savings may support innovation in a more economically efficient manner.

3. THE EFFECTS OF INNOVATION ON SAVING BEHAVIOR

Innovation can embrace a couple of different forms, from the five core categories stressed by Schumpeter (1939) – product, process, business model, source of supply, mergers and divestments – to newer and flexible subcategories, defined in accordance to the organizational environments, network interaction, learning process etc. Most of these types are creating a higher degree of diversity on the market, which is a desirable aspect for the producers as a group, given the innate bias of individuals towards diversification (Read and Loewenstein, 1995). This bias manifest itself into a preference for diversification, even when it pointless and costly for the consumer and even if too many options lead to a paradox of choice in which decision-making is more difficult and more likely to cause regret (Schwartz, 2004). In consequence, such behavior induced by producer innovation does not mirror an effect of consumer innovation that would mean a cost decrease of achieving a certain level of utility (Swann, 1998), but quite the opposite, going even in the extreme case of no utility at all (in the case of no choice) or negative utility (due to regrets and vivid opportunity costs).

At a deeper level, innovation does not only lead to diversity but also to efficiency (from processes to products). More efficient technologies are positively correlated with saving energy and other resources, but just to one point – singular, isolated use. On an collective level, results are envisaging how the frequency of use increases, along with consumption illustrating a rebound effect: ‘the extent of the energy saving produced by an efficiency investment that is taken back by consumers in the form of higher consumption, either in the form of more hours of use or a higher quality of energy service’ (Herring and Roy, 2007:3).

Going into field specifics, the innovation process in the area of financial services has a pronounced component toward risk diversification, respectively towards the design of new credit or investment products. For example, the predicted trends for the Romanian market on 2014 show a more intense preference for combined products: deposits with investment opportunities or deposits with an insurance feature (this is happening in a context of low savings and very high level of indebtedness). In short, the extraordinary dynamic of financial markets, especially during periods of economic boom, sends the message that saving is out of fashion (in some opinions even out of use), given the ease of accessing money through credits and given the high returns rates promised by investments (compared with the low but relatively safe benefits brought by normal savings). There are major implications for this ideological phenomenon. One stream of opinions supports the assertion that financial innovation is not accompanied by a productivity increase, respectively a lack of data showing a causality relationship between financial innovation and economic growth. A more acute perspective of analysis is brought to attention when financial innovation is considered one of the principal determinants of the last financial crisis (mostly by allowing an unprecedented rise of high risk investments).

4. WHAT AN INNOVATIVE APPROACH TO SAVINGS MAY LOOK LIKE?

In order to formulate a coherent response to this section’s questions, a distinction has to be made from the beginning between direct innovations, in the sense of more innovative saving products and services, and indirect innovations, reflecting the innovative ways in
which the existing saving products and services are presented on the market. While we may be tempted to focus more on the first category, stressing the importance of real, content-based innovation, as opposed to what may simply look as marketing strategies for the second category, it appears crucial to underline how the discussion about innovative saving products is very much different than its usual connotations. The key lays in the fact that the primary characteristics of such products are determined mostly by an external framework that may hardly be influenced by the bank (sometimes even impossible, especially in markets with a high number of competitors, thus less concentrated): official interest rate, investing opportunities, terms and conditions for the credit market etc.

A locally-flavored observation is that on the Romanian market ‘all the important banks offer the same categories of saving products, from the standard deposits, to saving plans, saving accounts, and reaching more complicated alternatives like deposits with an investing component. What brings some differences are minor deviations in the interest level and commissions, as well as in the segments addressed to children and retired people’.

In consequence, we believe to be more appropriate to analyze innovation in regard to how the product is presented and how it can be accessed or purchased, but not necessarily in terms of configuring the content of the product itself. Setting the coordinates of our problem in this way can induce a very commercial purpose to our endeavor – to improve presentation without improving content, thus to improve sales without adding value – which is not accurate at all given both the special category of banking products in discussions and the particular global/European financial context. Currently, many European central banks are implementing national monetary policies with interest rates close to zero (European Central Bank has a 0.05%) in order to decrease as much as possible the cost of credit and thus to invigorate the static economy of the Euro zone. As a logical consequence, the returns on such products are very low for commercial banks and so are the resources invested in associated marketing strategies.

![Figure 1. Interest rate spread (lending rate minus deposit rate, %), World Bank](image)

As figure 1 illustrates, Romania has a leading position in the discrepancy between the two types of interest rates. Even if the current period is characterized by a reduction of this gap among the region, the difference remains very high, especially in relation to Western Europe. In this context, our take is not on improving the profits of the banks but rather in improving the collective welfare of the society. Such an objective stands feasible in light of the research showing that the implementations of different types of specific saving accounts (particularly for retirement and unemployment) breed a Pareto improvement within the socio-
economic system of country (Bovenberg and Sørensen, 2004). At an operational level, facilitating and making more efficient the government’s initiatives in the area of offering lifetime income insurance and liquidity insurance may significantly contribute to achieving a higher rate of success.

4.1. Current view: dealing with resistance to innovation

Despite all the elements defining a non-attractive portrait of saving, the activity still has evolved in terms of incorporating some new technological features, with the purpose of making it more flexible: saving accounts versus deposits (offering a more flexible access to the money, without encountering the loss of interest), home-banking devices and internet banking etc. From this angle, an important direction to explore is the resistance to this type of technological innovation, along with stressing the point that this is not equivalent to non-adoption (Gatignon and Robertson, 1989; Herbig and Day, 1992; Ram and Sheth, 1989; Kleijnen et al., 2009). This is a challenging hypothesis, quite hard to test in practice given the lack of an operational definition of the two terms. The frequent potential explanations refer either to the difficulty to change a satisfying status-quo due to a conflict with the individual belief structure (Ram and Sheth, 1989), or to the understanding of the resistance as a preference for familiar products and behavior, thus a special form of the resistance to change (Arnould et al., 2004).

Usually, a first step in the materialization of this type of resistance is the refusal to try the innovation, thus it is a passive action (Sabih et al., 1997, Ram and Sheth, 1989, Szmigin and Foxall, 1998). An interesting example is illustrated by an Erste Groupe study, showing the first three saving products used in Romania (according to the Savings Barometer, 2012 and 2014).

<table>
<thead>
<tr>
<th>Saving products, Romania</th>
<th>2012 (n=505)</th>
<th>2014 (n=515)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st place</td>
<td>Life insurance, capital insurance – 22%</td>
<td>Gold or other precious metals – 26%</td>
</tr>
<tr>
<td>2nd place</td>
<td>Term deposits – 16%</td>
<td>Life insurance – 24%</td>
</tr>
</tbody>
</table>
| 3rd place               | Optional pension – 13% | Term deposits – 18%  
Optional pensions – 18% |

Table 1. Top 3 saving products in Romania (The Savings Barometer, 2012 and 2014)

By comparison with the other countries in the study, what appears as a notable difference is the absence of savings accounts, mentioned in all other cases. Also, the option of saving in gold or other precious metals in a unique element. Another important remark is that some of the options mentioned are not quite saving products at their core but rather a marginal substitute obtained as a results of other consumption initiatives (for example life insurance is one of the mandatory requirements for obtaining a housing credit).

In what concerns active resistance to innovation, the literature mentions three categories: rejection, postponement and opposition (Ram and Sheth, 1989, Szmigin and Foxall, 1998). What we find to be most relevant for saving is postponement (a nice analogy to the procrastination fallacy): while consumers appreciate innovations as being generally acceptable, they decide not to adopted them at that point in time. The theory is appealing but the fact that procrastination is an innate human trait makes it hard to be precise in labeling a certain behavior as resistance to innovation or resistance to a change in its status quo. Other categories of relevant factors determining the resistance to innovation for the case of saving
are on the hand the increased complexity of newer saving products (thus making a decision in this case does not enforce our need for controlling the environment, so it will be less likely to be made), and on the other hand the level of perceived risks in adopting innovation – both economic risks (relating to the investment made) and functional risks (relating to the expected performance).

4.2. Proposed view: minimizing the psychological cost of saving

Based on previous research that outlines the existence of a psychological cost of saving phenomenon (Druica, Ianole & Cornescu, 2014), we believe that the resistance to innovation paradigm can be reframed and approached in a more operational manner by seeing innovation as factor acting in the psychological cost minimization direction. Since innovation is usually reducing economic costs, this is a very straightforward analogy for the consumer, even if he is not aware, in most cases, of these psychological costs. A combined solution may be reached by touching as many as possible of the postulated components of the psychological costs: imperfect self-control and the adjacent present-preference bias, time perspective, interpersonal and institutional level of trust, degree of social conformity etc.

A first direction may be assessed as service innovation, consisting in the inclusion of commitment clauses in the standard contracts for opening saving accounts or deposit accounts. The simple measure transforms simple contracts into Ulysses contracts. The metaphor was firstly used in medicine in order to designate a method of binding oneself in the future. As it can be noticed from this simple definition, the term is not without controversy, pressing ethical issues on limiting the free will on a person. This halo accompanies the term also in its current employment in the behavioral economics field (Thaler and Shefrin, 1981; Hoch and Loewenstein, 1991; Ariely and Wertenbroch, 2002), but the positive results obtained in different experimental settings are weighting more in advocating its further use. Of course, it implies that an individual signing such a contract is made aware of how its present self and its future self may act in a dichotomist manner, this being the main purpose served by this contract: to prevent the use of resource for different future temptations.

A second step would be to adjust the process of saving by introducing default options and a specific architecture of the contributions towards a saving plan. Both these innovation have been successfully tested in the Save More Tomorrow program, implemented in the US for a large sample of companies (Thaler and Benartzi, 2004). While the structure of pensions and retirement funds is quite different in Romania, a replication of the model is not a realistic option. However, it stands as a theoretical reference point and an organizational benchmark for the business environment, reflecting an aggregation of good practices for both the individual and the firm – better benefits and higher returns on investments due to higher initial amounts.

5. CONCLUSIONS

At first, linking innovation to increased savings may seem either obvious or almost impossible. In this spirit, approaching the issue in terms of how innovation may lead to more or less saving, materialized in products of different efficiency levels, is a somewhat distorted specification of the problem in discussion. There is not the case of creating new, innovative saving products but to change the approach towards the existing ones and eventually create new saving programs that may decrease resistance to innovation. This can be done by incorporating behavioral economics insights – decision rules, cognitive biases and heuristics, self-control aspects, choice architecture – into the way these products are presented.
A specific direction is given by tackling the theories of resistance to innovation, a fairly neglected topic in the Romanian economic literature, especially comparing it with the significant stream of papers devoted to innovation itself. The gap grows deeper when discussing resistance to financial innovation, usually dismissed simply given the low level of development of the local financial market. In this context, exploring the underpinning of the psychological cost of saving may lead to more than theoretical developments and a process innovation to reduce such costs seems only a natural approach.

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TIME DISCOUNTING. LOGISTIC REGRESSIONS VERSUS CLASSIFICATION MODELS

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ABSTRACT
Eliciting discount factors is an intricate procedure, leading to a single, extremely valuable result that requires interpretation in the context of inter-temporal choice models. Due to the nature of hypotheses underlying the methodology, there are concerns regarding the external validity of the result. The purpose of this paper is to complement current research with alternative models of analysis, comparing and contrasting classification and logistic models. To our knowledge, this is the first study of measuring discount factors conducted on Romanian subjects. This classification analysis definitely sheds new light on the structure of the decision process. Moreover, the results of the logistic regression appear robust and relevant from an inferential perspective.

Keywords: intertemporal choice, discount, logistic regression, classification models

JEL Classification: C11, D90

1. INTRODUCTION

The study of inter-temporal choice has attracted a considerable attention in the last decades, following the development of behavioral economics (Frederick et al., 2002; Loewenstein et al., 2003; Green and Myerson, 2004; Berns et al., 2007). The typical experimental procedures used to identify a discount factor involve the elicitation of preferences: a certain amount of money to be received in future, large enough to generate indifference towards the amount of money received in the present. Such a framework benefits from large degrees of both simplicity and practicality, so it is not surprising that it has been used on a large scale.

Measuring the delay discount it is an important topic not only per se, from a theoretical point of view, but largely due to the primary associations made between this concept and impulsivity: impulsive individuals prefer immediate gratification (Crean, de Wit, & Richards, 2000). In the same line, a low level of impulsivity translates into a higher degree of self-control, a factor of interest in many behavioral models. Different studies illustrate that a high discount factor is correlated with a higher probability of drug consumption (Bickel, Oдум, & Madden, 1999), gambling addiction (Petry, 2001) and compulsive consumption (Dittmar, 2001); on the bright side, low discount factors seem to be good predictors of student academic performance, even better than IQ (Duckworth & Seligman, 2005). Epstein et al. (2003) goes even further and views delay discounting as a macroeconomic process.
However, despite the significant and diverse evidence, Soman et al. (2005) point out that the values obtained in this manner can be considered valid in the real sense only if a certain set of conditions is fulfilled: certainty regarding present and future results, the immediate consumption of all results (along with their feature of context-independence), and the quasi-linear and time-independent utility function. Such a framework introduces a significant number of constraints that need to be treated with cautiousness in interpreting the results.

The purpose of this paper is to complement current research with alternative models of analysis, comparing and contrasting classification and logistic models. To our knowledge, this is the first study of measuring discount factors conducted on Romanian subjects. Even if the data collection protocol was a supervised questionnaire and not an experimental procedure, we believe it to be an important addition to the literature, because of the innovative treatment of the data.

The rest of the paper is organized as follows: section 2 provides details about how the data was collected and the methodological aspects considered. In section 3, we introduce the logistic regression and CART model. We discuss the results and conclusions in section 4.

2. DATA AND METHODOLOGY

The monetary choice questionnaire, proposed by Kirby, Petry and Bickel (1999) is a popular tool used to identify the discount factor. The way it is structured is actually one of its advantages because each option chosen corresponds to an indifference point, which makes the computations of the discount parameter much more intuitive. The questionnaire was translated in Romanian (appendix 1) and the monetary values were converted in Romanian currency (the considered rate was 1$ = 3.88 lei, from 2nd of February 2015).

The choice questionnaire was applied as part of an ampler study investigating the relationship between saving behavior, discount factor and time perspective. The pilot sample contains observations from 163 subjects, with average age of 21.41 years (standard deviations of 3.93), varying from 19 to 41 years; gender composition – 129 females (79.14%) and 34 males (20.86%). Other relevant descriptive statistics are presented in Table 1.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Min</th>
<th>1st Qu</th>
<th>Median</th>
<th>Mean</th>
<th>3rd Qu.</th>
<th>Max.</th>
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</thead>
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<tr>
<td>Immediate value</td>
<td>43</td>
<td>93</td>
<td>132</td>
<td>150</td>
<td>210</td>
<td>310</td>
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<tr>
<td>Delayed value</td>
<td>97</td>
<td>136</td>
<td>213</td>
<td>213</td>
<td>291</td>
<td>330</td>
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<tr>
<td>Time</td>
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<td>19</td>
<td>61</td>
<td>73.11</td>
<td>119</td>
<td>186</td>
</tr>
<tr>
<td>Ratio (Immediate value/Delayed value)</td>
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<td>0.9798</td>
<td>0.9837</td>
<td>0.9973</td>
<td>0.9922</td>
<td>1.0832</td>
</tr>
</tbody>
</table>

Table 1. Descriptive statistics

The total number of observations was 163 subjects * 27 questions = 4401. The choice was coded with 0 for immediate reward (2870 observations) and with 1 for delayed reward (1531 observations). The other factor variables were gender (0 for female – 3483 observations and 1 for male – 918 observations) and income level, coded according to the conventions provided in Table 2.
The questionnaire uses three levels of the reward for every decision: small, medium and large.

The scoring of the discount factor is traditionally performed in a standard fashion, following Kirby’s (2000) indications regarding computation, based on the formula:

\[ \text{Immediate reward} = \frac{\text{Delayed reward}}{1 + K \times \text{Delay Time}} \]

The most frequent model fitting the data obtained through the monetary choice procedure is the hyperbolic one (Green and Myerson, 2004), illustrating the abrupt discounting of value around present, along with its decline in time.

In order to avoid overfitting, we split our database into a training set (80% of the observations) for fitting the models, and a test set (the remaining 20% of the observations) for checking the accuracy of predictions.

3. MODELS

The more recent approach to computing the discount factor was proposed by Wileyto et al. (2004) and involves fitting the indifference points determined through the questionnaire to a logistic regression function. We have chosen to follow their methodology only as a reference procedure. Unlike Wileyto et al., we allow for an intercept and several more predictors. The results of the logistic regression are compared with the results obtained through a CART model.

3.1 Logistic regression

A standard logistic regression model was built using the software R and the “glm” package, from which we have derived multiple scenarios. The first general model predicts the probability of choosing a delayed reward based on the individual characteristics (ID), the type of the question, the value of the immediate reward, the value of the delayed reward, the time delay, gender, the level of the income (from 0 to 6) and the size of the reward (small, medium and large).

The logistic response function is the following:

\[
P(\text{choice} = 1) = \frac{1}{1 + e^{-(\beta_0 + \beta_1 \text{ID} + \beta_2 \text{question} + \beta_3 \text{immediate reward} + \beta_4 \text{delayed reward} + \beta_5 \text{time delay} + \beta_6 \text{gender} + \beta_7 \text{level of income} + \beta_8 \text{size of reward})}}
\]

This function always takes values between 0 and 1. Moreover, a positive coefficient value for a variable increases the probability that choice = 1, that is, increases the probability of
postponing immediate gratification. Naturally, a negative coefficient value decreases the probability that choice = 1, that is, increases the probability of accepting an immediate reward. An alternative manner of looking at the logistic function is in terms of odds, defined as follows:

\[ \text{Odds} = \frac{P(\text{choice} = 1)}{P(\text{choice} = 0)} \]

It can be easily noticed that the Odds are greater than 1 if 1 is more likely, and less than 1 if 0 is more likely.

Basically, the regression equation of model 1 becomes:

\[
\log(\text{Odds}) = \beta_0 + \beta_1 \times \text{ID} + \beta_2 \times \text{Quest} + \beta_3 \times \text{Im_reward} + \beta_4 \times \text{Del_reward} + \beta_5 \times \text{Time} + \beta_6 \\
+ \beta_7 \times \text{Gender} + \beta_8 \times \text{Income} + \beta_9 \times \text{Small_reward} + \epsilon
\]

Table 3 presents the results, illustrating as very significant variables the intercept, the immediate reward, the delayed reward, time and the medium and small reward category.

|               | Estimate | Std. Error | z value | Pr(>|z|)  |
|---------------|----------|------------|---------|-----------|
| (Intercept)   | -3.8114384 | 0.9021458 | -4.225  | 2.39e-05 *** |
| ID            | 0.0028347 | 0.0009774 | 2.900   | 0.003728 ** |
| Question      | -0.0145118 | 0.0061416 | -2.363  | 0.018135 *  |
| Immediate reward | -0.0208136 | 0.0021932 | -9.490  | < 2e-16 *** |
| Delayed reward | 0.0277466  | 0.0031699 | 8.753   | < 2e-16 *** |
| Time          | -0.0162019 | 0.0020555 | -7.882  | 3.22e-15 *** |
| Gender1       | -0.1461505 | 0.1159690 | -1.260  | 0.207578 |
| Income1       | -0.2291102 | 0.1108356 | -2.067  | 0.038723 * |
| Income 2      | 0.2171603  | 0.1568322 | 1.385   | 0.166154 |
| Income 3      | 0.1817006  | 0.2750612 | 0.661   | 0.508880 |
| Income 4      | 0.4357471  | 0.2219263 | 1.963   | 0.049591 * |
| Income 6      | -0.0805803 | 0.2168466 | -0.372  | 0.710190 |
| Medium reward | 1.1562327  | 0.3027727 | 3.819   | 0.000134 *** |
| Small reward  | 2.3686020  | 0.5728670 | 4.135   | 3.56e-05 *** |

**Table 3.** Logistic regression results – model 1

It is interesting to notice that under this choice of variables, the ID, expressing the personal traits of the individual, seems to be significant but the gender variable is not. One possible explanation may be that the ID already captures this aspect. Furthermore, only two out of six levels of income seem to have a rather marginal significance.

The signs and estimates of the rewards reflect another noteworthy situation. The immediate reward variable has a negative coefficient: a 1-leu increase in its magnitude generates a 2.08% decrease in the odds. Also, a 1-leu increase in the delayed reward leads to 2.77% in crease in the odds of delaying reward.

Following the above results, a second model specification excludes the income variable:

\[
\log(\text{Odds}) = \beta_0 + \beta_1 \times \text{ID} + \beta_2 \times \text{Quest} + \beta_3 \times \text{Im_reward} + \beta_4 \times \text{Del_reward} + \beta_5 \times \text{Time} + \beta_6 \\
+ \beta_7 \times \text{Gender} + \beta_8 \times \text{Small_reward} + \epsilon
\]
Model 4 excludes both income and gender. In addition, model 4 excludes the variable “question”. Thus, strengthening the hypothesis that income can be neglected.

Following the same path of eliminating the non-significant variables, model 3 excludes both income and gender. In addition, model 4 excludes the variable “question”.

Model 3:
\[
\log(\text{odds}) = \beta_0 + \beta_1 \times \text{ID} + \beta_2 \times \text{Question} + \beta_3 \times \text{Immediate reward} + \beta_4 \times \text{Delayed reward} + \beta_5 \times \text{Time} + \\
\beta_6 \times \text{Gender1} + \beta_7 \times \text{Medium reward} + \beta_8 \times \text{Small reward} + \epsilon
\]

|         | Estimate  | Std. Error | z value  | Pr(>|z|)  |
|---------|-----------|------------|----------|-----------|
| (Intercept) | -3.818759 | 0.898702   | -4.249   | 2.15e-05 *** |
| ID      | 0.002648  | 0.000962   | 2.753    | 0.005912 ** |
| Question | -0.014497 | 0.006126   | -2.366   | 0.017960 *  |
| Immediate reward | -0.020544 | 0.002184 | -9.405   | < 2e-16 *** |
| Delayed reward | 0.027514  | 0.003158   | 8.712    | < 2e-16 *** |
| Time    | -0.016242 | 0.1136368  | -9.935   | 0.349813 |
| SumLevel.Medium | 1.146582  | 0.3020755  | 3.798    | 0.000146 *** |
| SumLevel.Small | 2.3572155 | 0.5713838  | 4.126    | 3.70e-05 *** |

Table 4. Logistic regression results – model 3

The results presented in Table 4 are consistent with the earlier results (with no statistical significance attached to gender), thus strengthening the hypothesis that income can be neglected.

Model 4 –
\[
\log(\text{odds}) = \beta_0 + \beta_1 \times \text{ID} + \beta_2 \times \text{Immediate reward} + \beta_3 \times \text{Delayed reward} + \beta_4 \times \text{Time} + \\
\beta_5 \times \text{Gender1} + \beta_6 \times \text{Medium reward} + \beta_7 \times \text{Small reward} + \epsilon
\]

|         | Estimate  | Std. Error | z value  | Pr(>|z|)  |
|---------|-----------|------------|----------|-----------|
| (Intercept) | -3.8006179 | 0.8934848 | -4.254   | 2.10e-05 *** |
| ID      | 0.0026434 | 0.0009614  | 2.750    | 0.005968 ** |
| Immediate reward | -0.0202048 | 0.0021317 | -9.478   | < 2e-16 *** |
| Delayed reward | 0.0264663 | 0.0030776  | 8.600    | < 2e-16 *** |
| Time    | -0.0163825 | 0.0019912  | -8.228   | < 2e-16 *** |
| SumLevel.Medium | 1.0867391 | 0.2992560  | 3.631    | 0.000282 *** |
| SumLevel.Small | 2.2732629 | 0.5667620  | 4.011    | 6.05e-05 *** |

Table 5. Logistic regression results – model 4
The very small changes in the estimates are confirming that the initial set of independent variables offers a strong explanatory power of the dependent variable. All the predictions were made on the test set of data and a confusion matrix with a threshold of 0.5 was build.

<table>
<thead>
<tr>
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<th>False</th>
<th>True</th>
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<td>0</td>
<td>490</td>
<td>84</td>
</tr>
<tr>
<td>1</td>
<td>102</td>
<td>204</td>
</tr>
</tbody>
</table>

Table 6. Confusion matrix

The accuracy level determined through this method is 78.86% \( \frac{(490+204)}{(490+204+102+84)} \), representing the proportion of correct guesses for the dependent variable. The model is definitely a better fit, when compared to the baseline level of only 65.21%, calculated as the proportion of delayed reward in the total amount of observations. However, the “auc” measure of accuracy was used, aiming to incorporate also information about the incorrect guesses of the model.

Figure 1. ROC curve

Figure 1 exhibits the balance between true positive rate and false positive rate: the auc of the model, calculated in R, is 85.29%.

3.2. Classification and regression tree analysis (CART)

Treating intertemporal choice as a classification problem can be viewed as an unconventional approach (in technical terms - a form of binary recursive partitioning), compared to the standard statistical methods of regression analysis, Bayesian theory and least
square approximation models. However, the use of CART models in the research community is coming more prevalent (Razi and Athappilly, 2005), because the interpretation of their results is more intuitive, they are scalable, that is, the results remain significant even for small datasets (Marcham, Mathieu, & Wray, 2000).

The dependent variable remains the same as the one used in the logistic regression - the categorical outcome of choosing the present or the future, in the terms of immediate versus delayed gratification. The set of predictors comprises time, gender, income level and the types of rewards – immediate and delayed. Lewis (2000) defines two other components included in the procedure - the learning dataset and the test or the future dataset – and underlines as a main advantage its non-parametric nature. This is a very important aspect due to the fact that it relaxes the analysis by eliminating the need for linear relationships between variables: it basically deals with a very large array of numerical data: highly skewed, multi-modal, and even categorical variables.

The regression tree (figure 2) shows that time is the most important variable for this decision, a result also confirmed with a high degree of statistical significance in all the versions of the logistic regression.

![Figure 2. Regression tree](image)

The supplementary information offered by the graph is the specific number of days, depending on which the first decisional node, the parent node, is created. If the delay time is bigger than 25 days, the left side of the tree reveals that the next step in the process is to continue to analyze the impact of time, but this implies raising its threshold value: if the delay increases to 61.5 days or more than that, the process stops - the outcome of 0 expresses the choice made for immediate gratification.

For a delay period between 25 and 61.5 days, a second criterion comes into play – the
value of the delayed reward. If this delayed reward does not reach the threshold of 300 lei, the process further extends by incorporating the income variable.

For somewhat extreme levels of income (1 and 6) the decisions unfolds depending on gender: the female subjects are closing the loop by choosing the immediate reward, while the male subjects are revisiting the income criterion: those in category 1 are behaving the same as the women counterparts but the other income categories are going for the delayed reward. For the others – income class 2, 3 and 4 (5 is just missing from our sample) – the process stops.

On the reverse, delayed rewards bigger than 300 lei are lighting up a new set of income categories – subjects from the levels 1, 2 and 4 also prefer the present reward. Thus, we can observe a consistent behavior for group income 2 and 4, no matter what the value of the reward is. The remaining subjects from groups 3 and 6 are the ones presenting the same gender difference noticed in the previous case: only male subjects will postpone reward.

Going back to the parent node and the initial decision rule, if the delay time is smaller than 25 days, the right side of the tree offers a different picture of the events. The second interrogation narrows the horizon, referring to delay time bigger than 16.5 days.

For a waiting time smaller than 16.5 days, the decision is going to be straightforward in favor of the postponing the gratification. This offers an estimation of what we may label as a reasonable expectation time in the view of our subjects. Furthermore, for the specific interval (16.5; 25) days, the immediate reward is the second salient aspect here, orientating the decision in relation to the reference value of 132 lei.

If the immediate reward is smaller than 132 lei, income plays an important role as following: subjects from the first three income categories (0, 1 and 2) are split in a broad ramification. Those from income 1 are rapidly leaving the tree, settling for immediate choice. For the rest (incomes 0 and 2), a new value of the immediate reward becomes relevant: if the value is smaller than 79.5 lei and the subjects are male a 0 choice appears; if the values is still smaller than 79.5 and the subjects are female, those in the poorest income category (0) choose the immediate reward while those in the income category 2 choose 1 – delayed reward. The situation changes when the edge is bigger than 79.5 lei: those in the income category 2 are sticking to the present, while categories 0 and 1 are looking towards the future.

The subjects from higher categories of income (3, 4 and 6) are facing a different configuration, depending on gender. If gender is equal to 0, thus female, the subjects with a 6-income level will choose 0, the present, and all the others will wait for the bigger reward; for male gender, the choice would be directly to postpone the gratification.

The last branch of the tree refers to the case described by an immediate reward bigger than 132 lei, creating a similar situation defined by gender: men will wait, along with the women from the group categories 0, 1, 3 and 4; the women from the categories 2 and 6 will just immediate gratification.

The accuracy level of the CART model is 79.20%. It is still consistently higher than what the baseline level offers (65.21%) but slightly lower than the accuracy of the logistic regression model (78.86% with an auc of 85.29%).

4. CONCLUSIONS AND IMPLICATIONS

The profound ramifications of the CART tree may generate a somewhat complicated interpretation at first glance but a closer look actually highlights that it is a more intuitive and practical one than what the logistic model can offer. While statistical significance is important...
to rely upon, the order in which the factors are exercising influence on the decision has many more advantages in understanding and improving our daily decisions. In other words, the CART model seems to shed some light on the type of empirical rules or heuristics employed in this choice, and not only a mathematical algorithm. Its recursive feature helps a lot in increasing its realism.

In terms of accessibility, the analysis proves itself more expedient since it requires relative little input from an interpreter and relies heavily on the automatic machine learning background. Naturally, we acknowledge that the logistic regression still offers a more relevant result from a quantitative point of view, but its interpretation may be too difficult to grasp in order to formulate some practical implications.

In respect to the qualitative insight, the generic results are in line with the existing literature but it is premature to postulate on the specific patterns disclosed in the analysis since we do not know yet how much they depend on the size and composition of our sample. In order to refine the results we plan to increase the sample size and further pursue issues that are not completely concordant at this time. One of them refers to gender differences in this type of intertemporal choices. The regression tree consistently points out a stronger bias of women for the present, but the unbalanced composition of our sample raises some questions regarding to the validity of the statement. A similar issue is the difference in the coefficients of immediate and delayed reward, the latter being bigger and suggesting a bias towards postponing gratification. An extended model will look into the interaction of these two variables, establishing the relevance of this exploratory result.

ACKNOWLEDGEMENT

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REFERENCES


APPENDIX 1.
The monetary choice questionnaire (translated in Romanian, monetary conversion)

- Ați prefera:
  210 lei astăzi
  213 lei peste 117 zile

- Ați prefera:
  213 lei astăzi
  291 lei peste 61 zile

- Ați prefera:
  74 lei astăzi
  97 lei peste 53 zile

- Ați prefera:
  120 lei astăzi
  330 lei peste 7 zile

- Ați prefera:
  54 lei astăzi
  97 lei peste 19 zile

- Ați prefera:
  182 lei astăzi
  194 lei peste 160 zile

- Ați prefera:
  58 lei astăzi
  136 lei peste 13 zile

- Ați prefera:
  97 lei astăzi
  233 lei peste 14 zile

- Ați prefera:
  303 lei astăzi
  310 lei peste 162 zile

- Ați prefera:
  155 lei astăzi
  213 lei peste 62 zile

- Ați prefera:
  43 lei astăzi
  116 lei peste 7 zile

- Ați prefera:
  260 lei astăzi
  291 lei peste 119 zile

- Ați prefera:
  132 lei astăzi
  136 lei peste 186 zile

- Ați prefera:
  105 lei astăzi
  194 lei peste 21 zile

- Ați prefera:
  268 lei astăzi
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MANAGEMENT, LEADERSHIP AND ORGANIZATIONAL COMPETITIVENESS

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ABSTRACT

In the contemporary period, the social and economic performance of organizations is substantially influenced by the practicing of a professional management and effective leadership. The paper aims to address the issue of management and leadership in a correlative approach, highlighting the content of the management process, the fundamental dimensions of a professional management, and also the main coordinates, roles and secrets of effective leadership. In the final section of the paper are presented aspects regarding the “management – leadership” relationship and the relations that have to be built and developed between managers and leaders, so that the organizations they lead become competitive in an increasingly dynamic business environment.

Key words: management, leadership, managers, leaders, organizational competitiveness.

JEL Classification: M10, M12, M14.

1. INTRODUCTION

Management and leadership are key vectors for the competitiveness of organizations in the knowledge-based society and economy. Studies and research recently published in prestigious specialized journals reveal that there are similarities, differences and connections between management and leadership, both in conceptual and practical point of view (Edwards, Schedlitzki, Turnbull and Gill, 2015).

The management of an organization involves progressive stages in which objectives are established, resources are allocated, strategic development options are outlined, activities are organized and coordinated, human resources are involved in organizational processes through motivational tools and, finally, the obtained results are assessed by comparison to the level of the forecast objectives.

The performance registered by the organizations is conditioned by the competence of the managers and human resources involved in the execution processes, the cultural context in which they carry out their activity, and the influences exercised by the national and international business-environment factors (Verboncu and Corcodel, 2014). It is, therefore, essential the competence of company managers, which is mainly determined by their ability
to understand and implement the principles, models, methods and techniques offered by the management science.

Leadership represents the action of the leaders based on different sources of power and a specific set of skills, directed towards influencing the members of a group so that their activity would be aimed at the achievement of the company’s objectives (Kets de Vries, 2007).

At the same time, leadership is an activity with a strong creative interpersonal dimension and which involves the initiation and propagation of change almost at all times. Managers and leaders, as key actors of change processes, have to develop constantly the companies that they lead (Landsberg, 2008).

Management and leadership play a crucial role in creating and maintaining an evolutionary, change-oriented organizational culture, which has a major impact on the economic performance of an organization, representing one of the main ways of achieving operational excellence. Leadership and organizational culture are key factor that determines, to a large extent, the potential for adaptation of organizations (Seah, Hsieh and Huang, 2014).

Managers and leaders must initiate and coordinate processes of change in organizations. It is a fact that, in many companies, the change is not regarded as a natural process of organizational and individual development, but as an event which must occur at a time, under the pressure of influential factors from the business environment. In this context, we consider that managers and leaders must have strategic vision and develop a proactive attitude as regards the organizational change projects.

A professional management and effective leadership, applied in a consistent and integrated manner in a creative, innovative and evolutionary cultural model, may increase the involvement of human resources in the processes of change and, at the same time, the inclusion of organizations on the path of sustainable development.

2. ESSENCE OF MANAGEMENT

The sustained concerns for managerial theory and practice are reflected by the significant number of existing scientific works in specialized literature. First, it is important to understand the essence of management. One of the most comprehensive definitions is provided by the professors Ovidiu Nicolescu and Ion Verboncu, according to which “organizational management resides in studying the management processes and relations within organizations, in order to discover the rules and principles that govern them and to conceive new systems, methods, techniques and leadership capable of ensuring the obtaining, maintaining and increasing competitiveness.”(Nicolescu and Verboncu, 2008).

This definition shows that the essence of management consists of the management processes and relationships carried out in organizations. The management processes represent a small weight in the whole of work processes within organizations, but they have a decisive impact on their economic and social performance.

The management process contains three main phases: forecasting, operational and final measurement and interpretation of results.

The first phase, in which a forecasting management and leadership is manifested, involves setting the objectives, identifying the resources and defining strategic options through which the objectives can be achieved, given the resources of the organization.

The operational phase of the management process, in which an operative management and leadership is carried out, includes four steps:

- determination and delimitation of activities;
- distribution of activities on organizational subunits;
coordination organizational processes and activities;

- involvement of human resources in processes and activities.

The third phase, the measurement and interpretation of results, in which the management and leadership are post-operative, essentially consists of:

- control of processes and activities;
- assessing the performance by comparison with the level of forecast objectives;
- identifying the causes of the deviations;
- initiating corrective measures to improve processes and activities in the next managerial cycle.

In our opinion, a professional management presents the following fundamental dimensions (Figure 1):

- Forecasting dimension (embodied in prospective studies, forecasts, strategy and overall organizational policy, operational strategies and policies, plans and programs);
- Creative and innovative dimension (new technologies, new processes, new products, new services, new methods and techniques for organizing processes, new methods and managerial techniques);
- Flexible dimension (process flexibility, product flexibility, organizational flexibility, research and development flexibility, commercial flexibility, financial flexibility, human resource flexibility, geographic flexibility, etc.);
- Informational dimension (designing an informational system to provide relevant information about the preferences expressed by the carriers of the demand to the strategic actions taken by competitors, the technical, technological and managerial know-how, the quality of products and the services offered on the market, etc.);
- Investment dimension (organization’s strategy and policy in the field of investments, investment programs undertaken, grounded investment decisions, adopted and implemented in the organization);
- Social dimension (reflected by the social objectives of the organization that have to be addressed both in terms of its employees – quality of life of human resources, employment status and career development, social protection, etc. – and its consumers – offering products and services that meet the international quality standards, providing information as complete as possible on the company's offer by means of organizing appropriate advertising campaigns, etc.).
3. LEADERSHIP

In specialized literature, there are numerous approaches to leadership. Max Landsberg, who has gained international recognition as an authority in coaching and professional development, finds that the essence of leadership is the ability to create a vision, motivation and momentum in a group of people. Therefore, the leaders of organizations have to create and maintain this triad (Landsberg, 2008).

Vision is a positive image of what the organization could become and it shows, at the same time, the path that it has to follow in order to achieve the objectives arising from the mission and, implicitly, the desired performance. The leader has to crystallize a vision that is also shared by the members of the organization. For this purpose, it is important for the leaders to be creative, innovative and to translate their ideas into exciting, logical and achievable images and actions.

Motivation is an essential component of leadership. It is important that the managers and leaders of organizations take into account aspects such as customizing motivational elements, ensuring a stable balance relationship between tasks, competences and responsibilities, so that the employees successfully carry out the objectives incumbent upon them, combining adequately the material rewards with the moral and spiritual rewards, and also granting such rewards in a progressive system, so as to maintain an organizational climate conducive to the achievement of operational excellence.

The momentum necessary for the implementation of organizational development projects is another important component of leadership. A leader has to be able to convey his vision to others, to be a good communicator and to convince the human resources that his proposals are viable and can improve the processes and activities of the organization.

In J. Adair's vision, the leadership mission may be structured on the following coordinates (Adair, 1990), (Burduş, 2007):

- planning (collection of available information, defining groups, objectives and tasks, establishing a feasible plan);
- preparation (informing team, distribution of tasks, defining team standards);
- control (maintaining team standards, achieving the goals, orientation toward adopting decisions and toward actions to implement them);
- encouragement (expressing approval of individual contributions, creating team spirit, settling disputes);
- information (presentation of the plan and of the tasks assigned to the human resources, summarizing ideas and suggestions);
- assessment (checking the feasibility of ideas, knowledge testing, group performance analysis and providing support for self-evaluation).

Management involves forecasting, organization, coordination, training and control-evaluation processes and activities. The analysis of the coordinates defining J. Adair's approach shows that management and leadership are intertwined. Basically, leadership involves management processes, with more emphasis laid on their human side.

Leadership takes into account the human dimension of management, in the involvement process of the human resources by the leader. The content, expression and effectiveness of leadership depend mainly on the native qualities of the leader, his general, professional and managerial training, as well as on the managerial situation in which the leader is or which he is facing (Gavrilă, 2004).

An effective leadership incurs the fulfillment of two essential roles (Kets de Vries, 2007):...
✓ a charismatic role (the leader designs a better future for his subordinates, gives them strength and inspires them);
✓ an architectural role (the leader takes into account aspects related to vision, strategy of the organization, control-evaluation systems and the rewarding of the employees).

The two roles complement each other. Thus, the architectural role of the leader is materialized in the proper implementation of strategies, policies and structures that enable him to fulfill his charismatic role (vision on the future, giving strength and inspiring the members of the organization) (Kets de Vries, 2007).

Jack Welch, former president and chief executive officer of the company General Electric, finds that there is a series of leadership secrets, of which we mention (Slater, 2009):

- approaching change as an opportunity which, if realized, will enable the organization to achieve more competitiveness;
- facing reality by permanent adaptation of business strategies and swift action;
- treating human resources with respect, giving them more trust and freedom;
- creating a system of values that reflects the vision, culture and objectives of the organization;
- building an organizational culture based on the continuous training of human resources;
- encouraging the exchange of ideas within the organization by setting up regular meetings and by rewarding the employees who come up with new ideas and translate them into best practices;
- promoting three secrets within the company — swiftness, simplicity and self-confidence — enabling it to adapt to changes that occur in the business environment;
- involvement all human resources in processes and activities, and focusing on the improvement of intra departmental and interdepartmental communication;
- handling with priority the aspects related to the quality of processes, products and services of the organization, as the main source for obtaining competitive advantage;
- ongoing monitoring of customer reactions to the initiatives shown by the organization to offer new products and services.

4. MANAGEMENT AND LEADERSHIP. MANAGERS AND LEADERS

The aspects presented in the previous sections of this paper clearly show that the management and leadership involve overlapping, mutually-interdependent processes and activities. Leadership is an important component of management, centered on establishing a vision, motivating the human resources and urging them to engage in organizational development projects. Management, in turn, involves setting goals and priorities for action, which cannot take place outside of a coherent vision on the future of the organization. Motivation, as a leadership ingredient, is the support of the managerial training function, which envisages the involvement of human resources in organizational processes and activities. The momentum required for the participation of human resources in the development of the organization is a result of the use of appropriate motivational tools and, therefore, it is placed within the sphere of interference between management and leadership.

Management and leadership are interconnected and complementary, at the same time.

Managers and leaders, as promoters of organizational development projects, have to collaborate permanently and, through management and leadership processes, capitalize the creative and innovative potential of the human resources, so that the organizations become more competitive (Figure 2).
In our view, the essential quality of a manager is to build a team of collaborators as well prepared as possible. Managers’ competence, decisive for the success of organizations, has been addressed from a triple perspective:

- formal competence (defined by formal limits among which the manager can act to achieve the objectives, tasks, and responsibilities set out in the job description of the position he occupies);
- professional competence (according to his training, knowledge, and experience accumulated over time in his professional activity);
- managerial competence (is reflected by his managerial knowledge and abilities).

Leaders’ competence is defined by the first two categories mentioned above, namely formal and professional. In addition, leaders have charisma, which gives them a certain authority over the other members of the organization. Therefore, the leaders, by their double competence – formal and professional – and charisma, succeed in mobilizing the groups of human resources of the organizations, obtaining their support in the various actions that they initiate.

There are also managers-leaders, but these situations are rarely encountered in organizations. It is an ideal situation for a manager to be a leader, at the same time. The manager-leader capitalizes, on the one hand, the competence trinomial (formal, professional and managerial) and also has the charisma, which is the key to obtain the adhesion of the members of the organization for the proposed development projects.

As regards the dilemma whether “the managers and leaders are born or formed”, we find that the managers and leaders are people who have certain native qualities (intelligence, intuition, talent, communication skills, etc.), yet this arsenal of qualities should be supplemented by continuous training. For example, communication, which is essential in management and leadership activities, also has an important native component related to personality, but it has to be amplified by training, organizational situations, and contexts. Consequently, the native potential of managers and leaders, their vocation, are important, but they have to be cultivated permanently so as to finally obtain the desired results.

Managers and leaders need to work as a team and complement one another in the activity that they carry out in organizations. It is essential, in our view, that the managers have
the ability to get the support of the leaders in grounding, adopting and, particularly, implementing organizational change projects. The permanent collaboration “managers-leaders” represents one of the main secrets to achieve and maintain the competitiveness of the organizations in the context of today’s business environment.

5. CONCLUSIONS

The management of an organization involves progressive stages in which objectives are established, resources are allocated, strategic development options are outlined, activities are organized and coordinated, human resources are involved in organizational processes through motivational tools and, finally, the obtained results are assessed by comparison to the level of the forecast objectives.

Leadership represents the action of the leaders based on different sources of power and a specific set of skills, directed towards influencing the members of a group so that their activity would be aimed at the achievement of the company’s objectives. At the same time, leadership is an activity with a strong creative interpersonal dimension and which involves the initiation and propagation of change almost at all times.

The essence of management consists of the management processes and relationships carried out in organizations. The management processes represent a small weight in the whole of work processes within organizations, but they have a decisive impact on their economic and social performance. A professional management presents the following fundamental dimensions: forecasting, creative and innovative, flexible, informational, investment and social.

Leadership takes into account the human dimension of management, in the involvement process of the human resources by the leader. Leadership is an important component of management, centered on establishing a vision, motivating the human resources and urging them to engage in organizational development projects.

Managers and leaders, as promoters of organizational change projects, have to collaborate permanently and, through management and leadership processes, capitalize the creative and innovative potential of the human resources, so that the organizations become more competitive in an increasingly complex and dynamic business environment.

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TARGET-COSTING AND ORGANIZATIONAL LEARNING - ANSWERS TO ENVIRONMENTAL CHANGES

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ABSTRACT

The current economic environment offers organizations new challenges and requires making decision in conditions of uncertainty and risk. This situation imposes good managerial capacity, dynamism and complete information about the organization's ability to learn from its interactions with internal and external environment.

The changes in the economic environment, upgrading technology through automation and robotics, the need for relevant information to achieve the objectives have led to a rethinking cost calculation in the light of the new challenges of the competitive environment. Target-Costing is an innovative approach in the cost control area, which connects the company, market and competition on the one part and the company's strategy on the other, a strategy that is influenced by each product, throughout its life cycle.

Can be often observed that organizational learning is a natural response to the economic environment changes, but the ability to filter and assimilate new knowledge brings performance to company. Lifelong learning has become a central value in the organizational culture, increasing the potential of any organization to overcome rigid and outdated strategies and to develop new ideas and to obtain performance.

Key words: organizational learning, knowledge, performance, Target-Costing, costs

JEL Classification: M19, M41

1. INTRODUCTION

The dynamic changes occurring in the current environment influence the actions of managers who manage the organization's resources and direct their attention from the material resources to intangible resources, intellectual ones. In this context and to face a competitive environment, managers must carefully examine knowledge that supports the work of the organization and how they are run.

In this paper we try highlighting the characteristics of a new management tool, the Target-Costing method, and the importance of the cost calculation to distinguishing between the profitable products and those unprofitable. Also, the study shows the importance of organizational learning in general and in connection with the implementation of Target-Costing method in the organization in particular.

The paper highlights the importance of the relationship between strategy and resources through Target-Costing method in the terms of accelerating of competitive dimension and of uncertainty in the world business environment. The study shows that organizational learning is an important vector for adapting to dynamic business processes and improving productivity and performance.
In the first part of the paper we presented the concepts and principles of the Target-Costing method as a tool for management and performance. The way the instrument is used vary from one organization to another, depending on factors influence inside and outside the organization: competitive pressure, the lifespan of products, manufacturing costs, especially at the stage of conception, personnel training and technology.

In the second part of the paper, we highlighted the role of organizational learning in achieving the organization's objectives. We firmly assert that organizational learning can only be achieved through a concerted assembly of policies and actions made by management, by creating an organizational culture, approaching the organizational learning curve as much as possible to that of its employees and stimulating the necessary flexibility to transform traditional organization into a learning organization. We have also highlighted the advantages of implementing the Target-Costing method in organizations.

At the end of the work we highlighted some of the authors' conclusions and the future research directions, with the desire to explain the modern concepts that belong to the organizational culture which facilitates learning.

The subject approached in our work was the object of numerous researches, reflected in academic articles, in professional journals, in books of management, accounting and management control. Existing studies supports our demarche and are summarized in the specialized literature section.

2. LITERATURE REVIEW

Robin Cooper defined in 1992 the management based on Target-Costing so: “the object of the target-costing is to assess the cost of manufacturing a product in such a way that when the product will be sold, it will lead to the desired profit margin”. Under this definition, the Target-Costing method appears as a way to compute the cost.

In the vision of Takao Tanaka (1993), the management based on Target-Costing appears as “the work carried out during the stages of planning and design of a product to achieve a cost set by the management. The Target-Costing method is used to decrease the difference between the estimated cost and target cost through better design of the product. The aim is to enable an item to achieve profit targets along its entire existence on the market”. This definition confers to the target-costing method the significance of a management method.

Worldwide, this method has been researched very carefully, especially by an international grouping composed of companies and researchers called Computer Aided Manufacturing International (CAM-I), whose results were published and which demonstrate real utility of this method to continuous reduction of costs. According to CAM-I, Target-Costing is a set of techniques and tools of management which allows the introduction of cost and business objectives to design and planning of new products, providing a basis for checks outside the operational phase and ensure that these products reach profitability objectives set for the lifecycle.

After its invention by Toyota in 1965, the target cost method grew and quickly became the standard in the automotive industry in Japan. It was later implemented in other areas, reaching, in time, to penetrate 80% of companies in the capital goods industry, electrical engineering and electronics from Japan.

Target-Costing falls within the concept of market orientation (market orientation) concept spread in the 80s about the same time with the popularization of Target-Costing. This guidance involves creating a firm link between marketing and entrepreneurship. At the same time, it is a culture that leads to behaviors required for value creation and performance for

Moreover, in a study that explores the link between organizational learning and Target-Costing, Choe (2002) emphasizes the importance of non-financial information and the role of sharing information through interaction and communication of more departments. Also, the author identifies in the Target-Costing process other assumptions that support organizational learning: the staff expertise, transparency, cooperation and interaction between members of the organization, continued involvement of staff, staff rotation, the reflection of the experience in relationships with customers and suppliers.

The success of Target-Costing consists in the commitment of entire organization, commitment based on a strong culture and facilitated by an efficient information system (Roslender and Hart, 2000). Target-Costing is a tool that requires continuous action, a common culture and lifelong learning.

3. ORGANIZATIONAL LEARNING AND IMPLEMENTATION OF THE TARGET-COSTING METHOD IN ORGANIZATIONS THAT LEARN

Integrated into a competitive environment with a multitude of products and production processes, enterprises have felt the need to better know the costs, in order to determine as precisely as possible realizable selling prices and margins per product. Managerial accounting opens the "black box" that represents the transformation process of inputs into outputs and it details the stages through which resources consumed evolves into results, per activities and per products.

To achieve the objectives set, decisions should be made aiming at the same time that they provide the expected results, as shown next:

\[ \text{Objectives } \rightarrow \text{ Decisions } \rightarrow \text{ Actions } \rightarrow \text{ Results} \]

In practice, often the results do not coincide with the objectives, because the company has to face a “medium”, i.e. a set of socio-economic agents, which in turn pursue their own interests.

In the contemporary period which is crossed by radical changes in the world and in a competitive business environment, where prices are fixed by the market, competitive pressures or aggressive policy practiced by management, Target-Costing method instils new life to cost management, encouraging the companies in adopting and implementing this method to solve problems.

By resorting to this method for determining the costs, basically it is transmitted across company the competitive pressure to guide and discipline the creativity (Cooper, R., Slagmulder, R., 1999).

3.1 Theory of Target-Costing

In the classical system, costs are calculated after finalizing of the product. The Target-Costing method quasi-reverses things, because from the beginning arises the question: “How much can cost the product?”.

To determine the target cost of the product, the emphasis is on a prospective analysis of market and on functional specifications of the product, as starting points for cost management. This cost analysis requires consideration of the entire product life cycle. It is aimed to create a product that meets the expectations of investors and of the market, for which
the target cost is calculated on the basis of market research (especially elasticity-price analysis).

According to researchers Deglaire and Dumarest (1993), the method is particularly suitable for products with a short life and high cost of conception. This may be one of the important conditions that explain why the method is developed so much in assembly activities towards the activities in which the manufacturing process varies slightly.

These costs will be the initial data for whole process of development. In this way, for the products for which the technological aspects are not important, it is possible to achieve costs that incur competition, which is an important factor in building a competitive cost.

The Target-Costing method is based on the following principles:

1. the calculation of cost and the cost analysis is carried throughout the whole product life cycle. Profitability of products is determined in proportion of 80% upstream of the product life cycle, i.e. the stages of design and engineering. The possibilities to exercise a significant influence on the cost are more reduced after overcoming the phases of research and development of products, so as during the rest of the life cycle can be practically influenced only 20% from fixed costs. It must therefore controlled upstream activities of the product life cycle, continually keeping a holistic view of the life cycle. Conception and planning decisions must answer to a critical concern - future performance optimization of product;

2. the calculation and cost analysis is done on the product and on product components

3. the viability of a product are quantified in relation to the market in two key areas: customer satisfaction and a price that be competitive.

![Diagram](image.png)

**Figure 1. Components of the Target-Costing process**

*Source: Cooper and Slagmulder, 1999*

Target cost is usually imposed by the market and competition and may be modified only indirectly by accepting a profit margin. To achieve cost target - the target price is reduced by the expected profit. The cost target is established as a result of the equation:

\[
\text{Cost target} = \text{Selling price} - \text{Profit margin}
\]

Considering all the computing elements as targets to be achieved, the relationship above becomes:

\[
\text{Cost target} = \text{Sale price target} - \text{Profit margin target}
\]
The combination of the three variables in the fundamental equation of the Target-Costing method differs from traditional cost accounting equation, determining the sale price of a new product being made as follows: the cost of the product is determined by the analytical accounts; the profit margin of the product is applied as a percentage to the cost and it is automatically established (fixed) by the company; the sale price is the result, according to:

\[
\text{Cost + Profit margin} = \text{Sale price}
\]

The competition between American and Japanese business systems, differently developed and based on this two distinct equations reveals that the Japanese have defined their targets for cost based on the price that it hopes to achieve in the market, taking into account the costs and prices of competitors - a more operatively method than the cost analysis process practiced by most American producers (Fig. 2).

Japanese firms recognize that are concerned about the situation of their competitors for two reasons:

- to find ways to cheapen its own products;
- to find out what cost should have a new product to be viable, taking into account the level of the market price.

Based on this information, the Japanese companies seek to exploit the vulnerabilities of competitors and avoid their strengths by developing strategies conducive to efficient capital investment, product development, gaining or giving up a market segment, pricing etc.

The lack of concrete information on the cost structure and technological operations of competitors causes solving this problem indirectly. Thus, their costs structure can be reconstructed (Japanese method of analysis - "by unbolting"), comparing determinants of costs of their own businesses with the costs incurred by competitors, to determine where lies cost of each. Discussions with customers create the opportunity to evaluate the strengths and weaknesses of the products made by competing companies.
In general, the organization is able to appreciate at what cost will obtain a product based on the experience, production potential and current technology that is available. This full forecast cost called estimated cost is usually higher than the target cost and includes all expenses attributable to the product and that are reflected in the firm's accounts.

**Estimated cost = Directly Cost + Indirectly Cost of Production + General and Administration Expenses + Selling Expenses**

(assuming the full cost of sales)

The difference between the estimated cost and target cost is generated typically by factors related to competitiveness. Optimization work conducted at both the design and production level occurs as essential for reducing of highlighted deviations. Comparison of the target cost with the estimated cost is achieved often at the level of each component or subassembly.

Allowable cost is usually lower than the target cost and it is determined by competition, according to commercial considerations. The level of target cost stands, most often, between the estimated cost and the allowable cost, trend being to keep the target cost as

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**Figure 2. Differences of approach in the development new products**
close as possible to the allowable cost, to the extent that different stages of the product design will be completed or different periods of the life cycle of the product will be achieved.

The relations established between target cost and types of costs mentioned above can be shown as follows:

**Allowable Cost < Target Cost < Estimated Cost**

Efficiency application of the management based on the Target-Costing method largely depends on the relevance of estimated cost. This is because the whole architecture of Target-Costing management is based on the comparison between the target cost and the estimated cost and the implementation of actions aimed to reduce the deviation between the two, starting with the phase of conception until production, sale and after-sale stages. The target cost is given by the qualities, utilities and attributes of the product and the estimated cost is given by the consumption of resources and goods. Before the market launch of the product are compared this two costs and the result is established for the whole lifespan.

### 3.2 Implementation of the Target-Costing method in organizations that learn

A definition of learning, according DEX (2009) may be: learning is an action by which we can acquire knowledge or skills in a particular field. We can say that learning is the process whereby is born or changed an action in response to a given situation.

The process of learning is particularly large and complex. Most traditional methods believe that learning is achieved by extracting knowledge from experts. But learning is also achieved through increasing self-knowledge level, behavior change, and by acquiring new skills that are engaged in learning process. In most cases, the learning is done effectively through action or experience and is effective or lasting only if developed concepts can be applied in various practical situations.

To justify direct and indirect costs associated with learning, an organization must see direct benefits resulting from a learning process. So for a learning process that occurs in an organizational environment it can be expanded the definition thus “learning is the process of permanent change, which help people to acquire new knowledge, skills and attitudes so they can be more successful in what they do”. In the last years of the twentieth century, the management of organizations ended up to accept that those who make the essential difference between organizations are people, not money, buildings or equipment.

In the more dynamic and complex environment, skills become outdated in a short time, so continuous learning and development becomes imperative for success. Therefore, efficient use of time and money is required in skills transfer processes.

Learning needs can be different in small and medium sized organizations compared to large organizations. In small organizations learning needs are imposed by changes in the business environment, and the main learning need is related to learn how to drive really a business and its people. Instead, in large organizations, the main need is transition from rigid management to a management based primarily on leadership.

The organization has the responsibility to create a emotionally climate and policies to stimulate lifelong learning and staff interaction, by supporting project teams and disseminating information using e-learning platforms, Intranet, trainings or other methods. When we think that the staff will be more efficient, following the acquisition of new knowledge, we consider four relevant parameters: Quality (working to another level of quality), Quantity (managing several activities) Cost (doing more at same cost or doing the same at a lower cost), Time (doing things in a shorter time).

The effectiveness of an organization depends largely on better use of people’s knowledge. This means that it stimulates learning and communication, on the one hand and supports action and getting concrete results in knowledge, on the other hand. An organization
that has well-trained employees, but through rigid internal policies and outdated strategy, not allow them to develop new ideas is one doomed to failure.

First in Japan in the 70s, then in other countries, the implementation of this new method of costing was done in conjunction with a more participatory management of human resources, which relies on encouraging initiatives, collaboration and employee involvement. The Target-Costing method can be easily implemented in a company in which there is already a good internal communication, decentralization in decision-making and a strong market orientation.

Implementing Target-Costing method is the result of research supported by:
- the need to produce smaller series to better respond to market needs;
- introduction of new methods to organize the production (e.g. Just-In-Time method of inventory management);
- introducing new modern technology.

Target-Costing method implementation within an organization is a major change that will affect not only the internal organization but also the mindset of staff. Good communication is essential is essential for achieving the changes due to the introduction of Target-Costing calculation. The company's vision must be shared with staff to eliminate resistance to change and slowing of the operation. It is also necessary that this vision to be clearly defined. It is certainly difficult for employees to understand and accept company's decisions to reduce staff or to increase workload. However, this technique is a great way to have a competitive advantage over competitors.

In implementing the method Target-Costing, the project responsible must have support of the organization management, which must be actively involved in this process. Also, those responsible must be credible in front of the other heads of departments, they being forced to coordinate the work of a team whose members belong to different departments. The responsibility of drafting project of implementation Target-Costing method belongs usually management accountants, who must ensure the proper training of people involved and the awareness of the application of this implementation process.

Implementation of Target-Costing method is recommended in the activity sectors where following conditions are met:
- production costs in conception phase are high and are associated with a short life cycle;
- processes are discontinuous (e.g. automotive, electronics or pharmaceutical industries); it applies to a lesser extent to continuous processes (e.g. steel industry);
- competitive pressure is high.

Among the identified benefits can be mentioned:
- support decision making;
- ensure performance optimization by introducing timely and at lower cost of new products;
- it allows timely identification of problems that might arise in the process of reducing costs;
- focus on customer needs, by the strategic link between the design-innovation department and market;
- directs the company's work to ensure the quality, reliability and shortening product life cycle;
it is improved staff motivation (responsibility in cost management, commitment, self-control).

4. CONCLUSION

In conclusion, this paper aims to promote in the current environment a new tool to support decision making in organizations. We note that the Target-Costing method is more a philosophy than a process of business planning, management and cost reduction. The method changes the traditional view of establishing the price based on the cost by opting to establish an allowable cost, depending on the competitive environment.

The management based on Target-Costing can be summarized as: selling price is a price imposed by the market; profit margin on product is established by leadership in line with the economic goals set by the company; within a profitability target for each product, the cost should not be regarded as an outcome, but as a goal to be reached (target) for businesses looking to achieve its objectives. Target-Costing method promotes a major change in the mentality of many organizations, managers and specialists, accustomed to operate in a business environment that accepts regular price growth.

Also, the organization's culture plays an essential role by acting as facilitator or inhibitor of learning. The effectiveness of an organization depends largely on better use of people's knowledge. This means that it stimulates learning and communication, on the one hand and support concrete action and getting results of knowledge, on the other hand.

Both theory and practice of management are far from explaining and integrating all dimensions arising from these modern concepts that can fundamentally influence the performance of the organization: the knowledge management, organizational learning, strategic management tools, organizational culture etc. Perhaps in future years, organizations which will gain the ability to identify organize and use effectively the knowledge taken over both the external environment and the internal one will become successful organizations, getting better suited to the dynamic and volatile business environment.

Hopefully ideas presented and argued in this article will be an asset to guide professionals to practice a performance-oriented management, taking into account the cost reduction opportunities, especially in the current business environment where the competition is becoming increasingly fierce.

The approach which the authors of this paper have done is theoretical and they recognize the need for some case studies to understand the complexity of situations that involve the use of the Target-Costing method.

Other research directions could be the development of studies showing the importance of organizational culture as a factor of influence in managerial accounting field or staff motivation and his remuneration based on performance level.

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FRAGMENTATION OF INTERNATIONAL LAW *

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There are two phenomena that have influenced the way political and economic relations are conducted by state and non-state actors in the international realm of the twenty-first century: the globalization and the fragmentation of international law have determined the emergence of fragmented parts of law - like human rights law, environmental law, trade law, space law, European Union (EU) law and so on -, which became separate legal regimes with special legal techniques and norms different from the general international law. In the legal literature, these specialized and (quasi) autonomous legal regimes are usually called “self-contained regimes” or special regimes, whose modus operandi is explained in terms of lex specialis.

One emblematic example is the EU law, which has gradually developed its own legal order of international law, with a special canon of innovative procedures and tailor-made rules. Primo, EU law has revolutionized the way international obligations produce legal effects within the legal order of the self-contained itself and secundo, it has established special procedures in the field of state responsibility and dispute settlement that have made innovations in the state of art of general international law mechanisms. Therefore, legal scholars are entitled to argue its status of self-contained regime.

The purpose of this study is to first determine and examine, within the framework of fragmentation, the relationship between the general international law and a fragmented branch of law, namely the specialized regime of the European Union law. Second, I will advance some considerations on the fact that the EU law, as a fragmented branch of international law, has taken a historical turn towards becoming a self-contained regime.

Fragmentation has become the leitmotiv of the early twenty-first century international law scholarship, encapsulating the post-modern anxieties regarding the impact and the legal effects (both positive and negatives) on the coherence of the general international law. The more expanded and specialized the international law becomes, the more it “is a victim of its own success”. Seen as “a cultural and historical product”, international can be characterized by four main evolutionary phases: the first three phases are, according to David Kennedy, the Treaty of Westphalia, the League of Nations and the UN Charter and the fourth current stage of evolution is “the globalization of international law”. We are therefore witnessing an extraordinary expansion of its scope that determined on one hand, its specialization in many areas (e.g. environment, trade, climate change, EU, human rights etc.) and on the other hand, the proliferation of courts and other bodies of law. From a legal point of view, these phenomena have shown how unpredictable can be the international system.

International law has constantly and inevitably evolved along with the transformations of the international politics and the influences of the global society over its forms, modus operandi and scope. The fragmentation of international law is a natural consequence of its expansion and diversification. Current debates have presented different approaches to the analysis of this phenomenon, both critical and partisan perspectives.

The question of fragmentation of international law has been studied by a special Study Group established by the United Nations International Law Commission in 2002 and chaired by Martti Koskenniemi. It was based on the study conducted by Gerhard Hafner in 2000 on the issue of fragmentation. In 2006 the ILC Study Group has finalized the Final Report -
“Fragmentation of International Law: Difficulties Arising from the Diversification and Expansion of International Law” (hereinafter the “ILC Report”).

The study is divided in two parts. The first part introduces the empirical and methodological framework within which fragmentation of international law is studied nowadays, namely, the critical analysis of international law and the interdisciplinary analysis. The second part comprises the analysis of the phenomenon of fragmentation of international law, through the textual analysis of the ILC Report and the current theoretical perspectives advanced in the legal literature. I will first identify the defining elements of this phenomenon and its legal consequences on the international system and then, I will discuss the relationship between international law and EU law.

● EMPIRICAL AND METHODOLOGICAL FRAMEWORK

Aiming to make a significant contribution to the contemporary debates on international law and EU law, this study examines the current state of the art of the relationship between the general international law and the specific EU law in the framework of the fragmentation of international law. This theoretical inquiry applies an analytical and explanatory research, in order to understand why and how the phenomenon of fragmentation of international law is a continuous process which has effects on every aspect of the society.

The dynamics of the postmodernist society have developed a diversity of approaches to explain the world politics, which are however linked by a common reticence about the existence and functioning of any kind of unified system. Embracing interdisciplinary approaches to international law - political science, international relations and law, I will conduct a critical analysis of the ILC Report finalized by Martti Koskenniemi in order to reveal the vouloir dire of the phenomenon, its meanings, its ambiguities and its limits.

There are two postmodern approaches to international law that explain the phenomenon of fragmentation of international law: (A) the critical (legal) approach to international law, based on the critical theory and (B) the interdisciplinary approach (law, political science and international relations).

● The Critical Approach to International Law

This study on fragmentation of international law is designed under the aegis of the post-modern critical approaches to international law. In the 1980s, legal scholars have pursued numerous criticisms of legal thought, which became after 2000 a critical movement and a real project to develop new approaches to international law. The critical approaches were initially based on strong European cultural orientations and critique to the disciplinary orthodoxy of legal thinking. Later on, as the movement has increasingly reached global dimension, the geography of NAIL has benefitted from strong North American focus and also thirds world elements. The most emblematic scholars who have advanced critical views on international law and have been associated with the NAIL movement are the following: Martti Koskenniemi, David Kennedy, Anthony Carty, Nathaniel Berman, Antony Anghie, China Mieville. All their workings represent the point of reference for the critical theory, but Koskenniemi’s 1989 From Apology to Utopia (and its reissued version in 2009) has become one of the most influential books in the NAIL literature.

Known under different rubrics, New Approached to International Law (NAIL) and Newstream by David Kennedy, Critical Legal Studies (CLS) – within the US critical movement, Third World Approaches to International Law (TWAIL), Postcolonial Legal
Studies, Feminist Approaches and so on, the critical school has become the new trend in analyzing international law, which combines a broad array of methods and techniques. The critical school is closely tied to the American legal realism from the 1920 – 1930, and to the the critical works produces in the Frankfurt School tradition and the French post structuralism. The four founding fathers of these NAIL, Philip Allott, Martti Koskenniemi, Anthony Carty and David Kennedy, have developed their critical international legal project into a true academic phenomenon and theory, which critical impulses have their roots in the European tradition of critical thinking of the Frankfurt school and Derrida’s deconstruction. One of the most long-established research center of the study and development of the NAIL movement is the Erik Castrén Institutte of International Law and Human Rights (ECI), from the University of Helsinki.

Most of the critical studies have emerged in the Anglo-American world. The French-speaking community has started a few years ago to embrace the critical theory and ever since has delivered valuable contributions to the development of the NAIL. For example, Emmanuelle Jouannet has organized in 2009 an international workshop at the University Paris I Panthéon Sorbonne, which gathered important scholars in order to evaluate critical approaches to international law from different perspectives. Moreover, Rémi Bachand has coordinated the volume “Théories critiques et droit international” in 2013. He has even proposed a *manifeste pour la Critique en Droit International*, which illustrates the cardinal directions of critical thinking inside the legal:

“1. La Critique est politique.
   - La Critique prend position en faveur des subalternes contre les dominants.
   - Il ne sert à rien pour la Critique de faire de la recherche analytique si celle-ci n’est pas directement liée à des enjeux d’exploitation et de domination.
   - Les structures de domination et d’exploitation (le capitalisme, l’impérialisme, le patriarcat, le racisme, etc.) se maintiennent par la coercition et paru une légitimité acquise par des procédés idéologiques qui assurent le consentement spontané des masses (dominés autant que dominants) à leur endroit.
   - L’objectif de la Critique n’est pas d’adoucir et de légitimer les structures de domination et d’exploitation, mais de participer à leur dénonciation et à leur renversement.
   - La Critique s’attaque aux différents mécanismes de reproduction des structures de domination et d’exploitation, et notamment aux discours permettant leur légitimation.
   - La Critique a aussi, tant par son travail académique et sa production intellectuelle que par sa pratique professionnelle, comme mandat d’appuyer les subalternes dans leur résistance face aux structures de domination et d’exploitation.”

The project of remaking the international law as imagined by the NAIL scholars is characterized, by the methodological innovation, combining the critical approach and the deconstructive approach, as well as by the interdisciplinary nature of the work.

**The Interdisciplinary Approach**

The ever-expanding corpus of international law within a dynamic and unpredictable phase of global politics calls for an interdisciplinary engagement between law, political science and international relations, and a combination of methodological instruments across these disciplines. The main reasons are the following.

First of all, the legal perspective providse the framework of the entire study. Historically and analytically tracing the debates on the phenomenon of fragmentation of
international law, I engage into a legal inquiry on the grounds that, according to Koskenniemi, “international law is what international lawyers make of it”.

Second, having noticed the evolving international legal environment along with the transformations in every sphere of the globalised society, the field of international law is a fertile laboratory for an interdisciplinary approach that aims to explain the current status of the fragmentation through the analysis of the relationship between general international law and specialized EU law. In order to analyze the fragmentation of international law it is necessary to identify the place and role of international law in the international society and to look at the phenomenon of fragmentation and to the European legal construct also from the point of view of the international relations and political science.

Therefore, I consider of great importance that the present study takes place at the crossroads of the three disciplines mentioned above, on the grounds that the phenomenon of fragmentation has revolutionized, along with globalization, not only the law-making process, but also the governance at all its levels (national, regional, global) and of different domains of the society (like human rights, environment, trade and so on) and, last but not least, the relations between all the state and non-state actors on the international arena. Moreover, the driving force behind the interdisciplinary choice of this study is based on the fact that international law has essential functions within the international society, which according to Rémi Bachand, are the following: the legal form, namely the set of legal elements that establish the structure of the legal order of a social order; the rules and norms; the justification of the actions, by the actors who make use of the international law as a language; the importance of law for the ideological evolution of the international society.

Third, taking into account that theoretical perspectives in International Relations, conducted by realists, liberals, social constructivists, Marxists or critical theorists, have different views of international law, I will analyze the fragmentation from point of view of the critical theory. Moreover, in this inquiry into the legal nature of the EU I will adopt Singer’s two perspectives of analysis from the field of international relations, depending on the „level-of analysis problem”: first of all, the analysis through the lens of international lawyers viewpoint and then, the analysis through the lens of EU lawyers perception. In the first case, if we look at the works of Dupuy, Jan Klabbers or Nollkaemper, we notice that the supremacy of international law prevails over any kind of legal regime and EU is seen as an international organization. However, in the second case, while building their arguments on the sui generis nature of EU and its legal particularities, scholars and EU lawyers, like J.H.H. Weiler, Piet Eeckout, Bruno de Witte, Grainne de Burca and Paul Craig or K.S. Ziegler, argue the increasing autonomy of this new EU legal order of international law. Another reason that justifies my choice of combining international relations and law perspectives lays on the fact that the evolution of fragmentation of international law is directly influenced by the dynamics of globalization and the management of global issues. Allain Pellet observes “the globalization of international law”, that reshapes the classic international law logics and international order, once we meet the challenges of the emergence of different “foyers de droits”, according to J. Chevallier. Moreover, it is essential to integrate international law and international relations scholarship in order to investigate and explain the evolution of international law in the dynamic framework of the international community, as C.C. Joyner states:

“Academicians who study either international law or international politics share a dirty little secret: both groups know that the presence of international law is critical for international relations to occur, and both know that the
The practice of international politics is essential for international law to evolve and function. But each is reluctant to admit the necessity of the other.”

Last but not least, the political science discipline provides the theoretical framework of how (legal) regimes are constituted, defined and how they work in general, in order to understand afterwards the emergence of separate and (quasi) autonomous legal regimes. Moreover, the association of the sometimes misleading term of “self-contained” to the *sui generis* law of the European Community and then the European Union as a whole (going beyond a simple international organization and claiming its special role and status in international law) might be perceived as an epistemological challenge for the political science field. Another reason why adopting the political science perspective is important for this study is because the fragmentation of international law and the emergence of separate legal regimes influences the process of governance within the state and beyond the state in the sense that these fragmented legal regimes have developed their own mechanisms and variations of governance which have strong effects on the two main defining elements of the state: its territory and its sovereignty. These self-contained regimes are deterritorialized legal regimes. In order to globally or regionally govern and cooperate on different issues (like human rights, climate change, trade, European affairs etc.), there regimes require the ceding of sovereignty from the sovereign state, generating the deeper disaggregation of sovereignty.

Using the interdisciplinary approach in this analysis of fragmentation of international law and its consequences will provide us with different conceptual apparatus from law, political science and international relations, which will offer a broader understanding of the phenomena outlined above.

**FRAGMENTATION OF INTERNATIONAL LAW**

The law of the nations has shown its ubiquitous presence in world politics and its substantial role in the disciplinalisation of the globalized international system and international relations. The shift between the traditional international law and its globalised version is that today, the law is no longer exclusively of the nations, but of all the international actors, both nation states and non-states entities.

Confronted with a constantly evolving legal system towards expansion and diversification, international law has been characterized during the twentieth century by a *crise d’identité*, which has questioned the entire classical logics of the international order and has given rise to a long standing conceptual debate on the dichotomies of order/disorder created by international law and unity/fragmentation of international law. The legal fragmentation is due to several phenomena arising in the social world.

On one hand, the specialization or diversification of international law in particular subject-areas such as human rights, trade, sea, the environment and so on (that have become bodies of law, benefiting from their own specific norms) has accelerated the process of fragmentation.

On the other hand, besides this specialized law-making process, the tendency towards institution-building according the functional needs of the societies has encouraged the proliferation of international judicial institutions, organizations, courts and tribunals, whose interpretations of general law may vary depending on their own rules and principles. Moreover, the international law, as it is reshaped today, governs not only the traditional relations between states, but also between non-state actors, international institutions and organizations, private actors and so on, albeit the lack of a centralized international authority.
Taking into consideration the proliferation of norms in different areas, organizations and institutions, treaties and international legal documents, as well as non-state actors in modern international law, a revolutionary wave resulted in the fall of the classical international law logic and the emergence of fragmented legal regimes or different “foyers de droits”. These “foyers de droits” describe the different branches of law around specific subject-areas that have been gravitating independently the international system and operating in their own regime of application and interpretation of the international norms and by their own rules and legal practices.

In order to explain their appearance, it is important to note that the traditional international law is continuously challenged by contemporary complex functional problems of the international community referring to functionally fragmented domains, as human rights, terrorism, environment, security European Union, trade, humanitarian aid. Thus, the existing international *vides juridiques* in such domains accelerated the emergence of international conventions, laws and regulations in order to create governing directions internationally recognized as a point of reference in each and every area. But, the more fragmented is international law, the more challenged it becomes from the point of view of the emerging normative conflicts: between general law and a particular interpretation of general law, between general law and a special law and between two types of special law. Even more, given the multitude of treaties and international agreements between different subjects of international law, in different areas, regulated or not by international norms, we are witnessing the development of special rules, legal practices and even legal order that might be in conflict and deviate from the general law, causing incoherence within the legal system. Therefore, legal scholars have observed that international law has become increasingly fragmented into a myriad of fields of law, which have given birth over time to specialized legal regimes that claim autonomy from the general law. In this context, I will investigate the relationship between general law and a specific area of law, the EU law.

The fragmentation of international law, its complexities and effects on the international order were extensively studied by the ILC.

- **Conceptualizing fragmentation**
  
  In 2000, during its fifty-second session, the ILC has included the issue of fragmentation in its long-term programme of work on the basis of a study on the “Risks ensuing from fragmentation of international law”, conducted by Gerhard Hafner. In 2002, after receiving the approval and constructive comments of member States’ Governments, the ILC has established a Study Group in order to extensively study the dynamics of fragmentation in the international legal system and the expanding scope of international law and has included in its programme of work the issue of “Fragmentation of international law: difficulties arising from the diversification and expansion of international law”. This Study Group was chaired first chaired by Bruno Simma, aiming to provide a set of analysis on particular implications of the fragmentation in order to support international judges and practitioners in their activities and to develop a “toolbox” in order to cope with the arising conflicts between norms. At the same time, the Study Group recommended the appropriateness for study of fragmentation the following topics:

  “(a) The function and scope of the *lex specialis* rule and the question of “self-contained regimes”;
  (b) The interpretation of treaties in the light of “any relevant rules of international law applicable in the relations between the parties” (art. 31 (3) (c)
of the Vienna Convention on the Law of Treaties), in the context of general developments in international law and concerns of the international community;

(c) The application of successive treaties relating to the same subject matter (art. 30 of the Vienna Convention on the Law of Treaties);

(d) The modification of multilateral treaties between certain of the parties only (art. 41 of the Vienna Convention on the Law of Treaties);

(e) Hierarchy in international law: *jus cogens*, obligations *erga omnes*, Article 103 of the Charter of the United Nations, as conflict rules.”

In 2003, Martti Koskenniemi was appointed Chairman of the Study Group and all the members agreed on the methodology to be adopted for the study of the topics set in 2002 and on drafting guidelines for the ILC in order to deal with the issue. Thus, Martti Koskenniemi, as the Chairman, has focused his work on preparing an outline regarding “the function and scope of the *lex specialis* rule and the question of ‘self-contained regimes’.

In 2006, the Study Group has issued a Final Report - “Fragmentation of International Law: Difficulties Arising from the Diversification and Expansion of International Law”, finalized by Martti Koskenniemi. The ILC Report is the result of a broad set of analytical studies conducted by various Members of the Study Group, on different topics regarding the fragmentation – among which the *lex specialis* rule, the “self-contained regimes” and the responsibility of States for wrongful acts and the law of the treaties will be relevant for this study -, as well as the constructive comments and discussions within the meetings of the Study Group. The ILC Report studies therefore the phenomenon *per se* – its causes, its effects and legal implications -, as well as the normative conflicts of laws that might arise between general international law and special law and affect the entire coherence of the system.

The ILC Report is organized around the substantive aspect of the fragmentation of international law (in the detriment of the institutional one regarding the proliferation of international institutions, courts and tribunals), namely the emergence of specialized branches of international law, characterized by special laws and legal regimes. A particular attention is provided to the relationship between these legal regimes and the general international law.

Fragmentation is described in the ILC Report as a phenomenon inherent to globalization and based on diversification and expansion of international law, which has both positive and negative effects on the international legal order: “on the one hand, fragmentation does create the danger of conflicting and incompatible rules, principles, rule-systems and institutional practices. On the other hand, it reflects the rapid expansion of international legal activity into various new fields and the diversification of its objects and techniques.”

Therefore, in the literature fragmentation appears to be approached from different perspectives: some international lawyers claim the danger of the gradually erosion of general international law, incoherence and conflicting jurisprudence; others claim the functionality and efficiency of special law-making and institution-building for separated branches of law.

Martti Koskenniemi’s contribution to the debate on the fragmentation of international law, both as a member of the ILC and as a scholar, has revolutionized the new way of thinking in international law, in terms of understanding and management of the state of fragmentation and the postmodern anxieties of the international lawyers vis-à-vis the implications of this phenomenon on the unity of the international system, as well as in terms of analogizing the specialized and functional legal regimes that came along with the fragmentation to the states. His writings touch upon a wide range of topics referring to the evolution of the international legal system. In “The Gentle Civilizer of Nations: The Rise and the Fall of International Law 1870-1960”, Koskenniemi analyses international law in the light of imperialism and colonialism and identifies that “the vision of a single social space of “the
international” has been replaced by a fragmented, or kaleidoscopic understanding of the world where the new configurations of space and time have completely mixed up what is particular and what universal”. Moreover, he concludes that the idea of a world order has been replaced by the rise of “technical sub-disciplines and specializations”, like the human rights regime, the EU regime or the environmental regime. Koskenniemi has already argued in 1998 that the international law was passing through a phase of transformation in order to deal with global problems related to, for example, human rights, self-determination and environment.

Koskenniemi’s workings regarding the fragmented structure of the international law have contributed to the development of the research in this domain, have advanced new avenues of inquiry in the fragmentation debate and finally, have conducted towards the normalization of fragmentation. Koskenniemi’s first studies of the fragmentation and critical views of the evolution of international law are included in two of its early writings, the 1989 From Apology to Utopia (reissued in 2005) and the 1990 The Politics of International Law.

In “From Apology to Utopia”, Koskenniemi understands the fragmentation in the terms used by De Visscher in 1954: “...particular norms, limited to a small number of States, often only two, are much more common than general norms”. Raising attention on the “movement towards particularism [specific law] within custom [general law]”, Koskenniemi identifies an important consequence of the fragmentation - the rise of conflicts between general law and specific regime, based especially of the question of primacy of the law of one system over the other, namely the general international law and the specific legal regime.

In the 1990 The Politics of International Law, Koskenniemi provides a general approach on the evolution of international law, which will help us understand later on its approach on fragmentation and the rise of legal regimes. He identifies the most two important critiques against international law. First of all, it needs to be depoliticized, because it is perceived as a “manipulable façade for power politics” of most influential international actors and second, it needs to reflect more the political realities of the time:

“According to the former criticism, international law is too apologetic to be taken seriously in the construction of international order. According to the latter, it is too utopian to the identical effect.”

The critiques of apology and utopia represent the early signs of incoherence, tensions and unmanaged evolution of international law, which have consequently led to the emergence of specific norms and legal bodies and eventually to the fragmentation of international law.

The study of the fragmentation of international law raises fundamental questions regarding the unity of international law, its substance and components: how can international law be broken apart if it was not a unitary body of law? But international law has never been a unified system, even though the idea of unity has been long debated. The lack itself of centralized organs (no centralized legislative body and institutions, no independent authority, no compulsory court system and no centralized enforcement) has made the fragmentation unavoidable. In 2002, Koskenniemi and Leino describe the fragmentation of international law as a “postmodern anxiety” and a post-Cold War deviation from the project of building a complete and coherent world legal order, previously articulated within the legal scholarship developed after the First World War (Sir Hersch Lauterpacht and Hans Kelsen among others). This phenomenon of fragmentation is therefore the result of the East-West political hostilities and the incoherence caused by globalization and liberalism:

“Concern over fragmentation, conflicts and special regimes could only arise after 1989, once it could be assumed that the project of a coherent system
could be revived. But liberalism and globalisation did not bring about coherence, to the contrary. The structure provided by the East-West confrontation was replaced by a kaleidoscopic reality in which competing actors struggled to create competing normative systems often expressly to escape from the strictures of diplomatic law – though perhaps more often in blissful ignorance about it.”

Assessing Koskenniemi’s scholarship and the ILC contribution to this scholarly debate, Tomer Broude states his “central role in this ‘normalization of fragmentation’”. Analyzing Koskenniemi’s 2007 *Formalism, Fragmentation, Freedom: Kantian Themes in Today’s International Law*, Broude identifies the new risks and fear of fragmentation: “Koskenniemi’s own post-modern anxieties regarding fragmentation and its baggage seem to be starkly revealed - a genuine fear of the substitution of the cognizable, statist, governmental Wesphalian system of control under international law […]. This is the enemy: not fragmentation as a phenomenon, but the propensity of fragmentation to promote anti-formalist managerialism in international affairs”.

- **Analyzing the emergence of functional legal regimes (self-contained regimes)**
  According to the ILC Report, the fragmentation of international law has determined “the emergence of specialized and (relatively) autonomous rules and rule-complexes, legal institutions and spheres of legal practices”. These processes of specialized law-making and institution-building have gradually established separate legal regimes (special regimes or self-contained regimes) from the general international law, which seek to respond to technical and functional needs and preferences:

  “what once appeared to be governed by ‘general international law’ has become the field of operation for such specialist systems as ‘trade law’, ‘human rights law’, ‘environmental law’, ‘law of the sea’, ‘European law’ and even such exotic and highly specialized knowledges as ‘investment law’ or ‘international refugee law’ etc.- each posing their own principles and institutions”.

Even thought it had several nuances over the years and in different contexts, the concept “self-contained regime” is currently understood in the sense provided by the ILC Report in 2006: it is a “strong form of *lex specialis*”, but, taking into account that it is not fully isolated from the general law, it is not *in concreto* a “closed legal circuit”. Therefore, the ILC Report claims the “inappropriateness of the term ‘self-contained’” and instead, it recommends the use of the term ‘special regime’. The main reason is that it might be misleading, on the grounds that “although the degree to which a regime or responsibility, a set of rules on a problem or a branch of international law needs to be supplemented by general law varies, there is no support for the view that anywhere general law would be fully excluded”.

However, in this study I will use the term “self-contained regime” when characterizing the EU law due to the fact that EU law has a separate and specialized legal order which seeks to become a “self-contained regime”. Moreover, the historical turn towards self-containedness of the EU legal regime and its increasing degree of autonomy from international law are strongly enforced by the ECJ case law (e.g. the Van Gend en Loos Case, the Costa v. ENEL Case, the Kadi Case and so), which has stated over the years that the EU law is considered a “new order of international law”, with “its own legal system”. Last but not least, the EU case law and the legal doctrine have debated the theory of self-contained regimes and not the theory of special regimes.
First introduced in the literature after the judgment of the International Court of Justice in the Tehran Case in 1980, referring to the rules of diplomatic law, the concept of self-contained regimes benefit from a privileged attention when researching the phenomenon of fragmentation. Thus, the EU scholars and international law scholars and lawyers that have contributed to the development of the legal research in this area. However, extensive studies have not been conducted on the self-contained character of the EU law.

In Koskenniemi’s view, there is a controversial debate related to the creation of the specialized legal regimes and the treaties that establish their normative framework, especially because it does not exist a general rule codifying their emergence, which “will ultimately make it impossible to decide in a specifically legal way whether a specific regime is legitimate exception to or illegal deviation from a general custom”.

These specialized regimes, which develop their own set of norms, rules and international institutions, “challenge the positions taken by traditional law-applying organs”. And this is the case, in Koskenniemi’s view, of self-contained regimes of human rights law, environmental law and trade law. Thus, he argues that in the context of this strong fragmentation of international law,

“new institutions take upon themselves new tasks, sometimes in order to collapse old preferences (e.g. the replacement of the standard of ‘effective control’ in foreign involvement in civil wars by the stricter ‘overall control’), sometimes to create firm exceptions to those preferences (e.g. reservations regimes to human rights treaties) or then just to articulate confrontation between differing preferences (e.g. trade and environment).”

The evolution of international law was driven by the proliferation of such judicial bodies of law, so progress could be interpreted in the terms of movement “from international law to amorphous systems of functionally specialized ‘governance’ of international problems”.

The creation of these separate legal regimes is explained in 2002, in “Fragmentation of International Law? Postmodern Anxieties”. Koskenniemi and Leino argue that “special regimes and new organs are parts of an attempt to advance beyond the political present that in one way or another has been revealed unsatisfactory”, taking into account that the specialized regimes accommodated the deviating preferences and functional needs of certain international actors. The evolution of the debate on the proliferation of international judicial organs is, therefore, based on the political preferences of different international actors to regulate certain domains under special set of rules and norms, in separate legal regimes or new bodies of law. These new trends and developments in general international law have been perceived first by judges and presidents of the International Court of Justice (Stephen M. Schwebel, Gilbert Guillaume, Robert Jennings) and then by the international lawyers in general, as a source of “postmodern anxiety” due to the loss of control over the law-making and institution-building processes and possible normative conflicts, and the most important factors that determined the whole phenomenon of fragmentation.

According to Martti Koskenniemi, the specialization of international law “into functional regimes such as ‘trade law’, ‘human rights law’, ‘environmental law’ […] seek[s] to ‘manage’ global problems efficiently” and accommodate all these transformations within the international system. In 2002, in “Fragmentation of International Law? Postmodern Anxieties”, Koskenniemi and Leino argue that the rise of special legal regimes is not a new phenomenon because international lawyers, in the mid-1980s, started to observe that “development of special normative regimes in various fields of technical co-operation,
described as “self-contained” in order to highlight their operation outside general international law”. In the 2007 The Fate of Public International Law, Koskenniemi argues the possibility of a state-regime analogy and explains that “the emergence of regimes resembles the rise of nation States in the late nineteenth century”. This approach analyses the functional regimes by analogy to the sovereign states.

The acknowledged scholars in the field of international law, Bruno Simma and Dirk Pulkowski, investigate the fours subsystems of international law that, in their views, have been associated with the self-contained regimes (human rights law, WTO law, EU law and diplomatic law). Even though they have attained a certain independency from general international law, it would be difficult to claim that the EU law and the WTO law, for example, are considered autonomous legal regimes in its true sense since this set of lex specialis does not fully exclude the general norms, like the state responsibility. Bruno Simma has previously raised the question in 1985 regarding the possible existence of such self-contained regimes, which are to be autonomous and beyond the framework of the applicability of the general principle of state responsibility.

- Considerations on the Relationship between International Law and EU Law

The relationship between EU law and international law has been perceived in the legal literature as an “esoteric issue”. Despite the fact that EU law is a well-researched domain, its relations with international law have received less research attention, mainly because the apparently solid foundations of the EU have established a legal regime and strong European institutions covering all the issues with regard to the implementation of international law. However, the conflicts of law and challenges arising between international law and EU law have encouraged more substantive analyses of this complex relationship in the last decade.

As EU law is regarded as a particular case of separated legal regime of international law, mainly due to its sui generis legal character and behaviour in the international relations, the analysis of the relationship of EU law vis-à-vis general international law will reveal the contradictions and the possible conflicts of laws, as well as the possible fall-back onto the general rules. Within the framework of fragmentation, the relationship between EU law and international law has been evolving from inclusion to (quasi) autonomy. To a greater extent, one can observe the historical turn taken by the EU law towards self-containedness.

Legal scholars have advanced different theories in the view of clarifying these controversies, starting with the doctrines of monism and dualism. Even though the nature of this relationship has been characterized as monistic, the monism has failed in explaining the case law of the ECJ vis-à-vis the implementation of international law. From the point of view of the monism/dualism binary opposition, the Kadi Case was the turning point in the relationship between EU law and international law. It was the Kadi Case that has “have challenged the monistic starting points”. If before Kadi, scholars perceived “European legal order as inspired by a monist philosophy in its relations with international law”, after Kadi, “it has been more frequently argued that the European order is rapidly moving towards a radical dualism”. Grainne de Burca points out that the Kadi Case has advanced through the ECJ judgment “a robustly pluralist approach to the relationship between the EU and the international order”, while through the CFI judgment it has developed strong “constitutionalist approaches”. Even though the EU is basically an international organization in international law, it has become a sui generis entity with a high degree of constitutionalisation, established between an international organization and a state. Responding to the contemporary legal challenges, legal scholars have transcended the
traditional binary opposition between monism and dualism fractures and paved the way for the controversial debate of constitutionalism versus pluralism.

The theoretical framework of the relationship between general international law and separated branches of law of the former is exposed in the 2006 ILC Report. The traditional distinction between “special law” and “general law” may no longer be considered as complementary, but substitutive one to the other, as Pierre-Marie Dupuy states in 2007, one year after the release of the ILC Report. This is mainly due to the capacity of these special legal regimes to dispose of their own rules and norms, as well as of their own control of the application of the norms.

The relationship between EU and international law, the principles of “autonomy” and “reception” are key elements in defining the interactions and the conflicts of law between the two legal orders. On the first concept, Jan Willem van Rossem explains that EU is still seen as an autonomous legal order and recent ECJ case-law has strengthened this status in international law. The second one have triggered more controversies that the first one. The Treaty of Lisbon has been very explicit in invoking the reception of international law in the EU legal order: “Agreements [international agreements] concluded by the Union are binding on the institutions of the Union and on its Member States”. According to Rossem, despite this legal provision, “the Court shows little flexibility when it is confronted with international law to which the EU is not formally bound”.

Katja Ziegler identifies, in its latest 2015 study, four factors that influence the relationship between the two legal regimes. First of all, since the ECJ is the competent institution to decide on the restrictive effects or the binding force of the international legal obligations within the EU law, the relationship between the two regimes is under the influence of the ECJ’s approach. It has been categorized as constitutionalist after its recent judgments due to the fact that it assumes that this relationship is similar “in many respects to the relationship between international law and national law”.

The second aspect regards the interplay between International law, EU law and EU Member States law: “the EU’s approach to international law will influence Member States’ approaches to international law and it will impact – through the prism of EU law – on Member States. Such impact and the possible reaction of its Member States will, in turn, influence the EU’s approach to international law.”

The third factor refers to the fragmentation of international law and particularly, to the conflicts of norms and between the courts’ different rulings on the interpretation of the legal rules established between EU and international law.

Last, but not least, Katja Ziegler points out the fact that “international law benefits from the more evolved, more constitutionalised parts of international law” and especially, “from the full range of enforcement mechanisms available to EU law”, because the more EU and other international organizations produce compulsory supranational rules and norms, the more international law overcomes the enforcement deficit.

It might, however, be useful to recognize among the four main factors, the fundamental role of the ECJ in developing the EU legal order and determining the interactions between EU law and international law, which in a wider context determines the exact relationship between EU law and general international law.

The relationship between international law and EU law was addressed for the first time in 1985, by Judge Bruno Simma in a seminal article “Self-contained regimes” in the Netherlands Yearbook of International Law, who raised an essential question: “Under what circumstances, if any, can there be a fall-back on the general legal consequences of internationally wrongful acts?” Bruno Simma identifies in this article that the law of the European Communities, as well as the human rights law and diplomatic law are subsystems
that embody special rules relating to the consequences of the breach of their primary rules. He also states that even though these subsystems may be categorized as potential candidates for autonomous legal regimes, in reality there are not fully disconnected from the general law.

Revisiting his thoughts on the application of the general rules of state responsibility in the wider context of the fragmentation of international law, Bruno Simma presents in 2006 a revolutionary study written in cooperation with Dirk Pulkowski, published in the European Journal of International Law. This article perceives the relationship between general law and self-contained regimes in general (and EU law in particular) as a relationship “Of Planets and the Universe”. By analysis four cases that are frequently associated to self-contained regimes – EU, diplomatic law, the WTO and human rights – the authors “propose that a fallback on general international law, including resort to countermeasures, may be justified on normative grounds”.

CONCLUSIONS

Why is important to study this phenomenon today? First of all, the fragmentation is a sine qua non condition for the evolution of international norms and for this reason, one needs to understand and accommodate the legal transformations to the current globalised international system. Moreover, by analyzing the conditions of establishment and the functioning of such specialized law, almost fully decoupled from the general law, and its relationship vis-à-vis the latter, I consider that a reflection on what would remain general in the international law would have a major contribute to the evolution of the international scholarship and to the normalization of the fragmentation of international law.

Taking into account the investigation on the self-contained character of the EU law, this inquiry also contributes to the development of European scholarship at a time when the post-Lisbon debate over the creation of a political Union and the consolidation of European judicial norms is one of the main challenges of the European construction. Another reason concerns the fact that the current degree of fragmentation of international law represents a prerequisite variable to be taken into account in explaining facts and phenomena in the field of international relations, law, political science, global economy and even other branches of science, due to the emergence of different and specialized bodies of law that regulate more and more aspects of the society, life in general and even space.

Last but not least, it is important to study the dynamics of international norms due to their direct influence on the tendencies of the global, regional and national governance of the State actors and non-State actors, namely international organizations and institutions, NGOs and intergovernmental networks.

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COMPARATIVE ANALYSIS OF LENDING IN ROMANIA DURING 2013-2014

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ABSTRACT
As a consequence of the global financial crisis, one of the biggest obstacles in ensuring business continuity for Romanian companies was the way of financing their activity with special features in the field of lending. Unexpected and sometimes contradictory developments of markets negatively impacted the daily activity of companies, as their development programs are either in the initial stage or in full commissioning application. The deterioration of companies’ financial situation has led to a particularly high increase in the number of insolvencies from 14,483 in 2008 to 20,216 in 2014 with an average of 18,180 insolvencies per year for the period 2008-2014 (Coface Romania, 2015). This has affected lending in Romania, so that banks have substantially reduced the funds assigned for financing business, especially the small and medium enterprises. According to analysts' estimates, over 90% of Romanian companies have difficulty in accessing funding for existing business in order to exploit opportunities for delivering growth business.

Key words: monetary policy transmission mechanism,

JEL Classification: G21, G32

1. CONSIDERATIONS ABOUT LENDING IN ROMANIA
As a consequence of the global financial crisis, one of the biggest obstacles in ensuring business continuity for Romanian companies was the way of financing their activity with special features in the field of lending. Unexpected and sometimes contradictory developments of markets negatively impacted the daily activity of companies, as their development programs are either in the initial stage or in full commissioning application. The deterioration of companies’ financial situation has led to a particularly high increase in the number of insolvencies from 14,483 in 2008 to 20,216 in 2014 with an average of 18,180 insolvencies per year for the period 2008-2014 (Coface Romania, 2015). This has affected lending in Romania, so that banks have substantially reduced the funds assigned for financing business, especially the small and medium enterprises. According to analysts' estimates, over 90% of Romanian companies have difficulty in accessing funding for existing business in order to exploit opportunities for delivering growth business.

As economic literature expressed by theoretical concepts, the main forms of bank lending are: a) assignment of receivables backed up or not by commercial papers that can be discounted, taken in the pension or considered as advances; b) provision of funds under a financial contract; c) credit by signature, involving either the bank's commitment to grant a loan, either to replace its customer in case of his bankruptcy or to grant guarantees for the customer in order to facilitate granting loans from other financial institutions and d) overdraft, an agreement between the bank and client, which takes the form of a loan to cover the outstanding balance of current account of the client to a previously established limit.
Among these categories of bank loans for non-financial Romanian companies they can highlight some important types, along with their main characteristics.

For current operations of a company there are global operating loans whose significant features are that they operate by revolving and are granted to a global credit covering all operational needs of the company - raw materials, goods, spare parts, energy, fuel, salary costs, taxes and other expenses related to the current period. The products and services obtained must be ensured through sales contracts and company orders for delivery to domestic or export markets.

Credit lines are also based on a revolving system backed up on a credit agreement under which the commercial bank undertakes a certain period of time to borrow money. This use of funds is made according to customer needs in a global credit limit, provided that the daily balance of commitments should not exceed the amount approved by credit line. There is a repeatedly possibility of extending lending periods if lending conditions are met. Credit lines may be granted for 180 days and for companies with good financial rating could reach up to 365 days. The volume of cash awarded under this type of loans is determined by the turnover and the day’s sales in receivables.

Loans to finance inventories are granted temporary or seasonal to cover the temporary increase of stocks or costs for operations backed up by documents (receiving raw materials and equipment in advance from suppliers, interruption of production for justified reasons, difficulties in delivering products on domestic market or abroad etc.). In this respect, subject to lending are stocks that were supplied without paying an advance, those that will be supplied, and temporary expenditure relating to them.

Cash Loans for products with long manufacturing cycle are granted for a period longer than twelve months, without exceeding the technological cycles of execution determined by technical documentation. The category of products with long manufacturing cycle includes ships and cargo aircraft, helicopters, installations and complex machinery.

Loans for pre-financing of exports are designed to cover current or exceptional needs for export production, based on export contracts or steady orders of foreign partners. These loans are granted for domestic or imported supplies of raw materials, semi-finished parts, fuel, energy and other expenditures, without exceeding 12 months, except for long manufacturing cycle products. Granting of this type of loan is generally made only by opening an irrevocable letter of credit in favor of beneficiary or based on other forms of bank guarantee payment (letter of guarantee, trade effects endorsed by other banks etc.).

Loans for export products are secured by claims on foreign partners and are granted to exporters during the current activity, without exceeding 12 months. Granting this type of loans is subject to commercial risk insurance against non-payment products for the entire loan period.

Factoring, a product used in dynamic business environments worldwide, is a quick solution to release working capital blocked in suppliers credit. As an alternative to standard loans, factoring is a low-risk way of financing, increasingly requested by Romanian companies. Its advantages are: accelerates payment cycle; offers unlimited access to working capital through immediate financing based on receivables; does not require collaterals; covers insurance against default risk.

Account facility loans are granted for short and very short periods of time up to 30 days, for companies with temporary liquidity problems. Businesses must have a high financial standing and a good service debt. This type of credit is intended to cover the gap in cash flow occurred due to delays in receiving goods delivered, works performed or services rendered. Overdrafts are granted for very short periods of time that can not exceed 7 days to pay some urgent obligations related to suppliers or taxes and other current obligations. A feature of this
type of loan is that it is granted in special conditions, as a loan of last resort, for which current interest rate charged by banks is higher than the basic interest practiced for short-term loans to companies.

As medium and long term credits are loans for equipment or investments which are granted for completing the companies' own resources necessary to cover the investment expenditure from the investment projects. They are designed for new production capacities or to develop existing ones, for modernization or rehabilitation of such capabilities and for any type of operation which involves the accumulation of capital investment in a company. They are granted for a maximum of 85% of the total investment, the difference being covered by the applicant's own sources.

Promoter loans have as recipients specialized and authorized agents in housing construction and sales. They are called property developers in order to facilitate housing construction. Real estate promotion consists in buying or leasing property for plots of land, in their plotting and housing construction, at the initiative of promoter or beneficiary. The categories of residences considered are: social housing, service housing, intervention housing, protocol housing, and holiday homes.

Mortgage loans are granted to construction companies for redevelopment, consolidation or expansion of buildings, for housing, industrial or commercial, for a minimum period of 5 years. Mortgage loans are guaranteed by a legal mortgage on the property, which must cover a percentage of 120% mortgage loan.

Forfeiting operations are carried between the bank and the company that exports products or services, and represents buying foreign debts of the company with waiver of recourse on the seller of the receivables, except for cases of fraud. Forfeiting allows exporter the recovery of debts before maturity or conversion of a sale on credit in a spot sale with respective duties. The claims must be embodied in negotiable instruments denominated in foreign currency, and beneficiaries are Romanian companies with export activity.

Classification of different types of loans to companies, as evidenced in theory, know a wide range of products that can be provided by credit institutions. On a practical level, although macroeconomic situation is a constraining one in terms and conditions for granting loans, banks are trying to adjust their credit supply to economic developments. Banks themselves are subject to major constraints in the financial markets and under the central monetary authority, but they seeks to ensure that the main goal and reason for their existence as a financial intermediary, is to grant loans for the needs of companies and businesses.

3. ROMANIA’S MACROECONOMIC CONDITIONS FOR THE PERIOD 2013-2014

The macroeconomic context is crucial for market developments that bank loans records at any national economy and, therefore, detailing several key aspects related to it allows a better understanding of the subject.

In 2013 Romania registered an economic growth of 3.5 percent, representing one of the highest growth rates in the EU, higher development in 2012 (+0.7 percent). The positive dynamics of economic activity was mainly driven by the industrial sector (which benefited from a favorable context of external demand) and agricultural production (due to favorable weather conditions) (Fiscal Council, 2014). According to the National Institute of Statistics, the GDP evolution in 2014 showed an increase of +2.9%, that represents a fourth consecutive year of growth.

The macroeconomic situation remains sustainable as the main indicators monitored by the European Commission show a relatively low risk of occurrence of imbalances in the
Romanian economy in the next year (NBR, 2014, p.83). The main vulnerabilities of financial stability traced to the central monetary authority are slowing the recovery in economic activity and slowing reforms to ensure sustainable growth. Also, economic slowdown for developed countries that are commercial partners of Romania may affect national economic recovery. The signing in 2013 of a new agreement with Romania international institutions (EU, IMF and World Bank) to continue structural reforms aimed to be auspicious for improving the functioning of markets, increased resilience to external shocks and strengthen growth potential long term, but, unfortunately, this agreement was terminated at the beginning of 2015, leaving many questions on determination regarding government actions. Investments, one of the key factors in long-term sustainable development, were contracted in 2013 and continued that trend also in 2014. For different economic branch the situation is divergent, construction and industry sectors being affected (percentages in total net investments in the economy fell from 19.5 percent for construction or 42 percent for industry in 2012 to 16.6 percent, 38.9 percent respectively in the first half of 2014), while investments made by the companies have strengthened agriculture (6.2 percent in the first half of 2014). To stimulate investment, the Romanian authorities have taken a number of measures, such as tax exemption for reinvested profit in equipment, introduction of new programs to increase access to financing for SMEs and reducing social security contributions by employers by 5 points percentage. Investment growth is pursued by improving the absorption rate of European Funds. Rates of use of EU funds allocated for 2007-2013 increased from 21.2 percent in September 2013 to 37.9 percent in September 2014, but Romania continues to have one of the lowest absorption rates from EU (NBR, 2014, p.83-83).

### Table no.1: Main macroeconomic indicators

<table>
<thead>
<tr>
<th></th>
<th>SFB 2013-2015 revised</th>
<th>Effectiv 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Domestic Product</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP (mil. lei)</td>
<td>623.314,0</td>
<td>628.581,3</td>
</tr>
<tr>
<td>Real GDP</td>
<td>1.6</td>
<td>3.5</td>
</tr>
<tr>
<td>GDP Deflator</td>
<td>4.1</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>GDP use</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final Consumption</td>
<td>2.2</td>
<td>0.73</td>
</tr>
<tr>
<td>Private Consumption Expenditure</td>
<td>2.3</td>
<td>1.32</td>
</tr>
<tr>
<td>Government Expenditure</td>
<td>1.6</td>
<td>-1.78</td>
</tr>
<tr>
<td>Gross Fixed Capital Formation</td>
<td>3.5</td>
<td>-3.3</td>
</tr>
<tr>
<td>Exports (volume)</td>
<td>1.0</td>
<td>13.5</td>
</tr>
<tr>
<td>Imports (volume)</td>
<td>2.8</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Inflation rate</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 2013</td>
<td>3.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Annual average</td>
<td>4.3</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Labor market</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>5.2</td>
<td>5.65</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>1.3</td>
<td>1.7</td>
</tr>
<tr>
<td>Average gross salary income</td>
<td>5.68</td>
<td>4.84</td>
</tr>
</tbody>
</table>

**Source:** Fiscal Council Annual Report 2014
4. MONETARY POLICY OF THE NATIONAL BANK OF ROMANIA AND ITS INFLUENCE ON LENDING

Starting even before 2013, the monetary policy decisions of central bank take into accounts to stimulate bank lending to real economy and resume normal business relationships between credit institutions and nonfinancial companies. The transmission mechanism of monetary policy was based primarily on the monetary policy interest rate that it was meant to act mainly through the credit channel, being used a combination of monetary policy instruments related to open-market operations and required reserves. Despite the good intentions of the central bank, commercial banks have reacted with caution and delayed due to the problems encountered since the beginning of the financial crisis, problems with repayment of loans taken from parent banks, cleansing bank balance sheets of bad loans, and new problems related to loans in Swiss francs.

Banks from Romanian banking system have not given up yet (and will not give up) from buying Romanian bonds as the main activity that generates consistent remuneration at the lowest risk. But continued interest rate reduction cycle of monetary policy and the reduction of minimum reserve requirements, in conjunction with launching the process of cleaning bank balance sheets, are likely to provide the prerequisites for a sustainable resumption of lending to non-financial companies.

The Financial Stability Report conducted by NBR specialists for 2013 specifies that on 31.XII.2013 over 40 percent of the stock of bad loans of non-financial corporations existing in banks' portfolios are made up by senior credit default over three years. The cleanup of bank balance sheets either by selling to others, or by removing off-balance sheet exposures is meant to lead to a reduction in the stock of loans existing in banks' portfolios. That might send a false signal about an increased financial disintermediation phenomenon in Romania. NBR specialists consider as possible that the next year the lending channel (by which banks favor lending relationships with large companies that have significant cash-flows and higher assets) will act atypical in the context when corporate credit dynamics was lower than SMEs in periods of economic growth, while in downturns they dictate the trend. Annual nominal rate of growth for loans granted by domestic banks recorded -5.2 percent for corporations and -3.8 percent for SMEs in August 2014. (NBR, 2014).

Table no. 2 NBR’s open-market operations to which the monetary policy interest rate is attached

<table>
<thead>
<tr>
<th>Year</th>
<th>Open-market operations</th>
<th>Standard maturity</th>
<th>Procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td></td>
<td>Non-standardised (maturities varied between overnight and three months)</td>
<td>Variable rate tenders*</td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td>One month</td>
<td>Fixed rate tenders</td>
</tr>
<tr>
<td>2005¹</td>
<td>Deposit-taking</td>
<td>Two weeks</td>
<td>Variable rate tenders*</td>
</tr>
<tr>
<td>2007 (July)</td>
<td></td>
<td>One week</td>
<td>Fixed rate tenders</td>
</tr>
<tr>
<td>2007 (September)</td>
<td></td>
<td>Two weeks</td>
<td>Fixed rate tenders</td>
</tr>
<tr>
<td>2008 (May)</td>
<td></td>
<td>One week</td>
<td>Fixed rate tenders</td>
</tr>
</tbody>
</table>
5. THE EVOLUTION OF BANK LENDING IN ROMANIA

Romanian economy has great potential to lending to non-financial companies, especially an untapped potential at the level of commercial banks that express a significant problem for real economy. In this regard, the share of companies that took loans from banks continued to maintain at a low trend both in terms of value, and the typology of loans, compared with the total number of companies.

In general, the primarily sources of financing for Romanian companies are domestic sources which are leading in the non-financial preferences. Operations like reinvestment the company profit or selling assets are chosen by 46 percent of companies in 2014, including the companies with profit in decline (20% of total). In contrast, bank financing has experienced low call rates and usage (only 8 percent of companies used bank overdrafts or credit lines). Loans through guarantee funds were also used as marginal in 2014 (2 percent of companies). Considering the size of companies, large corporations have consistently resorted to bank financing, 34 percent of large companies saying they resorted to bank overdrafts and credit lines and 12 percent on investment credit for 2014 (NBR, Lending Survey, 2014).

A too high level of interest rates and fees, the amount or type of collateral requirements, contract terms and bureaucracy are considered by companies as the great difficulties in accessing loans from banks for the period 2013-2014. Corporations perceive
difficulties in accessing finance at a higher amplitude than SMEs, exception being improper qualification of financial institution staff and lack of transparency from financial institutions.

For companies that do not currently have loans taken from financial institutions, interest rates, collateral requirements and lack of transparency of the institution are considered the main problems in accessing bank financing (NBR, Lending Survey, 2014).

In 2013 credit standards have seen a tightening trend since the first quarter, reaching a maximum in the third quarter. In contrast, in 2014 they were eased moderately in Q3 after three consecutive quarters in which they were kept unchanged after which followed a period of marginal relaxation of lending conditions, regardless of the loan type.

Regarding the lending terms, they remained largely constant in Q3/2013, except the spread average interest rate of the loan to ROBOR 1M and the ceiling on the loan, which were tightened slightly. Since Q3/2014, the lending terms have eased, banks working towards moderate easing of collateral requirements / guarantees, while the spread average interest rate of the loan to ROBOR 1M, terms of contracts and maximum maturity recorded a marginal relaxation.

Demand for loans increased moderately in 2013 at the aggregate level, and this evolution was influenced by an increased demand in the segment of short-term loans. In 2014, this demand declined in Q3/2014 at the aggregate level, amid a contraction in demand for short and long term loans from SMEs, and demand for short-term loans from corporations. Risks associated to lending to the companies were surveyed by banks as increased for most sectors in 2013, regardless of company size, and including corporations. In 2014, the credit risk associated to microenterprises is only perceived as higher, while other categories remained unchanged compared to the previous year (NBR, 2014).

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ABSTRACT

Earth natural resources are diminishing, and the environment faces an accelerated degradation. If we go this way further, the World may face a climate change or natural resource crisis, which will be worse than any financial crisis. The power to stop these potentially crisis is in the hands of people and in the way they chose to consume. Consumers’ pro-environmental behaviour is a subject that started to be more deeply analyzed in the last two decades, and environmental concerns, sustainability, eco-friendly or green marketing are issues more and more often disputed. But much of the damage to environment and natural resources has been already done, because of the bad consuming habits people had, which was stimulated by the period of economic growth. In order to analyze pro-environmental behaviour, theories and models have been developed or adapted from other fields such as social psychology or economics. This paper aims to examine the evolution of consumers’ pro-environmental behaviour theories and models until present days. Moreover, possible future orientations in this field are approached.

Key Words: pro-environment behaviour theories and models, consumers, environmental concerns, green marketing

1. INTRODUCTION

The choices consumers make in regards to buying, consumption and disposal has a huge impact on the environment and its capability of providing necessary resources for further generations. From air pollution, to climate change, soil erosion and contamination to loss of forests and species diversity, all environmental problems are primarily caused by human behaviour (Lehman and Geller, 2004, p. 17). In a narrow sense, an environmental behaviour has been defined as any behaviour with a significant impact on the environment, even those unintentional and not reflected behaviours (Krajhanzl, 2010). Moreover, a pro-environmental behaviour has been defined as an individual’s behaviour that is “generally or according to the knowledge of environmental science, judged in the context of the considered society as a protective way of environmental behaviour or a tribute to the healthy environment” (Krajhanzl, 2010, p. 252).

A pro-environmental behaviour implies performing a series of conducts that decreases the amount of harm to the environment as much as possible (Steg and Vlek, 2009) such as buying and using fuel-efficient cars, using public transportation instead of personal transportation, conserving energy by installing insulation for example, buying energy efficient products, employing responsible water usage, increasing recycling, sorting waste, buying eco-friendly products etc.

Over the last four decades, pro-environmental behaviour has been the focus of exploration for many psychologist and sociologists which have tried to answer two basic
questions: “Why do individuals act pro-environmentally?” and “Which are the main barriers in adopting a pro-environmental behaviour” (Kollmuss and Agyeman, 2002).

These questions are posing tremendous difficulty for policy implementation since there are various factors influencing individuals’ behaviour and choice. Moreover, the complexity of addressing these issues is reflected by the various approaches undertaken for explaining and predicting pro-environmental behaviour. Researchers have drawn upon various research frameworks, emphasizing influences coming from one or more academic disciplines. Many of these approaches and their underlying theories are discussed further on.

2. EVOLUTION OF PRO-ENVIRONMENTS BEHAVIOUR THEORIES AND MODELS

First models that have tried to explain and predict a pro-environmental behaviour were linear and they positioned individuals’ environmental attitude, determined by individuals’ environmental knowledge, as sole predictor of pro-environmental behaviour:

![Figure 1](image)

**Figure 1** - Early models explaining and predicting pro-environmental behaviour (Kollmuss and Agyeman, 2002, p. 241)

As consumers tend to report a growing environment consciousness with regards to the choices they make towards various environment related behaviours, there seems to be a discrepancy between the awareness of their potential harmful actions and the adoption of a pro-environmental behaviour.

This discrepancy has been conceptualized under the term of value-action gap (Blake, 1999). Although various empirical investigations have been undertaken, no definite explanation to the value-action gap has been found (Kollmuss and Agyeman, 2002). As the pro-environment consciousness is not entirely capable of explaining the adoption of sustainable behaviour towards issues like recycling, energy consumption, air and water pollution or eco-friendly products purchases, researchers have tried to identify those factors or influences that are holding back consumers from making the right choices in terms of buying, consuming and disposing.

In a meta-analysis of 128 empirical studies regarding pro-environmental behaviour, Hines et al (1986) identify various variables which related directly to pro-environmental behaviour: intention, attitude, locus of control or self-efficacy and moral responsibility. Moreover, in their proposed framework, Hines et al (1986) join together various economic constraints, social influence and existing opportunities to form the “situational factors”.
Blake (1999) offers future insights into this field by identifying three individual beliefs that act as a barrier to pro-environment behaviour adoption: individuality, defined as lack of interest in environmental issues, responsibility, defined as individuals’ belief that single actions cannot make a difference, therefore individuals cannot be held responsible of environmental damages and practicality, representing all those constraints such as lack of resources (time, money, information) that unable individuals to adopt a pro-environment behaviour.

Hines et al (1986) recognize the impact of social pressure in adopting a pro-environment behaviour, although social pressure alone is not separately distinguished. Social norms are formed by individuals’ values and beliefs that are dictated by their reference groups, such as friends, family members and colleagues in regards to performing certain behaviour (Oom Do Valle et al, 2005).

Further studies (Stern and Dietz, 1994) place a great emphasize on social context, whereas values and attitudes are formed, and whereas intentions and actions are influenced not only by individuals’ reference groups but also by mass media and social movements. Moreover, social-norms marketing campaign are preferred to traditional approaches based on information, moral exploitation and fear-inducing communication for bad behaviour change (Donaldson et al, 1995).

Besides social pressure, various studies have employed norm-activation theory (NAT) to pro-environmental behaviour (Stern et al, 1999). NAT was developed by Schwartz (1977) in order to explain decision making in moral situations. Personal norms are feelings of one’s moral obligation or duty to act pro-social and have a direct influence on behaviour:
Figure 3 - Schwartz (1977) Norm Activation Model – NAT (Harland et al, 2007, p. 324)

NAT research framework is often applied by those researchers that approach the pro-environmental behaviour primarily as determined by pro-social motivations (Bamberg and Mosser, 2007). Close-related to social norms is the feeling of guilt, defined as an individual’s moral obligation to compensate for the damaged caused (Baumeister, 1998).

3. CONCLUSIONS AND FUTURE OF PRO-ENVIRONMENT BEHAVIOUR

Human society is facing an increasing global ecological crisis. Environmental degradation and excessive consumption of natural resources threatens the quality of life and welfare of current and future generations. Sustainability and environment protection became one of the most important contemporary issues. Nationally and internationally a medium and long term strategy of sustainable development is needed which involves changing consumer behavior to protect and restore the world's resources which are declining, the main cause of environmental issues being human behavior.

If in the past companies and marketers based their strategies on the assumption of unlimited resources and zero impact on the environment, now it needs to think about sustainability, environmental protection and green marketing marketing in order to encourage pro-environmental behaviour in their customers.

Companies and marketers will need to adapt product, price, place and promotion policies to meet market and consumers requirements. Social and green marketing strategies will be indispensable for organizations which want to secure a stable position in a changing market influenced by the need to preserve natural resources via sustainable development and pro-environmental behaviour.

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THE SUSTAINABILITY OF PROMOTING BANK PRODUCTS THROUGH MODERN TECHNOLOGY

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ABSTRACT

Obtaining success on the web, in terms of banking institutions should consider sustainable marketing objectives implemented by sustainable marketing strategy and to focus primarily on the CUSTOMER.

Technological developments and economic mutations have led to changes in consumer behavior and default and adaptation of undertakings to everything that’s new. Increasing competition in conjunction with the above led banks to rethink policies to promote banking offer, and strategies for attracting new consumers. So they brought in their offers new services and products tailored to the needs of consumers, while rethink their distribution channels.

Major financial and banking institutions in the world have become complex financial organizations that offer the international market a variety of products and services aided by the latest technology. Banking institutions are working to identify new business niches in order to develop customized services, in order to implement innovative strategies and new opportunities for market capitalization.

In the banking environment, as in other fields, the concept of sustainable development is the obligation of present generations in securing the future generations that will follow from ecologically, socially and economically.

Key words: banks, promote products, services, sustainable development

JEL Classification: G2, M3, O04

1. INTRODUCTION

"A sustainable society is one that shapes its economic and social system so that natural resources and life support systems be maintained". (www.egs-project.eu)

The complexity and diversity of new technologies developed in the recent times, influenced the behavior of banking institutions in the process of approaching consumers.

Based on the phenomena of sustainable development, globalization, consolidation, deregulation and diversification of the banking sector, it has emerged strengthened and the importance it holds in the economy.

Most of banking institutions in Romania have made offers banking products and services for sustainable development, and has changed internal lending policies, internal training programs to employees.

The intermediate position that banks hold in an economy, and the items listed, their potential contribution to sustainable development is high.
Banking institutions have responded more slowly to problems they present sustainable development and implementation of marketing strategies sustainable banking has become increasingly pressing due to globalization and diversification based society of the banking industry.

A sustainable business model is essential for long-term financial health of banks, but also for economic and social well-being of clients.

**Integration of sustainable development essentially enables business to gain competitive advantage and institutions to start on new ways of business growth.**

The introduction of sustainable development in the banking system will lead to changes in how banking institution is run, the way it defines its funding policies, promotion, distribution, selecting customers, suppliers etc.

The role and importance of marketing activities are exacerbated in situations where, on the one hand, competition in the banking sector is in continuous development, in spite of high barriers to entry and exit from this market, and on the other hand globalization and interest the increase in the intensity strengthens market players actions in this area.

To achieve performance in the marketing, financial and banking institutions that subscribe to a customer-oriented track issues such as: identifying profitable markets that are related to their work; analysis of both the current needs and desires of customers, but also for the future; identifying methods to promote products and services; customer segmentation; drawing up marketing plans in order to achieve objectives; use modern channels of distribution.

Current feature nowadays is represented by customer orientation, by his loyalty and, ultimately, by an innovative marketing that starts from the customer.

Because of the changes in the economic environment were seen banking institutions put in the situation to use a new approach to marketing that can respond to momentary desires and needs of the market.

Institutions adopt standards of quality, fit or international, customer-oriented, targeting mainly maintaining bank soundness, credibility and honesty, increasing professionalism and solicitude employees, reducing delivery time of products/services in order to achieve customer satisfaction.

The challenges of the knowledge society have urged companies to optimize and prioritize communication processes with customers to maximize their impact obtained before.

**The emphasis on innovation, sustainable development and ingenuity in order to:** create new banking services and products, ways of attracting customers; loyalty of existing ones, defining marketing strategies and communication lead to appropriate strategies to maximize the results of marketing campaigns sustainable.

### 2. LITERATURE REVIEW

Most often specialists in the economic environment and not only ask the question why is it necessary to approach the concept of sustainable development and learning. Possible responses could move even from Gordon Brown's statement (2008): "*This was an era of global prosperity. It was also an era of turbulences. And where was irresponsibility, we must now say clearly: it was irresponsibility must end*". (Brown, 2008).

The concept of sustainable development implies total and unconditional manifestation of empowering enterprises operating in business. (Mihai C., 2011).

According to the literature, concluded that sustainable development, as a concept, enjoys great attention from the research environment but also to the enterprise. Thus, in trying to understand the theoretical and practical concept of sustainable development we can say that
the phenomenon is not limiting and/or unilaterally, on the contrary - requires complex approaches of depth that make direct reference to the economic development of the whole society. This implies the development of human society in its entirety. A parallel analysis of the above can be achieved at different horizons, namely: economic, social, technological, informational etc.

The whole issue of sustainable development concept separates resource management issues on which the development of the global economy and society.

We believe that the introduction of sustainable development in the banking system will lead to changes in how banking institution is run, the way it defines its funding policies, promotion, distribution, selecting customers, suppliers etc.

Banking institutions have responded more slowly to problems they present sustainable development and implementation of marketing strategies of sustainable banking is becoming more urgent because of globalization and diversification based society of the banking industry.

In recent years a lot of factors have significantly affected the banking products and services market, with a strong impact on client-bank relationship through issues such as: changing consumer behavior; new state policy; using advanced technology; environmental protection, sustainable development phenomenon. In the evaluation of the quality of performance of the institution, the assessment given by the clients services and products, remains a defining. In these circumstances, the relationship "client-bank" can be considered a reference variable, non-values by its nature, but with a significant influence, became measurable in every moment of analysis through figures obtained both at central and local level. If the customer to choose the banking institution may be guided by a series of public information or information obtained from online environment for validating and maintaining its option secured a decisive role in communication within the institution rests requested.

The quality of this dialogue extent that it leads to satisfaction and prevention of customer requirements has become an increasingly competitive well-defined criterion, which requires deepening the concept of "client-bank relationship" in a managerial concept perfected.

3. ACTIVITY BANK IN TERMS OF SUSTAINABLE DEVELOPMENT

Banking activity for sustainable development involves innovation, creativity and benefits through the creation of new banking services and products distributed to new consumer segments in an efficient manner.

Sustainable development in the banking environment are channeled in two directions [Alexandra Erimia, Ion Stancu, www.store.ectap.ro/articole/107.pdf]:

1. The first one refers to the integration of social and environmental responsibility in banking operations through environmental initiatives and social responsibility initiatives (Example: recycling programs or increase energy efficiency, support for cultural events, improving human resources activity and humanitarian donations etc.).

2. The second direction in integrating sustainability in core business of bank, by embedding environmental and social considerations in the design of services and/or banking products, policies and its marketing strategies. (Examples: integrating environmental criteria in granting loans or investment strategies, in developing new products that facilitate business access to capital based on sustainable development).
Sustainability can be identified: [Zaman si Gherasim, 2007] from an economic perspective through three main lines: efficiency, growth, equity.

Advantages of banking activity in terms of sustainable development

Banking institutions contribute in a large measure to sustainable development. Long-term advantages and opportunities that the company will have environment as a result of actions taken by banking institutions are manifold. Among them are:

- More and more investors understand the progress of banking institutions on sustainable development as a motivation to quality management, for which they diversify their leading institutions investing in sustainable development.
- Correct management of human resources, and a healthy organizational culture lead to increasing revenues and reducing costs.
- Minimize risks by engaging in dialogue with reference groups by understanding the concerns that they have regarding the way in which it operates. Thus, the banks can be in direct and permanent contact with the social environment and can correctly predict the reactions products. Social or environmental problems can have a serious impact on the financial performance and thereby may affect the ability to repay loans to the bank.
- Creating a solid base of clients, transparency, popularity of bank.
- Creating competitive advantage through entering new business niches connected with sustainable development: creation of new services and products.

By focusing on the characteristics of banking activity based on sustainable development, banking institutions are to:

- The allocation of significant financial resources for informing, educating and innovation in the field of sustainable development, employees, customers and the general public;
- Regarding innovation, banking institutions invest time and financial resources to expand the range of sustainable products and services and creating new alternative channels to promote them. Banking institutions are based on a major objective, namely that their services and products to be known by a large number of customers, which is why turning to a relatively new concept in Romania - alternative distribution channels.

Sustainability is a complex problem which requires a multisectoral cooperation, involving the government, non-government, citizens, companies and thus the financial sector. To ensure business sustainability, companies around the world decide to become actively involved in sustainable development, integrating social responsibility principles essentially conducted business. The role of financial institutions and banks in particular is a major one, it has the possibility of becoming a catalyst for sustainable development [Alexandra Erimia, Ion Stancu, www.store.ectap.ro/articole/107.pdf].
4. FUNDAMENTAL IDEAS ON SUSTAINABLE DEVELOPMENT IN THE BANKING ENVIRONMENT

Sustainable development involves linking the four FUNDAMENTAL IDEAS [www.egs-project.eu], apparently independent, but that are in permanent contact (figure 1).

Figure 1 - Fundamental steps related to sustainable development

Sustainability starts from the idea that human activities are dependent on the environment and resources.

Sustainable development gives optimism banking institutions, is central to the mission and activity.

Approaches and efforts in the context of sustainable development banks continue to be harmonized, focused and streamlined to create useful synergies of all parties.

To analyze and explain the actions of banks in the context of sustainable development used four fundamental principles:

1. **create long-term value**: essential principle to maintain a sustainable business;
2. **customer loyalty**: seen in all aspects, is essential for the bank's long-term revenue growth;
3. **leadership**: management build a solid system that would be based on transparency and efficiency, thus supporting the business model and approach for sustainable development;

**identity management effectiveness and employees**: However superposed and combined lead to value creation on sustainable development, is generating gains and long-term benefits.

![Diagram](image)

**Figure 2** - Fundamental principles of sustainable development

Currently, the banking market trend is to increase the number of electronic banking, along with diversification of products and services online.

Institutions accentuates her involvement in social networks, in order to effective communication with current and potential customers, but also to optimize costs. For it is needed to establish strategies for long-term sustainable marketing very well thought out.

In establishing these **SUSTAINABLE MARKETING STRATEGIES** should consider:

- Building a good present in social media;
- Identify the most appropriate social networks for each brand;
- Reputation monitoring successful brand in social media;
- Identification of best management strategies and web page publishing messages;
- Implement marketing strategies and tactics most used social networks in Romania;
- Establish how the message can be transmitted directly target audience; getting traffic on the website of bank; building a community on Facebook;
- Establishing proper marketing objectives to achieve them.
The marketing and communications on social networks, banking institutions aim to provide strategies and tools to promote sustainable and modern which will be held by representatives of interactive agencies known in the art, but also of some companies recognized for their involvement.

It is known that through social networks brands are very well promoted, but there may be risk of harm because their users have the right to express their pros and/or cons, thus building the reputation of a product or service. Due to the new technologies, and institutions in our country are put in a position to keep pace with advanced technology which enables customers to post reviews of any kind on offer institution.

Modernization of banking efficiency by implementing new technologies is focused on increasing the profitability of banks, the banking operations thanks to reduced costs and decreased time needed to perform them.

To maintain market position in the context of sustainable development, banking institutions should:
- To release updates (this can be done through the Internet);
- To devise strategies to promote so you get them to inform consumers (first phase), then to purchase, depending on their needs;
- To conduct extensive market studies;
- Adapt its offer of products and services according to the needs and desires of consumers;
- To determine prices adjusted trend and;
- Identify effective distribution channels. All these bring the expected results through constant updating of promotional campaigns.

I believe that continuous improvement of quality services and products for keeping their clients will be essential as long as they are assaulted by competitive offerings. Therefore, lately banking institutions focused specifically on the promotion activity, especially in the online environment.

Offer is not promoted only bank to inform current and potential customers, but also to create a favorable attitude towards the institution in order to influence purchasing behavior. Efficiency in promotion materializes in the number of new customers who have accepted the product or frequency measurement with old customers use the service/product.

We are in a new stage of development of human civilization, which leads to intensive use of information with a strong impact on the economy and society as a whole.

Access to information contributes to the development of modern society, by increasing the volume and diversity of information processed and use of information technology and communications, resulting in an information society.

We believe that success is influenced by redesigning banking institutions and diversify the bank, so that not only converge towards obtaining customer satisfaction, but also to attract them using sustainable marketing strategy well thought out very well.

To ensure high quality products and services and for providing maximum consumer satisfaction, the banks are considering specific measures for improving and diversifying marketing strategies on the Internet, a bank employee behavior and thus the benefits they performed.

I believe that one of the factors leading to showcase the new technology trend is the rapid development of even the media for social dialogue (social media). Motivating customers to explore these means of social dialogue will lead to expressing their opinions and
experiences that will influence and other consumers. Our opinion is that these platforms for social dialogue will be the future of marketing communications, due to the fact that low costs are not affected by favoring.

Over time, high demands coming from consumers and increased competition have led the banks to resort to modern techniques to promote banking products and services, introduction of new banking offerings, improve product quality for customers.

**The Internet has emerged a "market development" that with relatively small investment organizations can significant winnings**

Domain banking financial lately faced with significant changes due to the changing needs and desires of customers, increasing competition, technological innovations, which led to the introduction of electronic services in banking offers a viable alternative to traditional banking services. These types of services are beginning to be familiar consumer banking and divided into three categories: Internet Banking, Home Banking and Mobile Banking.

In a knowledge-based society and the evolution of technology consumers are becoming more confident in the information they read on forums, blogs or social networks, and before buying itself, it is documented on the Internet. These are the defining trend of a service or product through which they communicate online about. Information posted by actual customers/potential customers turn into sources of reference for institutions and beyond. These sources are used by banks to improve banking offer.

Getting maximum results from promotion, marketers involved in the efforts to plan, implement and coordinate all elements of the communication process. An effective communication process depends largely on the information held about the market in general and especially potential customers.

Integrated Marketing Communications provides solutions for effective coordination and control of all promotional activities, ensuring coherence in an increasingly dynamic business environment.

An effective promotional policy is leading to attracting new customers, and keep existing customers.

Using modern techniques to promote banking services and products take shape and in Romania. The institutions have understood that communicate through the Internet means brand communication, very important in marketing, starting from research, studying the market, competition, consumer listening, and not least the dialogue with them.

We use the Internet to inform us and to reach a decision in order to acquisitions. Using this channel offers incredible opening to a world of information.

I think that choice, as a way of promoting the image and products and services, search engines, is currently an effective way (in terms of cost) and extremely simple which facilitate access to reading the message addressed to target markets. It is a very good tool for guiding clients in the buying process. Text transposed into the messages sent must be thought from the perspective of the buyer.

Companies to get results, you need to build web pages with specific content, which give people access information they clear about the range of services and products.

Currently, banks should be more concerned with harnessing the online environment and its integration into institutional or commercial promotion strategies. This banking institutions online platforms and blogs of interest, leading to an advantageous solution for active banks.

The introduction and use of new technologies and strategic innovations in the field is needed for any financial institution that targets both retail and corporate segment, leading to
improved operational staff work by targeting the activities of guidance, coordination and advice to clients.

Consumers using technologies at breakneck speed for which institutions sometimes seem unable to keep up with them. When a customer comes in a banking institution, he knows much more than the company knows about it.

Some social networks are increasingly used by institutions for information, promotion and attracting clients are:

- **Focus on LinkedIn** - The opportunities for business and networking opportunities offered by LinkedIn are becoming increasingly apparent.
- **Focus on Virals** - "Virality" message is one of the objectives of social communication media, be it about videos or comments posted in social networks. The goal is to reach a large number of potential customers interested in a very short time.

Facebook is the phenomenon of the moment in social networking and social media, which attracted much attention of marketers. As I said before institutions will use this network to promote services and products, and in all of the actions we undertake in order to inform and attract a larger number of clients.

- **Facebook Workshop** - Its purpose is to explore how to make a successful campaign on Facebook, create a viral impact, to measure and to train community interaction.
- **Facebook KPIs** - Performance indicators or - Key Performance Indicators (KPI) Key Performance Indicators These are designed to respond to various questions, such as:
  - Where are we? "
  - "Where we want to go?"
  - "How do we do that?", Providing information on the current status, market comparisons, target future. Thus it is very important to achieve a clear selection of KPI, where:
    - K = provides competitive advantages that are linked to strategic objectives, business and influencing function directly;
    - P = are directly tied to performance, clearly measurable, quantifiable influence the causes of default
    - I = ensure comparability to various references, being oriented toward future corrections.

The first step in achieving their marketing objectives is the establishment.

- **Facebook SEO** – (Search Engine Optimization) can get more traffic to the page institution. The role of "viral channels" of Facebook (News Feed, invitations and messages) in information distribution, SEO tactics is to attract a large number of fans.
- **Facebook Ads** – Planning is very important marketing campaign to be successfully completed by reaching the intended audience.
- **Facebook Community** - building a solid and stable community where customers can interact, thereby enabling their priorities and find out which are the biggest admirers. All this leaves the organizational culture, memorable visual identity, brand easily recognizable advertising slogans strong, and the reputation he has on the market.

Competition banking institutions Facebook is increasingly fierce, the concept of social media marketing is adopted by responsible institutions to develop a direct relationship with the public.

The techniques and methods of communication original daily gather "likes" from "friends" of the virtual environment. Daily information is provided mainly characterized by
originality, relying mainly on those ads that do not necessarily create the sensation that they serve to promote products and services direct banking institution, but rather contribute to expanding people who read them.

Banking Institutions in Romania present on the social network - Facebook - in early 2015:
1. BCR – 294.074 appreciations
2. Banca Transilvania – 283.578 appreciations
3. Garanti Bank – 222.190 appreciations
4. ING Bank – 202.207 aprecieri
5. Bancpost – 99.575 appreciations
6. Piraeus Bank – 93.501 appreciations
7. Volksbank – 67.758 appreciations
8. Intesa Sanpaolo Bank – 67.545 appreciations
9. BRD – 58.351 appreciations
   BRD Student – 46.795 appreciations (This page aims to be the bank socializing with students both by promoting a positive, responsible, self-taught and financial products specially designed to meet their needs: Student Package, package Sprint, BRD-ISIC card, credit 10 and packages season. Because education must be encouraged to be appreciated later, the institution desire is to be part of the team every student who wants to maximize their experience student and is preparing to start a career).
10. UniCredit Tiriac Bank – 47.216 appreciations
   Viata fara cash – 45.363 appreciations (here they are used alternative methods of payment and trading for using free time to do what you enjoy)
   Raiffeisen Comunitati – 9.330 appreciations Environment, sports, arts and culture, education, youth and social welfare are the five priority areas for the institution)
12. Credit Europe Bank – 6.524 appreciations
   CardAvantaj – 43.967 appreciations (CardAvantaj – Credit card is the first offering in installments with 0% interest; CardAvantaj It is also recognized for its ability to come up with innovative benefits - bonus transactions, contactless payment, payment in installments for purchases made abroad or even online etc - each a market profile premiere at launch).

As a conclusion, we can say that brand perception is determined by the reality of the market. Very important it is that all sensory contact points of any brand to be activated maintained highlighted as result of all this brand uniqueness. It is known that always, branding meant establishing emotional ties between the brand and consumed.

5. CONCLUSIONS/DISCUSSIONS AND IMPLICATIONS

Integrating sustainable development concept in the banking involves acceptance by the banks to change current methods of identification, creation, distribution, promotion and consumer banking offers, especially in the online environment. The theoretical approaches to the concept highlights the subordinated two new concepts: supply and sustainable consumption sustainable.

I believe that continuous improvement of quality services and products for keeping their clients will be essential as long as they are assaulted by competitive offerings. Therefore, lately banking institutions focused specifically on the promotion activity. Offer is not
promoted only bank to inform current and potential customers, but also to create a favorable attitude towards the institution in order to influence purchasing behavior. Efficiency in promotion materializes in the number of new customers who have accepted the product or frequency measurement with old customers use the service/product.

In the current context of new electronic markets, ideas, institutions trying to specific activity and accentuated their sites through their well-designed, blogs, e-books or online communication media that focuses on meeting the needs and consumer desires. All these means of communication enable institutions to transmit correct information to consumers precisely when they are receptive.

As a general conclusion, from the survey can outline several directions in terms of promoting effective banking products and services by using modern technologies in the context of sustainable development:

1. Customize products and services based on the needs, desires and demands of customers, which will lead to differentiation from the competition.
2. Competitiveness is created in the image of credibility and security among consumers, banks should show an attitude of professional management, financial strength, using appropriate marketing strategies and ability to provide reliable and durable products.
3. Providing attractive banking services and products, performance and quality that emphasize safety and customer confidence; emphasizes the importance of client-bank relationship. Improving service quality in order to provide the best quality services.
4. The concentration of banking institutions to use methods of promoting banking services and products via the Internet. A modern and sustainable way to promote a service or bank product, especially if it is aimed at young people is the internet. Teenagers represent the future clients of the banks and therefore the time to be familiar with banking terms with ways of saving by promotion; and where the best place would be the media, if not the Internet. Even if the short term through such campaigns to attract customers, banks do not achieve maximum profit in the medium and long segment will use the bank's services.
5. The emphasis on choosing online media to promote banking offers. Consumers appreciate, when accessing websites banking institutions competence, professionalism and attention which they attach. Today, in a world "online" we are in an environment governed by the new rules of marketing. The institutions that understand the new rules of marketing develop direct relationships with consumers. Internet banking institution facilitates direct access to niche buyers through targeted messages that cost very little compared to the large sums spent on advertising. Banks are aware that the number of those using modern techniques to promote online is constantly increasing and future clients will give banks that do not offer such services and quality. Consumers looking for answers and ideas web to their problems, and want to see what they have to offer organizations; they look exactly the right product or service to meet their unique needs and desires of their just when online.
6. Rethinking promotion strategies; one of the factors leading to showcase the new technology trend is the very rapid development of media for social dialogue (social media). Once these means of communication through social dialogue will be increasingly explored by a large mass of customers, they will be able, through their opinions and experiences to influence and other clients. I believe that these platforms for social dialogue will be the future of marketing communications, due to the fact that low costs are not affected by favoring.
7. Guidance current and potential customers through online content clearly defined. Promotion through the Internet has become a primary medium to attract customers globally. Modern techniques are major components in promoting sustainable marketing success online customer satisfaction using electronic channels.
8. Refocusing marketing thinking to use some strategies to target via the web, a large number of underserved audiences. The development of information technology and communications has led to diversification strategies and promotional methods used by banks to attract online customers. Banks know their goals, so the information provided to consumers online, using web marketing strategies should stimulate the action of purchase.

9. Orientation communication through social networks, blogs and other forms of online content that enable institutions to communicate directly with customers in a way which they agree. All these social media provides an efficient means by which people and institutions share ideas, content, relationships, the internet.

As a final conclusion to be successful on the web banking institution should consider sustainable marketing objectives implemented by sustainable marketing strategy and to focus primarily on the customer.

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CONSUMERS AND MARKETING STRATEGIES USED IN BANKING - ESSENTIAL ELEMENTS IN A CHANGING ECONOMY

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ABSTRACT
The banking system went through a period of radical changes that have targeted not only its modernization, but also to assimilate the community acquis and the alignment to the policies, strategies and practices of the European Union; last but not least they have targeted to adapt to technological and informational development.

First of all, customer segmentation and marketing strategies used by banking and financial institutions in order to attract customers is essential in the smooth running of economic activity.

Making a segmentation of consumers starting from certain criteria, factors and adapting marketing strategies for each newly created segment is the starting point in obtaining financial performance and a solid base of potential consumers.

The categories of consumers targeted by banking and financial institutions must now be reconsidered from this new perspective. In a globalized society, where consumer behaviour and reactions become more complex and individualized, customer segmentation based on their belonging to a specific nationality, depending on age, level of education, professional training proves to be ineffective, because the characteristics of a group defined this way are not representative for the individuals who are part of it. On the contrary, consumers currently tend to disobey the values of the group; they create their own system of values according to their own needs and desires.

Nowadays, the market keeps changing, which makes the consumers increasingly interested in price, competition, new distribution and communication channels, internet, globalization, technology, online transactions etc. Due to the aforementioned facts, institutions in all areas of activity are "obliged" to thoroughly study the effects of new technologies on the market.

Key words: consumers, marketing strategy, banks, intermediation, market;

JEL Classification: G2; M3

1. INTRODUCTION

Throughout our research we tried to emphasize that institutions should focus increasingly on client portfolio and not on the product portfolio.

The new marketing and public relations rules focus and emphasize the maintaining of the relationships with customers.

Consumers are the ones that help companies identify, create, promote, distribute and sell products and services.
Perhaps more than in other areas, new technologies and the information flow in the banking and financial field make globalization manifest more clearly. The interdependence of the banking and financial markets is more noticeable than in other areas.

When an institution does not have the expected results, one of its first measures is to reduce the marketing budget. But in a situation of financial crisis that increasingly affects or may affect more banks, communication strategies should be improved and tailored to the current context instead of reducing the marketing budgets. Expenditures for everything related to marketing are extremely important because the way in which bank products and services are promoted and distributed, contributing to a profit.

Before experiencing a general financial crisis, the current situation should be singled out in terms of communication as the main problem of each banking institution. At least for the correct information of the existing clients each banking institution would have to communicate effectively and to inform customers about the situation that is being dealt with. We do not refer here to new positioning strategies or integrated communication campaigns for various services, but to the information regarding solely the financial crisis.

Marketing is the art of creating and providing a standard of living. After all, we all are, in one form or another, consumers of financial, banking and insurance services. Learning about the existing or potential facilities is an important source of competitive advantage, both for individuals, and especially for legal persons.

In the digital economy, marketing has an important and decisive role in determining the institution strategy. Consumers and institutions have acquired new capabilities. Here are some of the consumers’ competencies: substantial increasing of buyers’ power; wide range of available services and products; access to information; the ability to interact with companies when launching the order; talks with other buyers etc.

Institutions are interested in developing appropriate marketing mixes and offers for some market segments.

Economic issues bring into question the situation of less regulated and controlled areas (components) of the capital markets (the mortgage market, the market of securitized assets, derivatives market). A clear effect of the economic problems is rethink and reforming financial systems by introducing new measurement and financial risk assessment systems but also by exercising greater control by regulatory institutions in the investment funds, pension funds, life insurance funds and mortgage loans.

Financial institutions that have encountered problems due to the financial crisis have either been declared bankrupt, have been withdrawn from trading on the stock exchange and then partially or entirely taken over by other banks or groups of banks. One can notice that the solution for these banks differs; the explanation is related to the size of financial institutions/their importance to the financial system (smaller institutions were allowed to go bankrupt or be taken over by other financial institutions) or the political support.

As the banking sector plays a critical role in the real economy, the concern for improving it has become spread in all social areas, from citizens to governments, bankers, business environment, to experts, global financial management organizations, civil society, media and others. A proper regulation is important to reduce the chances of another major financial crisis, an essential factor in restoring confidence in the financial sector itself. TRUST is an essential element for a healthy economic recovery, but there are many steps until reaching this goal.

The limit and at the same time the expensive external sources of financing that are getting more expensive, with effect on restraining their expansion, is one of the main challenges nowadays for the banks in Romania in terms of the international liquidity crisis getting deeper. Although the lack of liquidity worsens, crediting will continue to grow
in the corporate and retail, although the pace of increase will be lower as a result of changing market conditions. Retail credits will maintain a high rate of growth, compared to the corporate clients due to high demand, especially in the segment of consumer loans and mortgages. Also, the new credit restrictions imposed by the NBR are absolutely necessary to maintain financial stability in Romania, considering the lack of liquidity at the international and national level.

Even if it is obvious that banks are turning more and more towards segments of the retail market, where the offer is supposed to be more appealing to the Romanians that want a house, a car, a vacation abroad or fulfilling any other personal needs, fine banking strategies go further towards corporate segments, where business networking, negotiation and customer culture ranks higher levels.

Essential to a bank's crediting policy is to maintain a balance in the retail or corporate customers according to their contribution to the profits of commercial bank, as well as an efficient and balanced management of assets and liabilities.

The measures in the financial field, both regulatory and non-regulatory, are based on four main objectives:

- strengthen market transparency, namely the banks' exposure to financial disintermediation operations and their commitments off the balance sheet;
- improving the evaluation procedures to respond particularly to problems arising from the valuation of illiquid assets;
- strengthening the EU prudential framework for banking, for example the way it treats the major risks, banks' exposure to securitization operations and liquidity risk management;
- examining various issues related to the role of rating agencies.

The marketing strategies applied by banking and financial institutions are different from those applicable in the context of the traditional economy. It is estimated that in the future there will be large companies with global activities, but also small, very specialized companies. The globalized banking and finance field will belong exclusively to large financial groups. In the new era built on information and communication technologies, CONSUMERS AND THEIR NEEDS must represent the first step in establishing marketing strategies.

Quality marketing is pretty rare, but institutions should focus on its effective implementation, thus achieving increased sales.

2. LITERATURE

The father of marketing - Kotler Ph., said: "Good marketing is not an accident but the result of careful effort of planning and execution. Marketing practices are continuously improved and reformed in virtually all sectors of the economy to increase the chances of success. However marketing excellence is rare and difficult. Marketing is both an "art" and a "science" - there is a constant tension between the logical and rational side of the marketing and the intuitive and creative one".

Considering the multitude of definitions outlined by famous specialists in Economics, "consumer behaviour can be defined as a comprehensive approach which represents all decisions taken at individually or in group, directly linked to the obtaining and use of goods and services, in order to meet current and future needs, including decision-making processes that precede and determine those acts "[Virgil, Balaure, eds. Marketing, 2002].

According to Britt SM's theory, evolution of consumer behaviour approaches is marked by achievements in human knowledge in general, as consumer behaviour is treated in
terms of Anthropology, sociology, psychology or economics, which is reflected in a
countenance of concepts and interpretations.

We face an increasingly fierce competing, which is why marketing specialists have
understood the importance of the two key elements: CONSUMERS and MARKETING
STRATEGIES to achieve performance. Thoughtful marketing guidelines are in close contact
with consumers.

3. CONSUMERS - SEGMENTATION OF FINANCIAL MARKETS
AND BANKING

Studying consumer behaviour remains an ongoing concern to marketers because they
can get information about how consumers choose the goods and services to satisfy their many
needs, that are the stimuli, and factors that influence their choice.

*The customer will be satisfied only when what is offered to him or her meets or
exceeds his or her expectations.*

Marketing meets consumer’s needs and desires, satisfying them. Knowing the
consumer behaviour is not a simple thing for marketers, because it is very possible that
consumers can express their needs and desires and however act in a different manner; it often
happens not to know their true motivations which lead them to purchase the product or
service, or to react to factors that change their purchase decision at the last moment.

The analysis of desires, perceptions, preferences and purchasing behaviour lead to the
creation of products with new features, pricing, choice of distribution channels, developing
messages advertising and other elements of the marketing mix.

Consumers are the key actors in the market. Defining them is achieved by
considering certain characteristics, which include: being a natural or legal persons in business
relationships with the institution; consumers use the services of one of the units carrying out
banking operations; consumers use some or all services offered by banks.

The consumer segment presents a current trend in obtaining adequate segmentation of
customers in order to better serve them, segmenting in accordance with the corresponding
bank strategy and guidelines and not least to establish the bank’s strategy and not least obtain
higher profits on targeted customer segments.

Segmentation strategy offers the banks the opportunity to avoid the fierce competition
through differentiation not only in pricing, but also in services, how to promote and the
distribution channels chosen; this is primarily achieved through serving, as the client-bank
relationship has a key role in the customer’s choice to choose the institution.

Smart institutions understand their customers and try to outline profiles for targeted
demographic groups. This way, it is easier for them to generate content so as to target every
demographic group.

Whatever the method of achieving consumer segmentation, banking institutions have
considerable benefits. Below we present some of them:

- choosing profitable segments to enable rapid detection of potential developments and
  market changes;
- allocation of resources on selected segments thus ensuring that products meet market
  demands;
- focus on segments becomes productive and with economic effects;
- promoting customer segments is effective;
- all marketing analysis gives the institution the opportunity to assess the overall
development and anticipate changes occurring in the selected segments, because of
  competition, social factors, health, environment etc.
Clearly, considerable savings are obtained if suitable products and services address profitable segments. Thus, advertising becomes more profitable. Promotional messages have greater impact when the media used is appropriate to the habitat of the selected segments. Sales opportunities are rather efficient and fully exploited by the staff when appropriate audience targets are properly defined. This way, effective segmentation increases sales performance.

Reducing losses materialized in efforts and resources leads to lowering costs, a benefit both in the interest of the bank and the customers.

Other benefits for the clients derived from customer segmentation process are: adequate services; prices corresponding to the clients’ lifestyle; detailed information; an improved level of services, standardized, based on exact knowledge of the request.

Marketing also means providing the best service to the best audience, for the right price, at the right place and time. If all these criteria are met, the bank profits in its terms of customer satisfaction.

The most common segmentation principle is based on the revenue/turnover/customer profit, but a number of other factors are also used. Even in a strictly profit-oriented approach, it is recommended to consider customer value throughout the entire period in which the client has been and still is in relationship with the bank.

Today the "science" to sell its products and services along with ongoing training of its employees so as to know the services and their advantages compared with the existing offer has become an important issue for the bank.

The purpose of the training is to maximize sales through good client counselling, but also to increase quality of service so that customer satisfaction is at its maximum. Good management can be achieved only if bank employees are given the most relevant information on products and services, so that sales grow in line with the targets established, and to higher quality standards.

Most banks use as part of trade policies client identification and presentation, the advantages of using the bank's products and services so that the customer is convinced that his or her choice is an effective one.

These advantages have a specific purpose for each product, as well as a general one that consists of: identification of consumer target segments; product features and advantages that benefit the consumer; specifying the reasons which determine the consumer to purchase the product; conditions of selling products, consisting of interest and fees both balance sheet assets and liabilities etc. (figure no. 1.1).
Figure no. 1.1. - The criteria for segmenting target their customers in determining the supply of banking products and services

In case the individual consumers meet the eligibility criteria, they are divided into several categories depending on their needs, namely: consumers who want to save; consumers who want to buy a car; consumers who want to renovate or buy a house; consumers who want to study; consumers who have different needs than those above (personal loans).

Within each of the above categories of consumers there is a high degree of product customization and there is not any clear sub-segmentation of consumers.

Increased personalization of banking products derived from the need of the banks to cover their credit risks as well, not from a desire to create a product more suitable for every consumer.

Within the category of retail clients there is segmentation depending on their financial needs; banks offer apparently standardized products and services, but this segmentation is relative because at the same time there is a high degree of customization of products and services, depending on the degree of risk calculated for each client. The risk is calculated by each bank separately under its own rating system, and of course, observing the limitations in force.

The second largest category of consumer on banking and financial markets is represented by legal persons. Within this segmentation there can be observed segmentation depending on different criteria: field of activity; from the point of view of the banks it is the size thereof. This segmentation of legal persons is reflected only partially by the products and services offered by banks. There are products and services that address a specific category of consumers.
As with individual consumers, there are certain products and services that address all consumers in this category - opening of accounts, deposits, payments on the current account; there is a high degree of customization for other banking products and services in the sense of limiting the access to certain products or funding amounts depending on the risk level of each company calculated based on each bank’s own rating system.

Responding to consumers’ demands means that the bank has the capacity to provide new and enhanced products and comprehensive services involving the use of advanced information technologies. The bank must also have good management, quality staff and to achieve a better coordination of the operations of the branch network, while using alternative channels for selling its products and services.

Whatever the basic principles are chosen for a type of segmentation, it is likely that starting from this, and the customer specific programs are to be developed later. The obvious goal is to keep customers but also to redirect those who are not targeted towards other commercial banks. Customer focus emphasizes that the importance of clients for the bank can be superior to other business factors. There are situations when even recovering due debt can be used as an opportunity to reaffirm clients’ loyalty to the bank.

4. BANK MARKETING STRATEGIES

Marketing of banking products and services takes into account both their market, and the impact that regulations and competition may have on the respective bank's activity. Market research makes it possible to highlight the bank's competitive advantages on the market and develop marketing strategies based on these advantages.

Without a multilateral information about the customers it is practically impossible to determine the competitive advantages to promote effective banking services on the market and, most importantly, to draw a development strategy of the bank.

The main environmental factors that the banks should take into account in developing their marketing strategies are: the regulatory factor; political factors; economic factors; social factor; technological factor; "competitive environment" factor.

Fundamental behavioural aspects of clients add to environmental factors that any organization should take into account as part of their offer of services and products. The factors that influence the individual customers’ buying behaviour are: cultural factors; social factors; personal factors; economic factors; psychological factors.

Corporate customers’ buying behaviour is influenced by several factors including: the size and status of the organization; the area in which they operate; the position of the decision factor of the organization; commercial and financial position of the organization; the style of management, the age of the managing persons and the professionalism of their management team; shareholders and their aspirations; policies and objectives of the organization; the geographic location of the organization; issues related to conjuncture economic factors.

In the case of corporate customers, banks should consider the following essential issues: the needs of these customers are usually more complex than those of individuals and, therefore, they are more difficult to satisfy; some clients require a particular approach; successful relationships with these clients can be difficult to build and require higher costs.

Banks should have both general information on particular domains in which the corporate customers activate, as well as information specific to each client.

For both categories of customers there are some common psychological factors determined by the customers’ perceptions and motivations. Understanding these factors is particularly important for the success of a bank. Thus, according to opinions expressed in the literature, there can be distinguished three types of strategies to address customers’ perception:
- changing the perception (if the existing one is not favourable), which can be difficult to achieve;
- changing the characteristics of the service, which involves a number of difficulties;
- changing process performance characteristics, which may be even more difficult (though there are many possibilities).

In order to launch a new banking service on the market, any marketing strategy should establish at least the targeted market segment and the position that is intended to be achieved within it. Any strategic marketing decision should be focused on development, maintenance and communication of competitive advantage in order to generate market success. Development of competitive advantage can result from an original algorithm of the mix of marketing policy that creates value for customers and cannot be easily imitated by competitors or simultaneously implemented. In a rather broad sense, marketing-mix represents the variables that a company has so as to influence the target market, namely how resources available for the Company are used to obtain the desired effects.

Bank marketing-mix, according to literature, includes a large number of policies compared to goods marketing-mix. This is explained by the nature and the specific characteristics of banking services. Thus the four policy of classic mix (4Ps: product, price, place, promotion) are combined with other specific banking policy - percentage policy, relational policy, personnel policy and presentation policy. At the same time we should emphasize that the two components of the traditional mix (product and distribution) suffer significant changes in the field of banking services; in general the essential elements for commercial banks are considered to be: content of services, the material elements of the services, contact staff and communications related to the product (service). As it results in Figure 1.2., each of them, by the issue they represent, form sub mixes (also known as the policies or strategies), which represent large and complex action programs essential to reach the fundamental objectives of the bank.

It is estimated that in future there will be large companies with global activities, but also small, very specialized companies. Globalized banking field will belong exclusively to large financial groups.
In the new era built on information and communication technologies, the consumer and his needs should represent the starting point in establishing marketing strategies.

As shown above, their behaviour changes as a result of access to information, openness which individuals acquire as a result of the communication. National cultures tend to change as well by adopting global cultural values; the identity of each individual is accentuated by activating the spirit of conservation and the discovery and adoption of new cultural values that represent him better.

The main purpose of the marketing strategy of the banking financial institutions is the differentiation from competitors and exploitation of the competitive advantages that institution has. In the following paragraph we present an approach of marketing strategies in an environment changed due to globalization.

Choosing the most dynamic market strategy represents one of the most effective ways to create and maintain a viable banking system, that has to follow these criteria: thorough information of the participants on the credit markets regarding the financial balance of each bank; banks' awareness to signals on the market regarding intervention of authorities in times of crisis.

**Product strategy**

Product Policy means to determine and change the character and the assortment of products offered on the market and their volume. The role of product policy is to devise and disseminate products so as to be able to satisfy the needs of the market. With the bank, the product policy it is a very important element of marketing policy: it refers to creating new products and maintaining the existing products. As a result of globalization, institutions acting in the financial market tend to unite and form large financial trusts that act globally, offering full range of financial products and services, from bank deposits, credit cards, life insurance to investment plans in venture capital funds.

The essence of the entire banking product policies is the client-product relationship. The development of new banking products is subject to the status of technology. The decision to maintain in portfolio of products and banking services, as well as the decision to implement such new products and services has, for the bank, three directions (Figure 1.3.):

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**Figure no. 1.3.** - Coordinates product policy (Dubois P. - Marketing. Teorie si practica, Ed. Economica, București 1996, p. 224)
If we imagine a three-dimensional system of axes, it is preferable to equally satisfy three requirements: what is required on the market today? What is profitable for the bank? What can be done to preserve and develop the customer portfolio?

Clients’ demands - individuals and companies in which everything related to banking products and services is determined by: the development of economic relations in that market; the degree of customer equipment with technical means to manage the relationship with the bank; the degree of banking culture and civilization customers.

**Price Strategy**

For setting a competitive price of banking products and services it is necessary to elaborate a *price policy*, which consists of establishing the price for all banking services and modify them in accordance with the market conditions.

In traditional economics, pricing for banking and financial products and services primarily envisages the level of risk associated with the product or service. Currently, there are a multitude of forms that influence the price of financial and banking products and services: interest, many commissions, and different rates.

In bank marketing price is assigned a very important role being represented by coordinating bank and customers’ interests. The purpose of pricing policy is based on the idea that price should be established to attract customers and also to provide a profit to the bank. The distinctive feature of pricing is the lack of connection between the consume value and the price of bank services. The limits between which the bank is able to handle interest rate, the fee and service charges given are flexible. On the other hand, consumers of banking services, particularly those that are permanent clients of the banking institution may influence the negotiations on the price level, getting some discounts.

As market price diminishes and is influenced by the development of the relationships on the relevant market for the price, it the reason behind the customers’ choice; it increasingly gives way to the following factors: bank image, quality of service, advertisement etc.

By tracking the reactions of the various categories of consumers to the change of elements of the environment and by understanding consumer behaviour and their reactions to stress factors, one can anticipate these reactions and prevent their negative consequences. In other words, risk management is different from the traditional one and this must be seen in pricing.

**Distribution Strategy**

In the financial and banking field the role of distribution is determining how consumers access financial products and services. In traditional economy this is done by consumers going to the premises of financial institutions. Because of this, traditional banking financial institutions which have a large network of subsidiaries and branches and have a high degree of geographical coverage are also those that have important positions in the market. Currently, the regulations of the financial investment market state the existence of specialized intermediaries; direct access of consumers to this market is not possible.

In the new economy, information and communication technologies, the internet and other global communication networks make possible the remote access of consumers to banking and financial products and services. Because of new technologies, multiple communication channels have emerged and developed: from express mail to mobile phones to satellite television. The multitude of communication channels causes a problem to effectively choose the proper channel.
Using very short distribution channels, like the provider – consumer one, is not as expensive as in the traditional economy. In this case the consumer is facilitated direct access to financial and banking products and services.

Even if remote access to banking and financial products and services is simple and in many cases even the only way to use these products and services, establishing the distribution strategies in the context of globalization must take into account the characteristics of each category of consumers.

The key to successful management lies in finding the combination between the distribution channels to ensure covering the costs (product or service development, its promotion, delivery etc) and getting a profit. Revenues will be determined by the number of customers, market share, number of uses of the product or service per each person and marginal revenue per product. To maintain or increase the revenues obtained, the bank's management is aware of the importance of increasing the number and the diversification of the existing distribution channels.

In literature, the term „distribution channel” is defined in various ways, namely: as a group of interdependent organizations involved in the process of making a product or service available for use or consumption. Others define the distribution channel as a combination of utilities and functions provided by the organization representing the products’ travel itinerary from the producer to the consumer.

None of these definitions refers in reality to the distribution of financial and banking services because of their special characteristics which distinguish them from traditional products and services. The distribution of a financial and banking product or service is actually the itinerary from the bank to the customer either by physical means or by electronic means.

In Romania, the branch is the main distribution channel; the distribution is achieved through the traditional counter, where the customer comes face to face with the bank staff.

The restructuring of the branch network is necessary when: the technology allows automatic execution of simple banking operations; banking products and services have a high degree of technical complexity and can only be sold only through specialist staff.

Promotion Strategy

In establishing strategies to promote products and services the communication channel used in sending and receiving messages between consumers and financial and banking institution is very important. It is not just the physical channel used for communication, but also how it is done.

Each consumer has a favourite communication channel. There is a great risk in case the message is not used in the appropriate communication channel that it is not received by the receiver. Also, the way of communication, the way of expression used during communication are very important.

The proximity of the consumer and the financial institution is required not only for reasons related to the communication of the unaltered message of the financial company, but tracking consumer reactions by constant contact with them provides valuable information for the risk management by financial and banking institution.

Adopting the strategies listed above should primarily take into account the consumer profile, their needs and competition reactions. Using consumer segmentation models lead to the provision of financial and banking products and services to ensure customer satisfaction.
not only with achieving the goals set but also by offering psychological comfort when using financial products and services.

Another advantage is that it offers a new risk management method to the banking financial institution, different from the classic one based on material collaterals. This approach aims at building competitive advantage for the financial institution through differentiation from competitors.

Professional sales methods bring new business and help the bank employees to keep customer loyalty by ensuring the satisfaction of all financial needs.

CONCLUSION

For the banking institutions willing to conduct effective activities and achieve effective results, customer segmentation has become more than a necessity than a strategic option.

The art of business success lies in discovering just who the most profitable customers of the bank are, and this action is found in practice as "client segmentation".

The offer of banking services must be based on respect for two fundamental principles in the bank activities: prudence and profitability. Thus, each bank, taking into account the quality of each banking product/service to be a profit centre for the bank, will determine the strategy and its financial management, approximate share of the contribution of each product/service to the establishment of profit.

In future, the quality of products and services offered by Romanian banking system will be more important than the number of banks.

The new services have problems in particular in attracting customers. Therefore, launching services at promotional price on the market can be used as a method of stimulating trial. The image of the bank must be perceived as a success.

The role of marketing is to design service offers, appropriate products and experiences for the economic context, to adjust to the requirements of each client.

In a dynamic and competitive economic environment, marketers, in order to analyze, create and deliver value to each customer, invest in the relational capital of the institution, consisting of: customers, partners, employees and communities. Thus, companies are no longer limited to the concept of customer relationship management and adopt the management concept of all relationships [Philip Kotler, Dipak Jain, Strands Maesincee, Marketing in the digital age. A new vision about profit, growth and renewal, Meteor Business Publishing, 2009, p. 41].

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THE INTERNATIONAL CONFERENCE IN ECONOMICS AND ADMINISTRATION

THE PROFILE OF USERS OF EDUCATIONAL SERVICES IN THE FIELD OF ENTREPRENEURSHIP

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ABSTRACT

Entrepreneurship is a relatively new field for Romania, a way that some people are found more or less randomly or have been driven on by the great variety of changes that have taken place in the economic, social and political area. It is also a conscious choice of the “special” human resources who have vision, gut-feeling and perseverance. These people improve the parameters of the economic engine and create wealth in the field in which they operate. The purpose of the paper is to present the profile of users of educational services in the field of entrepreneurship as it results from the case study developed on the example of the Faculty of Entrepreneurship, Business Engineering and Management (FEBEM) of the Polytechnic University of Bucharest (PUB). Entrepreneurship education in Romania, even if it isn’t yet a part of the National Strategy for Education, begins to increasingly impose among the options of the graduates of various forms of education. How many of those who access this way will become true entrepreneurs and how many will find only a subsistence way in running a business is difficult to say. It is as difficult as it is to clearly demarcate the entrepreneurial spirit from the courage or the gut-feeling from the logics. FEBEM is currently one of the few higher education institutions providing entrepreneurial training and the only one that uses this term in its name.

Key words: entrepreneurship education, entrepreneur, business owner, entrepreneurship, human resource

JEL classification: M13 A22

1. INTRODUCTION

The purpose of the paper is to present the profile of users of educational services in the field of entrepreneurship as it results from the case study developed on the example of the Faculty of Entrepreneurship, Business Engineering and Management (FEBEM) of the Polytechnic University of Bucharest (PUB).

The importance of the topics consists in the difficulties faced by young graduates in achieving the school-to-work transition. For many of them running a business is the only chance to assure a starting point in building a decent life. But, there is an important part that can reveal true entrepreneurial quality and who can create a “friendlier” economic environment for all of us. If the first one will contribute to the economic growth, the last ones will put the basis of the economic development in Romania.

FEBEM offers through its academic program "Engineering and Business Management" a real contact of students with entrepreneurial environment by collaborating with successful Romanian entrepreneurs as Radu Georgescu, Dragos Anastasiu or Marius Ghenea. The study underlying this paper is realized upon a sample of 220 students, graduates of the years II, III and IV, and tries to present the users profile for such educational services.
Of course, the small number of students considered in the analysis is somewhat restrictive but the work can be a starting point for further analysis, extended to the whole educational system.

Entrepreneurship is a multifaceted concept which often makes it extremely difficult to define. Economic literature tries to define entrepreneurship through innovation-risk-change triad, each of these elements being more important than others or predominant, depending on the source of the definition. The existing studies in this area will support our approach and will be summarized in the literature review section.

2. LITERATURE REVIEW

The word “entrepreneur” originates from a thirteenth-century French verb, *entreprendre*, meaning “to do something” or “to undertake.” By the sixteenth century, the noun form, *entrepreneur*, was being used to refer to someone who undertakes a business venture. The first academic use of the word by an economist was likely in 1730 by Richard Cantillon, who identified the willingness to bear the personal financial risk of a business venture as the defining characteristic of an entrepreneur. Since 1800, economists as J.B. Say, John Stuart Mill, and Joseph Schumpeter contributed to the widespread of the term "entrepreneur". (Sobel, 2008).

The Romanian language in everyday speech often used the term "întreprinzător" to describe a person who assumes the risk of running a business. For the purpose of the paper we’ll use the term “business owner” with the same meaning of the Romanian word "întreprinzător". But, also, in Romanian we use the term "antreprenor" that has the same meaning with “entrepreneur”.

Can we use the two terms as synonymous? Since a business owner no doubt assumes some risks when deciding to start a business, it can be considered an entrepreneur? How much is education and how much is mentality in running a business?

Peter Drucker considers that “everyone who can face up to decision making can learn to be an entrepreneur and to behave entrepreneurially". (Sinkovec, 2003).

The definition of entrepreneurship education adopted at European level stresses that this concept is much wider than just training on how to start a business. Entrepreneurship is firstly a mindset. As attitudes take shape already at an early age, school education can greatly contribute to fostering entrepreneurial mindsets, from primary school up to university level. (European Commission, 2006)

Moreover, universities are traditionally the main source of knowledge and a constant renewable “stock” of students and scientists. Hence the enormous potential of special skills and ideas that constitutes an ideal base for creating new business. This group of highly qualified human resources dominates the business activity in terms of quality and value creation. (Haase, Lautenschläger, 2011)

Educational staff should try to strengthen entrepreneurship education, especially for students and those with technological specializations. With proper education, potential entrepreneurs can recognize opportunities, can search for economically efficient resources and can organize effective teams. Such education stimulates and enhances entrepreneurial intentions to manage and develop new projects. (Zhang et al, 2014)

According to Markus Poschke the relationship between entrepreneurship and education is U-shape. This means that people with very low or high levels of education are more likely to be entrepreneurs than people with an average level of education. Second, most companies are small. Most of these firms remain small and are not much more likely to exit than their larger counterparts. This fits with the fact that there is a substantial fraction of
people who become entrepreneurs “out of necessity”, and not to pursue an opportunity. (Poschke, 2013)

3. METHODOLOGY

The case study included in the paper is an empirical one based on a self-administered questionnaire that was given to the students from second, third and fourth academic year after the completion of summer 2014 examination session.

The questionnaire was developed especially for the present study and wants to highlight the profile of students accessing FEBEM courses. It is also trying to be a base for more accurate definition of the target market for FEBEM. Briefly, we want to capture through the analysis the following aspects:

- Educational background of those who access FEBEM courses
- Motivation behind the FEBEM choice and expectations of students
- Perception of students on the notion of entrepreneurship
- Future plans of students and their connection with the business sector

Graduates of first academic year weren’t included in the analysis because the authors believe that students belonging to this level cannot give relevant answers for analysis in all 4 categories mentioned above. Starting with the second academic year, students can better define their objectives and gain knowledge that can bring greater certainty in issuing value judgments on business or entrepreneurship.

The questionnaire included both closed questions with possible answers, and open-ended questions that allow freedom of expression.

Sampling was a non-probabilistic one made based on a convenience-sample comprising 220 students out of a total of 284 students enrolled in the academic years II, III and IV.

Results of the study will contribute to the improvement and adaptation of educational services provided by FEBEM to the profile of those who accesses them.

4. ENTREPRENEURSHIP EDUCATION IN ROMANIA

Despite the importance of entrepreneurship education at European level, Romania has not included this area in the National Strategy for Education.

The 2003 Lithuanian national education strategy already explicitly mentioned entrepreneurship education. The United Kingdom (Wales) and Norway followed closely behind, launching strategies in 2004. These countries, as well as the Netherlands and Finland, are now in their second wave of measures. Many more countries launched strategies from 2007 and particularly in 2009, and several strategies have only been launched very recently; the Flemish Community of Belgium embarking on this path towards the end of 2011. In some countries, like Hungary, Portugal and Romania, entrepreneurship strategies are currently under discussion and could be launched soon. (European Commission, 2012)

Entrepreneurship education has appeared in Romania together with Junior Achievement programs which aimed to familiarize students from Romanian schools with business area. In most cases interesting and useful, these programs were optional subjects in the curriculum.

In 2001 was introduced the notion of "training firm" through a project in partnership with the Ministry of National Education of Romania and the Ministry of Education and Culture of Austria.
Currently, the training firm is the most appropriate program to familiarize students with the entrepreneurial environment but unfortunately it is only available for students of economic high school. For them, however, starting 2008-2009, is conducted The Business Plan Competition allowing the confrontation of ideas generated through the training firm activity and the recognition of the most valuable ones.

Also, in 2009, together with the curriculum review, elements of entrepreneurship education have been introduced under the various forms as follows:

- For ISCED 2 level entrepreneurship education is part of the Technological Education studied in the curriculum for the second year of high school.
- For ISCED 3 level, elements of entrepreneurship education are found in the subject Applied Economics, compulsory subject only for economic high school.

As can be seen, there is a concern for expanding entrepreneurship education. Even if Romania is still at the beginning of this way, the need for knowledge in this area lead increasingly more people to access courses which help them to manifest like entrepreneurs.

The utility of entrepreneurial training in a more or less formal frame cannot be questioned despite on the Poschke conclusions that people with very low or high levels of education are more likely to be entrepreneurs. Not everyone will become real entrepreneurs but an important part will become small business owners aimed to ensure a minimum financial stability that otherwise they could not obtain. Small business owners will not expand their business and will change the direction of their business rather like a reactive measure than a proactive one. And, also, will not "expand the economic pie for everyone" as very plastic express Russel S. Sobel.

Gene Marks said that entrepreneurs and business owners have a different relationship with their companies. Entrepreneurs view their companies as assets. Something to be developed, shaped and readied for market. And then sold for a profit so that they can move on to the next “Big One.” Business owners tend to be more sentimental about their businesses. Oftentimes it was their dad’s or their grandfather’s business. (Marks, 2012)

If between the entrepreneur and the business owner we cannot put the equal sign, the obvious question is: what differentiates them as individuals, as personalities? The answer is as short as it is complex: the entrepreneurial spirit. The entrepreneurial spirit is the quality which converts an ordinary man into a “long-distance runner”. Obstruction, although there, are faced, put down or eschewed. The desire for success is stronger than failure and courage stronger than fear. Entrepreneurial spirit can be confused with leadership but they are not the same. The leader conducts his team on the road but the entrepreneur creates the road.

Entrepreneurial spirit is native. If there is, sooner or later it is manifested. Not every person who runs a business has entrepreneurial spirit as the desire for independence should not be confused with entrepreneurship. The latter include the desire for independence but the inverse relationship is not mandatory.

A question arises naturally: if entrepreneurial spirit is native, which is the role of entrepreneurship education and especially why a person with an entrepreneurial spirit would choose a formal entrepreneurial education.

To this question we try to answer through the following case study, case study realized in the Faculty of Entrepreneurship, Business Engineering and Management (FEBEM), a higher education institution dedicated to this field.
4.1. The profile of users of educational services in entrepreneurship. A case study on the example of the Faculty of Entrepreneurship, Business Engineering and Management (FEBEM).

In 2014 FEBEM has its first generation of graduates and in the following we will try to present the profile of users of educational services in entrepreneurship by analyzing a sample of 220 students, the graduates of the years II, III and IV of the Bachelor's academic program Engineering and Business Management.

The analysis is a questionnaire-interview type and was conducted in June 2014. It consists in two parts: one that focuses on the analysis of the psycho-socio-educational profile of those accessing these courses and one that shows students' perception about the concept of entrepreneurship and its area of coverage.

First, we consider relevant to present the secondary education chain of all those who accessed the FEBEM courses.

Thus, overall, 67.3% graduated high school belonging to theoretic-real field (math and science), 9.19% graduated high school belonging to theoretic-humanities field, 19.5% graduated high school belonging to technological field (economic) and 4.1% graduated high school belonging to the technical field.

Analyzing graduates of all three academic years we can observe changes in the number of those who graduated high school in humanities, their weight reducing by about 80%. We appreciate this situation as being normal because in the first year FEBEM attracted a wide range of high school graduates, graduates who had hoped that this faculty will facilitate their access to employment rather than help in the future development of their own business.

Moreover, the awareness related to FEBEM's profile and the direction in which it provides training increased with time.

At the level of graduates of fourth year, 46.3% of those who chose FEBEM had as a first reason the desire to open a business in the future, while 40.71% had relied more on economic and technical training. Besides, this aspect is considered to be the main strength gained after FEBEM graduation by a percentage between 19.6% (for the fourth year) and 43% (for the third year). The graduates of the second year responded in a very small proportion to
that question because they are still in the period in which the expectations surpass certainties and cannot express themselves clearly on this issue.

Table no. 1: Reasons leading to the choice of FEBEM

<table>
<thead>
<tr>
<th>Reasons leading to the choice of FEBEM</th>
<th>Year II</th>
<th>Year III</th>
<th>Year IV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>4%</td>
<td>7,9%</td>
<td>7,4%</td>
</tr>
<tr>
<td>Technical and economical training</td>
<td>37,3%</td>
<td>32,5%</td>
<td>40,7%</td>
</tr>
<tr>
<td>Recommendations from friends</td>
<td>5,3%</td>
<td>6,7%</td>
<td>3,7%</td>
</tr>
<tr>
<td>The desire to start a business</td>
<td>52%</td>
<td>49,4%</td>
<td>46,3%</td>
</tr>
<tr>
<td>Other</td>
<td>1,4%</td>
<td>3,5%</td>
<td>1,9%</td>
</tr>
</tbody>
</table>

As can be seen from the table the desire to start a business was the dominant reason behind the choice of FEBEM courses for all graduates of academic-years II, III and IV. Moreover, in just three years, the percentage of this category increased by 12, 3%, and we believe that this trend will continue in the coming years.

The Romanian economic environment affected by the economic crisis has highlighted the perception of instability and increased awareness of its effects on the young graduates of various forms of education. Besides, these graduates seem to be increasingly less from year to year but also increasingly aware that adapting to the current environment does not mean anything other than "friendship with the change."

However, sooner or later all those who now appear to don’t seem to be concerned about their future will have to turn, willingly or not, from an unusable stock of human resources in people able to earn their living. If the opening of small businesses will be the chosen path the time will show it. However, solving this problem should become a national priority.

Into the following we present the attitude of the graduates of years II, III and IV in the face of change, how much they fear it and how much they hope to be helped in educating their mentality by graduating FEBEM.

Asked to appreciate with values from 1 to 10 how much do they think that will be facing change along their professional life, 78, 8% gave values between 8-10; 19.7% between 4-7 and 1.44% between 1-3.

![Figure 2. The probability of facing change during the professional life](image)
Those who had the highest weight for 8-10 were graduates of IV, for whom the professional elections are becoming imminent and in a very short time, will have to face a multitude of challenges. Most of them came into contact with the business area over the four years of study and understood that adaptation and flexibility should become qualities to exercise every day.

Those who registered the lowest percentage for scoring interval 8-10 are graduates of II, which being at the half of Bachelor’s academic program seems to still have time to reflect on this issue. However, their choices reach more and stronger the entrepreneurial domain despite of their apparently detachment from these aspects.

For only 44.9% of them the equality “Change = Progress” is real, while for the graduates of the third year the rate is 73.68%. For the graduates of the IV year (that are also the graduates of the FEBEM Bachelor’s academic program) the equality is true for a 59.25% rate.

![Figure 3](image3.png)

**Figure 3.** The equality “Change=Progress” in the perception of FEBEM students

Because the graduates of the second academic year are those who fear the least change, we can assume that, in their case, their FEBEM choice was strongly correlated with the future projection of their careers.

![Figure 4](image4.png)

**Figure 4.** The degree of students’ fear confronting change
Moreover, attracting increasingly more economic high school graduates and adapting continuously the syllabus of FEBEM programs to the economic reality are the premises of these conclusions.

Regarding students' expectations about the FEBEM’s role in educating their attitudes in front of change here's how it looks:

As can be seen from the centralization of responses, the graduates of the third year are those who have the highest expectations while the graduates of the second and the fourth year, hovering around the same level, seem to be more detached from this issue. Their expectations are otherwise normal given that for the fourth-year graduates FEBEM doesn’t have time to do more than it has already done and a large part of the second year graduates has not yet put such questions.

However, overall, about half of the students surveyed expect after graduation FEBEM to obtain, on the one hand a constructive attitude in the face of change and on the other hand the necessary knowledge to understand its mechanism. In our analysis, the graduates of third year seem to have a different profile from that of their colleagues being characterized by dynamism but also, by higher expectations about FEBEM role in educating their mentality.

If in Part I of the questionnaire we tried to present psycho-socio-educational profile of those who accessed FEBEM courses in Part II students were asked questions designed to reflect their perception about entrepreneurship and their future plans in relation to this.

When asked "what do you think will be the biggest challenge you have to face after graduation," more than a half (62.27%) answered "finding a job", 14.54% "starting a business" and the remaining 23.24% either do not know yet, either gave irrelevant answers such as "independence", "application of knowledge" or "adaptation".

Analyzing the responses to this question we can see quite clearly their desire to feel the pulse of the economy first in the position of employees but also, to gain practical experience which then allows them to manage their own business. Moreover, we’ll see that 76% of students surveyed want to start a business after graduation even though this will not happen immediately.
Requiring three terms to define the entrepreneurship they used predominantly concepts like: innovation, business, courage, risk and ideas, showing an accurate perception of the entrepreneurship field.

Regarding the qualities that an entrepreneur need to have, they thought he must be brave, innovative, intelligent and persevering. About 69.64% of students consider entrepreneurial qualities as being both native and acquired, while a very small proportion, 14.9%, is represented by those who think they are only native.

These percentages largely justify the increasing interest of high school graduates for courses offered by FEBEM as long as those who access them hope to acquire entrepreneurial skills after their graduation.

Considering the most important entrepreneurial qualities listed by students is somewhat difficult to believe that a study program will be able to give courage, intelligence, innovative spirit and perseverance. But what is important is to help discovering these qualities, even if they are dormant, potentiate them and provide them the adequate frame to manifest.

Very interesting was the answer to the question "which of the following types of intelligence is crucial (without excludes the other) for business success": 75.8% chose cognitive intelligence while only 24.8% chose emotional intelligence.

Marius Ghenea said in his book "Entrepreneurship" as follows: "I personally believe that a successful entrepreneur is not necessarily a smart person in the standard understanding of the word, but one that has the highest level of emotional intelligence, because in this way he will be the best leader and can better drive his business team to success." (Ghenea, 2011)

The answer is not surprising if we consider that, given the age and experience, students have had many more opportunities to test their cognitive intelligence rather than the emotional one. Evaluation papers and admission exams are always focused on tests whose results depend on cognitive intelligence, emotional intelligence being especially highlighted by default, in case of excessive emotions or a failure.

Moreover, the tendency to give greater importance to controllable character of some aspects of entrepreneurship and running a business follows from the position of the gut-feeling in a total of 9 items that students were asked to rank them. Order resulting from the processing of responses was as follows:

1. Business Idea
2. Business Plan
3. Capital Income / Sources of funding
4. Consumer Need
5. Business Partners + Economic Barriers to entry
6. Gut-Feeling

If human resources can be more or less important for the effective running of the business, depending to its profile, the gut-feeling is one who supports entrepreneurship and that, as we mentioned at the beginning of the work, "creates the way" even if it does not exist.

Gut-feeling is a key ingredient in the recipe of transforming a business owner into an entrepreneur and only practice in the business world can confirm its existence. Until then, those who access the courses of an educational institution providing training in this area can only enhance their knowledge of doing business and experience, often limited, the role of an entrepreneur. To remove, at least partially, this shortcoming, into conclusion section we make some recommendations in order to increase the chances of FEBEM students to discover their gut-feeling through the promoting of entrepreneurial spirit.
How many of them will really become entrepreneurs the time will tell us. What is clear is their desire to lead a business, although, many of them will do so after a period experiencing the role of an employee. Of the 200 students who responded to the question "Do you want to have your own business after graduation", 76% of them said yes.

Interestingly, 78% of them know in what area are going to run their business and about half of them have already had more or less experience related to this. Most of them see competition as the main obstacle in the development of their activity, followed by the lack of funds and expertise and bureaucracy.

5. CONCLUSIONS/DISCUSSIONS AND IMPLICATIONS

This paper aims to present the profile of users of the educational services in the field of entrepreneurship as he emerges from the analysis of the characteristics of graduates of FEBEM’s years II, III and IV.

The analysis takes into account a low age level but in our point of view more important as those who belong to it are more flexible and easier to train.

In addition, Romania faced the past three years a dramatic decrease in the interest of young human resources to invest in their own education, the evolution of all those who attend or pass the Baccalaureate exam being conclusively in this regard.

Entrepreneurship education, started at an early age, even if will not necessarily generate entrepreneurs but only small business owners, can help limit the wastage of human resources that, otherwise, will become unusable and will raise the social costs.

Those who choose to invest in education and become true entrepreneurs will not be exempt from dealing with an economic environment where human resources act, even if involuntary, against the progress and generation of value.

Changing the educational structure of those who access FEBEM shows an increasing awareness and understanding of the essence of entrepreneurship even if the end point is not the same for all graduates.

Entrepreneurship education can generate two types of human resources (taking into account only the effectiveness of these courses):

- Business owners
- Entrepreneurs

As much as FEBEM will attract and select youth with a psycho-educational profile closer to entrepreneur ones, as more will be able to achieve the purpose for which it was created.

Sure, the FEBEM work can be improved and this is a permanent concern for FEBEM staff in order to increase from year to year the quality of training they offer.

The author suggestion goes to implementation of projects, training firm type, similar to those taking place in high school level. Although now the manifestation frame of these training firms is still limited we hope that other universities will meet this proposal in order to increase the chances of young graduates to discover and promote their entrepreneurial spirit as soon as possible.

Ideally, the entrepreneurial spirit should be boosted at very early ages but in this direction an extremely important role has the political will and the action of competent bodies involved in the development of the national strategy for education.

From this analysis, the profile of the users of educational services in entrepreneurship highlights the following:
Those who access FEBEM courses are predominantly young learners with an educational pathways belonging to the theoretical - real educational chain, closely followed by those who have graduated a high-school belonging to the technological educational path (economic high schools / colleges)

- 50% of them chose FEBEM because they desire to open a business in the future, the percentage raising more during their academic years (up to 76%). Furthermore, from 76% about 78% know their business profile.

- About 80% of respondents are aware of the volatility of the Romanian economic environment and of the future confrontations with a wide range of changes.

- For 60% of them, the equality "change = progress" is true, which indicates their inclination to consider changes as opportunities and not road endings.

- About a third of the respondents have high expectations from FEBEM (>80%) in terms of the education of their mentality.

- Most of them have a correct perception of the concept of entrepreneurship and the necessary qualities of a successful entrepreneur, hoping to act in this area.

In conclusion, FEBEM wanted to become a cornerstone of higher education in entrepreneurship and according to the presented facts it seems to have started right this way.

The pioneering in this area is not easy but, given the attractiveness of the area and the economic and social usefulness of the training, we believe it is extremely important not only to continue but to develop partnerships with other universities. As long as will have more ways of training in entrepreneurship as much we can hope that this one can become the key of future economic development in Romania.

REFERENCES


1. PARLIAMENTARY IMMUNITY TODAY. A STORY TO BE TOLD

Like any other political idea, parliamentary immunity is a complex concept, to a certain extent controversial and debated and which became indispensable for the parliamentary life, in general, and constitutional life of each regime, in particular, being mentioned almost in all of the constitutions and representing the heart of the democratic life. Though it is hard to picture a democratic political system without it, both Members of the Parliament and the legal and political scholars consider parliamentary immunity a central institution that protects the independence and integrity of the Parliament. As I see it, the problem regarding immunity in today’s society, is not about whether this particular legislative protection should exist or not or if it is fair that Members of the Parliament should benefit from immunity, but it is rather about its legal limits, practices and purposes. Following the intellectual and historical footprints of the concept of parliamentary immunity will help us understand and explain the controversies regarding the proper interpretation of immunity.

Many could easily argue that a political concept as parliamentary immunity is should not be treated to such a thorough analysis. Singling out immunity to such a treatment rests on its importance in contemporary democracies and in its increasing presence in parliamentary debates and in media, on the one hand and on its political and conceptual complexity and long-lasting controversies, on the other hand. Today there is a negative perception towards immunity, citizens as well as the media and the Members of the Parliament seem to misunderstand the concept. The public perception identifies parliamentary immunity with an excessive privilege that enable the parliamentarians “to pursue their own personal and political interest over and above that is made possible simply by their position of influence” or, without giving much thought, associate immunity with a higher status that transform the representative into privilege citizens that are supra leges. In my view, parliamentary immunity, both the concept or the institution, should not be mistaken with the idea that Members of Parliament are above the law. Nobody has ever wanted this to happen. To my mind, we are witnessing a shift towards imprecision and vagueness, which could be the sign of a new historical development of this concept. These confusions along with other theoretical misinterpretations invite to clarification, making the concept of parliamentary immunity worth investigating.

Interest in a conceptual approach towards parliamentary immunity is based on a number of pragmatic and cognitive considerations. First of all, from the point of view of socio-intellectual history, literature on immunity is modest. By consulting reference syntheses one may observe how the analysis of parliamentary privilege is either limited, due to their temporal approach restricted to the post-communist era or subject by jurists and political scientists to a debate on the normative rationality of the institution and the rules of parliamentary immunity. As a result of this, the novelty of the present research is the analysis
of parliamentary immunity from the point of view of the functioning of its intellectual field, by abandoning the main traditional forms of analysis.

Second of all, placing parliamentary immunity within the framework of conceptual and socio-institutional political history shall respond to a constructive need to implement new forms of interpretation and study of this “exception”. By particularizing the concrete meaning of parliamentary immunity, causing variations in the judicial and political regime of democratic representation and governance, this paper shall eliminate and clarify unfavorable perceptions of Parliament and democracy. Thus, by the use of this approach, the paper shall attempt to move away from recent political provincialism that allowed differing interpretations of immunity. Lastly, focusing the study on the conceptualization of parliamentary immunity shall consolidate the theoretical basis of knowledge on parliamentary privileges, equally configuring the historical background within which parliamentary immunity was first born as a term with an active dimension, which later legitimized itself, as a result of historical, political, and judicial processes as an institution that insures the protection of Parliament in the name of the citizens. Therefore, starting from motivations regarding the novelty of the subject, the projection of new interpretive frameworks, and the configuration of the background of the concept’s emergence and development, this study shall add a touch of originality as compared to other interdisciplinary researches.

Parliamentary immunity throughout its history as we will later see was part of many historical confrontations at a given time and lots of expectations were attached to it in a way that it became essential for any debates regarding the parliamentary customs, practices and procedures. Whether we look closely at the stormy confrontations that arose in England in the fourteenth century between the representatives of the House Commons and the Monarch and House of Lords on the one hand or just have a short glance at the legal outcomes of the French Revolution of 1789 on the other hand, one could observe how these internal political contradictions shaped dramatically the modern meanings of the concept of parliamentary immunity.

2. A KOSELLECKIAN APPROACH

In order to create a concise genealogy of parliamentary immunity, this study attempts to use the methods of research advanced by the Reinhart Koselleck in the field of conceptual history – Begriffsgeschichte. Considering Reinhart Koselleck’s working methods and the comparative approach that this study intends to use, the following instruments of research: (1) the etymological, juridical and philosophical dictionaries will guide our study into the uses and meanings of parliamentary immunity, its metaphorical flexibilities and its transfer to other disciplines; (2) the historical encyclopedias will lead out study into the nature and origins of the concept of parliamentary immunity and will explain the foundation myth of immunitas, the Latin correspondent for today’s parliamentary immunity; (3) the speeches of the Members of Parliament defending parliamentary immunity will introduce the practices and limits of the legislative protection as it its understood by the holders of this privilege (4) the national will reveal the recent meanings, practices and limits of parliamentary immunity.

The major aim of the comparative study is to diagnose the historical premises and the linguistic, political, and judicial means through which the term parliamentary immunity prefaced significant political events. Evidence of the term’s use and emergence can be found in normative syntheses within interdisciplinary fields such as medicine, domestic and foreign policy, constitutionalism. Hence, a diachronic perspective on the concept facilitates the creation of a general and accurate image of the judicial and political regime that allowed the emergence and development of parliamentary privileges.
3. THE FOUNDATION MYTH OF IMMUNITY

The etymological and historical foundations of immunity as a political concept lay within ancient Roman political practices. The word itself, derived from Latin *immunitas*, referred to exemption from taxes and other political duties. Used to refer to either individual citizens or whole communities, the word was used throughout the Republican and Imperial history of Rome. The modern understanding of immunity however has its closest parallels in the rights and privileges associated with the office of plebeian tribunes, the official representatives of the plebs guaranteeing their rights within the context of an originally patrician-dominated political system.

The Latin word is the abstract noun derived from *immunis*, meaning not bound and free from *munus*. The latter word meant service, office, or employment. The word ultimately derives from Proto-Indo-European *(e)meyǝ-; the word *munus* is also found in words such as *municipium* or *communis*. The word *munus* itself often showed up in compounds and was usually seen as a synonym of onus (“a duty, burden, tribute”). Examples of *munus* used this way include *munus rei publicae* “a public office”, *id quoque munus leve atque commune Mamertinis remisisti* (“How much labour, and trouble, and money, do you suppose the Mamertines […] would have devoted”). Thus, according to this multitude of meanings, *immunitas* was used as a central concept in politics.

The Latin dictionaries show us that both the noun *immunitas* and its corresponding adjective, *immunis*, have a negative interpretation since the meanings of the two terms assume from what they negate, namely *munus*. If *munus* refers to an obligation, task, duty or even an office or sometimes a gift granted by the Roman Emperors to different categories of citizens, *immunis* moves in the opposite direction of meanings, referring to someone that does not perform any office or is freed from any responsibility. This being said, someone who is exempted from paying taxes and/or performing public duties is considered immune. Therefore, whoever is immune “owe nothing to anyone, in terms of both *vacation* and *excusation*: whether referring to an originary autonomy or the later release from previous contracted debt, what counts in defining the concept is exemption from the obligation of *munu*, be it personal, fiscal or civil”.

4. IMMUNITAS AND COMMUNITAS. A CONCEPTUAL ANTINOMY

Looking closely at the etymology of immunity, one can clearly realize that the opposition to *immunitas* is in fact *communitas*. As far as the Latin and neo-Latin dictionaries show, both of the two notions are constructed around the noun *munus*, which follows the same lines of interpretation. However, if in the lexical construction of *immunitas*, the *munus* represents a “duty”, “burden”, “tribute”, “publice office” that is negated, in *communitas* the *munus* is denied or even lost, inverting in the opposite conceptual direction the meanings of community. Moreover, the term *munus* oscillates between three different meanings that “seem to make it miss its mark, or at least limit the emphasis, traceable to the idea of obligation”. Here, the meanings attached to *munus* are: *onus* (“burden”), *officium* (“obligation”, “kindness”, “service”, “office”) and *donum* (“gift”, “present”, “offering”). In fact, the first two meanings can clearly be associated with “obligation”, “duty”, “office” whereas the third one seems to be questionable. How can a gift be a duty? On this instance, Roberto Esposito in his philosophical study *Communitas. The Origins and the Destiny of Community* sheds some light arguing that “*munus* is to *donum* as species to genus, because it means gift, but a particular gift distinguished by its obligatory character, implied by its root mei-, which
denotes exchange”. Consequently, the *munus* represents only the gift that one person gives, in our case the Emperor or the Senate, and not what one individual receives. That is why it doesn’t suggest a possession or an acquisition, but rather a loss and a transfer

[…] the *munus* is the obligation that is contracted with respect to the other and that invites a suitable release from the obligation. The gratitude that demands new donations. *Munus*, in this sense and even more *munificus* is he who shows the proper “grace; giving something that one cannot keep for oneself and over which, therefore one is not completely master”.

After examining the problematic meanings of *munus*, it is now easy to explain and understand the meanings of *communitas*. The definitions provided by the dictionaries show that *communis* and *communitas* describe the condition of a citizen to share and office or to share a burden and a task. From these particular meanings we can understand that community is a homogenous group of individuals that are bound not “not by a property but by an obligation, or a debt; not by an addition, but by a subtraction, by a lack, a limit that is configured as *onus* […] modality from him who is affected, unlike for him who is exempted”. In other words, the individuals of a particular community “are not identified by a common belonging, but by a common duty of alteration, by a reciprocal obligation impelling everyone to partially give up one’s personal identity in order to address the other, in order to “expropriate” oneself in favor of the other”. On these accounts, *communitas* is “not about property or possession but rather is about a pledge, a debt and a gift that is given, that in the end will establish a lack”, as Esposito suggested.

The final and most prominent characteristic of the conceptual opposition between *immunitas* and *communitas* is the idea associated with the distinction between the private and public. If *immunitas* refers to an individual or to category of individuals performing no office, exemption for public burdens and taxation (private character), in contrast the *communitas* requires to an individual or category of individuals “to carry out the functions of the office, or to the donation of grace” (public character). Esposito considers that *communitas* represents a condition that applies not just to one person, but to everyone, and therefore, the community is something that is “public” in opposition to *immunitas*, a status that translates into the “private” or even “general” experience of the individual. Moreover, the notion of community reflects on the one hand something that is lost and on the other hand the political and social place where the individuals seem to lose their personal identity. Therefore, if the community puts in danger the very own identity of its members by binding them to an obligation or to mutual donation, the immunity “is the condition of dispensation from such an obligation and the defense against the expropriating features of *communitas*”.

Roberto Esposito’s studies *Immunitas. The Protection and the Negation of Life* and *Communitas. The Origins and the Destiny of Community* and well as the Latin dictionaries reveal that *immunitas* is the negative form of *communitas*

*Immunitas* is not just a dispensation from an office or an exemption from a tribute, it is something that interrupts the social circuit of reciprocal gift-giving, which is what the earliest and the most binding meaning of the term *communitas* referred to. If the members of the community are bound by the obligation to give back the *munus*, that defines them as such, but whoever is immune […] is outside the community.
If immunity is considered an exemption from any public duties and obligations and a sort of protection from the features of community, communitas has the opposite characteristics. It binds its members to a duty and obligation where all has to contribute. More precisely, immunitas “protects the one who bears it from risky contact with those who lack it, restores its own borders that were jeopardized by the common”.

5. IMMUNITY AS AN EXEMPTION AND PRIVILEGE

Immunitas, as we have seen in the Latin dictionaries and classical texts seems to represent an exemption. But if we leave behind the ancient meanings and look at its modern corresponding definitions, immunity tends to be understood also as a privilege. The Italian philosopher, Roberto Esposito, in his study Immunitas. The Protection and the Negation of Life suggests that the answer to the question if immunitas is either an exemption or a privilege, lies somewhere in the intersection of both of the meanings. Immunity, by definition is an exemption to a particular obligation or rule that everybody is bound to follow “[…] immunis est qui vacat a muneribus, quae alii praestare debet. Consequently, immunity refers also to a particular condition which is separate from the conditions of others. That is why, putting side by side the two meanings (“exemption”, “privilege”) we agree that immunity is also a “condition of particularity, whether it refers to an individual or a collective” and whoever is immune places him/herself on a privileged position compared to others.

6. IMMUNITY IN MIDDLE AGES

As it was understood in the late Roman time, the concept of immunity in the Early Middle Ages continued to represent an institution that conferred different and various exemptions to individuals, groups of individuals and even to communities itself. Used also with its Latin form, immunitas or emunitas, the meanings attached to it and that were translated especially in the beginning of the fifth century, were inseparable from the Roman tradition. As we have already seen, in Antiquity the institution of immunity was at the discretion of the grantor – either the emperor or the Roman Senate – and according to his will individuals received various exemptions of state responsibilities on a limited duration of time, that is why it may seem still difficult to evaluated the “the role and extent of immunities in the late Roman Empire” and also in the Middle Ages. As far as our research goes, in the fourth and fifth centuries immunity was used only in legal texts and referred to the exemptions from public duties and taxation. Therefore, at least in the Early Middle Ages the concept seems to follow, with few exceptions, the same trajectory of interpretation.

The scholarly literature concentrated on the role and scope of immunity in the Middle Ages seems to be abundant. Maurice Kroell in his study L’immunité Franque offers a very thorough analysis of the institution of immunity in Early Middle Ages. Analyzing more than 200 documents or charters where immunity was granted by the kings to particular subjects, he discovered that the medieval meanings of immunity resemble considerably, in some parts, with the privileges granted by the Roman Emperors but it has developed also other characteristic features. The exclusion of the royal officials from the immune estate seems to be one of the particularities of the institution of immunity in the Early Middle Age. Unlike the exemption from public duties and taxation or exemption from the military service, banning the royal officials from entrance into the privilege land was never granted by any Emperor in late Roman Empire, except Valentinian II (371-375) whose decree was later on cancelled by Honorius (384 -423).
Banning the royal officials from entering the immune land seems to have a considerable impact on the future meanings of immunity in the fifth and sixth centuries. To fully understand this hypothesis we have to look closely at the nature immunity and at the rights transferred by the king to the holders of this privilege. There are several opinions to consider. On the one hand, granting immunity could mean that the rights that came with this process were full and could be transferred to the land and on the other hand, the rights, “they amounted to no more than the specific exemptions expressed in the grant, and were tied to the beneficiary named in it”. However, and hopefully this is general consent on this matter is that granting immunity strengthened the rights of the holder of privilege while weakening in the same time the public authority of the king. In this direction Maurice Kroell could shed some light. In order answer whether or not immunity weakened the authority of the kings the author uses a parallel interpretation between the late Roman potentes and the medieval magnates and great landowners. Kroell suggests that the attitudes of the Roman potentes who had immunity influenced the medieval behaviors of granting immunity. Both the Roman and the medieval magnates were not interested in maintaining a strong public authority, but on the contrary, they considered that the charters of immunity will consolidate and transform their authority into a legal power. In the light of this interpretation, Paul Fouracre observes in Eternal light and earthy needs: practical aspects of the development of Frankish immunities, that the medieval meanings (“exemption from taxation”, “exemption public burdens”) of Latin immunitas and also its other modern correspondents - as it is our case French (immunité), German (Immunität), Romanian (imuntate) and Polish (immunitet) - were at the heart of all the contradictions mentioned above.

As I see it, both Fouracre’s and Kroell’s arguments are correct, but incomplete. They both focused only on one interpretation of immunity, namely exemptions from taxes. That is why the answer to the question of whether or not granting immunity weakened the public authority of the king lies in another meaning of the concept of immunity later developed, namely general exemption from legal aspects of the state or as Alexander Murray called it in his study Immunity, Nobility and the Edict of Paris, jurisdictional immunity which “protected and extended the existing judicial powers of the immunist”.

The concept of immunity with newly meaning of jurisdictional exemption started to be used in the seventh century. The connections between immunity and the exercise of jurisdiction represented a turning point in the study of privileges in the Early Middle Ages in the Frankish society. From the seventh century until late ninth century, this idea revolved around the questions “whether the counts remained judges of the inhabitants of the immune land or whether the immunist and his agents exercised any form of jurisdiction within the territory covered by the royal grant”. Even though this interpretation emerged mainly because immunity started to be identified with the right of domainal justice, but according to Murray there were no legal documents where it was clearly mentioned that the king transferred jurisdiction to the immunist or whether judicial powers were exercised by the owners of the royal grants or by his representatives. However, there is a scholarly consensus that suggests that immunity lands or estates represented a judicial district within a county, even though the royal grant of exemptions did not have any effect on the jurisdiction. Rather, immunity in this case, was laid over the early domainial jurisdictions. Therefore, as I see it, immunity has a two-fold conceptual dimension: the first one sees immunity as an institution of exception deriving from the superior authority of the king and the second one, where immunity designates a territory enjoying an exemption. In this sense, we could explain the relation between immunity and the right of jurisdiction as a continuation of the previously judicial powers of the immunist.
The source of the former jurisdiction has its roots in the aristocratic character of the medieval Frankish society. The noble lordship over estates, people and land was understood in the seventh century as continuity of the ancient Roman nobility. Notions as “immunity of nobility”, “jurisdictional and autogenous immunity” characterized a privileged class whose power was independent of the king. Murray in his seminal study on the Frankish immunity moves further and implies that not even the royal offices represented the public authority of the king but “increasingly became the preserve of the nobility, local office in particular represented not royal, but aristocratic power”. From this point of view, we may agree that the public authority of the Frankish medieval society was divided between the royal administration and the independent nobility, governing side by side. Using the notion of “autogenous immunity” medieval scholarship suggests that the exemptions from jurisdiction were long integrated into the Frankish society as “an evidence of the independent and sovereign rights of the ancient nobility”. Thus, it seems that immunity was adapted from the Roman legal system to the Frankish society. References in the literature of the Early Middle Ages privileges suggest that from the beginning of the seventh century, the initial meanings of immunity such as exemption from taxation and public burdens are left behind and used only sporadically in the royal grants or diplomas. Instead, the attention is now focused on the judicial privileges of the counts and their subordinates, who are constrain to enter the immune estates or lands to perform judicial activities or to collect taxes.

7. THE EDICT OF PARIS. IMMUNITY AS AN EXTENSIVE JUDICIAL GRANT

Banning of the royal officials represents one of the most important particular features of immunity which later on in the High and Late Middle Ages will expand rapidly in the terminology of privileges. The variation in the meanings of immunity from the fiscal nature to exemption from judicial and administrative of the royal officials represents the first evolution or mutation as Alexander Murray calls it, in the practice of immunity in the Early Middle Ages. What in fact triggered this transformation was the Edict of Paris issued in 614 by Clothar II, King of Franks, edict which will remain in force until the reign of his son, Dagobert I. After deposing Sigebert II, king of Austrasia and his regent, Brunhilda, his great-grandmother in 613, Clothar II assembles a meeting with the Gallic church at Paris in 614. The decisions taken at the Fifth Council of Paris gave birth to a number of seventeen cannon which later, after the deliberation with the lay magnates and bishops, resulted into what we call today the Magna Carta of Frankish nobility. The Edict is important for our discussion because it contains probably the first legal references regarding the judicial aspects of immunity which confirms the new trajectory immunity took in the early seventh century.

The story behind Clothar’s Edict reveals a confrontation between the monarchy and the ancient nobility that eventually reconsidered the political and legal nature of the Merovingian state. According to Paul Fouracre and Alexander Murray, Clothar II seized control of Austrasia and Burgundy mainly with the support of the nobility that was opposed to Brunhilda. That is why it is considered that Edict of Paris was a result of factional politics that is “an agreement between Clothar II and particular magnates opposed to Brunhilda, rather between the king and aristocracy in general”. Therefore, in order to assume the control over both of the regions, the king of Franks made a political and legal with the nobility in order to get their support. As repayment, he issued in 614 the Edict of Paris.

The Edict had two major consequences: on the one hand the document revived a freely and independent nobility exempted from the committal power of the king and on the other hand, sharing its authority, the power of the monarch decreased, that is to say, the king
renounced to his right to remove or to appoint the counts and the authority to control the public offices was transferred to the nobility. Alexander Callander Murray moves further with this explanation and considers that Clothar II made use of the Edict in order to acknowledge the autogenous immunities of nobility which from the beginning pursued much jurisdiction. Following the same line of interpretation, we observe that the concept of immunity has a two-fold dimension. The first dimension sees immunity as an instrument of royal policy, having the purpose to restrict the authority of the royal office holders and the second one, immunity seen as a confirmation of autogenous powers.

The Edict was composed of 24 capitularia or chapters but only chapter 12 and 14 make reference to our discussion on immunity. Chapter 12 states that the judges (iudices) should be drawn from the district in which they will hold office and that their property is bond for their good conduct.

“etnullus iudex de aliis provinciis aut regionibus in alia loca ordinetur; ut si aliquid mali de quibuslibet condicionibus perpetraverit, de suis propriis rebus exinde quod ma;e abstolerit iuxta legis ordine debeat restaurare. […] Let no judge be appointed from outside the region or province. Thus if he commits any wrong with respect to litigation before him, he will have to make good from his own property in accordance with the law, that which he wrongfully took away”

This statement cut-off from both the Latin and English translation of the Edict of Paris has a positive interpretation and encourages the local officials to protect the local public interest rather than the interest of the central authority. Furthermore, we have good reasons to think that this assertion did not limit the king’s right to appoint or remove his servants a will but on the contrary. In fact, even though the counts (iudices) - that could fairly be called medieval nobility – gained a position of strength and legal independence in relation to the king, their appointment was still in the will of the Monarch. Moving further with the interpretation of this chapter, in the second part we find an interesting connection between the nobility’s local appointments with property accountability. Here it makes clear, that the counts should be local citizens with hereditary lands in order to easily control their actions and limit corruption and abuses of their powers by seizing their properties.

However in chapter 14 of the Edict we find the first recognition of autogenous immunity. This chapter deals with property conflicts and with the privileged status of the church and nobles that were prior granted by the Clothar’s predecessors. Here, immunity is understood an autogenous right of the nobles seen a grants of exemptions by the king to its subjects, namely the church and the secular potentes. The reference of immunity in the provisions of the chapter 14 represents the continuity of the kings authority to preserve the domains of the churches of magnates and also a warning note that even though the public officials could “could enter the properties as defenders of the church and poor, the king order did not entitle them to override previously granted exemptions”.

“Ecclesiarum res sacerdotum et pauperum, qui se defensare non possunt, a judicibus publicis usque audientiam per iustiniandefensentur, salve emunitate praecedentium domorum, quod ecclesiae aut potentum vel cuicumque visi sunt induluisse pro pace disciplina facienda. […] Let the public judges employ legal remedies to defend the property of churches of priests and the poor
ho cannot defend themselves until such time as judgment is rendered, but without violation of the immunity that earlier kings conferred on the church, on the powerful, or on whomever, for keeping the peace and imposing public order”.

Therefore, this chapter enforces and recognizes in the same time the immunities of the church previously granted by Clothar’s II predecessors. This brings us to the point where immunity is seen an instrument of political authority and control. Thus, both of the two chapters from the Edict of Pars support the idea that immunity acquired new meaning, namely, extensive judicial exemptions. It seems that Clothar II was the first king in the Early Middle Ages who perceived the absolute character of fiscal immunities and who may have continued to grant judicial exemptions during his life.

Clothar’s II predecessor, Dagobert I seems to continue this practice of granting ecclesiastical grants to churches. The letters of immunity sent between 629CE to 634CE by Dagobert I, to Saint Rigobert, Bishop of Reims, allow us to see the existence of the judicial exemption. In his correspondence with the king, the Benedictine monk objected to the king’s will and ill to force the Church to pay taxes, bearing in mind that under all previous kings, these rules didn’t exist. As a reaction to these letters and with the approval of his nobles, Dagobert I ordered, as his predecessors did before him, that all goods, villages, and people belonging to the Holy Church of Reims to be forever exempted from all taxes, and that no public judge has any right to enter the lands of the Church of God. The ecclesiastical immunity were granted both for the spiritual interest of the king and for the prosperity of his kingdom (pro aeterna salutae vel felicitate patriae seus regis constantian).

Therefore, the exemptions conferred were used to bear the costs of lighting and auxiliary expenses of the clergy and monks. Thinking both in terms of this historical context and of the purposes they served, it seems that the charters of immunity granted by the king to different churches and monasteries are generous acts of concessions, having the role to support financially the work of the church and in the same time to compensate the king’s official for their extended fidelity. What the churches and the monasteries received when the king granted them privileges of immunity, was a document with a compulsory character that ought to be respected, which mentioned that all the royal judicial officers and their servants were prohibited to enter all the church’s land and “were told not to settle disputes (altercations audire) and not to levy fines known and fretum (fretum exigere); moreover they were banned from enjoying rights of hospitality (mansiones), from purveyance of foodstuffs (parata), and from taking sureties (fideiussores)”. But besides this existing privileges confirmed in the document issued by the king, another concession, more general but also important for our discussion on ecclesiastical immunities, was made; the royal judicial official were prohibited to collect the redibuciones, that is the unspecified taxes from the church lands. According Paul Fouracre, this exemption had a considerable impact on the incomes of the immunist. If, in the past, before a church had received the privileges of immunity, the royal judicial official hoped to collect taxes from the church lands and inhabitants, after the immunity was granted, all the taxes went to the beneficiary in order to be used for the luminaria of the church and monasteries, feeding the monks and helping the poor.

However reference to this particular form of ecclesiastical immunity and with almost the same meanings is present also in Theodosian Code. More precisely, in Book XI, chapter 12 called Grant of Tax Exemptions and Book XVI, chapter 2 called Bishops, Churches and Clerics show us that in the Late Roman Empire, churches, categories of people, institutions, estates and also imperial lands were exempted from different fiscal taxes and civic burdens.
Some of these exemptions have little similarities with the one granted later by the medieval kings. However, in the section dedicated to ecclesiastical immunities it is specified that the role of the privileges was to provide additional income for the profit of the religion. Even though many of the immunities have acquired new meanings and bear little or no resemblance with their early medieval correspondents, as far as the role of immunity of the church is concerned, it is reasonable to agree that it remained the same. Both in the time of the late Roman Empire and also at the beginning of the sixth and seventh centuries, the role of the ecclesiastical immunities was to offer additional income for helping the poor and for the benefit of religion. However, this provisions may “find an echo in later documents, but not so the notion that the clergy be excused public service in order to free them from devotion to religion and to protect their holiness.”

As we had seen until now, the central meaning of immunity in the seventh century was coined around the banning the royal judicial officials and their servants, namely the counts and his juniors from the immune land. Immunity as it is presented in the king’s grants was used with the Latin form of “communitas absque introitu judicium” – immunity from the entry of judges”. However, a lot of debates on identity of the “judges” are present in the literature on medieval immunities, mainly because there is not much information on who were exactly the judges in this context. Paul Fouracre in his studies, as well as Wendy Davies and Alexander Murray have an attempt to explain this problematic and finally suggest that the counts were the judges, but in the same time, as it is mentioned in the Edict of Paris from 614, the bishop and the landowners had the legal right to appoint the judges. Later on, at the beginning of the eight century this particular meaning of immunity, “banning the royal judicial officials” will start to be associated with defensio or tuition, or more precisely with a royal protection. This latter meaning will finally become from the Charlemagne period onwards a central characteristic of ecclesiastical immunities and from the ninth century most of the important churches and monasteries acquired immunity.

Due to the political and social frameworks, and the specific functional needs, the immunity has developed different meanings throughout the centuries, from the Late Roman Empire to the Middle Ages, which have influenced the development and the materialization of two models of immunity: the Anglo-Saxon model of parliamentary immunity and the Continental or French model of parliamentary immunity.

8. THE WESTMINSTER TRADITION OF PARLIAMENTARY PRIVILEGE

Parliamentary immunity consolidated with the evolution of English and later on the French parliamentarianism, allowing us to conclude that the history of parliamentary privileges coincides with the history of Parliament. This hypothesis is present in the studies of F. W. Maitland, The Constitutional History of England and A.F. Pollard, The Evolution of the English Parliament, highlighting the unequal conflict between the House of Commons and the Monarchy allied with the House of Lords. It is in the background of this historical moment that the first interpretation of parliamentary privileges arises.

But parliamentary immunity as it appeared in the Anglo-Saxon world did not rest on the same legal and conceptual grounds in all the countries with a constitutional system of privileges. Reviewing the literature regarding parliamentary immunity, we noticed that the historical evolution of the concept does not have a linear interpretation. In fact, as far as our research goes, there are two most common models of parliamentary immunity that predominate the medieval and modern parliamentary practice regarding this privilege. The first one - specific to most of the Westminster systems or to states with a British colonial history like United States of America, England, Canada, South Africa, Australia, New
Zeeland - has an English origin and was created with the purpose of offering integrity, independence and authority and defending the parliamentarians from the authoritarian rule of the Monarch. The English model of o immunity preserves the Latin meaning of privilege and refers to a special status owned by the representative within the Westminster Parliament and “the law governing the British parliamentary affairs”.

9. THE FRENCH CONTINENTAL TRADITION OF PARLIAMENTARY IMMUNITY

The other tradition of parliamentary immunity, named by the legal scholars and practitioners the continental model was constructed along with the French Revolution of 1789. This tradition is employed by many of the European continental countries (France, Belgium, Luxembourg, Finland, Sweden, Hungary, Poland, Germany, Romania etc.) and also by other states in the world where France exercised legal, cultural and political influence. Within their legal and constitutional systems, inviolability represents a second layer of protection for the members of the Parliament besides the non-liability. The interpretation of inviolability may differ from country to country, but the motivation is the same: the deputies or the senators cannot be arrest with the prior authorization Parliament, Chambers of Deputies of Senate. Part of the broader scope of the continental model of parliamentary immunity, naming, non-accountability was taken from the Anglo-Saxon model of privileges, but under the political and social pressure of the Revolution of 1789, the concept of immunity was reshuffled, giving birth to a broader interpretation. Parliamentary immunity in France and in other countries that assumed this model, strengthen the position of superiority of the Parliament and its members acquired during the Revolution, over other institutional bodies of the state.

Cecile Guérin-Bargues in her seminal study Immunités parlementaires et régime représentatif: L'apport du droit constitutionnel comparé (France, Royaume-Uni, Etats-Unis) while analyzing the political and legal foundations of immunity, suggests that the model of non-accountability doubled by inviolability represented one of the most important conditions for ensuring the independence and the integrity of the parliament necessary for the proper functioning of the new born regime. In the same light of interpretation the continental model of parliamentary immunity, Sacha Hardt in Parliamentary Immunity. A Comprehensive Study of the Systems of Parliamentary Immunity of the United Kingdom, France, and the Netherlands offers an even more convenient explanation to the emergence of the continental model of parliamentary immunity. Hardt suggests that the two-fold model of parliamentary immunity may be understood in at least two possible ways: an abstract interpretation based on the national sovereignty and one based on historical realism. Regarding the first dimension, the transfer of sovereignty from the King to the Nation made possible the emergence of parliamentary immunity:

[…] in order to allow for the will of the sovereign nation to manifest itself in its representatives, these must be protected from any interference. National sovereignty cannot exist without the full set of immunities, id est, both non-accountability and inviolability, because only together cam the integrity of the body representing the nation to be safeguarded.

The second dimension considers that the development of the two-fold model parliamentary immunity was the result of the fear of the Members of the National Assembly from possible serious reprisals that could have come from the Monarch. In fact, this simple
but convincing interpretation was at the heart of Mirabeau’s speech from 23rd of June 1789 when he requested, in front of the National Assembly, that the deputies ought to be inviolable:

[...] née de la nécessite de protéger les membres de la jeune et frêle assemble constituante des conseils violent qui assiègent le trône. Je bénis de la liberté de ce qu’elle munit de si beaux fruits dans l’assemblee nationale. Assurons notre ouvrage, en déclarent inviolable la personne des députes aux Etats Généraux.

Unlike the Westminster model of parliamentary privilege where the concept of immunity does not have a clear date when it appeared and who use it for the first time, the French continental two-fold tradition has a precise year of birth when immunity started to be used in the political and constitutional debates. Although its intellectual sources and concept formation go back in the Middle ages, the continental model of immunity hardly arose as a political practice in 1789. Here, parliamentary immunity responded to the new social and political realities animated by the Revolution. What it is important to mention when discussing about the French two-fold model of parliamentary immunity is that there is no clear distinction between the non-accountability and inviolability. Therefore, when discussing about the concept of immunity one must be aware of this particular contrast. On the one hand, non-accountability refers “throughout to the historically developed immunities of a member of parliament deemed necessary to perform his parliamentary functions”. Under this status, the members of the parliament are not held accountable for their political discourses and voting behavior while inviolability represents rather an exception “from legal action, detention or measures of prosecution”.

The two models of immunity, the Anglo-Saxon form of privileges and the its continental replica that emerged firstly in France after the Revolution of 1789, seems to have its origins and practices in the political struggle of the Parliament for independence against the authoritarian rule of the Monarch. If the English model gradually acquired from the fourteenth century the characteristics that it still has today, the French parliamentary immunity took over only some features initially developed in England and along with the revolutionary moment of 1789 drafted through the voice of Mirabeau and other legal scholars its own extended system of protection of the members of the parliament. A great deal of ambiguity enclosed also the nature of parliamentary immunity and many questions were directly attached to the legal and philosophical reasons regarding this particular status. In fact, parliamentary immunity with its two-folded features (inviolability and non-liability) is the embodiment, as Rousseau famously claimed, by the people through their representatives, of the King’s sacredness and inviolability.

A substantial body of literature has been developed around the multitude of meanings of parliamentary immunity showing the concept in evolution, but lacking in subtlety. Despite the critics that might be addressed, in reality, very few workings discuss the depth of the concept of parliamentary immunity and its fundamental role in the consolidation of the democratic process
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CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT RELATIONSHIP: THE CASE OF SELECTED COMMERCIAL BANKS IN NIGERIA

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ABSTRACT

This research study investigates the impact of corporate social responsibility on sustainable development of organisational stakeholders using randomly selected commercial banks as the case study. The researcher tries to ascertain if corporate social responsibility initiatives of commercial banks help in the provision of social amenities and economic empowerment for the stakeholders. In order to achieve the above objectives, 115 respondents were randomly selected to fill the questionnaire developed for the study. However, 100 copies of the 115 questionnaire distributed to respondents were correctly filled, returned and found useful for this analysis. This represents 87% response rate. Two hypotheses were advanced: (i) there is no significant relationship between corporate social responsibility initiatives and economic empowerment for the populace. (ii) there is no significant relationship between corporate social responsibility initiatives and economic empowerment for the populace. The study used survey research method. The findings of this study revealed that (i) there is a significant relationship between corporate social responsibility initiatives of commercial banks and economic empowerment for the populace; and (ii) there is a significant relationship between corporate social responsibility initiatives of commercial banks and economic empowerment for the populace. The two null hypotheses were rejected and the two alternative hypotheses were accepted because (i) the result revealed that the calculated t-statistics for the parameter estimate of social amenities (t = 20.795), p< 0.05 is greater than tabulated t statistics (1.325) at 0.05 level of significance; and (ii) The result revealed that the calculated t-statistics for the parameter estimate of economic empowerment (t = 21.710), p< 0.05 is greater than tabulated t statistics (1.323) at 0.05 level of significance. Thus, it is recommended that business organisations should adopt CSR mechanism to serve the good of the society as a whole as this can translate to enhancement of sustainable development.

Key words: Corporate social responsibility, Sustainable development, Social amenities, Economic empowerment, Nigeria.

JEL Classifications: G21, M14, Q01.

1. INTRODUCTION

Organisation exists to achieve various objectives ranging from specific to general. The general objective of any business organisation is usually profit maximisation among others. However, there are other objectives such as corporate social responsibility. Profit maximisation and cost minimisation objectives are for the benefit of the organisation and its stockholders and employees. These objectives are internally related to the organisation. Corporate social responsibility (CSR) objectives are benefits organisation renders to the host
communities as a means of giving back to the societies part of what was initially obtained from the societies. CSR could involve the provision of some basic infrastructure facilities and other socio amenities such as public health care, support to educational growth, environmental development and sustainability, and economic empowerment among others that can enhance sustainable development of the host communities. Hence this research tends to investigate the relationship that exists between corporate social responsibility and sustainable development with particular emphasis on two major issues: (i) the impact of CSR initiatives in the provision of social amenities for the populace; and (ii) the impact of CSR in the enhancement of economic empowerment for the generality of the people. In order to achieve this twin aims the researcher used selected commercial banks as the case study.

Corporate social responsibility has been in common use in Nigerian corporate world for a number of decades. Among other things, it encourages a company’s activities to have positive impact on the environment, consumers, employees, communities, stakeholders and all others members of the public sphere in which it operates. Primarily, CSR is the method by which companies give something back to all those whom their activities have an impact. The idea of corporate social responsibility is directly inspired from the 3-dimensional sustainable development concept, which links financial, environmental and social performance of companies (Carroll, 2004). Corporate social responsibility initiatives are important because involvement in it can spell the boom of an organisation (Cochran & Wood, 1985; Mahoney & Roberts, 2007). On the other hand, the neglect of corporate social responsibility can lead to the doom of organisation (Waddock & Graves, 1997; Rapti & Medda, 2011). On the national level, many studies have been carried out on corporate social responsibility and business performance (Amaeshi, Adi, Ogbechie, & Amao, 2006; Eweje, 2006; Helg, 2007; Ojo, 2008 & Yusuf, 2010). This research becomes imperative because it seeks to investigate the two objectives of this which have not been investigated before using Nigerian companies as case study.

2. LITERATURE REVIEW

Concept of Corporate Social Responsibility

The term Corporate Social Responsibility (CSR) is used by business and organisations to describe a broad agenda of issues that government, law and society require organisations to consider as part of their core business, to influence strategic thinking, planning and corporate reporting.

At a high level, these ‘issues’ can be categorized under three ‘pillars’ of sustainability: environment, society and economy. In order to conduct business in a sustainable manner, these three themes both singularly and in totality must be given due consideration during corporate decision making so that, as an organisation can make informed decisions about the CSR/sustainability impact(s) of their actions. Generally, CSR is the act of an organisation ensuring it is sustainable and responsible; being a good corporate citizen.

The European Commission (2002) defines CSR as the voluntary social and environmental practices of business, linked to their core activities, which go beyond companies’ existing legal obligations. Similarly, the World Business Council for Sustainable Development [WBCSD] (2006) states that corporate (social) responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.
Corporate Social Responsibility in Nigeria

In this section efforts are made to discuss the CSR in Nigeria especially as it relates to the banking industry. Although, there is no specific date that can be pointed to in literature as the formal origin of CSR in Nigeria, there is evidence to suggest that the existence of formal CSR mechanisms in Nigeria can be traced to the United Kingdom (Guobadia 2000). Historically, CSR practices in Nigeria has its origin from the developed western countries through the Multinational Corporations’ (MNCs) operations in the extraction sector of the Nigerian economy, especially in the oil sector (Amaeshi, Adi, Ogbechie, & Amao, 2006).

As identified by Guobadia (2000) the Nigerian Company Law known as the Companies Ordinance of 1912 and the Nigerian Law of Companies and Allied Matters Act (CAMA) of 1990 was a local enactment (Consolidation) Act of 1908 of and 1948 Company Act of United Kingdom respectively. While CSR concept and its formal applications could be said to be at the developing stage within this time, there are still some changes that reflect the growing concern of companies being socially and ethically responsible in Nigeria.

Nevertheless, the formal practice of corporate social responsibility in Nigeria started with the multinational oil companies who had already practiced CSR activities in their developed countries. In 1969 Shell had set up a public relations department and mandated it to embrace all activities relating to relations between the company on one hand and the government of the federation at all levels on the other hand. Similarly and of more recent is the creation of a model known as the Global Memorandum of Understanding (GMOU) by Chevron Oil Nigeria in 2005. The model was designed and launched as a means through which the communities will gain better access to participate and play greater roles in the management of their development (Chevron 2008). To this end Chevron aimed at improving the quality of life in the communities.

To compensate for the government’s governance failures and to protect their own business interests, the companies often engage in CSR. The CSR activities in the oil and gas sector are mainly focused on remedying the effects of their extraction activities on the local communities. The companies provide pipe-borne waters, hospitals and schools. Many times these initiatives are ad hoc and not always sustained (Amaeshi et al., 2006).

The Challenges of CSR in Nigeria

A number of factors have been identified as difficulties associated with business response to social responsibility in Nigeria. These include:

1. **Inadequate Financial Resources**: The smallness in terms of financial strength of many business organisations prevents their consideration of social responsibility as a task that must be considered.

2. **Profit Maximisation**: Profit maximisation pursuit by business organisations serve as a clog in the wheel of their involvement in social responsibility.

3. **Ignorance**: Most business managers are unaware of the inherent advantages and benefits associated with social responsibility to the company itself.

4. **Unethical Practices**: Prevalence of unethical practices such as dishonesty, embezzlement, and smuggling within the society had clouded many managers’ sense of duties to the society.

5. **Inefficiency of government and government agencies**: That are saddles with the responsibility of compliance with social responsibility.

6. **The general Down Turn of the Economy**: The aggregate economy of the nation is in a state of distress, which stretches the resources of the organisations. Social responsibility becomes the last thing businesses want to think about.
Butcher and Shelty (1976) however, considered price changes, adjusting to legal requirements and developing the required technology as the most serious problems encountered by companies in planning and implementing social action programme.

Concept of Sustainable Development

The latest literature tradition to have underpinned and impacted our understanding of CSR is that of sustainable development; a concept that was initially used in forestry to ensure that certain number of trees are cut down at a particular time so that long lasting protection of the trees are guaranteed (Meadows, 1972). Scholars have used both CSR and sustainability development to refer to social and environmental management issues, but there is no clear distinction between the two terms (Monitel, 2008). The terms CSR and Sustainability are used vaguely and interchangeably, which affects their meaning and relationship (Moon, 2007). CSR and sustainable development have value, in that they are both considered important and not simply empirical concepts. No business desires a reputation for being socially irresponsible or unsustainable (Moon, 2002). CSR and sustainable development programmes also differ due to national, social, economic, governance and environmental systems in which they are located. Moon (2007) highlighted that what is deemed a business responsibility in one country may be regarded as a governmental, societal or individual responsibility in another.

Brundtland Commission (1987) who was the foremost to have appropriated this concept in the business world is also recorded in literature to have been the first to emphasise systematically the link between poverty, environmental degradation and economic development. Its definition of sustainable development, as meeting the needs of the present, without compromising the ability of future generations to meet theirs, supports as well as extends the responsibility of firms both inter- and intra generationally. Thus, firms are expected to consider traditionally unrepresented stakeholders such as the environment and as well as future generations. The argument here is that there are groups of people or voiceless voices who do not fall either in the categories of stakeholders or shareholders, of whom nonetheless have a moral claim on the corporation and consequences of the corporate practices. Such people may not have the buying power but are affected through the various activities of companies (Hamann, 2003 & 2006). This understanding appears to be evident in some definition of CSR proffered by international bodies. WBCSD (2006) defined CSR as business’ commitment to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve their quality of life. Similarly, but more amplified, is the definition given by the CEC. In their views CSR could be seen as a concept whereby companies integrate social and environmental concerns into their business operations and interactions with their stakeholders on a voluntary basis (CEC, 2001).

Relationship between CSR & Sustainable Development

CSR is an integral part of sustainable development. Exactly where it fits in is vigorously debated, mainly because the concept of sustainable development also has many different interpretations. The basic idea to incorporate the sustainability aspect into business management should be grounded in the ethical belief of give and take to maintain a successful company in the long-term. As the company is embedded in a complex system of interdependences in- and outside the firm, this maintaining character should be fulfilled due to the company's commitment in protecting the environment or reducing its ecological footprint.
and due to the general acceptance of its corporate behavior by society in and outside of the firm (CEC, 2001).

It is recommended that CSR is to be used as social strand of the SD concept which is mainly built on a sound stakeholder approach. CSR focus especially on the corporate engagement realizing its responsibilities as a member of society and meeting the expectations of all stakeholders. Hence, the role of the CSR for Sustainable Development has become vital today. The corporate sectors must design its CSR strategies and they must put those strategies into practice in well manner to achieve sustainable development (Monitel, 2008).

3. METHODOLOGY

This section focuses on the research techniques adopted and used for this study with the aim of achieving the research objectives. Survey research design is adopted. Survey research design was chosen because the sampled elements and the variables that are being studied are simply being observed as they are without making any attempt to control or manipulate them (Ojo, 2003). The population of the study consists of the stakeholders of the banks in Osun State, Nigeria. For effective coverage and lower cost, simple random sampling technique was used to select the participating banks and respondents. A total of 115 respondents were selected that constitute the sample size. Primary method of data collection was used in this study. The primary data consists of a number of items in structured questionnaire that was administered to the respondents. The questionnaire was titled “Corporate Social Responsibility and Sustainable Development.” However, only 100 out of 115 respondents returned their questionnaire and were used for final analysis in this study. This gives us 87% return rate for the questionnaire.

To ensure the validity and reliability of the questionnaire used for the study, even number of experts were consulted to look at the questionnaire items in relation to its ability to achieve the stated objectives of the research, level of coverage, comprehensibility, logicality and suitability for prospective respondents. A pilot test which took the form of test-retest method was conducted at Osogbo, the capital city of Osun State. Data collected from the questionnaire were analysed, summarised, and interpreted accordingly with the aid of descriptive statistical techniques such as total score and simple percentage. Regressions Analysis was adopted because it helps to test the degree of relationship that exists between corporate social responsibility and sustainable development. The two hypotheses were tested at 0.05 alpha levels. Data were run on Statistical Package for the Social Sciences (SPSS) version 17.0 software package.

4. DISCUSSION OF FINDINGS AND TESTING OF HYPOTHESES

Hypotheses One

Ho: There is no significant relationship between corporate social responsibility initiatives and provision of social amenities to the society.

H1: There is a significant relationship between corporate social responsibility initiatives and provision of social amenities.

Regression analysis showing corporate social responsibility initiatives and provision of social amenities to the society.
Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R Square Change</td>
</tr>
<tr>
<td>1</td>
<td>.903</td>
<td>.815</td>
<td>.813</td>
<td>.609</td>
<td>.815</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df1 df2 Sig. F Change</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>432.43 3 1 98 .000</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), CORPORATE SOCIAL RESPONSIBILITY

From the model summary table, the value of R is 0.903 which is the correlation between observed and predicted values of the dependent variables (social amenities), the coefficient of determination (R-squared) value of 0.815 shows that the explanatory variables (corporate social responsibility) accounted for over 903% of the corporate social responsibility in the organisation, while the remaining 0.097% social amenities is explained by other exogenous variables that are excluded in the model.

Also, a perusal at the adjusted R-squared value of 0.813 indicates that after removing the effect of insignificant regression (explanatory variable), about 76.7% variation in corporate social responsibility is still accountable for the independence variable (social amenities). Concerning the Standard Error of the estimate whose value is 0.609 is the root mean squared error. There is evidence of positive serial correlation.

Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B Std. Error Beta t Sig. Lower Bound Upper Bound</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>-1.152 .230 -5.019 .000 -1.607 -.696</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CORPORATE SOCIAL RESPONSIBILITY</td>
<td>1.117 .054 .903 20.795 .000 1.010 1.224</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: SOCIAL AMENITIES

CSR= -1.152 + 1.117 + U0
Std. Error = (0.230) (0.054)
CSR = (-5.019) (20.795)
Source: SPSS 17.0 Output, 2015

The result revealed that the calculated t-statistics for the parameter estimate of social amenities (t = 20.795), p< 0.05 is greater than tabulated t statistics (1.325) at 0.05 level of significance. Therefore, alternative hypothesis (H1) is accepted, while H0 is rejected. This shows that there is significant relationship between corporate social responsibility and provision of social amenities.
The coefficient of determination ($R^2$) is 0.9; it implies that social amenities can extensively explain 90% of the variation in corporate social responsibility. The remaining 0.1% unexplained variation is largely due to the other variables outside the regression model which are otherwise included in the stochastic error term ($U_i$). Also with the value of $R$ in the model it shows that there is significant relationship between dependent variable and independent variables at 0.05 level of significant ($r = .900$, $p < 0.05$).

The coefficient of social amenities in the estimated regression line shows .903 which implies that 90.3% significant relationship exist between corporate social responsibility and social amenities. The overall regression model is statistically significant in terms of its goodness of fit ($F= 432.433$), $p<0.05$).

**Hypotheses Two**

$H_0$: There is no significant relationship between corporate social responsibility initiatives and economic empowerment for the populace.

$H_1$: There is a significant relationship between corporate social responsibility initiatives and economic empowerment for the populace.

Regression analysis showing corporate social responsibility and economic empowerment for the populace.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.910$^a$</td>
<td>.828</td>
<td>.826</td>
<td>.475</td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), CORPORATE SOCIAL RESPONSIBILITY

From the model summary table, the value of R is 0.910 which is the correlation between observed and predicted values of the dependent variables (economic empowerment), the coefficient of determination (R-squared) value of 0.826 shows that the explanatory variables (corporate social responsibility) accounted for over 910% of corporate social responsibility, while the remaining 0.09% performance is explained by other exogenous variables that are excluded in the model.

Also, a brief examination of the adjusted R-squared value of 0.826 indicates that after removing the effect of insignificant regression (explanatory variable), about 76.7% variation in CSR is still accounted for the independence variable (economic empowerment). Concerning the Standard Error of the estimate whose value is 0.475 is the root mean squared error. There is evidence of positive serial correlation.
The result revealed that the calculated t-statistics for the parameter estimate of economic empowerment (t = 21.710), p< 0.05 is greater than tabulated t statistics (1.323) at 0.05 level of significance. Therefore, alternative hypothesis (H1) is accepted, while Ho is rejected. This shows that corporate social responsibility has positive impact on economic empowerment.

The coefficient of determination (R^2) is 0.910. This implies that perceived economic empowerment can extensively explain 0. 91% of the variation in corporate social responsibility. The remaining 0.09% unexplained variation is largely due to the other variables outside the regression model which are otherwise included in the stochastic error term (Ui). Also with the value of R in the model it shows that there is significant relationship between dependent variable and independent variables at 0.05 level of significant (r = .910, p < 0.05).

The coefficient of economic empowerment in the estimated regression line shows, .910 which implies that 91% significant relationship exist between corporate social responsibility and economic empowerment. The overall regression model is statistically significant in terms of its goodness of fit (F= 471.317), p<0.05).

As be seen from above analysis and discussion, corporate social responsibility plays a vital role in sustainable development. CSR helps in the provision of social amenities to the populace as well as it helps in the enhancement of economic empowerment for the stakeholders of the business organizations. Thus, business organizations should adopt CSR mechanism to serve the good of the society as a whole as this can translate to enhancement of sustainable development.

5. CONCLUSIONS AND RECOMMENDATIONS

According to the emergent literature, there is a growing awareness that business organizations need to manage its relationship with the wider society and not only the stockholders (Ojo, 2008). Thus, business managers must be responsible for their organisations impact on the wider society as their action or inaction as regards corporate social
responsibility initiatives towards the entire populace can have positive or negative effect on the society. The nature of the relationship between corporate social responsibility and sustainable development is changing in a way that significantly affects corporate profitability and performance. The role of business organisations does not terminate with providing employment and contributing in economic growth of a country, it must also incorporate providing other benefits to the society at large which can eventually translate to sustainable development for the people.

With regard to the findings of this research study, it is recommended that the following points should be considered for overall improvement of the company sustainable development. Organizations can reexamine their behaviors and begin their journey toward a sustainable approach that is integrated into their business strategy. Thus, for positive CSR and sustainable development relationship, companies must:

1. Align and incorporate CSR with business strategy and integrate it across all operational functions. Thus, making it easy to invest (not spend) the funds necessary to achieve its objectives.

2. Implement an open information strategy for more transparent information-sharing with multiple stakeholders.

3. Leverage transparency to increase the level of engagement of key constituents and customers.

When these activities are done in combination, CSR can become a dimension of a company's successful competitive strategy. Done right, it offers a company improved relationships with all of its key constituents, more loyal customers, lower costs, higher revenues and an overall improvement of the business’ standing in society.

4. Companies should establish corporate social responsibility unit charged with the duty of alerting the organization about their social responsibility. The head of such unit or division should be directly responsible to the Chief Executive Officer (CEO) will create a more conducive and effective social responsibility performance which in turn will lead to better society for the stakeholders and better business performance for the organisation.

REFERENCES


INSTITUTIONAL FRAMEWORK, TRANSACTION COSTS AND ENTREPRENEURSHIP. AN ANALYSIS OF ROMANIAN BUSINESS ENVIRONMENT

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ABSTRACT
The set of formal and informal rules that prevail in a society is crucial in shaping human action to take advantages of entrepreneurial opportunities or, conversely, to limit the existing ones. Ultimately, institutional arrangements affect entrepreneurial activity costs. Integration of this dimension of institutional economics is both necessary and unavoidable. Human behavior of entrepreneurs is influenced by a particular institutional framework, especially by a certain structure of property rights. Therefore, they have to take into account some transaction costs derived from this structure. Institutional change inevitably leads to changes in the structure and dimension of transaction costs. The aim of this paper is to analyze the effect of institutional change on entrepreneurial performance in relation to transaction costs caused by changes in the structure of property rights.

Key words: transaction costs, property rights, institutional arrangements, entrepreneurship, state capture

JEL Classification: B25-D23-L26

1. A THEORETICAL PERSPECTIVE ON TRANSACTION COSTS

The economic analysis of entrepreneurial activity cannot neglect the role of the various institutional arrangements in shaping entrepreneurs’ behavior. Both formal and informal rules influence human action by creating entrepreneurship opportunities or by constraining the existing ones. Ultimately, institutional arrangements amplify the costs of doing business. Although seemingly obvious, this perspective is far way from being uncontroversial, especially related to the magnitude of the effects on economic activity caused by institutional arrangements and institutional change. In the last five decades, economic science has made significant steps to clarify this dilemma thanks to contributions from property rights and transaction costs economics.

Therefore, integrating this institutional approach is both necessary and unavoidable. As long as we admit that entrepreneurial behavior is determined by institutional framework, then a change in the social arrangement naturally leads to a change in the structure and dimension of transaction costs implied by economic activity. On the other hand, the dimension of transaction costs might easily explain ex-post the success or failure of institutional change.

Entrepreneurial activity is an indestructible market related process that actually means transactions, exchange of rare resources with alternative uses. The potential conflict on these resources has been solved by individuals by integrating the institution of property rights,
which is fundamental for modern societies. From this perspective, market process is not limited to a simple transfer of a tangible or intangible good. What is basically transferred is property rights (Coase, 1960). Focusing exclusively on market transactions, the neoclassical theory of firm examines entrepreneurial behavior in the unrealistic assumptions of perfect information and fully defined property rights. Mainstream economists are marginally concerned about how property rights are developed, about the social significance and values of this social institution. Considering property rights as given, economists are interested more in explaining how market and prices allocate resources. In fact, as Demsetz (1964, 1967) explains, the value attached to property rights is the one that dictates the price of a good traded.

The system of property rights is essential in guiding the incentives that allow internalization of potential externalities. Social cooperation generates effects not only on the two parties involved in an exchange. The internalization of these external effects arising from transfer of property rights is a result of a subjective cost-benefit evaluation of individuals. The most relevant contribution in this matter belongs to Ronald Coase (1960, p. 2-8). He emphasizes the importance of a clear definition of private property rights in solving some difficulties that could emerge in the case of externalities. In this way, market relations tend to take into consideration external effects if two conditions are present: a competitive market structure and a well-defined property rights system (Demsetz, 1964, p. 12). An important role in this process is played by the price system. It is commonly believed that in the absence of transaction costs, resource allocation is independent of the structure of property rights (Coase's theorem). But this structure should exist, no matter that property rights are defined or not by decisions of authorities, since an efficient allocation of resources depends on voluntary exchange and market prices.

The economics of property rights explains the institutional transformation involved by emergence of property rights’ institution in our society, together with the set of incentives and constraints that accompany them. However, initially, the scholars have tended to analyze these interactions in legal terms (Coase, 1960). Demsetz (1964: 18) sustains that the emergence of this fundamental institution was neither accidental nor unintended because of the role played by property rights in solving the potential conflict between individuals on scarce resources. From his perspective, prices are an exact measure of social value reflecting the owner’s right to use his assets in the manner it deems appropriate. These property rights are the tool that allows individuals to voluntary interact with others in order to be better off. Expectations derived from property rights find expression within legal norms, customs and traditions of society (Demsetz 1967: 347). Thus, the economics of property rights tends to extend the analysis of property rights beyond the juridical considerations.

Alchian (1958, 1965, 1979) introduces the concept of economic rights guiding analysis of property rights beyond the boundaries drawn by the juridical approach. According to this perspective, property rights illustrate individuals’ rights to use their own resources not because the law allows it, but because in fact they are the legitimate owners. What Alchian suggests, and then Barzel (1997), is that institution of property rights can exist without the government intervention (being not created by the government or the consequences of government regulations). These findings are consistent with the chronology of the emergence of property rights. In conclusion, we can emphasize that property rights exist before legislation, even though the last should protect the first.

The most relevant economic contributions of property rights economics can be found in theory of firm in terms of transaction costs. The concept is introduced by Coase (1937, p. 389-390) and is described as a possible solution in the attempt to connect process of resources’ allocation and price system with entrepreneurial decisions. Basically, Coase tries to
explain the role played by “costs of using price system” in individuals’ decision to run a business.

Following this approach, it can be explained also the optimal size of firm based on economic calculation argument and the price system. For example, a firm will exist as long as the coordination costs (inside the firm) are lower than transaction costs (involved by the market process). Moreover, firms can increase their size by internalizing some activities which are still too costly to be undertaken through the market process. This process will continue until the coordination costs exceed transaction costs. Accordingly, the firm will tend to expand only as long as it is a cheaper mechanism for allocating resources than the one that market offers.

Coase's perspective regarding the nature of the firm was completed gradually by taking into account the importance of contractual relationships that define it. Each transaction involves a contractual relationship in which property rights are transferred between these two parties. These transfers imply some (transaction) costs with negotiation and enforcement of contractual provisions. Transaction costs differ considering the nature of specific physical inputs and outputs, the prevailing institutional arrangements, and the efforts of negotiating and enforcing contracts (Cheung 1969, p. 23-25). The firm (e.g. organization itself) does not matter in this vision, but contractual arrangements that bring together production factors in order to produce output, as well as the contractual arrangements between the firm and its customers. This approach goes somehow beyond the neoclassical approach solely concerned by market price (adjusted by supply and demand) and marginal product. (Cheung 1983, p. 10).

Other exponents of economics of property rights have analyzed transaction costs as deriving from defining and protecting property rights (see, for example, Eggertson, 1990; Barzel, 1997). Allen (1999, 2014) has joined supporters of this approach, considering transaction costs as costs of clarification and preservation of property rights. Marinescu (2013, p. 42-44) emphasized that mere possession of property rights requires exclusion costs, even though these rights are not traded for a long period of time. No matter what taxonomy we follow (e.g. exclusion, coordination, organization, trading costs) is essentially important to recognize that trade involves costs and trade makes everyone better off.

In this paper, the concept of transaction costs will be used in accordance with economics of property rights, meaning costs of enforcing and protecting property rights. Therefore, transaction costs arise as a consequence of the existence of property rights, no matter these rights is traded or not (Marinescu, 2013, p. 45). This completes neoclassical approach, which seems to be unrealistic and restrictive, considering transaction costs as information costs.

Integration of transaction costs within the analysis of the relationship between prevalent institutional arrangements and entrepreneurship is considered nowadays unavoidable. Entrepreneurial activity is, in fact, human action reflected in resource allocation, bearing costs involved by transactions with property rights.

2. ENTREPRENEURIAL BEHAVIOR FROM TRANSACTION COSTS PERSPECTIVE

It is considered traditionally that entrepreneurial activity is a beneficial economic and social process, directing the resource allocation to the most efficient uses. This statement is not wrong, but should be analyzed in the context of what entrepreneurship really means. By extending neoclassical theory (e.g. including conclusions derived from nature of firm and transaction costs economics), some nuances appear. Analysis of the role of entrepreneurship,
although often limited to approaches such as defining characteristics of entrepreneurs, cannot ignore the lesson that theory of the firm teaches us.

Accordingly, entrepreneurial behavior can be analyzed by using the concept of transaction costs. This approach we follow can be seen as very useful in understanding how entrepreneurial forms may arise considering different institutional arrangements in place. As an extension, this work is also important to understand how institutional change takes place and what business environment contribution to this is.

*Productive entrepreneurship* appears in the economic literature as a manifestation of initiatives undertaken by individuals in a social context compatible with economic freedom, secured property rights, reduced fiscal burden, and low level of government regulation of business environment. In this context, transaction costs are reduced and market relations prevail. The entrepreneurial efforts are directed to identify new business opportunities, foster innovation and competitiveness. It is naturally expected that the dimension of political agency costs to be reduced as well as the government sector presence in the economy. The legal system is enforced, which favors a less costly imposition of contractual provisions.

*Elusive entrepreneurship* is a response of entrepreneurs to an unfavorable institutional business environment, characterized by a high level of regulations which significantly reduces the value of private property. The dominant feature of the institutional framework is instability. The bureaucracy consumes a lot of time and scarce resources, affecting the quality and effectiveness of existing contractual relations between owners of production factors, firms and customers. The legal system is ineffective and takes time, which favor entrepreneurs to make use of elusive solutions. In other words, transaction costs tend to increase in time. This may lead to an increase in tax burdens with a negative impact on doing business.

Although this concept has a negative connotation, elusive entrepreneurial behavior is a reaction designed to keep entrepreneurs and companies in contact with market relations. Identifying opportunities to elude or avoid regulations means basically actions aimed to reduce transaction costs, which tends to be logical and justified. Moreover, elusive entrepreneurship exhibits a much higher potential role played in institutional change process than the productive entrepreneurship. In fact, elusive behavior signals that the prevailing institutional arrangement is inadequate for a proper business environment development, affecting the structure of property rights and their value through redistribution. The contribution of elusive entrepreneurship to institutional change takes two forms: a direct one (dedicated to identify concrete ways to solve the daily obstacles that firms have to deal with) and an indirect one. In the first case, elusive behavior gives rise to new institutions such as bribery or can contribute to the emergence of new alternative ways of solving commercial disputes. In the second case, it encourages a more formal institutional change by exerting more pressure on politicians and government in order to modify or eliminate the inadequate formal rules.

From the perspective of transaction costs, elusive entrepreneurial behavior is the result of higher costs of compliance with respect to government regulations compared with the costs of non-compliance. Considering the opportunity costs of action, it becomes more effective for the entrepreneur to not comply them, bearing the costs of penalties or bearing informal payments to be "exempt" from compliance. Of course, the approach outlined here is a simplified one which considers as non-compliance costs all the entrepreneurial efforts undertaken to elude the formal regulation framework.

Institutional change is the consequence of the change the relationship between political agency costs (incurred for the creation, imposition and verifying private entrepreneurs’ compliance) and tax revenues. When these costs are seen to be too high,
regulations’ changes are usually enacted to reduce compliance costs, political agency costs or both. In Romania, a recent example is the political decision to reduce employers’ social security contributions by 5 pp. A possible explanation of this could be an increased compliance costs determined by successive increases of the minimum wage between 2009 and 2014. More specifically, in order to reduce compliance costs, a large number of firms have preferred to offer to its employees a salary equal to the minimum wage. Because the increase in minimum wage have increased compliance costs for employers, has stimulated government to implement an institutional change in order to encourage compliance and, at the same time, to increase tax revenues.

Destructive entrepreneurship is the consequence of a disfunctional democratic process, namely of the exercise of political power through representatives elected by vote of majority. It appears as a manifestation of principal-agent problem in political process and it consist in the emergence of a specific entrepreneurial incentives favored by a larger share of public spending and discretionary policies. On the other hand, these destructive behaviors are augmented by a reduced ability or complete inability of voters to condemn such behavior. Therefore, in terms of public choice economics, it leads to phenomena like state capture and rent seeking activities. From entrepreneurship perspective, this destructive behavior is most susceptible to occur in the context of a high degree of government intervention in economic activity.

Destructive entrepreneurial behavior is most harmful for business from an economic point of view, as well as institutional one. The most visible consequence is the transfer of wealth from taxpayers to the benefit of those entrepreneurs’ who capture the state. It occurs in its most brutal way by creating a special interest group who benefit, while the taxpayers are forced to finance it. Another inherent consequence of public funded activities comes from the fact that this resource allocation is not subject of economic calculation. The quantity and quality of public financed outcome are not validated by the consumers.

Another consequence less obvious, but extremely important, is a change of formal institutional framework that favors creation of regulations meant to design and protect the rent-seeking channels, stimulating destructive entrepreneurial behavior. This leads to a kind of institutional competition in which entrepreneurs compete to attract the favors of public servants and, thus, capturing the state. In this particular case, institutional change has just the opposite effects compared with elusive entrepreneurial behaviors. Transaction costs fall dramatically, but not necessarily because entrepreneurs have tried to find less expensive methods of coordination, but because they basically transfer such costs to taxpayers and to other private entrepreneurs who do not receive public favors. In this regard, an important advantage of state capture situation is reducing the risk and uncertainty associated with their economic activity. Public funded contracts have a lower entrepreneurial risk compared with the private funded activity. When the benefits tend to increase, more and more entrepreneurs are stimulated to avoid additional transaction costs, preferring to compete for public contracts and favors. For example, during the recession, the less is effectiveness of market activity; the more are created favorable conditions for destructive entrepreneurship manifestation.

Although the above taxonomy of entrepreneurial behaviors suggest a clear distinction between these three types, in practice this clear distinction is almost impossible. It is likely to have a productive entrepreneurship with an elusive component. In fact, elusive behavior saves resources that could be used in productive initiatives. As such, productive entrepreneurship should not be associated, necessarily, with compliant behavior. Moreover, elusive entrepreneurship is not destructive per se. Elusive behaviors can become destructive amid formal institutional arrangements that generate a redistribution of entrepreneurial costs from entrepreneurs to taxpayers.
Table 1. Types of entrepreneurial behaviors

<table>
<thead>
<tr>
<th>Entrepreneurial behaviors</th>
<th>Transaction costs level (compliance costs and non-compliance costs)</th>
<th>Costs and benefits of state capture (official and unofficial)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productive</td>
<td>Low level&lt;br&gt;Compliance costs are less than non-compliance costs</td>
<td>Benefits are less than costs</td>
</tr>
<tr>
<td>Elusive</td>
<td>High level&lt;br&gt;Compliance costs are bigger than non-compliance costs</td>
<td>Benefits are less than costs</td>
</tr>
<tr>
<td>Destructive</td>
<td>Low level&lt;br&gt;Compliance costs are bigger than non-compliance costs</td>
<td>Benefits are greater than costs</td>
</tr>
</tbody>
</table>

Source: authors

3. GOVERNMENT AND ENTREPRENEURSHIP IN ROMANIA. INSTITUTIONAL FRAMEWORK FAVORABLE TO DESTRUCTIVE BEHAVIOR

Analysis of transaction cost implications on entrepreneurial behaviors can be a useful initiative to illustrate the quality of Romanian business environment especially in the last decade. For this purpose can be used data from the World Economic Forum regarding the institutional framework as a factor of competitiveness of an economy. In this research, we have used official data concerning regulations, fraudulent misuse of public funds, waste of public money, favoritism in decisions of state officials, the transparency of public policies. Each of these indicators we mentioned above interferes (directly or indirectly) with the business environment.

The burden of regulations is a direct source of a change in transaction costs level. Where this burden is high, transaction costs tend to increase in time. Therefore, it might be possible for many entrepreneurs to find attractive to adopt an elusive behavior in order to reduce costs. At the same time, may be encouraged some type of state capture. Other areas illustrated in our analysis could be seen as sources or consequences of this destructive behavior. Thus, in the absence of a rigorous control of public spending, some political entrepreneurs can easily increase their profits from public contracts with the government agencies at the expense of taxpayers. At the same time, similar outcome may be a result of state capture and rent-seeking behavior of entrepreneurs who get control over decisions regarding the allocation of public money. Favoritism is reflected by a discretionary allocation of public resources as well as by discretionary regulations. In this way, policymakers create incentives for emerging a vicious business environment in which entrepreneurs are seeking to get as many favors as they can.

As can be seen in Table 2, some of the lowest scores of Romanian business environment are encountered for getting officials’ favoritism and for public money waste. The burden of regulations is considered to be very high, which encourages elusive behavior. By taking into consideration also the favoritism and public waste, this behavior could easily be transformed into a destructive one. Previous assumptions seem to be confirmed by the score evolution of informal payments. Therefore, according to the same international institution (World Economic Forum), the problem of unofficial payments persists in the Romanian
economy, recorded scores being very low compared to the maximum (3.9 in 2014 compared to 4.3 in 2010).

Table 2. Institutional quality of Romanian business environment

<table>
<thead>
<tr>
<th>Period of time</th>
<th>Regulation burden</th>
<th>Fraudulent misuse of public funds</th>
<th>Waste of public money</th>
<th>Favoritism in decisions of state officials</th>
<th>Transparency of public policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006/2007</td>
<td>3,05</td>
<td>2,91</td>
<td>2,54</td>
<td>2,34</td>
<td>2,7</td>
</tr>
<tr>
<td>2007/2008</td>
<td>3,47</td>
<td>3,17</td>
<td>2,54</td>
<td>2,34</td>
<td>2,81</td>
</tr>
<tr>
<td>2008/2009</td>
<td>3,41</td>
<td>3,27</td>
<td>2,75</td>
<td>2,42</td>
<td>3,1</td>
</tr>
<tr>
<td>2009/2010</td>
<td>2,99</td>
<td>3,25</td>
<td>2,58</td>
<td>2,34</td>
<td>3,09</td>
</tr>
<tr>
<td>2010/2011</td>
<td>2,92</td>
<td>3,08</td>
<td>2,5</td>
<td>2,39</td>
<td>2,91</td>
</tr>
<tr>
<td>2011/2012</td>
<td>2,85</td>
<td>2,79</td>
<td>2,68</td>
<td>2,47</td>
<td>2,87</td>
</tr>
<tr>
<td>2012/2013</td>
<td>2,8</td>
<td>2,55</td>
<td>2,48</td>
<td>2,38</td>
<td>3,28</td>
</tr>
<tr>
<td>2013/2014</td>
<td>2,8</td>
<td>2,51</td>
<td>2,16</td>
<td>2,24</td>
<td>3,67</td>
</tr>
<tr>
<td>2014/2015</td>
<td>3,2</td>
<td>3</td>
<td>2,5</td>
<td>2,5</td>
<td>3,8</td>
</tr>
</tbody>
</table>


In order to identify if there is a correlation between our hypothesis and the present situation in Romania, we analyzed some data reported by the Romanian state tax agency (ANAF) with respect to large taxpayers. The data in Table 3 refers to the situation of overdue fiscal obligations to the state budget of the largest taxpayers and how ANAF has managed the legal constraints. As can be seen, 96 private companies have obtained debt payment facilities or have compensation claims pending. This means that approximately 39% of taxpayers have avoided foreclosure during 2014.

An analysis of the manner on how the facilities to pay outstanding fiscal obligations were directed to reveals a discretionary approach of ANAF. This attitude seems to confirm the low scores in Report on Competitiveness in the category of official favoritism. The government agency seems to be more interested in retrieving outstanding obligations of low value and less interested in retrieving large debts. Out of 11 companies whose individual outstanding debts totalized less than 10,000 lei, 9 were foreclosed (81.8% of total). In contrast, nearly 39% of companies whose outstanding obligations were higher than 1,000,000 lei have received payment facilities. Analysing the differences between the amounts outstanding at the end of 2014 and the total debts accumulated in previous fiscal years has been noted that 13 of these companies have benefited of rescheduling debts. However, nearly 50% of companies with outstanding tax obligations of over 10 million lei have received payment facilities (13 out of 27 largest taxpayers who have fiscal debts of over 10 million lei). This attitude tends to be a general behavior of the largest taxpayers. Thus, according to ANAF data, revenues from the total outstanding fiscal debts rarely exceed 50% of total debts at a country level.
Table 3. Large business and behaviour regarding fiscality, 31.12.2014

<table>
<thead>
<tr>
<th>Total companies with cumulative debts to the state budget</th>
<th>265</th>
</tr>
</thead>
<tbody>
<tr>
<td>private</td>
<td>247</td>
</tr>
<tr>
<td>public</td>
<td>18</td>
</tr>
<tr>
<td>Companies that have obtained debt payment facilities</td>
<td>49</td>
</tr>
<tr>
<td>Private</td>
<td>7</td>
</tr>
<tr>
<td>Public</td>
<td>1</td>
</tr>
<tr>
<td>Companies with compensation claims</td>
<td>47</td>
</tr>
<tr>
<td>Private</td>
<td>0</td>
</tr>
<tr>
<td>Public</td>
<td>1</td>
</tr>
<tr>
<td>Companies faced with other situations</td>
<td>150</td>
</tr>
<tr>
<td>Private</td>
<td>3</td>
</tr>
<tr>
<td>Public</td>
<td>8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of private companies having outstanding obligations less than 10,000 lei</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>faced with foreclosure</td>
<td>9</td>
</tr>
<tr>
<td>Share (%)</td>
<td>81,8</td>
</tr>
<tr>
<td>with compensation claims</td>
<td>2</td>
</tr>
<tr>
<td>Share (%)</td>
<td>18,2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of private companies with outstanding obligations of over 1,000,000 lei that have obtained debt payment facilities</th>
<th>39</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Number of private companies having outstanding obligations of over 1,000,000 lei</th>
<th>101</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share (%) in total private companies that have registered debt of over one million lei</td>
<td>38,6</td>
</tr>
<tr>
<td>Share (%) in total private companies that have obtained payment facilities</td>
<td>79,6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of private companies with over 1,000,000 lei outstanding obligations that have previously received payment facilities or other forms of compensation</th>
<th>13</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Number of private companies that have obtained debt payment facilities with outstanding obligations over 1,000,000 lei</th>
<th>13</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Number of private companies having outstanding obligations over 10,000,000 lei</th>
<th>27</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share (%) in total private companies that have registered debt over 10 million</td>
<td>48,1</td>
</tr>
<tr>
<td>Share (%) in total private companies that have registered debt over 10 million</td>
<td>26,5</td>
</tr>
</tbody>
</table>
obtained payment facilities

<table>
<thead>
<tr>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of private companies having outstanding obligations over 10,000,000 lei and benefited of payment facilities or other compensation</td>
</tr>
<tr>
<td><strong>Number of private companies with outstanding obligations over 1,000,000 lei pending for compensation claims</strong></td>
</tr>
<tr>
<td>Number of private companies having outstanding obligations over 1,000,000 lei</td>
</tr>
<tr>
<td>Share (%) total private firms recorded outstanding obligations over 1,000,000 lei</td>
</tr>
<tr>
<td>Share (%) total private firms for which there are compensation claims</td>
</tr>
<tr>
<td><strong>Number of private companies for which there are compensation claims with outstanding obligations over 10,000,000 lei</strong></td>
</tr>
<tr>
<td>Number of private companies having outstanding obligations over 10,000,000 lei</td>
</tr>
<tr>
<td>Share (%) in total companies that have outstanding obligations over 10,000,000 lei</td>
</tr>
<tr>
<td>Share (%) Total private firms for which there are compensation claims</td>
</tr>
</tbody>
</table>

**Source:** Own calculations based on official ANAF data, The list of outstanding obligations of large taxpayers, 21.12.2014, https://static.anaf.ro/static/pdf/Lista_ORBSm_30.01.2015.pdf

### 4. CONCLUSIONS

Entrepreneurial activities are not merely an outcome of the set of incentives and constraints embedded in the prevailing institutional arrangements. These activities also create formal and informal institutions which may vary from rules in a specific industry to those generally imposed by legislation. It is the natural consequence of entrepreneurial attempts to diminish the level of transaction costs. In these circumstances, additional questions might appear: on the one hand, about the effectiveness of formal rules to stimulate entrepreneurial performance and, on the other, about the increased political agency costs.

Our research findings are empirically validated by the evolution of democratic process which favors in time the expansion of government interference, an increased fiscal burden, and a higher level of bureaucracy. This evolution expands the dimension of transaction costs and also the political agency costs that a society has to deal with. As a consequence, increased pressures stimulate entrepreneurs to change their behavior in order to elude formal rules. In the end, the elusive behavior tend to turn into a destructive one as entrepreneurs understand that they could reduce transaction costs and increase their profits by transferring their tax burden to other taxpayers.
ACKNOWLEDGEMENTS
This work was financially supported through the project "Routes of academic excellence in doctoral and post-doctoral research - READ" co-financed through the European Social Fund, by Sectoral Operational Programme Human Resources Development 2007-2013, contract no POSDRU/159/1.5/S/137926.

REFERENCES

FACTORS INFLUENCING PUBLIC PROCUREMENT MARKET IN ROMANIA

Pirvu Daniela
University of Pitesti/ The Bucharest University of Economic Studies

ABSTRACT

In the European Union member countries, the economic sector is the largest consumer in the economy. The largest part of these expenses are incurred in compliance with strict rules on how the demand launched by public organisms meets the offer proposed by economic operators, known as public procurement. The foundation of the public procurement legislation in the European Union refers to the provision of the free movement of goods and services in the common market.

The public procurement market in Romania has become increasingly important in recent years, in the context of harmonization of the national legislation with the European one and the increase of public spending for purchases of goods, services and works, through the absorption of cohesion and structural European funds. Due to the fact that the first statistics related to the public procurement market in Romania were published starting with 2012, this paper aims at providing stakeholders with full information on the dynamics and structure of the public procurement market in Romania. The research is based on a wide database: more than 200,000 notices on the award of public procurement contracts published in the Electronic System of Public Procurement, in the 2008-2014 period. Despite the importance of the problems related to public procurement in Romania, the documentary analysis on the researched topic did not lead to the identification of specialised papers approaching the influential factors of the public procurement market. For this reason, this paper aims at highlighting a number of characteristics of the public procurement market in Romania, based on a complex quantity analysis of the 2008-2014 period. The data analysis reveals a fluctuating dynamics of this market, under the impact of economic factors, both internal and external.

Key words: public procurement, contracts, public spending, dynamic, influence factors, proceedings.

JEL Classification: H57

1. INTRODUCTION

Public procurement has a major role in ensuring the efficient spending of public money and promoting economic competitiveness.

Public procurement has an important role in achieving the objectives of Europe 2020 Strategy. According to the European Commission, (2010), public procurement is "an important market, especially in fields such as healthcare, transports and energy. Thus, the European Union has an enormous and overlooked opportunity to stimulate innovation using public procurement. Moreover, public procurement of R&D services and innovative products and services is vital for improving the quality and efficiency of public services at a time of budget constraints." 3 of the 50 proposals made by the European Commission (2011a) for a sustainable and equitable business growth, for the restoration of Europeans’ trust in the single market and for the provision of a good governance of this market focus the public
procurement legislation and market in the European Union. In 2011, the European Commission specified that "EU public procurement legislation seeks to create an open and competitive pan-European procurement market for large procurement contracts, saving taxpayers several billion euros each year. At the same time, public procurement can be an important source of support for innovation, environmental protection and employment" (European Commission, 2011a). A first step made for the achievement of the objectives proposed by the European Commission was the publication of the document entitled Green Paper on the modernisation of EU public procurement policy, in which the milestones of the modernization of the EU legislation on public procurement were, explained (European Commission, 2011b). In February 2014 a new legislative package was published in the Official Journal of the European Union in which the EU public procurement standards were modernized.

Obviously, in the above/mentioned context, the interest for public procurements increased, and the analyses of the public procurement market are welcome especially due to the fact that there are few studies about it in the specialised literature.

We can even say that at European Union level, there isn’t a very good monitoring of the public procurement market, because the information available on public procurement market on the Eurostat website refer only to the notices for the award of contracts published in Tenders Electronic Daily (which is only part of the total number of the notices of public procurement contract awards in the EU member countries).

The public procurement market in Romania is governed by a law based on the European Directives on public procurements. This legislation is applied for the procurement of goods, services and works by the contracting authorities. Contracting authorities may be:

- Any public body;
- Any legal entity that was established to satisfy general interest needs without commercial or industrial purpose and that was established or is subordinated to a public body;
- Any public company for the contracts concerning activities in the public utility sectors;
- Any legal entity for the contracts concerning activities in the public utility sectors;
- Any association made of one or several of the above-mentioned contracting authorities.

The public procurement contract award procedures may be:

a) the open tender, i.e. the procedure in which any interested economic operator is entitled to submit a tender. The open tender is usually carried out in one stage. The open tender is initiated by sending for publication a call for tender inviting economic operators to submit tenders;

b) the restricted tender, i.e. the procedure in which any operator economic operator is entitled to submit its candidacy, but only the selected candidates will be entitled to submit a tender. The restricted tender is carried out in two stages. The first stage is the one in which candidates are selected, and the second stage is the one in which the tenders submitted by the selected candidates are assessed;

c) competitive dialogue, i.e. the procedure in which any economic operator is entitled to submit its candidacy and through which the contracting authority carries out a dialogue with the admitted candidates, in order to identify one or more solutions able to answer its needs, and based on the solution/solutions, the selected candidates should prepare the final offer. The competitive dialogue is only applied when all the following conditions are met at the same time (1) the contract in question is deemed extremely complex; (2) The application of the
open or restricted tender procedure would not allow for awarding the public procurement contract in question;

d) the negotiation, i.e. the procedure in which the contracting authority carries out consultations with the selected candidates and negotiates the contractual clauses, including the price, with one or more of them;

e) the procurement notice, i.e. the simplified procedure by which the contracting authority requests the offers of several economic operators. It is only applied if the estimated value, without VAT, of the public procurement contract is lower than certain thresholds. The tender offer is initiated by publishing, in Electronic Public Procurement System, an invitation to take part into the awarding procedure. Electronic Public Procurement System is an open platform allowing the interaction between citizens, businesses, and public administrations allowing them to implement in a fully automated fashion any type of electronic public procurement.

Two of the above-mentioned public procurement procedures can be accelerated: the restricted tender and the negotiation with previous publication of a call for tender. In both cases, the waiting periods between the date when the call for tender is published and the deadline for the submission of the tenders/candidacies can be shortened “for emergency reasons”.

The publication of the announcement on the intention to conclude a public procurement contract in Electronic Public Procurement System, as well as the announcement of the contract award is mandatory for the contracting authorities that want to benefit from the reduction of the periods or the total estimated value of the contracts that are to be awarded in the following 12 months for the procurement of products and services from the same group, is greater than or equal to the equivalent in RON of 750,000 euros, while the estimated value of work contracts which are to be awarded in the following 12 months, is greater than or equal to the equivalent in RON of 5,000,000 euros (Government Emergency Ordinance no. 34/2006 regarding the award of public procurement contracts, public works concession contracts and services concession contracts).

2. RESEARCH METHODOLOGY

The research was based on data collected on the website www.e-licitatie.ro, referring to notices for the award of public procurement contracts published in Electronic System of Public Procurement (ESPP) in the 2008-2014 period. We sought information about the contracting date, type of contract and proceedings. The direct purchase contracts awarded, 5813102 as a total, were not included in our research because the database managed by ESPP does not allow for using the refined search option, for their classification.

Starting from the public procurement definition according to which public procurement refers to obtaining works, products and services by public authorities through a process which observes specific principles and laws, I took into account the following factors for the identification of their influence on the public procurement market in Romania:

- Public spending for goods and services;
- Capital public spending;
- Structural and cohesion funds absorbed – payments to the beneficiaries;
- Changing the value thresholds related to direct procurement.

Based on the collected observations (given the monthly budget execution of the general consolidated budget on the website of the Ministry of Public Finance and the monthly report of the submission of projects for approval, the signature of financing agreements, and the payments made to the beneficiaries, available on the website of the Ministry of European
Funds), I tested the relevance of several unifactorial regression models, taking into account the following monthly series:

- The number of notices of public supply and service contracts, published in ESPP – the dependent variable and the value of the expenses associated with goods and services (constant prices) – the independent variable, between January 2008 and December 2014;
- The number of notices of public work contracts, published in ESPP – the dependent variable and the value of the capital expenditure (constant prices) – the independent variable, between January 2008 and December 2014;
- The total number of public procurement contract notices, published in ESPP – the dependent variable and the value of the EU funds absorbed – payments to the beneficiaries (constant prices) – the independent variable, between January 2009 and December 2014.

The assumptions underlying the approach for the identification of the influence of the 4 above-mentioned factors on the public procurement market in Romania are:

- The decrease in the budgetary allocations for goods and service expenditure might be a cause of the decrease in the number of public procurement contracts awarded in the 2008-2014 period, thus justifying the argumentation according to which public expenditure with goods and services is factor that influences the public procurement market in Romania;
- The decrease in the budgetary allocations for capital expenditure might be a cause of the decrease in the number of public procurement contracts awarded in the 2008-2014 period, thus justifying the argumentation according to which public capital expenditure is factor that influences the public procurement market in Romania;
- The amounts available for investments from the structural and cohesion funds are important resources for the completion of investment projects, as well as for the procurement of goods and services. All the beneficiaries of the programmes financed from EU funds (public or private) should observe the public procurement provisions. Therefore, the volume of EU funds absorbed – payments to the beneficiaries, should be an influence factor for the public procurement market in Romania;
- The increase in the value thresholds related to the direct procurement of goods, services and works should lead to a reduction in the number of notices related to the award of public procurement contracts published in ESPP. For the analysis of the link between the 2 variables, the 3 situations were coded as follows:

  A. for the period between January 2008-March 2009: it was not compulsory to publish notices for the award of goods, services or work procurement contracts with a value assessed/a CPV code lower than 10,000 euro without VAT in ESPP.
  B. For the period between April 2009 and June 2013: it was not compulsory to publish notices for the award of goods, services or work procurement contracts with a value assessed/a CPV code lower than 15,000 euro without VAT in ESPP.
  C. For the period between July 2013 and December 2014: it was not compulsory to publish notices for the award of goods, services or work procurement contracts with a value assessed/a CPV code lower than 30,000 euro without VAT and for the purchase of works with a assessed/a CPV code lower than 100,000 euro without VAT in ESPP.

Due to the fact that the existence of the link between a numerical variable and a nominal one should be tested, I chose to use the Chi-Square test, using the SPSS software. The data were processed using the software Statistical Package for the Social Sciences, and the software Data Analysis – Excel.
3. DATA ANALYSIS

The observation collected, and structured depending on the public procurement object and the contracting year, are presented in table no. 1:

<table>
<thead>
<tr>
<th></th>
<th>Work contracts</th>
<th>Supply contracts</th>
<th>Service contracts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>18035</td>
<td>46645</td>
<td>17474</td>
<td>82154</td>
</tr>
<tr>
<td>2009</td>
<td>12476</td>
<td>34516</td>
<td>14672</td>
<td>61664</td>
</tr>
<tr>
<td>2010</td>
<td>9291</td>
<td>24807</td>
<td>11553</td>
<td>45651</td>
</tr>
<tr>
<td>2011</td>
<td>7851</td>
<td>18160</td>
<td>10110</td>
<td>36121</td>
</tr>
<tr>
<td>2012</td>
<td>6147</td>
<td>14462</td>
<td>8443</td>
<td>29052</td>
</tr>
<tr>
<td>2013</td>
<td>4444</td>
<td>11159</td>
<td>6549</td>
<td>22152</td>
</tr>
<tr>
<td>2014</td>
<td>3871</td>
<td>10124</td>
<td>5003</td>
<td>18998</td>
</tr>
<tr>
<td>Total</td>
<td>62115</td>
<td>159873</td>
<td>73804</td>
<td>295792</td>
</tr>
</tbody>
</table>

Source: Author's calculations, based on ESPP database

Based on the monthly observations collected in relation to the number of public procurement contract award notices, we can notice a downtrend of the data series (figure 1).

Figure 1. Monthly evolution of the number of contract award notices during 2008-2014
Source: Own elaboration based on ESPP database

The annual average values of the public expenditure related to goods and services, expressed in constant prices, recorded at the level of the general consolidated budget, decreased in 2014 compared to 2008 by approx. 7 percentage points (figure 2).
On the background of the international economic crisis in the Romanian economy, we can notice an important decrease of this expenditure in 2009 compared to 2008 (by approx. 18 percentage points). Each month in December, the value of such expenditure increases, which reveals an inefficient budgetary practice: spending the whole budgetary allocations at the end of the year, without good reasons most of the times, in support of a responsible public expenditure.

The annual average values of the public capital expenditure, expressed in constant prices, recorded at the level of the general consolidated budget, decreased in 2014 compared to 2008 by approx. 40 percentage points (figure 3).

The significant increases of the public capital expenditure each analysed year, in December, highlight the same budgetary practice mentioned hereinabove.

The calculation of the annual average values of the structural and cohesion funds absorbed (payments to the beneficiaries), expressed in constant prices, reveal an increase from
160.6 mil. RON in 2009, to 928 mil. RON in 2013. In 2014, the annual average value of the payments to the beneficiaries of the structural and cohesion funds was 837.6 mil. RON. We can notice the fluctuating evolution of the structural and cohesion funds absorbed monthly, especially in the 2011-2013 period (figure 4). Usually, the lowest values are recorded in the first months of the year. This aspect shows that most beneficiaries of the programmes funded from EU funds are public entities, and in their cases it is difficult to complete public procurement contracts in the first months of the year, because the own budgets are not approved.

![Figure 4. Monthly evolution of the value of absorbed EU funds - payments to beneficiaries during 2009-2014](image)

Source: Own elaboration based on monthly report of the submission of projects for approval, the signature of financing agreements, and the payments made to the beneficiaries, available on the website of the Ministry of European Funds

4. DISCUSSIONS

Public supply contracts (in terms of number) have the highest share in the total public procurement contracts. In the 2008-2014 period, the number of public procurement contracts recorded a downtrend, the supply contracts having the sharpest decrease (figure 5). Almost half of this decrease occurred in the 2008-2010 period.
Figure 5. Evolution of the number of contract award notices during 2008-2014

Source: Own elaboration based on ESPP database

In Romania, the most frequently used proceedings for the award of public procurement contracts are the inquiry and the open tender (table no. 2). Their advantages are the shorter time (between the moment of the publication of the call to tender and until the conclusion of the public procurement contract) and the higher transparency, because even from the moment of the submission of the tender offers, the economic operators must submit the technical proposal, the financial proposal and proof that they meet the minimum qualification requirements.

Table 2. Number of contract award notices depending on the type of procedure

<table>
<thead>
<tr>
<th>Type of procedure</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive dialogue</td>
<td>9</td>
<td>7</td>
<td>3</td>
<td>20</td>
<td>11</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Open tender</td>
<td>26465</td>
<td>20523</td>
<td>17959</td>
<td>14358</td>
<td>12788</td>
<td>9199</td>
<td>5744</td>
</tr>
<tr>
<td>Restricted tender</td>
<td>39</td>
<td>34</td>
<td>41</td>
<td>51</td>
<td>27</td>
<td>31</td>
<td>48</td>
</tr>
<tr>
<td>Accelerated restricted tender</td>
<td>38</td>
<td>38</td>
<td>71</td>
<td>109</td>
<td>27</td>
<td>20</td>
<td>9</td>
</tr>
<tr>
<td>Negotiation</td>
<td>481</td>
<td>444</td>
<td>278</td>
<td>507</td>
<td>479</td>
<td>645</td>
<td>495</td>
</tr>
<tr>
<td>Accelerated negotiation</td>
<td>52</td>
<td>47</td>
<td>36</td>
<td>28</td>
<td>27</td>
<td>26</td>
<td>5</td>
</tr>
<tr>
<td>Procurement notice</td>
<td>55070</td>
<td>40571</td>
<td>27263</td>
<td>21048</td>
<td>15693</td>
<td>12224</td>
<td>8806</td>
</tr>
</tbody>
</table>

Source: Author's calculations based on ESPP database

The public procurement market in Romania, reflected in the number of public procurement contract award notices published in ESPP, is influenced by a number of factors, as follows (table 3):
Table 3. Results of data processing using the regression

<table>
<thead>
<tr>
<th>Impact factor</th>
<th>Regression function</th>
<th>Multiple R</th>
<th>R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>value of public spending (goods and services)</td>
<td>power regression</td>
<td>0.64</td>
<td>0.05</td>
</tr>
<tr>
<td>value of public investments</td>
<td>power regression</td>
<td>0.49</td>
<td>0.24</td>
</tr>
<tr>
<td>value of absorbed EU funds - payments to beneficiaries</td>
<td>power regression</td>
<td>0.64</td>
<td>0.41</td>
</tr>
</tbody>
</table>

Source: Author's calculations

Between the number of public supply and service contract notices, published in ESPP and the variable constituted by the value of the public expenditure related to goods and services (constant prices) there us a direct, but very weak link. The variation of the public expenditure related to goods and services accounts for 5% of the variation of the number of public supply and service contract notices.

Between the variable constituted by the number of public work contract notices published in ESPP and the variable constituted by the value of the public capital expenditure (constant prices) there is a direct, but week link. The variation of the public capital expenditure accounts for 24% of the variation of the number of public work contract award notices.

Between the variable constituted by the number of public procurement contract notices, published in ESPP and the variable constituted by the value of the structural and cohesion funds absorbed – payments to the beneficiaries (constant prices) there is a direct link with a medium intensity. The variation of the structural and cohesion funds absorbed – payments to the beneficiaries accounts for 41% of the variation of the total number of public procurement contract award notices.

The use of the Chi-Square test in the ESPP software shows the existence of a significant association between the change of the value thresholds related to the direct purchase of goods, services and works, on the one hand, and the number of public procurement contract award notices published in, on the other hand. Taking into account the values of the Pearson and Spearman correlations, we can say that there is a reverse and strong link between the two variables (table 4).

Table 4. Results of Chi-square test – the association between the thresholds on direct purchases and the number of contract award notices

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
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<td>162</td>
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<td>Likelihood Ratio</td>
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<td>162</td>
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<tr>
<td>Spearman Correlation</td>
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<td>.097</td>
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Source: Author's calculations
Consequently, the assumption that the increase in the value thresholds related to the direct purchase of goods, services and works leads to the decrease in the number of public procurement contract award notices is verified.

5. CONCLUSIONS

From the point of view of the type of public procurement award, the public procurement market in Romania is dominated by supply contracts. Due to the fact that the contracting authorities prefer the open tender and the inquiry for the award of public contracts, it can be mentioned that the Romanian public procurement market is transparent.

The number of public procurement contract award notices published in ESPP decreased significantly in the 2008-2014 period.

The very weak link between the value of the public expenditure for goods and services and the number of supply and service contract award notices published in ESPP, and the evolution of the two variables in the 2008-2014 period highlight two aspects:
- large part of the goods and services purchases made by the contracting authorities are the result of the direct purchase from suppliers/providers, without the publication of the calls for tender/awards in ESPP;
- the preference of the contracting authorities for large public procurement contracts has increased over time.

The public capital expenditure, highlighted in the general consolidated budget, is a factor with an reduced influence on the Romanian public procurement market.

The Romanian public procurement market is influenced by the value of the structural and cohesion funds absorbed – a third of the payments to the beneficiaries, the variation of the total number of public procurement contracts awarded through ESPP being accounted for by the variation of this variable.

The value thresholds related to the direct purchase of goods, services and works is a significant factor that influences the Romanian public procurement market. The increase in these value thresholds related to the direct purchase of goods, services and works contributed to the reduction of the number of public procurement contract awards published in ESPP. The decrease in the number of public procurement contract awards published in ESPP due to the increase in the threshold values related to the direct purchase of goods, services and works is a signal concerning the reduction of the transparency in the allocation of public financial resources.

ACKNOWLEDGEMENTS

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ABSTRACT
The paper presents the direct method of compiling the labour potential according to the methodology proposed by author. It provides the concepts and definitions developed, the methodology of compilation and the source of data used.

The results highlights the descriptive analysis of size and structure of labour potential as well the time series evolution during last ten years. The disparities of labour potential is analysed over the European space. The particularities of Romanian labour potential as against EU average and the other member states are emphasized.

The primary data source is the European Labour Force Survey (EULFS) carried-out by the EU national statistics offices on the population households.

Key words: Labour potential, disparities, Labour Force Survey, European space

JEL Classification: J21, J82
THE EUROPEAN BUSINESS ENVIRONMENT AND THE EVOLUTION OF THE COMMON AGRICULTURAL POLICY - A NOWADAYS PERSPECTIVE -

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ABSTRACT
The paper “The European business environment and the evolution of the common agricultural policy – a nowadays perspective” presents the evolution of the European business environment in the context of the common agricultural policy as a nowadays perspective.

The European business recorded significant increases both in terms of quality and quantity due to multiple contacts and relationships with third parties that we have internationally and nationally. This paper is based on theoretical methods of the Common Agricultural Policy in terms of development and affirmation as deep agricultural market. The purpose of this paper is to define a prosperous and diversified Common Agricultural Policy via various strategic methods.

The theoretical foundations of the Common Agricultural Policy was approached in this study and there were presented the developments that this had over the years encountering clashes of opinions and regulations of which led to improvement strategies developed and improvement objectives.

Key words: European business environment, common agricultural policy, competitiveness, economic growth, sustainable economic development.

1. INTRODUCTION

The introduction section of our paper focuses on four main issues presented as follows: The paper presents the theoretical basis of the Common Agricultural Policy, but we presented its economic development, addressing the topic of prices in this market sector classification which occurs, for example, exchange of goods, or what is the EU enlargement. After addressing these contexts we presented several factors that pose a threat or stagnation in the evolution of the Common Agricultural Policy and proposed several strategic objectives for its prosperous future.

Quality of life in rural areas and diversification of the rural economy seeks measures that support the creation and development of micro, bolstering tourism and protecting, valuing and managing natural heritage, village renewal and development through the preservation and enhancement of their heritage value.
Reform of the EU's agricultural policy was meant to liberalize the market, to remain in the global market of agricultural products a competitive exporter but all these were not met with favor by farmers aiming to be an alignment of prices.

Farmers in the new European countries, to cope with the rest of the competition, has a financial allocation that fits their needs in order to support early retirement, environmental protection, reforestation, semi-subsistence holding, producer groups and compliance rules matters of food goods, hygiene and animal welfare.

In development programs for EU Member States, between the years 2000-2006, they have the responsibility to choose a mix of measures which will present EC and after six months it will approve documents for the rural development program.

Market access without granting a customs duty is the desire of all developed countries to less developed countries, giving a special and differential treatment due to food security needs.
By granting subsidies, export credits, programs for humanitarian assistance consisting of food, the EU wanted to advance the proposed eliminating export subsidies and subsidies for a period of time, for a specific range of products for developing countries and for loans export states should eliminate distorted elements of export credits for the same range of products as subsidy.

2. LITERATURE REVIEW

The business environment is composed of external and internal forces that have the ability to influence the operation of a business, which can be either threats or opportunities for exploitation. It is influenced by factors such as global environment, natural, political, legal, economic, social, and technological (V. Manole, M. Stoian, H. Dorobanțu, 2001).

Competition is the central element of our society being represented by the competition that exists between traders in order to survive in the market and maximize profits. (Viorel Cornescu et al., 1997)

Globalization can be seen as a whole process of integration of the world into one huge market to eliminate the various forms of economic isolation (Gheorghe Crețoiu, Viorel Cornescu, Ion Bucur, 2003, p. 637).

Economic growth is a reversible process self-sustaining nature, represented by cumulative changes of production conditions: higher net investment, new technologies, qualified labor force, changes in consumer habits.

The World Bank defined sustainable development as that the process by which development policies and environmental protection is based on a comparison of costs with benefits, so as to protect the environment, while increasing social welfare (Gheorghe Crețoiu, Viorel Cornescu, Ion Bucur, 2003, p. 494).

Economic integration is the development of economic interdependence between states, the forms and methods that can ensure continuity, deepening economic exchanges and increasing interpenetration of national economies in a different body in the presentation, but unitary and homogeneous in its functionality. This takes various forms and how they are made after the economic relations between the participating countries and their degree of interpenetration of economies meet five forms or stages (Gheorghe Crețoiu, Viorel Cornescu, Ion Bucur, 2003, p. 583):
- The free trade area: trade barriers vanquish characterized in tariff and non-tariff trade policy or the adoption of each participating country.
Customs Union: characterized by phasing out customs inspection and practicing a common customs tariff by all participating countries.

Economic Cooperation Zone: characterized by the free movement of goods and services, cooperation in transport and telecommunications.

Common Market: characterized by liberalization and the movement of production factors.

EMU: characterized by the formation of a single currency and a common central bank. European Union (EU) is communities of independent European states have decided to meet on 7 February 1992 following the Treaty of Maastricht, in the Netherlands, around some political, economic, cultural and social common (Gheorghe Creţoiu, Viorel Cornescu, Ion Bucur, 2003, p. 584).

The EU institutions are (Gheorghe Creţoiu, Viorel Cornescu, Ion Bucur, 2003, pp. 590, 593 - 594):

- The European Parliament: the only institution whose members are elected by EU citizens by universal, direct, free and secret.
- The European Council: the institution composed of the Heads of State or Government of the Member States having regard to the decisions of Member States and development policies in general.
- European Commission: the institution is politically independent and has the general interests of the Union, decision-making powers for this purpose.
- The Court of Justice: the institution that ensures respect for law in the interpretation and application of the Treaties union.
- European Court of Auditors: performs control of income and expenditure of the Union.

3. BASIC CONCEPTS OF THE COMMON AGRICULTURAL POLICY

The Common Agricultural Policy was first developed by the European policy is in fact even the powerful European unification (Marius Profiroiu, Alina Profiroiu, Irina Popescu, 2008).

The Common Agricultural Policy was created with the aim of giving people good food at affordable prices and to be able to earn a living, is the partnership between agriculture and society, between Europe and its farmers (http://ec.europa.eu/agriculture/index_ro.htm). Common agricultural policy can be seen as a tool to support EU activities due to budgetary resources taken from agriculture, customs duties, part of VAT revenue collected by the state and a financial contribution of members.

The main objective of the Common Agricultural Policy is to preserve an economic sector with a very institutional and social instinct, heterogeneous socially and economically oriented and multifunctional family farms, which appears to prohibit the introduction of the principles of industrial production and competitive markets.

Sicco Mansholt, a Dutch farmer and politician, is the one who founded this type of policy, the one who sounded the alarm on surpluses and the need for modernization of agriculture and increase efficiency.

The Common Agricultural Policy was for many years the only fully integrated policy of the European Union is one that paved the way for the single market (Viorel Cornescu, et al., 1997, p. 448).
The principle behind the emergence of agricultural markets was: Agriculture, given the specific or is not an economic sector that works well in an environment dominated only by the laws of the market (Helen Wallace, William Wallace, 2004, p. 186).

In the moment of the Common Agricultural Policy, agriculture represent an economic sector, specific and proper behavior in a free market, supply and demand of agricultural products act in a particular way to the overall situation of the economy and the public authorities had limited powers. In the process of applying a common policy appear various negative factors restricting the implementation of the regulations, they risk being natural factors influencing the activity of the natural transformations of land, weather and social and economic factors specific to individual countries characterized by force work involved in the agricultural or information system and indicators, which is in constant change (Gabriel Popescu, 1999, p. 37).

3.1 Listing basics of the Common Agricultural Policy

A. The situation of agricultural workers (Marius Profiroiu, Alina Profiroiu, Irina Popescu, 2008, p. 170)

The agricultural sector with its industrial, food, recorded the highest number of employees, permanent, about 8 million of the EU population working in this field. A record statistics from 2000 show that depending on the country, the number of employees varies for example in the United Kingdom 1.8% of the population works in agriculture, 13.4% in Greece, 19% in Poland and in Romania 21.8% (see, in this matter, Figure no. 1: Change in average monthly gross wage in the economy and the agricultural gross monthly income in agriculture - EU 27).

During the existence of the community, the workforce declined, but agriculture is the basis for recruitment of labor force for other economic sectors was carried contracting negative effect of this phenomenon on the rise and more efficient agricultural production.

**Figure no. 1**: Change in average monthly gross wage in the economy and the agricultural gross monthly income in agriculture - EU 27

![Chart](http://ec.europa.eu/agriculture/index_ro.htm)

Source: [http://ec.europa.eu/agriculture/index_ro.htm](http://ec.europa.eu/agriculture/index_ro.htm)

B. The contribution of agriculture to gross value added (Marius Profiroiu, Alina Profiroiu, Irina Popescu, 2008, p. 170)

As in the situation of employees in agriculture and this differs from country to country. In the estimation of gross value added (GVA); important parts are not included as the significance of agriculture to the environment, contributing to the protection of the landscape. Greece posts 7.5% of GVA, Ireland 4.8%, Spain 2.7%, Italy 0.8%, and Germany 0.6%.
C. Agricultural production (Marius Profiroiu, Alina Profiroiu, Irina Popescu, 2008, p. 170)

Depending on the specific climate of the EU member states, agricultural production varies so the Nordic countries are the specific production of crops in countries south on fruit trees and vegetables. This diversity of regions is characterized by different production methods, high quality advantage of acquiring EU agriculture producers showing their interest towards this point by a constant concern for improvement. Production can be increased by using genetic engineering development if properly managed, but can cause problems if it is not perceived by consumers as it would need (see, in this matter, Figure no. 2: Main EU agricultural products (percentage distribution by value of production in 2005)).

D. The size of the farms (Marius Profiroiu, Alina Profiroiu, Irina Popescu, 2008, p. 170)

The average size of farms in the EU reached 17.4 hectares (ha). Farms in the EU tend to be run by the owners, but is based on the work of family members and there is a division of labor between home and work or household and enterprise, reducing dependence on production being diversified income for a single market and ensuring the force work throughout the year. The economic role of farms is well defined so some entrepreneurs working for wages, others for a profit or just to manage their business as entrepreneurs and as workers.

E. The favored areas (Marius Profiroiu, Alina Profiroiu, Irina Popescu, 2008, p. 170)

More than 50% of EU areas disadvantages caused by natural conditions such as harsh weather, altitude or low population density, these regions recorded higher production costs compared to developed areas.

Benefits provided these areas are primarily aimed at joint purchase of materials for feed production, storage and their distribution arrangement for joint exploitation of pastures and awarded compensatory allowances for plant and animal production.
4. HISTORY OF THE COMMON AGRICULTURAL POLICY

European states still before the advent of the Treaty of the European Economic Community (EEC) in 1957 had already interventionist policies in the agricultural sector in order to ensure the population's food supply, farmers' social protection and defense of the interests of consumers.

In the 60s, the Common Agricultural Policy was seen as a development policy for Europe, as this retail market was higher, the economy was modernized, and farmers were ensured loyalty to the new democracies.

The Common Agricultural Policy has ceased development of trade liberalization caused the United States and is among the policies adopted at Community level.

The main reasons why they resorted to a common agricultural policy was being too many workers in agriculture, there are too few exploitable land and a large number of farms that recorded a higher gross domestic product, leading to agricultural structure. Unemployment in urban and rural poverty has led to a social motivation to encourage tourism in agricultural areas but to maintain and rural appearance. This led to the creation of the main objectives of the Common Agricultural Policy.

Article 40/3 means that a common market organization will guarantee the price regulation, subsidies to producers and marketing, storage systems and mechanisms appear to imports and exports (Gheorghe Creţoiu, Viorel Cornescu, Ion Bucur, 2003, 564 and Dumitru Miron, et al., 2002, p. 419).

In 1958, CAP aims to stress are formed by a specialized committee on agricultural issues, which has the role to develop, propose, realize and organize Common Agricultural Policy.

After achieving the main objective, the Commission has a period of crisis until November 1959 that this should move forward first proposals, but until 1961 had not yet taken any decision and that France wanted to move to the second stage of the transitional period.

In 1962 the Council of Ministers adopted six regulations designed products especially cereals, pigs and poultry, and dairy products, beef, sugar will have a better resolution; deciding on the industrial transformation of agricultural products are adopted rules on competition in agriculture. This year it creates the European Agricultural Guidance and Guarantee Fund (EAGGF) (Dumitru Miron, et al., 2002, p. 424 – 425).

The operating principles of the Common Market Organization (CMO) are the free movement of goods in the single market, with Community preference and joint financial responsibility. These two principals have also the following characteristics thereto (Dumitru Miron, et al., 2002, pp. 424 – 425):

- Elimination of quantitative restrictions on agricultural trade for all third countries;
- Providing protection to farmers against low prices and fluctuations;
- Financial responsibility for the operations to improve agricultural structures.

In the early 70s, the Council takes grant funding and expenditure EAGGF agricultural community and even if France announced that only wants to attend the meetings of the Council.

Because PAC met in the late 60s commercial issues relating to the emergence of surpluses financial issues relating to increasing EAGGF expenditure and social problems in the community that raising agricultural prices did not provide the necessary income to farmers, Sicco Mansholt Dutchman, but proposes a short-term, better prioritization of prices and
measures to eliminate surpluses for a long term reform of agricultural structure (Marius Profiroiu, Alina Profiroiu, Irina Popescu, 2008, p. 168) (see, in this matter, Figure no. 3: Agricultural expenditure per person employed in the sector and as direct payments to producers in euro in 2001).

Figure no. 3: Agricultural expenditure per person employed in the sector and as direct payments to producers in euro in 2001 (Hellen Wallace, William Wallace, Mark A. Pollak, “Elaborarea politicilor în UE- ediția a 5 a”, 2005, p. 167)

Legend: S - Sweden, M - Great Britain, Fr. - France, F- Finland, O - Holland, G - Germany, D - Denmark, B - Belgium, A - Austria, I- Ireland, L - Luxemburg

For a more well-differentiated community adopts a target price for each sector which serves as a theoretical reference, a threshold price for imports to the European Commission aimed to protect European production and an intervention price at which farmers will export surplus goods (Dumitru Miron, et al., 2002, p. 429). Mansholt Plan 1968, has emerged as a necessity of adjustments and has been for businesses to move towards a market economy using modern operation on large scale and which encouraged farmers to reconvert activity, the aim being to halve active population in this area, but this memorandum was modest and the Council has satisfied only by adopting three directives aimed at socio-structural institutions and stimulate employment in the agricultural sector.

Exchange rates specific rate called green, appearing in 1969, to determine common prices, but too complex resulting inconvenience and increased cost management, distortions in the competition, accumulating surpluses, spending huge increase. In 1984 it adopted a program to abandon this system and decided that by 1 January 1993 it will disappear, and rates were similar progressive green monetary reality (Marius Profiroiu, Alina Profiroiu, Irina Popescu, 2008, p. 168).

Due to constraints internal pricing policy was insufficient to restore growth stocks and reduce government expenditure, and external constraints in the late 80s a radical reform of the Common Agricultural Policy was becoming increasingly necessary, Ray Mac Sharry and propose a reform cover crops and beef and was based on the following principles (Marius Profiroiu, Alina Profiroiu, Irina Popescu, 2008, p. 172):

- Discouraging production by reducing up to 35% for cereals and 15% for beef;
- Abandoning mandatory annual part of the cultivated land;
Rural development based on environmental protection and preservation of the activity in the country.

Compared with other policies, the Common Agricultural Policy has dealt with environmental issues and those relating to the risk of using products such as pesticides, pollution issues in agriculture, putting it in the forefront of environmental requirements, in 1991, adopted a directive called "Nitrates Directive" which involved administering fertilizers and presenting large restricted areas in this regard.

Decreased number of people employed in agriculture and migration to industrial areas are the following community issues that they face and have again reformed Common Agricultural Policy, must adjust to the global agricultural market requirements.

The financing of the Common Agricultural Policy was adopted in June 2003 by all the ministers of agriculture of the Member States through a series of reform principles (Marius Profiroiu, Alina Profiroiu, Irina Popescu, 2008, p. 174):

- The single farm payment for EU farmers, independent of production for farmers to determine their production to market needs;
- Making these payments, compliance with environmental sectors of food, animal welfare;
- Strengthened rural development policy characterized by sufficient financial means, support farmers to apply production standards community;
- Reducing direct payments;
- Revision of Common Agricultural Policy market policy.

During 2006, the Commission aims to develop and concern over the ecological and agro-ecological indicators suggesting 508/2006 in the communication (Marius Profiroiu, Alina Profiroiu, Irina Popescu, 2008, p. 176):

- Updating databases to include new Member States;
- Overcoming the limitations that restrict information about these indicators;
- Establishment of a management system with the support of Eurostat indicators in close contact with Member States.

After 2006, consumer demand on ecological protection as well as increased market share of organic farming in most Member States has led to regulatory labeling on such products in this category product improvement and consumer information (Marius Profiroiu, Alina Profiroiu, Irina Popescu, 2008, p. 177).

5. OBJECTIVES AND PRINCIPLES OF THE COMMON AGRICULTURAL POLICY

The objectives, principles and means PAC were exposed European Economic Community Treaty despite the fact that countries were not in a form of cooperation. Preservation of an economic sector with social and institutional features distinct alleged incompatible with industrial production and competitive markets is the principal declared objective of the Common Agricultural Policy, but due to the economic costs of structures and confrontations on the international agricultural market, adapted to maintain target sector agriculture.

The Treaty of Rome in 1957, it established the following objectives (Dumitru Miron, et al., 2002, p. 418):

- Increased production in agriculture;
- Ensure a fair standard of living for the farming population;
- Stabilize markets;
- Ensuring a constant supply of food.
After discussions of the 1997 reform, the Luxembourg European Council stated that: The Union has the will to continue developing the current model of European agriculture while taking, obtaining greater internal and external competitiveness. As an economic sector, European agriculture has to be multifunctional, sustainable, and competitive, be distributed throughout Europe, including regions with problems for securing equitable income and a fair balance between production sectors and between producers and regions, avoiding distortions of competition. Reform must lead to healthy and economically viable solutions, socially acceptable.

Uruguay Round Negotiations under this treaty were difficult because of conflicts of interest arising between Europe and the US, but the solution was found through the "Blair House Agreement" integrated by the "Final Act". The onset of this reform involved the following objectives (Dumitru Miron, et al., 2002, p. 438):

- Increasing discipline in the use of direct and indirect subsidies in the agricultural field;
- Progressive and substantial reductions of support and protection of agriculture, including domestic arrangements, market access and export subsidies.

But following "compromise Blair House" misunderstandings arose due to inconsistency Common Agricultural Policy reform and has established the following principles (Consiliul European, 12 et 13 Dec 1997, SN 400/97, p. 14):

- Introduce customs duties on imports of products subject to non-tariff measures, as these are to be reduced over the years;
- Minimum market access will be ensured for tariff quotas at reduced duty;
- Budgetary expenditure to support agricultural exports will decline over the years;
- The need for global mass decrease domestic support for agriculture by 20% over the years.

The changes referred to in the Uruguay Round were intensified in 1995 (Dumitru Miron, et al., 2002, p. 438), in the US, in preparation Law Agriculture, which put two alternatives before the EU to introduce strict controls on production or price liberalization, reduction of production control, reduction of export subsidies.

Agenda 2000 is a new set of reforms adopted in 1992 and implemented in 2000, guaranteeing the new European agricultural model, designed to keep the earnings of farmers and their stability through the common market organization and compensation payments (Dumitru Miron, et al., 2002, p. 439).

The objectives of Agenda 2000 are (Dumitru Miron, et al., 2002, p. 440 - 441):

- Reduction in prices and an increase in severance payments;
- Improving the competitiveness of EU producers by lowering prices;
- Ensuring food safety and quality for consumers;
- Improving the production system;
- Introduction of a comprehensive rural development policy;
- Simplifying legislation;
- Flexibility in the allocation of Common Agricultural Policy support in the Member States.

Within the rural development program, discussed two important mechanisms, one assumed that the distribution of amounts allocated to finance various farms in the EU Member States to be shared by multiple criteria agricultural area, employment called modulation and the other mechanism called cross-compliance which involved linking direct payments to farmers concerned about the environment, food safety and other EU rules (Gheorghe Crețoiu, Viorel Cornescu, Ion Bucur, 2003, pp. 593 – 594, 564).
The program for quality protection and food security of the population will respond to requests for equal opportunity for living conditions at a high level for residents of deprived areas, environmental protection, and access to a wide variety of quality food products produced in competitive prices.

SAPARD: Special Pre-Accession Program for Agriculture and Rural Development is the program that supports the candidate countries in the preparation for accession. Commission prepared on 22 December 1992, the following objectives (Marius Profiroiu, Alina Profiroiu, Irina Popescu, 2008, p. 173):

- Establishing a Community framework to support the sustainable development in agriculture and rural areas in the states conditional;
- Resolving issues raised by the adoption of the agricultural sector and rural areas;
- Contribute to the implementation of the “acquis communautaire” in agrarian policy and those and those related to it.

All the above objectives of the Common Agricultural Policy have been established on the basis of principles as (Marius Profiroiu, Alina Profiroiu, Irina Popescu, 2008, p. 174):

- Market unity;
- Preference for Community products or supremacy of the community;
- Financial solidarity.

Knowledge of all aspects of this policy is important for countries aspiring to future European integration, and agriculture internationally through a period of crisis, relations between the US and the EU are becoming increasingly conflicts which have resulted in the emergence of domestic disturbance as and externally.

A negative effect is overproduction which generates excessively high costs, being tackled by adopting phenomena such as specialization, concentration, increased trade flows and market integration market segments: farms, regions and cultures.

Large gaps in trade in agricultural products due to the summation of imports and exports achieved these imbalances by trying to address them in two ways, namely, by taxing imports of cereal substitute products and reducing grain prices in the EEC by introducing maximum quantity Guaranteed.

Specialists from the UK, Netherlands and Sweden are critical as the agricultural sector is overfunded in favor of other sectors, which are supported by the US, and to combat this phenomenon been reduced domestic prices for cereals, beef and dairy products.

An interim evaluation of agricultural policy in 2002, called the Mid Term Review (MTR), echoed the objectives established in the Summit of Berlin in 1999, this analysis should become a safety net and farmers were obliged to take account of conditions imposed by the market, subsidies were not granted that support product but as direct payments to producers (Marius Profiroiu, Alina Profiroiu, Irina Popescu, 2008, p. 174).

In 2003, there is another Common Agricultural Policy reform, based on the MTR ministers being under the pressure of enlargement, but the most important reform is the introduction of direct payments, calculated based on direct aid received during the quota period, which involved the payment of decoupled, no longer linked to production.

6. CONCLUSIONS AND IMPLICATIONS

Given quality agricultural products to the EU population, economic sector development and pave the way towards a single market in which supply and demand do not represent restrictions Common Agricultural Policy was created.

The purpose of the treaties over the years of evolution of the Common Agricultural Policy was to identify, correct and eliminate the negative effects that may occur or may occur,
but they cannot identify all while periodically reforming the Common Agricultural Policy leading to improvement.

Common Agricultural Policy is based on rules, laws, quotas and other highly complex instruments and a manufacturer in its work early training needs, to guide the multitude of rules and regulations that are imposed by the EU in order to obtain the finished product by European standards.

REFERENCES

THE POST-DEMOCRATIC TURN
IN THE SCIENCE OF THE STATE

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ABSTRACT
Statistics was established and accompanied the existence and formation of state in the modernization process. Understood and used as a science born not within the civil society, but within the heart of the modern state, statistics has functioned for at least four centuries as a very ideological social knowledge process controlled only by the modern state. What happens in the last decades along with the rising up of new political realities such as governance, European integration, New Public Management and so on, is that statistics has lost its status of ideological tool used by the sovereign in order to govern a territory and a population and has become the science of shareholders from which the states are but some of them. By analyzing the place of Romanian official statistics within the statistical governance of the European Union, the study based on neo-Weberian approach points out that what had been acknowledged in modern times as being political becomes nowadays bureaucratic and vice-versa.

Key words: governance, statistics, post-democracy, political representation, European Commission.

JEL Classification: H11, H77, N4.

1. INTRODUCTION

Reinterpreting democracy is a task that political science must adhere to with all its energy as in the dialectics government-governance, the liberal democracy does not seem to look as it did. As Frank Vibert (2007) and many others observe the rise of the unelected bodies challenges democracy itself as a political regime. On one hand, we have a growing number of institutions, servants and procedures that are not part of the core government as such and that are based on strict professional and political independence. They are also pulled out of the core government and transformed into non-majoritarian institutions (hitherto I use the concept of 'non-majoritarian institutions', as coined by Giandomenico Majone, which, by design, are not directly accountable to voters or to their elected representatives’, see Majone 1989) populated by experts instead of politicians and bureaucrats.

On the other hand, the civil service is getting more and more professional, as governance becomes a more complex phenomenon. If we take into consideration the European Union, the tendency becomes clear as an unelected body such as the European Commission is placed right in the center of the European governance along with over thirty other unelected European bodies established in the last decade.

As the non-majoritarian institutions play a central role in the governance process, political institution tends to decline their traditional roles and to exert less control over experts. Parliaments not only do not control governments as they do not have the necessary expertise and experts, but furthermore they do not appear to control the unelected bodies created by them and accountable to Parliament. The tendency is visible also in the ministries
where the ministers do not control the experts and some of the policies. Within this framework famously described by British social scientist Colin Crouch as post-democracy I will analyze the place of National Institute of Statistics of Romania (onwards NIS) within the European Union governance system using a neo-Weberian approach. My main hypothesis is that the European governance de-politicizes the national states by moving the political decision from the national governments to Brussels.

2. LITERATURE REVIEW

I have chosen for my analysis the official statistics field because it involves an odd paradox. Statistics was established along with the modern states as the science of the state (Scott 1998). Etymologically, statistics means the knowledge of the forces and resources of a certain state (population, territory, different categories of individuals, natural resources – mines, forests etc.). It has been for four centuries a science absolutely necessary to the sovereign in order to govern. „In all the aspects of government work, two forces are entwined: knowledge and power. The rise of specific technical knowledge can be traced to the transformation of the state from the personal possession of a sovereign to an institution whose purpose is to protect and care for its citizens. Once governing started to be about something other than the person of the sovereign ("the prince"), it required collecting and analyzing information about the population in order for the state to be effective in carrying out its primary duties. The word “statistics” dates from the emergence of the state’s need for accurate knowledge. Knowledge without power, however, is helpless. The state has to have the power to shape its population and the factors impinging on it so that society runs well. Citizens become, in a sense, natural resources for the fashioning of an effective state. Bringing knowledge effectively to bear requires means-ends calculations, which put statistical information and analysis to work to achieve the goals of the state. Governing is no longer about the prince and his personal skills and wisdom (or lack of them); now it is about knowledge and power as they are put into practice by a governing apparatus” (Stivers 2008). What this means is that, although today we might understand statistics as a being part of mathematics or econometrics, statistics is, in fact, a social science that uses mathematical language and tools in order to produce knowledge on social realities. William Petty (2008[1690]) writes in 1671-1672 one of the first studies in statistics entitled ‘Essays on Mankind and Political Arithmetic’ proving that we do statistics from the point of view of the state itself who has different goals than society, the people, individuals, firms etc. The interest of the state, as Machiavelli and the reason of state tradition points out, is to stay, to keep its status and not to vanish along with individuals, people, private affairs etc.

I assume a neo-Weberian approach meaning that I see the state separated from society and the political regime separated from the state. As a consequence, in liberal democracies, elected politicians are separated from non-elected bureaucrats and very often they find themselves in conflict to each other as politicians have a short term (usually four or five year) while bureaucrats have a long time (usually they have lifelong work agreements) to work on policies. Their period of time does not coincides, while the pressure of elections felt by the politicians is not a concern for bureaucrats. Using the described approach, I will do a short political history of NIS and Eurostat and afterwards I will do a cross-country comparison and analyze the European Governance System on statistics through the Weberian lens of the relation between legitimacy and efficiency.
3. NATIONAL INSTITUTE OF STATISTICS OF ROMANIA – A POLITICAL HISTORY

The National Institute of Statistics was established from its very beginnings (1859) as a political endeavor having the task ‘to enforce, on real basis, the use of civil and political rights’ (Bujoreanu 1866). The efforts of building up a national statistics institute belong to a technocrat, Dionisie Pop Martjian (he is known as the establisher of official statistics in Romania. He was a student of Lorenz von Stein in Vienna and advocated for a National Institute of Statistics since 1857), but also to a politician, namely Nicolae Kretzulescu, the minister of Home Affairs (Departamentul din Năuntru) who was ‘convinced that statistics was for every government what are the five senses for humans’ (Xenopol 1915). In 1925 the Romanian official statistics was attached (pe lângă) the Ministry of Industry and Trade and headed by a Superior Statistics Board dealing with methodology issues (Legea 1927). Besides a short period of time NIS has always functioned as a ministry or being part of a ministry: 1937 the law on functioning of official statistics provided that the head of Central Institute for Statistics should had been a public servant and a statistician as well (In 1937 the law on organizing official statistics in Romania provided that the Central Institute for Statistics shall be headed by a director under some very strict conditions: he/she shall be a statistician, public servant. The law keeps quiet when it comes to the procedure of appointment/ dismissal/ nomination; the institute was attached (atașat) to the Ministry of Interior, meaning that some sort of independence was provided (Ministerul Internelor 1937).

The NIS was up until now a political-administrative institution, having a political head and the corpus of bureaucrats/experts in statistics. The role of the political was to enforce the methodology desired by the state (WHAT to do?) while the role of bureaucrats to apply the methodology and do the statistical inquiries (HOW to do?). Excepting the communist era when the political regime had adopted ‘the double language’ (Barbu 2009) in all its action, so even in statistics, the downfall of communism has got the NIS closer to the European Union in terms of negotiation for the admission of Romania in the EU that happened in 2007. Starting 2007 onwards the NIS is part of the European Statistical System headed by Eurostat, the directorate-general of the European Commission dealing with statistics.

For more than a century and a half, NIS has functioned either as a ministry, either as part of a ministry and it always had a political head directly accountable to a minister or to the prime-minister. Today, NIS functions as a ministry on communist basis, that is it has never been reformed after 1989 and it is formally subordinated to the General Secretariat of the Government of Romania.

The European statistical office was established in 1952 and operates as the core unit of European Statistical System with the target of harmonization of statistics within the European Union. Eurostat works under the rule of the European Commission Decision on Eurostat 2012/504/EU which enforces the professional independence of national institutes of statistics, statistical confidentiality, impartiality and other principles from the European Statistics Code of Practice. The head of Eurostat is a director-general, also informally known as Chief Statistician, whose main duty is to steer the planning and coordination of other statistical activities within the European Commission.

The political framework under which Eurostat operates underlines the core principles of the European Union as a constitutionalized marketplace. Regulation (EC) No 223/2009 of the European Parliament and of the Council on European statistics is the legal framework for the development, production and dissemination of European statistics. The Regulation states that European statistics shall be developed in conformity with the statistical principles set out
in the Treaty on the functioning of the European Union and further elaborated in the European Statistics Code of Practice, namely, that: ‘1. Without prejudice to Article 5 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank, the European Parliament and the Council, acting in accordance with the ordinary legislative procedure, shall adopt measures for the production of statistics where necessary for the performance of the activities of the Union. 2. The production of Union statistics shall conform to impartiality, reliability, objectivity, scientific independence, cost-effectiveness and statistical confidentiality; it shall not entail excessive burdens on economic operators’ (Consolidated version of the Treaty on the Functioning of the European Union).

Following its own public discourse, Eurostat aims:

- to provide other European institutions and the governments of the EU Member States with the information needed to design, implement, monitor and evaluate European policies;
- to disseminate statistics to the European public and enterprises and to all economic and social agents involved in decision-making;
- to implement a set of standards, methods and organizational structures which allow comparable, reliable and relevant statistics to be produced throughout the EU, in line with the principles of the European Statistics Code of Practice;
- to improve the functioning of the ESS, to support the EU Member States, and to assist in the development of statistical systems at an international level’ (Eurostat and the European Statistical System).

Being a directorate-general within the European Commission, Eurostat is not a political institution as such, but a bureaucratic one, whose head should be a statistician appointed by the EU Commissioner for Taxation, Customs, Statistics, Anti-Fraud and Audit. But, its role is very political as 'Eurostat is expected to lead and drive the interests of European statistics and provide a platform for ESS actors to collaborate. This gives Eurostat different functions:

1. Leadership: initiate and develop the multi-annual and annual work programs, speak on behalf of the ESS, develop professional and ethical standards, adapt the governance structures as needed.

2. Management: facilitate cooperation between NSIs, cooperate with the European Central Bank (ECB) and the European System of Central Banks (ESCB) and other systems involved in official statistics, be a platform for the dissemination of good practices and innovative techniques for more comparability or less burden, coordinate official statistics within the Commission, organize the production of European statistics for specific policy purposes’ (ESGAB 2014).

In short, we face two institutions that deal with statistics in a process that can be simplified as it follows: Eurostat establishes the statistical methodology one basis of scientific knowledge and political will of the European Commission and NIS implements the methodology, makes the statistical inquiries and disseminates the data to Eurostat a day before anyone else can have access to the results. It is a relationship of subordination in terms of methodology or a relationship between a principal (Eurostat, that is the European Commission) and agent (NIS, that is the Government of Romania). The discourse of Eurostat aims at enforcing a few rules consecrated in its Code of Practice and European pieces of legislation on statistics. One of the most important is the political independence of NISs from the EU along with a few other indicators that points out towards the agentification of NIS.
4. THE PHENOMENON OF AGENTIFICATION

The process of filling up public administration with unelected bodies starts in the United States of America in the 1930s under the New Deal on the model of central banks that have a tradition of functioning apart from governments (Verhoest et al. 2012). Different terminology is used to name them, but the most common abbreviation is *quasi autonomous non-government organization* (QUANGOs). Their common encounter is that, although different, they all operate somehow apart from the democratically elected institution. The QUANGOs can be service providers such as central banks or the British Broadcasting Corporation which was „granted a royal charter in 1927 in order to detach the power of broadcasting news from the power of politics” (Vibert, 2007, p. 21), risk assessors – institution that manage some types of social risk mainly in health, food, environment, etc., boundary watchers of the markets in relation with the state (Autoritatea pentru Supraveghere Financiară), inquisitors which are separated from politics (Consiliul Național al Audiovizualului, Consiliul Național pentru Studierea Arhivelor Securității, Consiliul Național al Audiovizualului) and umpires and whistle-blowers. However, all the agencies have some common features apart from a certain degree of political independence. First of all, to operate in the areas where a highly technical knowledge is necessary. They can use funds from the government, but also from other shareholders or even the markets.

They form what Peter Haas (2011, 377-402) calls 'epistemic communities' meaning their share the same knowledge, skill and expertise and they use a highly sophisticated language unbearable for public at large: „When they talk, they talk to each other. Central bankers talk at financial markets but they talk to other central bankers; economic regulators talk to other economic regulators, competition authorities to other competition authorities and auditors talk to other auditors. The reason for this is that they see themselves operating in similar settings, facing similar problems and having similar experiences to share. They often share a common intellectual approach and procedural disciplines. When there are lessons to learn, they are likely to be learnt from each other. Often, as mentioned later, the peer group will be international in character rather than national or local. The unelected are prime movers behind the formation of policy networks” (Vibert 2007, 32).

The agentification phenomenon has also reached due to New Public Management the field of official statistics, pulling out the NISs from the governments and transforming them into independent agencies. For example, the UK national institute of statistics case was debated in November 2005 with the help of UK Chancellor of the Exchequer in order to give the institute the necessary political independence to gather statistics and disseminate to the public in a professional manner.

The agentification phenomenon empowers the Parliament and less the Government. The executive branch cedes territory to the unelected bodies and the agency operates under delegation of powers by the Parliament. Therefore, governments are more decentralized by creating more and more QUANGOs who can sustain financially, relieving themselves from many of their traditional duties. The core executive is divided into a variety of institutions and practices, as we face a shift from government as an act of exercising political power towards governance, as a quasi-consensual administrative formula (Marinetto 2007, 59).

In order to grasp the agentification phenomenon in the European Union we should look at its historical roots which are anchored in a technocratic vision, not a democratic one. As Sergio Fabbri (2005, 11) points out in the case of EU we should consider we are dealing with a compound federalism similar in some stances with the political design of the American constitutional regime in its beginnings in 1787: „Both the US and the EU have the features of
a system with fragmented sovereignty, which was defined by James Madison in Philadelphia as ‘compound republic’, where segmentation and separation of powers concerns both the horizontal and the vertical level of the system”. Basically, a compound federalism means that there is no single government as a single institution.

Thus, in Aristotelian typology the European Commission is the monarchical element, the Council is the aristocratic element and the European Parliament is the democratic element, making from the EU an unfinished federal entity: „Indeed the Council is notoriously an arena in which national executives may exploit the EU tier of governance to evade national Parliamentary control and/or to circumvent blockages to policy reform at national level—and then blame the EU for tying national hands that have in fact been willingly so tied. The European Parliament is directly elected, but rarely consequent on campaigns infused by European, rather than national, debates and its relative invisibility insulates it from pressures to exercise a restraining influence on expanding competence. National Parliaments, as the losers in this pernicious process, may be expected to blow the whistle” (Watherill 2009, 33).

Thus, The European Commission is a hybrid-type institution, unelected, but appointed, following a consensual procedure in which the major players are The European Council, the nominee president of the College of the European Commission and the European Parliament. The role of the European Parliament is not actually a major one, as it is only called to decide if agrees with the common proposal of both the European Council and the nominee president of the College. It has the role of the people in a plebiscite. No government can exercise authority over its commissioner whose only head it is the President of the Commission him/herself.

The Commission combines administrative and executive powers, but it is not designated by the treaties as being or acting as the executive branch of the European Union as such. It means we cannot call the European Commission the government of the European Union, and as a consequence the European Commission does not govern. It has the unique role of steering, being nevertheless it is at the center of the European governance.

The European governance includes a whole range of agencies, which are nevertheless bodies governed by the European Union law, but separated and distinct from the Commission or from the Council of the European Union and the European Parliament starting with the European Central Bank established in 1992 by the Maastrict Treaty. Nowadays there are over thirty such institutions. As it is impossible to draw a line between the political and the administrative elements of the European Commission we have to assume that any action of the Commission is simultaneously administrative-political.

The democratic deficit is suggested by many scholars in the last two decades. Kristin Roos, as well as many others, suggests that even the Treaty Establishing an European Constitution was rejected by the people because of the lack of democratic control: „It was purposefully drafted, in other words, to communicate to voters through its very form that it was best to leave such complex matters of governance up to the experts, the technocracy” (Ross 2011, 34). Thus the European Union political regime seems to head towards what J. Habermas (2012) calls ‘bureaucratic executive federalism’.

I have performed a comparison between 40 NISs worldwide in order to see if the trend to transform them from parts of public administration to independent agencies is a real one. Although the selected countries are worldwide and match many criteria such as EU/non-EU membership, ex-soviet space, from the American continent and so on, no statistical inquiry will help my analysis. Nevertheless, some facts are helpful along with the figures from the next table which contains a cross-comparison between all 28 EU countries. Some of the NISs have become independent agencies, but in order to establish if the institution was not politicized at all, you need to have access not just at the law on which they function, but also
at the informal procedures of the appointment/recruitment of the heads of NISs. I have search but one single criterion, namely “How political are the appointments of NISs’ head?”.

Although I use a neo-Weberian filter in order to separate the political appointment from the recruitment on merit basis, we are dealing with many traditions of public administration in EU countries, which makes very difficult to use a quantitative analysis. My assumption is that if a politician intervenes in the appointment/recruitment process we are dealing with a political appointment of the head of NIS. On this consideration, based on the conclusions of the peer review report of Eurostat from 2007, I have counted only four countries where the appointment can be considered non-political (Belgium, Cyprus, Finland and Sweden), all of them countries in which NISs are all independent agencies. No pattern emerges from this very basic statistics, but it reveals the trend of depoliticizing the official statistics in EU countries.

5. PEER REVIEW – THE POWER DISCOURSE

The 2007 peer review process at the NIS was the only one that was performed. The observation of the European Commission based on the European regulations and especially on the European Statistics Code of Practice are directed towards a model of head of the institution. He/she should be a well-known statistician, a PhD holder in economics or statistics and with no political affiliation, meaning that he/she should be a technocrat. Although in Romania under the current legislation and practice of governmental affairs the head of NIS is appointed and dismissed by the Prime Minister, the peer review final report suggests that this is not a political appointment and strikingly that the President of NIS is not a Member of the Government: „INS is headed by a President who is a Secretary of State but he/she is not a Member of the Government. The appointment (and dismissal) of the President is made by the Prime Minister and the relevant act is published in the Official Journal of Romania. The President of INS reports to the Prime Minister through the General Secretariat of the Government; this arrangement is regarded as better than reporting to a Minister because it ensures greater stability, neutrality and continuity in the relations of INS with the Government. The President is present in the media and he is a recognized public figure. While – in the law currently in force - there are no specific provisions regarding the qualifications of the President, in practice, all Presidents since 1990 have been PhD holders in Economics, and the majority among them had substantial relevant professional experience. Similarly, the Statistical Law does not include specifications regarding the duration of service, reappointment and reasons for termination” (Peer review 2008).

The peer review report conveys that if a minister does not take part at every weekly cabinet meeting, but only when he/she is invited, then the minister is not actually a minister. Moreover, the head of NIS seems to be accountable to the European Statistics Code of Practice, European regulation and less to the Romanian legislation which should be change according to the observations of the European Commission. Another observation should be made here: the report uses terms such as ‘uses’ and never ‘citizens’. In short, the head of NIS is, in the eyes of the European Commission, a mandated of Eurostat, and not a minister accountable as in any democratic regime to the people. He is a trusted fellow of the EU, and not necessary of the Romanian people.

Overall the vision of the European Commission makes deliberately an unpermitted synonymy arguing that political independence and professional independence are but one and the same reality. Let us take a similar example: even if the minister of Home Affairs is a politician, politically appointed, member of the political party, with a respectable political career, it does not mean that when a policeman sees you trespassing a household he should first find your political affiliation and only then, if the case, he can perform the detention. In a
conjectural situation such as described above the minister is responsible for the Ministry of Home Affairs as an institution according to the Government Program and consequently to the people, while the policeman as a civil servants is responsible only towards the law. He should do nothing more and nothing less than the law, under which he operates, says. Thus, political independence and professional independent are not the same thing. By contrary, they are well separated in the democratic liberal regimes on the model explained by Max Weber.

Further narratives are due to reveal that the peer review process is a power discourse written in a very European wooden language. First of all, I should mention that the investigators (experts of Eurostat and other national statistics institutes) are statisticians asked to audit an administrative system that has very little to do with statistics itself. As a consequence, they do not look further the law. They assume that the law describes the reality itself, which is a non-sense in Kelsen's thought.

The indicator 1.6 (“Statistical releases are clearly distinguished and issued separately from political/policy statements”) was violated on the 13th of November 2014 when the president of NIS stated publicly, more than 24 hours before the official press release, that the Gross Domestic Product in Q3 2014 was much higher than the Prime Minister Victor Ponta, also runner-up for the Presidency of Romania in those days, said a day before during an electoral debate. In numbers, the Prime Minister said that the GDP in Q3 2014 “had increased with more than 1% compared to Q2 2014”, while the next day the president of NIS said that the “figures were a lot higher than 1%”, revealing the most important part of the statistical indicator. The third day, when the value was due to be published, the official press release of NIS presented that “The Gross Domestic Product in Q3 2014 was, in real terms, by 1.9% higher as compared to Q2 2014”, meaning that both the Prime Minister and the president of NIS had been right.

This is a case presented by the media in terms of electoral bargaining, that is one of the two candidates used his position as acting Prime Minister and had known the GDP figures or even worse had dictated the number in order to get advantage at the ballot. Eventually, even if the Prime Minister had won more than 40% in the first round of the election and his counter-part 30%, he lost in the second round with a difference of more than 10%. For NIS this is one of many cases in which the so-called independence from the political sphere is lost once again and the credibility of the institution vanishes once more. But it is also one of the cases that will never be heard by the European Commission as not even a single journalist presented the case as a violation of the indicator 1.6 of European Statistics Code of Practice, but only in an electoral key.

On the other side, in an era when the information and data are to be found in second with a simple click on your mobile phone or laptop, people do not trust the information that governments provide. The information provided by the government on daily basis as the case of INS is challenged by other producers and providers of information. For example, no national institute of statistics can compete with a statistical producer of TV ratings, because of the lack of material resources.

What happens is that on one side, Eurostat follows wheater the head of NISs have direct access to the cabinet and if they are major policy maker, on the other side they should not be politicians. This means that Eurostat need that the heads of NISs should not be politicians accountable to their electors, but should be a lobbyist of Eurostat where the decisions are taken, namely in the cabinet meetings. Ideally, in classical democratic formula, NIS should be headed by a politician-statistician. Politician enough to understand the power discourse of the European Commission, and more important, the will of the people and the need of society when it comes to methodology. Statistician enough because statistics is very technical and it is becoming more and more a mathematical science then a social science.
Eurostat has centralised all its peer reviews and submitted a report to the European Parliament, assuming that ‘Independence from political and other external interference with production and dissemination of European statistics and an objective choice of methods, sources and techniques seem to be ensured in practice across the ESS. However, stronger legal underpinning of professional independence in 13 cases (indicator 1.1) and more explicit safeguards of the statistical authority’s objectivity in four countries (indicators 6.1 and 6.2) might add to the ESS’s credibility. This holds true in particular, albeit not only, in cases where the statistical authority is administratively attached to a policy department. Peers identified provisions in the statistics law of four countries as good practice. Establishment of a high-level scientific or methodology committee, detailed methodological guidelines endorsed by a well-defined procedure or guidelines on professional ethics or a national Code were identified as additional safeguards of statistical authorities’ objectivity and impartiality’ (Commission 2008, 4).

Another relevant example comes from a statistical inquiry on international migration performed by the NIS at the request of and on infringement threat by Eurostat. As the EU is so interested in the knowledge of labor market especially after the financial crisis from 2008, Eurostat had requested a statistical inquiry in international migration that should have been performed under Eurostat methodology based on Regulation (EC) No 862/2007 of the European Parliament and of the Council:

‘an emigrant is a person who, having previously been usually resident in the territory of a Member State, ceases to have his or her usual residence in that Member State for a period that is, or is expected to be, of at least 12 months; an immigrant is a person who establishes his or her usual residence in the territory of a Member State for a period that is, or is expected to be, of at least 12 months, having previously been usually resident in another Member State or a third country’ (NIS 2014).

By defining an emigrant/immigrant as an individual that is resident for more than 12 months in a member state of the EU, Eurostat assumes that the people that are part of this cohort are those who can sustain themselves on daily basis, thus those who have a job. For example, an Erasmus student does not resides more than 12 months oversee, so it should not be considered an immigrant.

This inquiry is very significant for the relation between the European Commission and member states government. NIS has calculated that 2.34 million Romanian should be considered immigrants worldwide, a figure with at least 1 million under the estimation of Romanian sociologist scholars. Moreover, the results of the inquiry are useless for the Romanian Government as such. For example, for the Ministry of Education a relevant inquiry would have been on how many parents left the country to leave abroad and left their children with grandparents or tutors. For, the Ministry of Foreign Affairs it would have been important to know where are located these individuals in order to establish the polling section on election days. The examples can continue, but what I am arguing is that the inquiry is highly desirable for the European Commission and almost not at all for the Romanian Government who has also paid for the inquiry. This leads us to the observation of political scientist Claus Offe (1984, 113) who coined out the idea of the scientization of politics, defined as “the authoritative participation of scientific experts in the development and evaluation of political programs”.

Therefore, the paradox is that the while national governments are recommended to stand aside and to shelter the political independence of their national statistics institutes, the European Commission which is the core provider and enforcer of policies not just at the European level, but also national, regional and local level can establish methodology for the NISs in the name of the same principle of political independence.
6. CONCLUSIONS: DEMOCRACY BACKWARDS

The case study on official statistics in the context of European governance is due to point out that politics no longer seems to be assumed as in the era of mass democratization. Along with many others patterns of post-democracy, the relation between the state and the political regime on one side, and the politicians and bureaucrats on the other side shows that we are facing a new era in terms of political regimes patterns. Is this a completely new era? Or is a return towards a pre-democratic era?

What we are dealing with is the fact that public policies in statistics are established in Brussels and only implemented in national countries based on the fact that Europe should become a `knowledge society`. This means that whoever has the knowledge, it also has the power to enforce rules and public policies. The phenomenon of scientization of politics is not new. It could be found in communist regimes where the goal was to implement the scientific socialism, a social engineering on scientific basis extracted from the political thinking of the Marxist founding fathers. It is also older than the peak of neoliberalism as it had accompanied liberalism in its attempt to solve the problem of internal consistency of the state. But in democracy science is subordinate to politics, as the will of people is more important than what science can say today and deny tomorrow (Sartori 1978). Claus Offe (1984, 113) argues that science is used 'to provide 'efficient' and 'effective' realization of social policies. Therefore, scientization is due to unburden the system of political decision-making both socially (the demands and interpretations of reality of anyone who cannot establish their 'scientific legitimacy' can be placed to one side) and temporally (while information is gathered and alternative programs weighed, a temporal buffer zone can be interposed between the identification of problems and the enactment of problem solutions; more importantly, those affected can prepare themselves for possible trench-warfare and impending changes in their position and power prospects).

More important, this poses the question on how is political freedom defined in the context of post-democracy. What means to have a good governance in terms of statistics? Is there any place for the demos in this administrative-political arrangement? The neoliberal approach towards good governance is defined as freedom from politics: politicians and political institutions should not intervene in the marketplace and even in the public policies as they are framed, established, implemented and monitored by experts. Thus political freedom is negative: freedom from interference of the state in the corporate and private affairs. The relationship between the governments and citizens is mediated through non-governmental agencies and it becomes contractual instead of being representative: „Advocates of new governance defend reliance on the market, but are blind to the role government plays in stabilizing it. They see contracting and deal making as preferable to the dead hand of bureaucracy. Administrative agencies are seen as tangled in red tape. An overabundance of regulations stifles innovation, increases the cost of programs, and reduces freedom—the freedom to do as you like. Instead, relations between governments and private entities are to be negotiated so that mutually acceptable agreements are reached. Market control, to the extent that it is necessary, will be achieved by means of these agreements rather than by policy decisions or regulations. Hence the emphasis in the new paradigm on seeing governance as what goes on in networks of public-private arrangements rather than in government itself“ (Stivers 2010, 110).

The entire governance process tends to be depoliticized as the debates over basic democratic values have been eliminated: “the cross-fertilizing interplay between different agencies and experts, private and public alike […] the propensity of the public institutions of
government to secrete within themselves their own multiple spaces of partly autonomous authority; the different forms of delegation represented by the [non-governmental organization], municipal privatization and the renewed mobilization of the voluntary sector in social services” (Stivers 2010, 144).

Thus, European governance brings into arena a completely new approach towards the relation between knowledge and power. At first sight, knowledge belongs to the European Commission and power to the sovereign states. But if we were to assume that knowledge is a synonymous for power in the EU, this means we are facing a dangerous approach towards democracy that goes backwards.

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GOVERNANCE: FROM THE OIKONOMIA TO THEOU TO THE MARKET-STATE

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ABSTRACT

Governance seems like a new social reality brought to light by neoliberalism as an attempt to connect lazy and ineffective governments with the virtues of the marketplace. I argue in this paper that governance brings nothing new to our way of shaping social, economic and political reality, but it is, instead, a step backwards to middle ages, when sovereignty and government were to stillborn concepts. My main findings are that governance is denying the exercise of political power, refuses political modernity and reunites the oikos and the polis as one and indivisible unity.

Key words: governance, political power, oikonomia, neoliberalism, political theology.

JEL Classification: B52, H70, N40.

1. INTRODUCTION

The aim of this paper is to explain the nature of governance through the liberal political theory of government on one hand, and, on the other hand, in a theological-political approach. Does the word governance works as an antonym for government? The word itself seems to be very new, considering that it does not appear in most of the English dictionaries. My main hypothesis is that governance is used in the public space in order to dislocate liberal government. Moreover, I think that European governance, multi-level governance etc., is in fact a return to the middle Ages where you have no sovereign (as Jean Bodin points out) but a multitude of parties sharing power in a broad sense.

Does governance come from canon law or the practice of Medieval Church? Is there any connection between governance and governmentality in Michel Foucault terms (Foucault 1994, 211)? Governmentality implies techniques of ruling by knowing and positively shaping practices that are part of the modern liberal sovereign state yet exceed its apparent formal commitments. These can though be seen as perversions of earlier ore sovereign rule by interpersonal pastoral economy under Christian aegis. In the same time in Europe, new modes of 'empire' are emerging post the nation state and we fail to see that most of history is the history of empires which were cultural and religious as well as military political formations. Europe seems to craft a new mode of corporatization of corporations.

On the other hand, rather see an opposition between the government as exercising political power (as in political liberal theory) and, on the other hand, governance as the neoliberal form of government. In my view, governance means going back in the middle Ages where you have a multitude of shareholders (the king, the Church, guilds, etc.), but it is not clear who governs? And who is the sovereign? The very term 'governance' seems to be used
in order to hide that the major decisions are made by a few people/corporations and the governments are incapable of doing anything as long as the markets are more powerful.

Moreover we have the European governance with no demos, no sovereign, but deeply attached to the rule of law, free market and competitiveness. This means we have already entered the age of post-democracy (as Colin Crouch suggests) or even post-politics. We do not have a clear-cut answer on who governs Europe. That is public administration does serve the political needs of the demos, but rules through bureaucrats and experts. We have policies without politics and politicians replaced by technocrats as in Italy (Mario Monti and his entire cabinet) and so on.

Does governance, as described in the neoliberal European ideology, means we go back in the Middle Ages and replace liberal democracy with the power of a few? Moreover theologian John Milbank defines political liberalism as an anti-theology? Then how can we define neoliberalism? Is there a political theology appropriate for the institutions of EU or is just politics as a fully secularized practice of reason? Or a legal order without sovereignty?

2. LITERATURE REVIEW

With these research questions in mind, I will investigate the ontology of governance through a theological-political reading contemporary political realities of the European governance system. I understand by a modern political system a constitutional one, having legal procedures for vesting authority among various office-holders, effective restraints upon the exercise of power, institutionalized procedures for insuring the responsibility and accountability of public officials, a system of legal guarantees for enforcing the rights of citizens (Wolin 1961, 388).

In this sense, governance ca be seen both as a structure, and as a process. It is a substantive with no corresponding verb such as globalization. Governance it happens, or it simply is. Nobody has performed something to develop this reality. Political scientist Renate Mayntz provides a definition of governance as “the total of all coexisting forms of collective regulation of social issues: ranging from the institutionalized self-organization of civil society and the different forms of cooperation between public and private actors to the sovereign acts of the state” (Mayntz 1999, 66). Political scientist Francis Fukuyama defines governance in a neutral approach towards democracy: “as a government’s ability to make and enforce rules, and to deliver services, regardless of whether that government is democratic or not” (Fukuyama 2013, 350). Bevir does not offer a definition as such, but he shows that “we use governance as our preferred shorthand phrase for encapsulating the changing form and role of the state in advanced industrial societies and a key facet of these changes is public sector reform. We explore how these reforms affected governance. Do they multiply networks? Do they reduce the steering ability of core executives? The changes include: privatization, marketization, corporate management, decentralization, regulation and political control. However, public sector reform is only one source of change in modern government. Our analysis also focuses on the broader notion of governance as the changing boundary between state and civil society and seeks both to map its dimensions and explain the various ways in which it is understood and explained” (Bevir et al. 2003, p. 14). The proposed delimitation of the concept of governance aims to capture an entire range of phenomena that extends between the poles of competitive markets and the hierarchical expressions of state authority.

Governance, so understood, may apply to all kinds of political or social units, such as corporations (“corporate governance”), banks, NGOs, Churches, states, or the international system. Nevertheless, governance takes place where state-organized hierarchies are
insufficient or absent, namely in the sphere of global governance, which is the major reason why we speak of European governance in the absence of a single European state.

Political scientist Claus Offe finds semantic irregularities arguing that “governance refers to institutionalized, if often “informal” modes of interaction, in which the participants cooperate in a conscious and goal-oriented manner, while not exclusively pursuing their own interests, but also the common concerns of the members of a political community (or a large corporation). These, in turn, cannot be promoted (or at least not exclusively and in an efficient and effective way) through hierarchical sovereign action by the state and according to the model of command/threat, of coercion/obedience, which are the classical forms of sovereign action (such as the raising and – distributive or redistributive – use of public monies, regulative legislation, police and the administration of justice, and foreign policy)” (Offe 2009, 553).

Goverance refers to both state and society as in public-private partnerships. Although two decades ago the term governance was hardly used, but it appears in countless academic journals and books, as well as in political discourses. The House of Lords of United Kingdom has already a committee of lords dealing with how good governance is implemented by the central government. World Bank, who has also released to concept has developed an index of the quality of governance. The issue at stake is that governance tends to redefine the role of the state as a steering wheel, while leaving the rowing to some other stakeholders.

The advocates of a good governance use a double language: on one side, they are not interested in enhancing state capacity, but in restraining it according to neoliberal premises, meaning that governance cannot turn better and perform hierarchical and command based. On the other hand, the neoliberal supporters ask for unfaltering interventions by the state through its agencies, that moments ago where torn apart from the state apparatus. In other words, we have a multitude of strategies and policies focusing on liberalization and privatization (railways, posts offices, health care, energy and transportation services, education, public media, etc.), as well as on the outsourcing of organized state services (even including sovereign core competences of the military, transportation, and the prison system).

In brief, theory and practice of governance as it is found in the literature review can be summarized as below:

1. Governance is no clear concept.
2. Governance is a game without losers following the economical principle ‘win-win’.
3. Finally, governance depoliticizes society as it puts the horses before the carriage, meaning it develops policies before politics.

More questions should be asked in order to deeply understand the nature of governance. While mainstream literature does not helps much, we should bring into our research design two approaches that are meant to find the ontological roots of governance elsewhere. Next I will investigate the issue of political subject at the level of governance, as well some theological-political insights on the naissance of government as a modern political form.

3. TOWARDS A THEOLOGICAL-POLITICAL UNDERSTANDING OF GOVERNANCE

Very few political scientist have coped with the issue of the political subject. Being more a philosophical concept, the so-called „turn to the subject” is related with the rise of modernity and a phenomenon which lies at the center of liberalism and constructed on the centrality of the will and the loss of transcendence. At the center of the issue of the political subject stands the Cartesian idea of subjectivity, in which the subject is transparent to himself, being rational aware of his own thoughts, interests and motivations (Newman 2005, 118-119).
In short, political liberalism has developed the idea that the individual as citizen is the political subject of modernity as the citizen was liberated from the shackles of aristocratic privilege and may now express this freedom in the public sphere. Liberalism becomes a discourse of rights gained by the individual and used as guarantee from the political oppression of the state by the citizen gifted with self-knowledge. In Kantian philosophy the political subject is a free agent, as well as an agent of freedom, "the ideal of the political system of the nineteenth – and twentieth -centuries” (Surin 2005, 247). If the citizen used to be the subject at the level of politics (Connolly 1987, 111), nowadays politics is decided by a neoliberal sensibility glorifying the minimal state with a deregulated economy and in the search of financial profit. We are in a post-liberal era where the state has become a meta-corporation defending other corporation who produce profit. The modern liberalism seems to be overshadowed by its own upgraded version, neoliberalism. This bring a huge shift in the political subject as the citizens has lost its place at the center of politics and has become an obedient of the market-state.

Following the footsteps of Carl Schmitt (2006), theologians concerned with politics as a secularized theology explain the need find the links between post-secular politics and the religious origin of political realities: “One reading of political theology asserts that in a postmodern context, all of our political concepts are reverting back to their religious origin” (Crockett 2011, 80). We should, instead pay attention to the fact that, even if contemporary politics is a politics without God and in the Western civilization we do not practice a politics against God, a lot of our political forms have religious roots: „just as the Pope represents God to the People and the People to God, as servus servorum Dei, so likewise the double 'representative' monarch is answerable at once to his subjects and to his divine overlord” (Milbank 2013, 215).

As a word, governance is absent in the modern era when it is important to define who governs or who steers the wheel of the ship. The word enters public discourse in 1989 when World Bank asks for a good governance in Botswana in order to release funds. The word itself can be traced back to the middle ages, being used by Sir John Fortescue in his work “On the Laws and Governance of England” (Fortescue 1997) with no additional explanations. While descending more and more in time, at the end of the ancient civilization a very complex doctrine emerged under the name of Christian theology inheriting some Judaic and pagan elements, as well as Greek and Roman philosophical concepts.

One the most important paradigm emerged was the oikonomia. According to this paradigm, the divine praxis, from creation to redemption, does not have a foundation in God's being, and differs from it to the extent that it realizes itself in a separate person, the Logos, or Son of God (Meyendorff 1999). The challenge for Christian theology was to reconcile God's transcendence with the creation of the temporal world without involving in the world, with the other approaches, mainly Judaic and Stoic, according to which God does not leave the world ungoverned and it takes care of it until the end of history. Thus, this process was called ‘oikonomia to Theou’: “Christian theology is, from its beginning, economic-managerial, and not politico-statal [politico – statuale]-this was our original thesis contra Schmitt. The fact that Christian theology entails an economy and not just a politics does not mean, however, that it is irrelevant for the history of Western political ideas and practices. On the contrary, the theological-economic paradigm obliges us to think this history once more and from a new perspective, keeping track of the decisive junctures between political tradition in the strict sense and the "economic-governmental" tradition-- which, what is more, will acquire a precise form, as we shall see, in the medieval treatises de gubernatione mundi. The two paradigms live together and intersect with one another to the point of constituting a bipolar system […] if the phrase unicus deus cum sua oikonomia-the only one able to hold together
the various meanings of the term "economy"- would probably be "a single God with his government, in the sense in which 'government' designates the king's ministers, whose power is an emanation of the royal power and is not counted along with it, but is necessary to its exercise"; understood in this way, "the economy means the mode of administration by means of a plurality of the divine power". In this genuinely "governmental" meaning, the impolitical paradigm of the economy also shows its political implications. The fracture between theology and oikonomia, being and action, insofar as it makes the praxis free and "anarchic," opens in fact, at the same time, the possibility and necessity of its government” (Agamben 2011, 66).

Political economy is constituted, in other words, as a social rationalization of providential oikonomia. Ancient Byzantine economy as oikonomia is more than a mere administration of things as in Marx thought, since it implies, the order (taxis), a choice (diairesis) and an analysis (exergasia) of the topics. For Paul (I Timothy I: 3-4) oikonomia means the good activity of administration entrusted by God himself, designating the divine activity and government. Originally, oikonomia comes from oikos who means household, a private domain, as opposed to polis, the public realm. So, oikonomia in its original meaning designates "the administration of the house" and it is synonymous with the mediaeval administration in the canon law terminology. Angels are ad ministeriam in Christian worship forming a hierarchy. The angel is part of the government of the world as their names suggest: Principality, Thrones, Archangels, and so on (Agamben 2011, 153).

Such as Giorgio Agamben, Michel Foucault (2009), has defined the word economy as an art of government that is no longer modeled on the family, but it is borrowed from the household and applied to the entire kingdom in order to make all men happy. Later on, while Machiavelli has de-theologized politics, Luther has depoliticized religion by fighting against the hierarchical power of the medieval Church. By challenging and finally eliminating some political patterns from Reformed Christianity, Luther has done the same thing in temporal government (Wolin 1961). His criticism was based upon the fact that religion and politics are two different realms inside the same reality, namely corpus christianum. So, this could be considered the birth of ecclesiastic constitutionalism. As the church of Luther has been depoliticized conceptually, it has become a lot more political in its relationship with the secular authority. But, in Luther’s thought temporal government is exercised through coercion and force, as Max Weber would systematize later. Thus, from Plato’s definition of good governance as right order (Milbank, 2015) to Christian oikonomia, governance has always existed in reality, even it has disappeared as a concept in modern times.

4. THE POLITICAL NATURE OF GOVERNANCE

The neoliberal state favors strong individual property rights, the rule of law, free market and trade, the privatization of assets, deregulation, while competition is held as primary virtue, free mobility of capital. The European Union as such has not constitutionalized the European demos, but the marketplace (Bogdandy and Bast 2009; Habermas 2012). Businesses and financial corporations are not seen as in the Middle Ages as guilds, but as individuals, while in reality they are postmodern guilds. In neoliberalism it is claimed that privatization and deregulation of financial markets eliminate bureaucracy and increase efficiency. However, the relationship of neoliberalism with democracy is doubtful: „Neoliberal theorists are, however, profoundly suspicious of democracy. Governance by majority rule is seen as potential threat to individual rights and constitutional liberties […] Neoliberals therefore tend to favor governance by experts and elites. A strong preference exists for government by executive order and by judicial decision rather than democratic and
parliamentary decision-making. Neoliberals prefer to insulate key institutions, such as the central bank, from democratic pressures” (Harvey 2005, 66).

Along with New Public Management major changes are operated in the nature of governance: „given the neoliberal suspicion of democracy, a way has to be found to integrate state decision-making into the dynamics of capital accumulation and the networks of class power that are in the process of restoration, or as in China and Russia, in formation. Neoliberalization has entitled, for example, increasing reliance on public-private partnerships (this was one of the strong ideas pushed by Margaret Thatcher as she set up 'quasi-governmental institutions' such as urban development corporations to pursue economic development). Businesses and corporations not only collaborate intimately with state actors but even acquire a strong role in writing legislation” (Harvey 2005, 76).

Neoliberalism has brought a rough reconfiguration of state institutions and practices mostly in areas of the balance between consent of the people and the coercion of the state, between the executive and legislative powers on one hand and the judicial power on the other hand, meaning that the means of action are defined and articulated to a higher degree through non-elected technocrats and experts. Until now, no society has proven fair and welfare when a particular conception of the good was required, an attempt that seems to be very friendly with contemporary dominant political ideology: „The triumph of the neoliberal and neoconservative right represents the re-emergence of unqualified enlightenment (late modern or postmodern) after the abandonment of more communitarian and associationist philosophies derived from the nineteenth century. It is for this reason that the recent unleashing of market forces belongs at least as much to the politics of the left as to that of the right; this is why it could so easily pass from the superintendence of Margaret Thatcher to the superintendence of Tony Blair” (Milbank 2013, 169).

Favoring economic and financial corporation to individuals and small and medium sized enterprises is a pattern of contemporary governance and it is known as corporatism. Elements of corporatism can be found everywhere in history, from Roman republicans to kings, from fascist to Christian democrats. Nevertheless, what concerns here is whether governance a socio-political regime that favor the corporation to individuals has some forms of corporatism or is more or less neutral as against democracy.

Corporatism has a doubtful relationship with political representation as the will of the people is not on one hand permanent and, on the other hand, is not able to achieve high standards. Emile Durkheim, the famous founder of sociology as an academic science, was known for his corporatist views and he advocated that corporations should have been political unities (Durkheim 1926, 1992). Many examples can be given going back to the descended theory of the Catholic mediaeval political authority, but what all this thinkers have in common is the rule of corporation over democracy and the idea that the governments should be trusted only to the ones with capacity, either financial, either intellectual. In the corporatist approach the state and society are but parts of the same organic community, namely in our case the market-state, possessing one will as in the mediaeval thought were the state should have had a unique will in order to keep the harmony of the parts as a God.

Society by itself cannot produce order and justice, values that are achieved only by the consensus of those with capacity. Corporatism has been designated as a pattern in which the plurality of the group interests are more important of those of the state, so it is presented as a form of pluralism. The corporatism ideology applied in inter-war authoritarian states has failed in all the cases: Spain under Franco, Portugal under Salazar, Italy under Mussolini, The Vichy Regime, Romania under The Iron Guard and so on.
5. CONCLUSIONS

Before the collapse of the communist regimes in Eastern Europe societies have been repressed by state bureaucracies. Forced to confront democracy, these weak states have not been able to find intellectual landmarks in order to reshape bureaucracy in a classical liberal formula. Politics was centered to re-establish order and to free the markets, converting formerly unfree citizens to consumers. Eastern European states, although members of the European Union, are still in search of good governance patterns, but lack a liberal tradition of governing on liberal basis. In this respect, the use and abuse of governance as a concept in countries such as Romania, creates the premises of post-democratic patterns.

The main findings of this paper are:

1. Governance is an ancient and mediaeval concept. It is not characteristic to modern times;
2. Governance finds its closest synonymous in the Greek word oikonomia;
3. Governance is used mainly by international institutions and assimilated by those political elites that, either have no or very little democratic socialization, or do not find in democracy a goal as such;
4. Governance is neutral as against democratic politics, but the replacement of government/ to govern with governance creates de-politicization.
5. Governance is not a political concept as such; it is borrowed from management and administrative science;
6. Governance tends to become a social and political regime of a pre-democratic kind by de-constructing the exercise of political power.

A future research should try to establish the connection, if any, between different linguistic usage of the term governance. As showed above, the term can be found only in mediaeval English and it seems untranslatable in other languages. The Romanian translation (guvernanta) is not recognized yet by the Romanian Academy of Science, while French term (la guvernance) is simply taken over from English as such.

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REFERENCES

IDENTIFYING IMPORTANT ELEMENTS OF CORPORATE REPUTATION ANALYSIS

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ABSTRACT
Corporate reputation express the impression that people have about a company after a long period of interacting with it. A company with a good reputation has a lot of advantages. A lot of research paper speaks about the element that shapes corporate reputation and about methods to measure corporate reputation. Starting from the literature about corporate reputation I used a questionnaire to determine the elements that shape corporate reputation for Romanian people. The aim of this paper is to realize an exploratory analysis about this questionnaire.

Key words: corporate reputation, exploratory analysis, factorial analysis

1. INTRODUCTION
Corporate reputation is an extremely valuable and sensitive intangible asset (Harrison, 2007). It represents the corporate evaluation made in time by people that interact with it. Argenti and Druckenmiller (Argenti & Druckenmiller, 2004) sustain that reputation helps company to achieve its objectives and aims to maintain its competitive advantage.

Corporate reputation is built in time with high efforts. "It takes a lot of good things to build a good reputation and only one bad thing to lose it," said Benjamin Franklin (ERC, 2011) about reputation. Warren Buffett said that "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently ". Therefore, reputation is the result of an accumulation of memories, perceptions, opinions, the influence of each event, contact, public statement, media reference’s, rumors or feelings about the company. It's more something about impressions, opinions and feelings than anything related to experiences or knowledge. But the powerful perceptions influence can become reality (Turner, 2004).

Reputation is the reason that people and companies choose to do business with you. It is the factor that determines the company to choose the best business partners, to attract well-trained employees and investors. It can affect the relationship with regulatory bodies, pressure groups, media and the local community. It is the key to a successful business. Reputation may be the result of many years of financial investments such as investments in advertising, public relations, marketing as well as intangible assets investments such as quality, innovation, customer care, business partner’s relationships and corporate standards (Davies, 2007).

In literature there are numerous studies that measure corporate reputation. This paper has as its starting point the study made by Petya Puncheva Michelotti (Michelotti, 2008). Using the questionnaire proposed by him, we tried to determine the elements that influence the perception of reputation in our country. I applied the questionnaire on a sample of 441 students and in this paper we will realize an exploratory analysis of it.
2. DEFINING ELEMENTS OF CORPORATE REPUTATION

Over time there were made a series of studies on the elements that would make the best contour of corporate reputation. Fombrun (Fombrun, 1999) reminds in his paper about eight such studies: Fortune survey - America's Most Admired Companies that analyzes the following elements: management quality, product quality, long-term investments, ability to attract and retain well-trained employees, social and environmental responsibility, efficient use of resources; Store Manager survey - listing in 1987 Germans firms analyzing the following elements: management quality, degree of innovation, the ability to communicate the corporate financial stability and environmental protection; Management Today survey - analysis of 250 British companies in 1991 based on following elements: management quality, financial solidarity, the ability to attract and retain the best employees, long-term investments, degree of innovation, marketing elements, social and environmental responsibility, efficient use of resources; Asian Business survey - over 50 Asian companies were analyzed according to following elements: management quality, products and services quality, contributing to the local economy, employees, potential profit, the ability to change the economic environment; Far Eastern Economic Review study - conducted in 1993 in 11 Asian countries and which analyzed the following elements: leadership quality, products and services quality, the value of long-term investment, degree of innovation; Financial Times survey – analyzes the best European companies and continued to survey the best companies in the whole world; Industry Week survey – analyzed in 1997 the best managed 100 companies taking into account their financial evolution; Fortune study - the ranking of globally most admired companies and were taken into consideration elements like: management quality, quality of products and services, long-term investments, financial results, the ability to attract and retain competent employees, responsibility to the environment, efficient use of resources. Based on the factors taken into account by these studies, Fombrun conducted a study on the assessment of the corporate reputation using 32 items.

Reputation Institute measures how respondents interact with companies in order to detect how it changes over time and how different experiences determine their level of trust, admiration, respect and good feeling. For each company participating in the study, based on respondent’s trust, admiration, respect and closeness they build a variable called RepTrakPulse. All companies participating to the study are analyzed on the basis of public opinion regarding: performance, products/ services, innovation, leadership, social responsibility, management and responsibility to its employees.

Another institute that analyses corporate reputation is Harris Interactive. Since 1999, based on the answer of 15 000 people they determines reputation coefficient. The study is based on a series of 20 items grouped into six categories as follows: emotional feedback - has a good opinion about the company, admiration, respect and trust; products and services - their quality is high, company develops innovative products, relation between value and price, they are superior to other products or not; work place - rewards for employees, nice work place, competent employees; financial performance - it exceeds competitors financial performance, the company recorded profit, low-risk investment, growth prospects for the company; vision and leadership - market opportunities, excellent leadership, clear vision for the future; social responsibility - support social cases, environmental responsibility, responsibility to the community.

Petya Puncheva Michelotti suggests in his paper a questionnaire with 46 questions which verifies 10 factors: management quality, feelings/ emotions about the company, work place, corporate value seen through the customer’s eyes, differentiation, corporate credibility, social contribution and customer’s impact, ethical and social responsibility, economic
performance and patriotism. The author has tested questionnaire on a sample of 500 people. He determined in his paper that perception of respondents about reputation changes according to the nature of relation they have with the company.

3. EXPLORATORY ANALYSIS OF THE QUESTIONNAIRE ACCORDING TO CORPORATE REPUTATION

The problem from the base of this study was to collect information about the items we have in mind regarding corporate reputation when we decide to interact with a company – to work for it, to buy from it, to invest in it or to promote it.

The study was conducted on a sample of 441 people, form first and second year of study from the Faculty of Letters and from the Faculty of Business and Administration. According to the sample, 78.91% were female and 21.09% were male; age of respondents varied between 18 and 25 years as it follows: 1.81% of them were 18 years old, 54.65% were 19 years old, 31.08% were 20 years old, 8.84% were 21 years old, 1.81% were 22 years old and the rest 1.81% were 25 years old.

The research instrument was a questionnaire with 46 questions with answers on the Likert scale (5 = strongly agree, 4 = agree, 3 = indifferent, 2 = disagree and 1 = strongly disagree) and information about respondents. The questions could be grouped into 10 drivers of reputation: management quality, feelings/ emotions about the company, workplace, corporate value as it is seen through the customer’s eyes, differentiate the company’s credibility, social contribution and impact on customers, social and ethical responsibility, economic performance and patriotism.

First we want to establish if the measurement scale used is reliable or not. For this we calculate the indicator that shows the best consistency or reliability of the measurement scale, Cronbach’s Alpha coefficient. For this we will use SPSS statistical software. This indicator shows how strong interrelated items of the questionnaire are.

<table>
<thead>
<tr>
<th>Questionnaire type</th>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>Number of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loc de muncă</td>
<td>.932</td>
<td>.935</td>
<td>46</td>
</tr>
<tr>
<td>Cumpărare</td>
<td>.948</td>
<td>.948</td>
<td>46</td>
</tr>
<tr>
<td>Investiție</td>
<td>.954</td>
<td>.958</td>
<td>46</td>
</tr>
<tr>
<td>Promovare</td>
<td>.946</td>
<td>.949</td>
<td>46</td>
</tr>
<tr>
<td>Total</td>
<td>.953</td>
<td>.955</td>
<td>46</td>
</tr>
</tbody>
</table>

In table 1, we determined that the Cronbach alpha coefficient values are greater than 0.9 and this indicates a very high level of internal consistency of the scale we used.

The next thing we made was to determine the average of responses for each type of questionnaire applied. We can see in Figure 1 that when we consider the work place or the place where we buying, responses average lies around 4 for all 46 questions, that means that respondents agree with the importance of each factor taken into account to determine reputation. When attention is directed to the place where people invest or the place they promote we can see that the responses average increase almost reaching scale 5 to all of 46
questions; this can be explained by identifying the respondent with the company that he refers to.

![Graphs showing answers average for 46 questions](image)

**Figure 1:** Answers average for those 46 questions of the questionnaire

Next step is to perform the procedure to test the difference of the answers for the 46 questions, the difference of answers according to the specialization and the difference taking into account the respondent’s gender.

To test the difference according to the specific of the questionnaire we considered 115 questionnaires for work place, 113 questionnaires for buying company, 109 questionnaires for the company in which respondents may invests and 105 questionnaires for the company the respondents may promote. After applying ANOVA procedure we determined the calculated values of F that we can see in Table 2. For 95% confidence degree the critical value for F is 2.62570002 and for 99% confidence degree critical value of F is 3.82661138. Comparing these values with those of calculated F for 95% confidence we accept the alternative hypothesis and so at least one average is different from the others. We can say in this case that people's perception regarding the company's shares interaction varies according to the interaction of the person with the company. For 99% confidence level excepting questions 7, 12, 13, 37 and 45 interpretation is the same; for these five questions we accept the null hypothesis and determine that there are no differences between respondents' average answers.

To test the specialty difference averages were considered students of the Faculty of Business and Administration: 28 students from Business Administration from second year, 180 students from Public Administration from the first year, 148 students from Marketing from the second year and students from the Faculty of Letters: 86 students from Managerial Assistance Secretariat from the first year of study. We can see in table 2 the results of this test. In this case, critical value of F for 95% confidence level is 2.62570002 and for 99% confidence level is 3.82661138. According to the value of calculated F from Table 2 we determine that for questions 5, 6, 7, 8, 10, 25, 26, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41 and 44 we will accept null hypothesis and therefore there is no difference between the
averages of the responses. For 99% confidence level to the above questions we will add questions 28, 33, 35, 38, 40 and 41. For all other questions we determined that when we consider student’s specialization there are differences in average responses.

When we test the average responses difference by gender we consider 348 women and 94 men. The critical value of t for 95% is 0.45806. According to the value of t calculated shown in Table 2 we can determine that for questions 1, 10, 16, 17, 20, 21, 23, 26, 37, 40 and 46 we accept the null hypothesis and therefore there is no difference between responses of women and men questioned. For all other questions we have difference between answers of those two genders.

Table 2: Calculated values for testing average differences

<table>
<thead>
<tr>
<th>Question</th>
<th>Calculated F for testing the question difference</th>
<th>Calculated F to test specialisation difference</th>
<th>Calculated t to test gender difference</th>
</tr>
</thead>
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<tr>
<td>1</td>
<td>15.11759223</td>
<td>1,234529808</td>
<td>0.105499</td>
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<td>1,292524</td>
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<td>3</td>
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<td>0,198328</td>
<td>1,481274</td>
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<td>11</td>
<td>5.265965792</td>
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<td>0,908463</td>
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<tr>
<td>12</td>
<td>3.605237095</td>
<td>0,919258</td>
<td>1,01184</td>
</tr>
<tr>
<td>13</td>
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<td>1,793656</td>
<td>0,58369</td>
</tr>
<tr>
<td>14</td>
<td>11.76207383</td>
<td>2,713517</td>
<td>0,740464</td>
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<tr>
<td>15</td>
<td>10.34605779</td>
<td>1,438687</td>
<td>0,809638</td>
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<tr>
<td>16</td>
<td>18.65702373</td>
<td>0,906657</td>
<td>0,277343</td>
</tr>
<tr>
<td>17</td>
<td>17.63182801</td>
<td>1,625406</td>
<td>-0,2849</td>
</tr>
<tr>
<td>18</td>
<td>17.19877512</td>
<td>1,48118</td>
<td>-0,60069</td>
</tr>
<tr>
<td>19</td>
<td>22.70545199</td>
<td>1,166422</td>
<td>1,173906</td>
</tr>
<tr>
<td>20</td>
<td>10.45540009</td>
<td>0,030427</td>
<td>0,191823</td>
</tr>
<tr>
<td>21</td>
<td>18.74498204</td>
<td>0,719708</td>
<td>0,393839</td>
</tr>
<tr>
<td>22</td>
<td>13.67078622</td>
<td>1,602522</td>
<td>-1,4561</td>
</tr>
<tr>
<td>23</td>
<td>8.356535968</td>
<td>0,756067</td>
<td>-0,11979</td>
</tr>
<tr>
<td>24</td>
<td>17.68933051</td>
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<td>16.94572571</td>
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<td>26</td>
<td>12.68810114</td>
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<tr>
<td>27</td>
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</tr>
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<td>28</td>
<td>9.857575502</td>
<td>3,244896</td>
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<td>29</td>
<td>5,840314283</td>
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<td>30</td>
<td>7,014861045</td>
<td>4,384605</td>
<td>-0,90835</td>
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<tr>
<td>31</td>
<td>7,73937714</td>
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<td>-0,62836</td>
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<td>13,58457232</td>
<td>6,684542</td>
<td>0,415756</td>
</tr>
<tr>
<td>33</td>
<td>4,969761171</td>
<td>3,17003</td>
<td>0,828387</td>
</tr>
</tbody>
</table>
The next step in our analysis is to performed factorial analysis for the responses of the 441 people surveyed. We want to see which of the 46 questions explain the most part of the corporate reputation. First we will apply the Kaiser-Meyer-Olkin and Bartlett test (Table 3). What we have determined is that for the first test the value is close to 1 which means that the correlation models are relatively compact and so the factorial analysis will establish distinct and reliable factors. Kaiser recommends accepting the values above 0.5. Moreover, values between 0.5 and 0.7 are mediocre, those between 0.7 and 0.8 are good, those between 0.8 and 0.9 are very good and those bigger than 0.9 are excellent. In our case the value is 0.943 and we can say the value is excellent and we can be sure that factorial analysis is suitable for our values. Using the second test, Bartlett, we tests whether the correlation matrix is an identity matrix. How sig value is less than 0.001 we can say that the factorial analysis is appropriate in our case.

Table 3. Kaiser-Meyer-Olkin and Bartlett tests

<table>
<thead>
<tr>
<th>Kaiser-Meyer-Olkin Measure of Sampling Adequacy.</th>
<th>Bartlett's Test of Sphericity</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequacy.</td>
<td>Approx. Chi-Square df</td>
<td>.943</td>
</tr>
<tr>
<td></td>
<td></td>
<td>11327.186</td>
</tr>
</tbody>
</table>

So far we determined that we can continue eliminating proceed of factors using factorial analysis. In Table 4 we can see the elements that remain after factorial analysis is applied and that explain most of the corporate reputation.
<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
</tr>
<tr>
<td>1</td>
<td>15.465</td>
<td>33.619</td>
</tr>
<tr>
<td>2</td>
<td>3.260</td>
<td>7.086</td>
</tr>
<tr>
<td>3</td>
<td>2.741</td>
<td>5.959</td>
</tr>
<tr>
<td>4</td>
<td>1.853</td>
<td>4.029</td>
</tr>
<tr>
<td>5</td>
<td>1.572</td>
<td>3.416</td>
</tr>
<tr>
<td>6</td>
<td>1.350</td>
<td>2.935</td>
</tr>
<tr>
<td>7</td>
<td>1.187</td>
<td>2.581</td>
</tr>
<tr>
<td>8</td>
<td>1.085</td>
<td>2.358</td>
</tr>
<tr>
<td>9</td>
<td>1.028</td>
<td>2.235</td>
</tr>
<tr>
<td>10</td>
<td>.857</td>
<td>1.863</td>
</tr>
<tr>
<td>11</td>
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<td>1.822</td>
</tr>
<tr>
<td>12</td>
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<tr>
<td>13</td>
<td>.708</td>
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<tr>
<td>14</td>
<td>.694</td>
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<td>.657</td>
<td>1.428</td>
</tr>
<tr>
<td>17</td>
<td>.623</td>
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<tr>
<td>18</td>
<td>.601</td>
<td>1.307</td>
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<td>19</td>
<td>.554</td>
<td>1.204</td>
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<tr>
<td>20</td>
<td>.536</td>
<td>1.165</td>
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<td>22</td>
<td>.512</td>
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<td>23</td>
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<td>24</td>
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<td>1.021</td>
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<td>25</td>
<td>.461</td>
<td>1.002</td>
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<tr>
<td>26</td>
<td>.434</td>
<td>.944</td>
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<tr>
<td>27</td>
<td>.419</td>
<td>.911</td>
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<td>35</td>
<td>.320</td>
<td>.695</td>
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<td>36</td>
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<td>.673</td>
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<td>37</td>
<td>.302</td>
<td>.657</td>
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<td>38</td>
<td>.293</td>
<td>.638</td>
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<td>39</td>
<td>.271</td>
<td>.589</td>
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<td>40</td>
<td>.263</td>
<td>.572</td>
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<tr>
<td>41</td>
<td>.248</td>
<td>.538</td>
</tr>
<tr>
<td>42</td>
<td>.225</td>
<td>.489</td>
</tr>
<tr>
<td>43</td>
<td>.218</td>
<td>.475</td>
</tr>
</tbody>
</table>
We can see that the first question explains a large part of corporate reputation, namely 33.619% of it. As we shown in Table 4 and Figure 2 the first 9 questions explains 64.218% of the corporate reputation.

4. CONCLUSION

In this paper we speak about the problem of an extremely sensitive and important intangible asset - corporate reputation. What we did in this paper was to apply a questionnaire with 46 questions on a sample of 441 people. Questionnaires were divided into four highlights – work place, the buying place, investing place and promoting place.

Based on the answers of the respondents it seems that all of 46 questions have the average value of answers around four so we can say those are important elements in assessing the corporate reputation. We can also observe that the last four questions average value tends to 3 which mean that respondents are indifferent to those questions. These questions are related to patriotism of the respondents but it seems that they do not specifically want that firms they interact with to have local origins.

From testing gender average difference we determined that there are no important differences. According to ANOVA procedure for specialization difference testing we determined there are differences for some questions. When we applied the same procedure for testing the type of questionnaire difference, we determined that there are differences between answers. This tells us that people are identifying with the company they invest or promote and they cannot associate them image with companies they do not trust or that would ruin them image in society.

Using factorial analysis we determined that the first question "I have a good impression about the company" explains one third of the corporate reputation and the remaining to 64.218% is explained by the first nine questions.
ACKNOWLEDGEMENTS

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REFERENCES

A TIME SERIES ANALYSIS OF AMAZON’S NET SALES BETWEEN 2003-2014

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Faculty of Business and Administration
University of Bucharest

ABSTRACT

Online commerce developed so much in the last years. In our days it is very easy to buy something that you like from any place all over the world. Amazon is one of the most important and well reputable online companies. According to the annual and quarterly financial reports from Amazon’s web site, the company’s sales are increasing from a period to another. In this paper I will make an analysis of time series values of Amazon’s net sales from period 2003-2014.

Key words: corporate reputation, net sales, time series analysis, autocorrelation, partial autocorrelation, ARIMA model

1. INTRODUCTION

Amazon is one of the most powerful corporate from USA and from all over the world. Amazon was founded in July 1994 by Jeff Bezos and hat it’s headquartered in USA, Seattle, Washington. Amazon website began operating in 1995 as a place where people could buy books. Bezos believed that only on the Internet people can purchase with a single click any book would like. In the first 30 days of activity, in his garage in Seattle, Amazon had met the demands of consumers in 50 states and 45 countries. In our days Amazon offers new, used or repaired products from the following categories: books, movies, music, video games, electronics and computers, home and garden items, tools, toys, things for children and infants, food, health and beauty products, clothes, shoes, jewelry, sporting and outdoor activities objects, automotive and industrial products sectors (Amazon.com).

The company's mission is to become the most popular online company. To accomplish this, the company opened work center all over the world and in time were made available to the public the following sites: www.amazon.com, www.amazon.co.uk, www.amazon.de, www.amazon.co.jp, www.amazon.fr, www.amazon.ca, www.amazon.cn, www.amazon.it, www.amazon.br and www.amazon.es. Currently there are 18 locations in the United States and many others in the world: China, Costa Rica, France, Germany, India, Ireland, Japan, Luxembourg, UK and others (Amazon.com).

Amazon strives to be the strongest global company that is client-centered. People may find in the virtual environment everything they want to purchase. By giving customers what they want - low prices, a wide range of products, convenience - Amazon grows and evolves becoming an increasingly powerful electronic platform globally. Today, over 2 million of small companies, world-class brands and individual sellers grow their sales and attract new customers by using e-commerce platform called the feet of Amazon (Amazon.com).

There is also a Romanian site (.com) where Romanian people can command things from Amazon. There are companies that transport goods from European Union countries that have their own Amazon sites as is for example the company that owns the site
www.LibrariaLibertas.com and provides courier services from United Kingdom to Romania. In other words you can order thing from www.amazon.co.uk and this company bring those products home to you. It seems here that Amazon has penetrated all corners of the world (Amazon.com).

In this paper I will speak about Amazon reputation and I make a time series analysis of Amazon’s net sales from period 2003-2014. For this, I will take quarterly values from Amazon financial reports.

2. AMAZON’S REPUTATION

Jeff Bezos, the Chairman and CEO of Amazon.com said that “Reputation is what people say about you once you’ve left the room” (Ipsos Institute). It looks like he is concerning about Amazon’s reputation and its company has a good increasing reputation. If we look at Harris Interactive Reputation Poll (HarrisInteractive.com) we observe in figure 1 the places that Amazon occupied in this ranking and the reputational coefficient it obtained. From 2010 to 2014 Amazon was increasing in HI ranking and occupied in 2013 and 2014 the first place being the most reputable company from all over the world. Also, the reputation coefficient increased constantly and reached in 2014 to 84%. So Amazon has a good reputation and it is normal to have positive big net sales.

3. TIME SERIES ANALYSIS FOR AMAZON’S NET SALES

We consider quarterly net sales of Amazon form period 2003 to 2014 (Amazon.com). As we can observe in Figure 2, the net sales values have an ascendant trend.
First thing that we will make in this study is to determine the seasonality factor. For the first quarter we have 0.95, sales being with 0.05 lower than average, in the second and third quarter we have 0.85, sales being with 1.5 lower than the average and in the fourth quarter is 1.35, sales being with 0.35 bigger than the average.

Next step is to determine the regression model for deseasonalized values of net sales of Amazon. We see in figure 2 that Amazon’s net sales have an exponential trend, so we will determine an exponential regression model. According to table 1, we can say that 99.50% of net sales values are influenced by time. Also we can observe that our regression is significant and the trend equation for deseasonalized values is: $\ln(V) = 1066.635 \cdot e^{0.958 \cdot T}$. Using this equation we can make some prediction for future net sales of the company. For example, in the first quarter from 2015 we will predict that net sales will be 24866.18. The real value is a little bit lower 22717 but this could be explained by the influence of other factors from company’s aria of work like competitors or social, economical and political fluctuation.

### Model Summary

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>.998</td>
<td>.995</td>
<td>.995</td>
<td>.067</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
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</thead>
<tbody>
<tr>
<td>Regression</td>
<td>41.578</td>
<td>1</td>
<td>41.578</td>
<td>9170.430</td>
</tr>
<tr>
<td>Residual</td>
<td>.209</td>
<td>46</td>
<td>.005</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>41.786</td>
<td>47</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>1066.635</td>
<td>21.061</td>
<td>50.645</td>
<td>.000</td>
</tr>
</tbody>
</table>

The dependent variable is $\ln(VAR00002)$.

Table 1: regression model for de-seasonalized values of Amazon net sales
We continue our study with the analysis of autocorrelation and then we construct an ARIMA model. To perform an ARIMA model we have to do some preliminary analyses like identification, estimation and diagnosis the time series. Identification and estimation represents the process of finding the integer of p, d and q. we will start with the middle element – d. The goal of this step is to determine if the values are stationary (have constant mean and variance). We will make these values to be stationary by logarithmic transformation. Now that the mean and variance are as constant as possible we have to determine the value of coefficient d. If d = 0 the data are stationary and there is no trend; if d = 1 the data need to be differenced once so the linear trend is removed and if d = 2 the data need to be differenced twice so that the linear and quadratic trends are removed. After this we will determine the values of p which is related to autoregressive components and q which is related to moving average components (Thompson).

![Figure 3: Autocorrelation and Partial Autocorrelation](image)

In figure 3 we have the graphics for autocorrelation and partial autocorrelation function. We know that an autocorrelation function (ACF) shows the serial correlation coefficients for consecutives lags and a partial autocorrelation function (PACF) partials out the immediate autocorrelations and estimates the autocorrelation at a specific lag (Thompson). In our case, for the non-seasonal part we can say that looking at first 2 or 3 lags it seems possible that a MA(1) might work. For the seasonal part, if we look at lags that are multiples of 4, not much is going one here. It seems that nothing significant is happening at the higher lags.

After we discussed about autocorrelation we will develop an ARIMA model. We choose d = 1, p = 2 and q = 2 and the results are shown in Table 2.

<table>
<thead>
<tr>
<th>Model</th>
<th>RMSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARIMA(0,1,1)(0,1,0)</td>
<td>572.711</td>
</tr>
<tr>
<td>ARIMA(0,1,1)(0,1,1)</td>
<td>560.683</td>
</tr>
<tr>
<td>ARIMA(0,1,1)(1,1,1)</td>
<td>561.045</td>
</tr>
<tr>
<td>ARIMA(0,1,1)(1,1,0)</td>
<td>561.199</td>
</tr>
<tr>
<td>ARIMA(0,1,1)(2,1,2)</td>
<td>582.520</td>
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<td>ARIMA(0,1,1)(2,1,1)</td>
<td>565.086</td>
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<td>ARIMA(0,1,1)(2,1,0)</td>
<td>568.298</td>
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<td>ARIMA(0,1,1)(1,1,2)</td>
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<td>ARIMA(1,1,1)(0,1,0)</td>
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<tr>
<td>ARIMA(1,1,1)(0,1,1)</td>
<td>559.007</td>
</tr>
<tr>
<td>ARIMA(1,1,1)(1,1,1)</td>
<td>563.127</td>
</tr>
<tr>
<td>ARIMA(1,1,1)(1,1,0)</td>
<td>557.899</td>
</tr>
</tbody>
</table>
From table 2 we will choose the ARIMA model that has the lower RMSE value. It looks like that we will use ARIMA(1,1,1)(1,1,0). So we will have the ARIMA model parameters from table 3.

Table 3. ARIMA model parameters

<table>
<thead>
<tr>
<th>ARIMA Model Parameters</th>
<th>Estimate</th>
<th>SE</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
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<td>-5.063</td>
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<tr>
<td>AR</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lag 1</td>
<td>-.369</td>
<td>.277</td>
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<td>.190</td>
</tr>
<tr>
<td>Difference</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>MA</td>
<td></td>
<td></td>
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<tr>
<td>Lag 1</td>
<td>.230</td>
<td>.293</td>
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<tr>
<td>AR, Seasonal</td>
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<tr>
<td>Lag 1</td>
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<td>-1.825</td>
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<tr>
<td>Lag 0</td>
<td>364.912</td>
<td>63.685</td>
<td>5.730</td>
<td>.000</td>
</tr>
</tbody>
</table>

The autoregressive models are those models in which the value of a variable in one period is related to its values in previous periods. We write AR(p) the autoregressive model with p lags: \( y_t = \mu + \sum_{i=1}^{p} \gamma_i y_{t-i} + \epsilon_t \), where \( \mu \) is a constant and \( \gamma_i \) is the coefficient for the lagged variable in time \( t - p \). The moving average models determine the possibility to exist a relationship between a variable and the residuals from previous periods. We write MA(q) the moving average model with q lags: \( y_t = \mu + \sum_{i=1}^{q} \theta_i \epsilon_{t-i} + \epsilon_t \), where \( \theta_i \) is the coefficient for the lagged error term in time \( t - q \). The autoregressive moving average model, ARMA(p,q) is a combination of AR(p) model and MA(q) model: \( y_t = \mu + \sum_{i=1}^{p} \gamma_i y_{t-i} + \sum_{i=1}^{q} \theta_i \epsilon_{t-i} + \epsilon_t \) (Katchova).

In our case, AR(1) has the following expression: \( y_t = \mu + \gamma y_{t-1} + \epsilon_t \), MA(0) model has the following equation: \( y_t = \mu + \epsilon_t \). For the values of p and q that we choose, ARMA(1,0) model have the following expression: \( y_t = \mu + \gamma y_{t-1} + \epsilon_t \).

4. CONCLUSIONS

This paper aims to be a time series analysis of one of the most reputable company all over the world, Amazon. The company was founded in 1994 by Jeff Bezos. At the beginning it was an online place where people could buy any book they want. In our days, Amazon developed so much that have work center all over the world and people could buy not only...
books but all kind of new or second hand things. Amazon had an important system which measure reputation – people say what them opinion after interacting with other people on the site.

To realize the time series analysis I used quarterly net sales from 2003 to 2014 as they appear on Amazon’s site. At the beginning of the study I determined the seasonality factor and as we expect, people buy a lot of things in the fourth quarter and the fewest in the first quarter. The trend of the values was an exponential one and we developed the equation for deseasonalized values. In the end we studied autocorrelation and we developer an ARIMA model for this data.

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METRICS USED IN INNOVATION. THE RELATIONSHIP BETWEEN INNOVATION AND COMPETITION

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ABSTRACT
The paper presents the main systems of indicators used in measuring innovation, namely direct indicators and indicators deduced from the statistical survey; elements related to innovation in the services industry, and tools to support innovation and the relationship between innovation and competition. The paper ends with conclusions highlighting the bibliography.

Key words: innovation, competition, metrics, direct and deduced indicators.

JEL classification: D83, O44

1. INTRODUCTION
The Oslo² manual, third edition, OECD and Eurostat, 2005: 46, regarding the conceptual framework in order to collect data for innovation, defines innovation as “the implementation of a new product (good or service) or significantly improved, or process, a

Prepared by the OECD in 1992, the Oslo Manual was brought in time two important modifications. First, although the manual was originally designed for businesses in the manufacturing sector, it has subsequently included also the service sector companies. A second revision of the manual included organizational and marketing innovations, unlike the original form, which included only product and process innovations.
new marketing method, or a new organizational method in business practices, work place organization or foreign relationships”.

Innovation becomes thus a broad concept that encompasses a wide range of activities and processes 3: markets, entrepreneurship, competition and networks, abilities, skills, creativity, knowledge transfer etc.

2. SYSTEMS OF INDICATORS USED TO MEASURE INNOVATION

A. Direct indicators

Innovation being a complex activity with many interacting components and the of process innovation not being easy to quantify, the most common method used to measure innovation is based on the use of indirect indicators:

a) data on research and development;

b) data on patents.

Research and development expenses indicate the spent resources and represent an indicator that measures a part of the inputs (input) in the innovation process.

This indicator has major drawbacks:

- the research and development expenses (R&D)
  - not always equate with successful innovations;
  - not necessarily lead to products and/or improved processes.

Thus, this indicator is an overestimated measure of innovation because it may include R&D failed efforts.

Patents represent a usual indicator for innovation, which has remarkable advantages:

- patents are granted for inventive technology, marketing prospects;
- the patent system records systematically important information on inventions.

However, the number of patents has also disadvantages as an indicator of innovation:

- not all innovations are patented as inventions;
- an inventor is not necessary also innovative if the invention is not sold or placed into production.

New indicators have been developed that allow to measure innovations directly:

a) the number of innovations;

b) the analysis of innovative activities in companies.

The number of innovations is a direct measure of innovations and represents an “on object” approach, because it concentrates on innovations it selves.

The drawback of this indicator is that it tends to favour radical innovations, in comparison to the incremental ones and it excludes unsuccessful innovations.

The analysis of innovative activities at firm level collects information on innovations directly from firms through analyses and interviews, and represents an “on topic” approach.

This approach has presently become the standard method to collect information on industry innovations.

The major disadvantage of this indicator consists in the fact that the result’s representativeness depends on the response rate of the firms in the interviews.

**B. Indicators deduced from the statistical research**

The statistical research regarding industry and services innovation aims to obtain information regarding:
a) the turnover (CA) of enterprises that have innovated new products or significantly improved, new for one of the markets:
- it is calculated as a percentage from the total turnover of the enterprise:
  \[ \text{CA (new products for one of the markets)} = \text{CA}_p \times \text{CA}_t \]

where:
- \( \text{CA}_p \) – represents the share from the enterprise turnover for new products on the market, in percentages;
- \( \text{CA}_t \) – represents the turnover of the enterprise;

b) the turnover (CA) of the enterprises that have innovated new products or significantly improved, new for the enterprise:
- it is calculated as a percentage from the total turnover of the enterprise:
  \[ \text{CA (new products for the enterprise)} = \text{CA}_{in} \times \text{CA}_t \]

where:
- \( \text{CA (new products for the enterprise)} \) – represents the turnover for the new products to the enterprise, in lei;
- \( \text{CA}_{in} \) – represents the share from the enterprise turnover for new products in percentages;
- \( \text{CA}_t \) – represents the enterprise turnover in lei and in euro;

c) the total expense for innovation:
- it is calculated as the sum of the component expenses for innovation
  \[ \text{C}_{tot} = \text{C}_{int} + \text{C}_{ext} + \text{C}_{auses} + \text{C}_{ace} \]

where:
- \( \text{C}_{tot} \) – represents the total expense for innovation, in lei and in euro;
- \( \text{C}_{int} \) – represents the internal expense for research-development, in lei and in euro;
- \( \text{C}_{ext} \) – represents the external expense for research-development, in lei and in euro;
- \( \text{C}_{auses} \) – represents the expense for acquiring machinery, equipment and software, in lei and in euro;
- \( \text{C}_{ace} \) – represents the expense for purchasing external knowledge, in lei and in euro.

**Observation:** Since for Eurostat the data values are required in European currency (euro), the data are calculated using the medium annual exchange rate received from Eurostat.
The calculation formula is the following one:
the absolute value in euro = the absolute value in lei/the exchange rate in lei/euro

**C. Other innovation metrics**

At EU level there have been introduced other benchmarking tools and indicators to measure different dimensions of innovation in Europe.
Between these metrics for innovation there are included:
- the Trend Chart on Innovation in Europe;
- Community Innovation Survey (CIS);
- Inno-Barometer;
- "European Innovation Scoreboard (EIS)", which later in 2010 was renamed Innovation Union Scoreboard (IUS).
- European Innovation Scoreboard in the Sector Services (SSIS).
"The Trend Chart on Innovation in Europe" is a practical tool introduced by the European Commission in 1998 to monitor changes in innovation policies in the Member States.
CIS is a statistical analysis coordinated by the European Commission's statistical office, EUROSTAT. The methodological base of CIS is provided by the Oslo Manual.
Inno-Barometer is a collection of opinions obtained under the auspices of the European Commission, which explore the views of managers in Europe on the needs of companies, investments in innovation and obtained results.\(^4\)

Recently (in 2009) there has been elaborated an *Innovation Capacity Index* - ICI, this index (indicator) being built on five pillars, composed from a total of 61 variables. The ICI index ranks countries according to their general performance and offers scores based on pillars and sub-indices that give a general idea over the performances in the respective areas. ICI ranking for the period 2009-2010 is: Sweden, Finland, United States, Switzerland, Holland etc. Romania is located on the 47\(^{th}\) place in 131 countries.

There is also the "European Innovation Scoreboard (EIS)") that has later been renamed in 2010 in Innovation Union Scoreboard (IUS). A pilot version of EIS has been published in 2010, and starting from 2001 complete versions have been published every year.

Nowadays the system of indicators regarding innovation used in IUS 2011 has been structured in 3 large groups composed of 25 indicators and it represents a comparable evaluation of the innovation activity in the 27 EU member states and other third European countries (Croatia, Serbia, Turkey, Island, the former Yugoslav Republic of Macedonia, Norway and Switzerland).

The analysis of the aims, objectives and content of many international documents related to the measurement problems of developing a new economy, allow us to conclude that very little international experience is still unified.

As a result, there are large differences in evaluating the work of the new economy, the main cause being the existence of large gaps in the system not only in the indicators system, but also in the different methodological support.

Thus, forming a system of systems convergence of indicators used internationally for assessing the components of the knowledge economy is currently one of the key strategic priorities of politics, both in developed countries and in developing ones.

To measure innovation in services the *sector European Innovation Scoreboard Service (SSIS)* indicator was introduced. This indicator is a response to the growing importance of services in general and in innovation services, in particular.

3. INNOVATION IN SERVICE INDUSTRY. TOOLS TO SUPPORT INNOVATION

Initially industrial organization theory highlighted the fact that between competition and innovation there is a reverse dependency, ie:

\[
\text{Competition (C)} \rightarrow \text{Innovation (I)} \downarrow \text{ (or reverse)}
\]

The reality of recent years shows however that the competition and innovation indicators are in a direct relationship, ie: \[
\text{Competition (C)} \rightarrow \text{Innovation (I)} \uparrow
\]

Moreover, the relationship of Figure 1 shows that in the representation in the form of the spleen, this can have two relative maximums.

Scherer, shows that if the number of patents increases, then the firms grows in size.

Figure 2. The relationship between C and I

Figure 2 highlights this fact.

Figure 3. The relationship between the number of patents and the firm dimension

Among the indicators used there are:

- for measuring innovation:
  - the number of patents;
  - the number of citations /1 patent;
  - \( n \)- the innovation rate (the R&D intensity) at firm level (the hazard rate);
  - \( r(n_0) \) - the aggregated innovation rate;
  - \( I \) - the aggregated innovation flow:

\[
I = \mu_2(n_{-1} + h) + 2\mu_3 n_0 = \frac{4\mu_2(n_{-1} + h)}{2n_0 + n_{-3} + h_n}
\]

- for measuring competition, the main competition indicators are:
  - the Lerner index, measured as a proportion of the profit in the price, namely \( \frac{p-c}{p} \).
    This indicator is better than the next ones:
  - the market share;
the Herfindahl-Hirschmann (IH) concentration index
- it measures the market concentration degree, as a sum of the shares of the market shares of the sector enterprises.
- Depending on the values taken by the IH index, we have:
  \[ < 1000 \rightarrow \text{weak concentration} \]
  \[ \in (1000,1800) \rightarrow \text{medium concentration} \]
  \[ > 1800 \rightarrow \text{high concentration} \]

- \( c \) – measure of competition;
- \( \Delta = 1 - \varepsilon \), parameter of competition on the market of the analysed product, parameter for competition, represents altogether
- the profit growth of innovative firms, in an industry, of “the same level” or “leveled”;
- \( \varepsilon \) - the fraction from the leader’s profit of which the follower firm can obtain through an understanding with the leader.

\[
\begin{align*}
\text{where:} \\
\ell_{it} & \text{ represents the margin of the cost price;} \\
\eta_{it} & \text{ represents the exploitation profit;} \\
C_{it} & \text{ the financial cost estimated of the capital;} \\
V_{it} & \text{ represents the turnover;} \\
i & \text{ represents the firm index;} \\
j & \text{ represents the industry index;} \\
t & \text{ represents the time index;} \\
N_{jt} & \text{ represents the number of firms in industry } j, \text{ year } t.
\end{align*}
\]

- An important indicator to measure competition at industry level is

\[
c_{jt} = 1 - \frac{1}{N_{jt}} \sum_{i=1}^{N_{jt}} \ell_{it}
\]

Therefore we have the following comment:

\[
c_j = \begin{cases} 
< 1 & \rightarrow \text{certain degree of concentration} \\
= 1 & \rightarrow \text{perfect competition, with } p = C_{mg} \rightarrow \sum_{i=1}^{N_{jt}} \eta_{it} = N_{jt}
\end{cases}
\]

4. THE RELATIONSHIP BETWEEN INNOVATION AND COMPETITION

Let \( n \) – be the innovation rate (the R&D intensity) at firm level (the hazard rate) and \( c \) – a competition measure.

Then, the relationship between innovation and competition, can be written as follows:

\[
n = \varepsilon^g(c)
\]

where \( g(c) \) - represents an unknown function

**Hypothesis 1.** It is assumed that the patent process has a Poisson distribution with the hazard (innovation) rate (2).
The estimated number of patents satisfies the relationship:

\[ E(p|z) = e^{g(z)} \]  

(3)

or

\[ E(p_t|c_{jt}, x_{jt}) = e^{g(z_t|x_t, \beta)} \]  

(4)

where:

- \( x_{jt} \) represents a complete time set and dummy variables.

**Observation:** Relation (4) is used when the function \( g(z) \) is a spline.\(^5\)

- Another measure for competition is given by:

\[ e_{jt} = n(jt) + x_{jt} + \nu_{jt} \]  

(5)

where:

\( E(\nu_{jt}|e_{jt}, x_{jt}, \beta) = 0; \)

- \( e_{jt} \) represents a politics instrument;

- \( x_{jt} \) represents an endogenous variable (with error term);

- \( \nu_{jt} \) represents a control variable.

We assume the control function:

\[ E(\sigma|e_{jt}, x_{jt}, \nu_{jt}) = 1 \]  

(6)

Running the model presented, the following results were obtained at the level of the first two companies in the industry in two specific situations and particular even, namely uneven:

**Table 1. Results obtained in the case of an even industry, namely an uneven industry**

<table>
<thead>
<tr>
<th>Firm 1</th>
<th>Firm 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Even industry</td>
<td>Even industry</td>
</tr>
<tr>
<td>( x_A )</td>
<td>1,732051</td>
</tr>
<tr>
<td>( n_0 )</td>
<td>0,767764</td>
</tr>
<tr>
<td>( \pi_0 )</td>
<td>0,222222</td>
</tr>
<tr>
<td>Uneven industry</td>
<td>Uneven industry</td>
</tr>
<tr>
<td>Firm 1 (leader)</td>
<td>Firm 2 (follower)</td>
</tr>
<tr>
<td>( x_A )</td>
<td>1,732051</td>
</tr>
<tr>
<td>( n_1 )</td>
<td>0</td>
</tr>
<tr>
<td>( \pi_1 )</td>
<td>0,666667</td>
</tr>
</tbody>
</table>

\(^5\) See Ai and Chen (2003).
5. CONCLUSIONS:

1. At “even” industry level, we have stronger innovation regardless of the competition
degree on the product’s market;
2. The curve ⬇️ is more abrupt for the “even” industries;
3. The relationship innovation – competition on the market, using an nonlinear flexible
   estimator in shape of shape of a ⬇️.

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APPLYING JUDO PRINCIPLES TO BUSINESS STRATEGY

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ABSTRACT

Companies around the world are competing both for the present and for the future. This is why a new view of strategy has emerged in the past decades. The aim of our paper is to show that judo principles are applicable to the business strategies of companies. The methodological approach is literature review. Judo strategy enables smaller companies to challenge huge corporations.

Keywords: business strategy, judo, judo strategy, judo principles, company

JEL Classification: (M1, M19)

1. INTRODUCTION

Today’s business environment is totally different in comparison with twenty years ago. Companies around the world are facing hyper-competition in all markets (Fitzroy et al., 2012). They are competing both for the present and for the future. This is why a new view of strategy has emerged in the past decades. In fact, strategy has become “the quest to overcome resource constraints through a creative and unending pursuit of better resource leverage” (Hamel and Prahalad, 1994, p. 25). In this respect, many companies have implemented new principles and techniques, as judo principles, in their business strategies.

The aim of our paper is to show that judo principles are applicable to the business strategies of companies. The methodological approach is literature review.

The reminder of our paper is structured as follows. The next section deals with the literature review. The definition of judo and the enumeration of its key techniques are presented in the third section of the paper. The fourth section emphasizes the possibility of applying judo principles to business strategy. The paper ends with conclusions.

2. LITERATURE REVIEW

There are several researches in the literature regarding the application of judo principles to business. The essence of judo, a martial art, is “how you turn your rival’s strength and bulk to your advantage” (Roopen, 2011, p. 1). A strategy of judo economics refers to the way a small firm uses its rival’s large size to its own advantage (Gelman and Salop, 1983). Judo strategy counsels challengers “to keep a low profile and avoid head-to-head battles that they’re too weak to win” (Yoffie and Kwak, 2002).
3. WHAT IS JUDO?

Originated in Japan as a derivative of several martial arts developed and used by the samurai and feudal warrior class, judo represents “a tremendous and dynamic combat sport that demands both physical prowess and great mental discipline” (International Judo Federation, 2015). The word “judo” consists of the following two Japanese characters:

- “ju”, which means gentle,
- “do”, which means the way.

So, judo literally means “the way of gentleness”.

Judo is a martial art that values more suppleness, flexibility, and rapidity of the movements than brute force, and requires quickness, agility, and the ability to outmaneuver the competition. The most important thing in judo is that true strengths come from turning your opponent’s weight and power to your advantage, transforming therefore his strong point in a weak point. According to J. Kano, the founder of judo, judo comprises three parts (Scheme 1):

- rentai-ho= physical exercise;
- shobu-ho= martial art;
- shushin-ho= cultivation of wisdom and virtue, combined with the study and daily application of judo principles in everyday life.

![Scheme 1. The three parts of judo](image)

The main judo techniques can be divided in: nage-waza (throwing techniques), katame-waza (grappling techniques), and ate-waza (body-striking techniques). Most of the judo principles are applicable to business strategies.

4. LINKING JUDO PRINCIPLES WITH BUSINESS STRATEGIES

Smaller enterprises with big ideas can challenge huge corporations. How? They can apply judo principles by using their speed and agility in order to penetrate and compete on uncontested market segments within markets apparent impenetrable (Cusumano and Yoffie, 1998), according to the so-called “judo strategy” (Yoffie and Kwak, 2001- Scheme 2).

Judo is based on several key principles such as: movement; maximum efficiency, minimum effort; balance; mutual welfare and benefit; leverage; gentleness controls hardness; stability, etc. These judo principles are successfully applied in business strategies, as follows:

i. move rapidly in an uncontested/undisputed field in order to avoid direct confrontation;

ii. be flexible and move away when you are attacked by a superior force- withdrawal/ retreat is a better option than resistance;
iii. exploit the levers that use the weight of the enemy against him- sometimes, his strong points can become weaknesses within the competition.

**Scheme 2. The main elements of judo strategy**

Therefore, through the implementation of judo principles in their business strategies, smaller firms can gain an advantage over larger competitors.

**CONCLUSIONS**

In order to face the multitude of today’s challenges, companies have made efforts to implement new business strategies. Some of them, especially smaller companies, have applied the judo principles that provide competitive techniques to beat stronger opponents. Further studies may concentrate on expanding the implementation of judo strategy in the business world.

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